



BUDGET STATEMENT

2014-2015

In support of the Estimates of Revenue and Expenditure

Presented by The Hon. E.T. Richards, JP, MP
Minister of Finance
21 February 2014



GOVERNMENT OF BERMUDA
Ministry of Finance



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Mr. Speaker and Honourable Members of the House of Assembly,

It is a privilege as Finance Minister to present the Government's 2014/15 Budget Statement, the second since the One Bermuda Alliance assumed responsibility for the governance of Bermuda.

This Budget is not just numbers, but instead represents a multi-year mission to restore economic security and prosperity to the people of Bermuda. I say multi-year because it will take time to reverse the downward economic and budgetary trends we inherited in December 2012. That is a simple statement of fact.

We cannot stop the momentum behind massive government deficits overnight, nor eliminate the weight of public debt with a single cheque, nor fully restore confidence in Bermuda as a place to do business with one presentation.

What we can do, and what we are doing, is implementing a broad programme of change to equip Bermuda to perform, grow and thrive in today's world; a world, I might add, that will bury us if we don't change the way we do business, both as a government and as a country.

The simple reality for Bermuda today is this: The status quo is the enemy. If we don't change, there will be no improvement. If we don't change, we will only get more of the same, which is not what this Government wants nor, I am sure, what the Bermudian people want.

Our aim is to grow the economy to get our people back to work. Our aim is to end, once and for all, an era of carelessness that debilitated the public purse and cast the pall of unemployment over thousands of lives and the many more who depend on them.

Everything depends on our success in rebuilding the economy. In doing so, we give ourselves the means to build a better society that cares for the sick, pays pensions, paves roads, maintains good schools and supports the level of public safety that we need; a society, in short, that makes it possible to achieve social and economic equity for all, leaving no one behind. Without the means these lofty objectives are mere empty words.

This Budget continues the work we started in 2013 — improving conditions for the hiring of Bermudians, imposing strong measures to control government spending, eliminating red tape to facilitate investments and setting up new avenues to grow the economy.

Our detractors like to say we are putting business before people, but nothing could be further from the truth. New jobs for people are created by growing businesses.

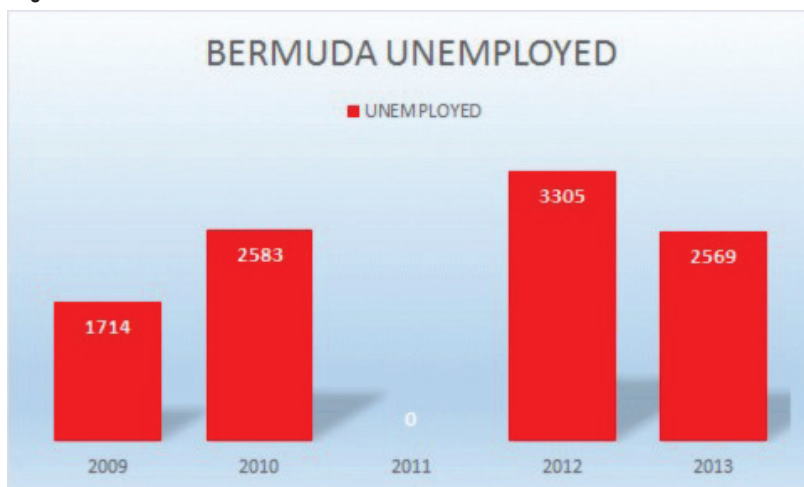
Bermuda is starting to move in the right direction, but we have miles to go and dangers are everywhere, both here on the Island and abroad.

CONFIDENCE — TURNING THE CORNER

Mr. Speaker, a few years ago at budget time during my formal remarks on behalf of the then Loyal Opposition, I spoke about confidence and its importance to the overall economic strength of a country. We said that confidence was like the wind: an invisible yet powerful force whose presence could fill the sails and propel a ship forward, but whose absence would leave the vessel stalled and unable to manoeuvre.

In practical economic terms, lack of confidence causes people not to spend, not to invest, not to take chances. People with no confidence plan not to stay but to leave,

Figure 1



they plan not to buy but to sell, they decide to move their money out not in.

When this Government was elected on 17 December 2012, the confidence in Bermuda as a place to do business, as well as a place to live, was at a low ebb. One of our priorities was to turn that sentiment around. My colleagues and I moved with speed, meeting with local

and overseas audiences to restore confidence in Bermuda. We spoke about our commitment to creating an environment that encourages private sector growth and its importance to the creation of new and sustainable jobs. We said Bermuda was open for business, ready to make things work, and took definitive actions to make it happen.

Evidence suggests we are turning the tide insofar as confidence is concerned. The latest Omnibus Survey for the fourth quarter 2013 showed a Consumer Confidence

score of 83, up 21 points in 12 months from just prior to the 2012 General Election. The survey also showed that satisfaction with Government had returned to high levels seen earlier in the year, driven by the impression that it was making a difference.

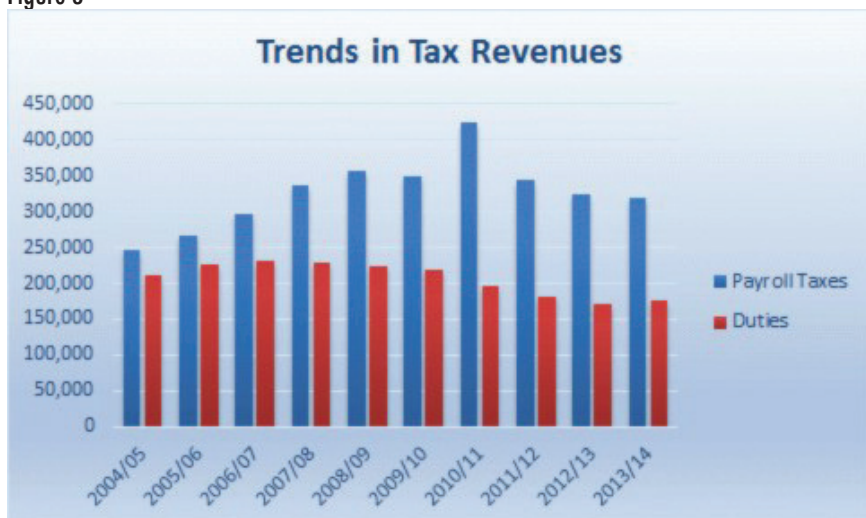
This improvement in perception can have a real impact on economic activity and job creation. New jobs come from the expansion of existing private enterprises or from the spawning of new enterprises whose founders and investors are now willing to take that chance to start a new business, whether it is a new reinsurance business or a new carpentry business.

Figure 2



Before an entrepreneur decides to start a new business or expand an existing one, he or she must weigh the risks of that decision against the possible rewards. No one can eliminate all risks, but reducing or eliminating some of those risks is something the Government can have a significant impact on.

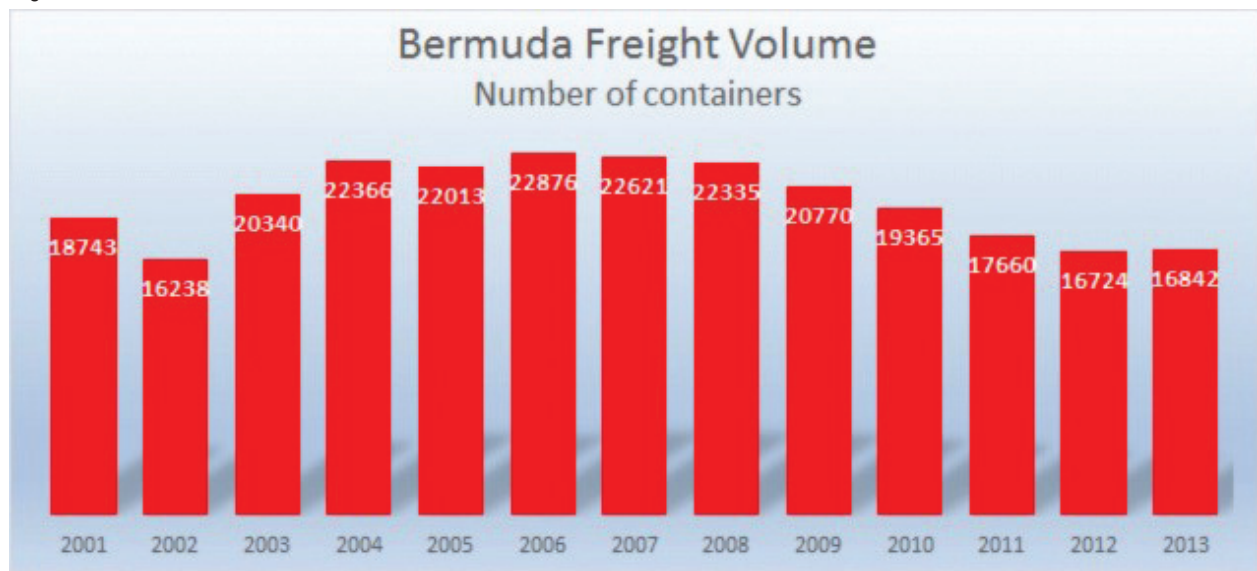
Figure 3



This Government has reduced the risk that businesses will be prevented from keeping or obtaining the intellectual capital they need to compete. We have reduced the risk of expanding expensive government red tape. We have reduced the risk of mismanagement of public

finances. And, as a Government that has emphasized pragmatism, we have reduced the risk that decisions are made for ideological or political reasons as opposed to practical economic reasons.

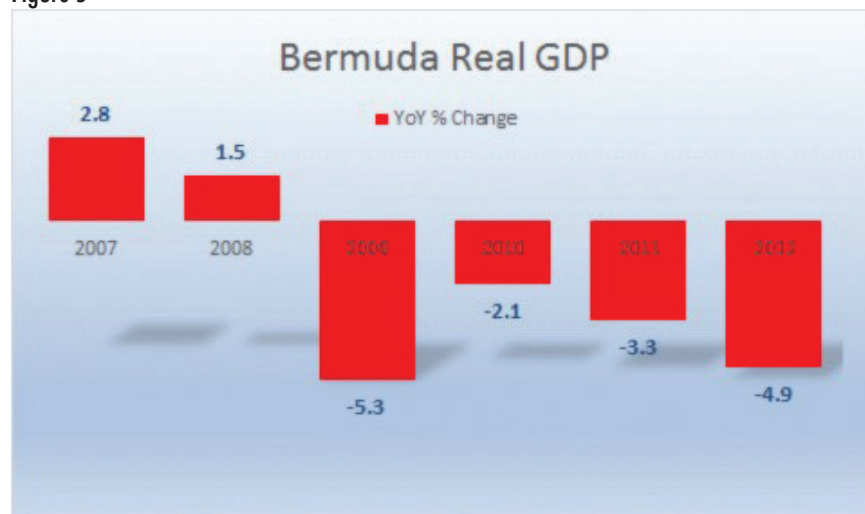
Figure 4



Mr. Speaker, Figure 1 shows the number of unemployed persons in Bermuda. There is a gap in 2011 because the survey was not conducted that year. Nevertheless the fall in unemployment is an encouraging indicator that we are turning the corner as it relates to the Bermuda economy. Obviously, we have a long way to go to getting people back to work, but the trend is encouraging.

Figure 2 shows the number of local companies incorporated in 2013, another encouraging trend. Note that local companies are more likely to be employing people than exempted companies. However, exempted incorporations were also up in 2013.

Figure 5



Government's own internal data, shown in Figure 3 are also encouraging: Payroll taxes are up marginally to \$329 million in 2013/14 from \$328 million the year before. Also customs duties are up by \$28 million or 16% compared to 2012/13. Other than a 10% increase in the duty rates for cigarettes, beer, wine and

spirits in the Customs Tariff Government did not raise the rates on either of these

taxes so these increases suggests an improving tone in the economy.

There are other indicators of increased economic activity. Figure 4 shows the number of containers crossing Bermuda's frontier over a 12-year period. The number of containers represents the volume of imports rather than their value, therefore it is a broad indicator of consumer and capital demand. The number of containers increased by 118 or 7% in 2013 versus 2012.

When looking at the trends in GDP we still do not see evidence of recovery in Figure 5. Preliminary data points to a further decline in GDP for 2013.

Figure 6



In Figure 6, Retail Sales shows a mixed story, with the index bottoming out in 2011, with an apparent rebound in 2012 faltering slightly in 2013.

We believe that much of the movement in these economic indicators is due to winds of confidence beginning to reflate our economic sails.

This is a good start, but in and of itself it is not enough. There must be follow-through. While people are feeling better about Bermuda, they are waiting for further signs of progress in international business and tourism growth, in infrastructure development and in government deficit and debt reduction. Major tangible evidence on these fronts must be achieved to dispel lingering doubts that Bermuda is indeed firmly on the road to recovery.

In short, Mr. Speaker, we still have much work to do.

IT'S STILL TOUGH OUT THERE

Mr. Speaker, despite the early signs of the long economic nightmare coming to an end, the Government is fully aware that day-to-day life is still very tough out there for Bermudians. The 'good old days' when someone could quit a job and walk across

the street and find another are a distant memory. There are still too many of our countrymen and women looking for work without success.

Bermudians surely have read media reports about how the median income of Bermudians is one of the highest in the world. While I don't dispute those numbers, it is easy to draw the wrong conclusions. Those numbers do not take into account the gap between the haves and the have-nots nor do they take in the cost of living in this island, i.e. the purchasing power of dollars earned in Bermuda. Comparing incomes between countries without adjustments for purchasing power is a relatively meaningless exercise. The reality is the average income of Bermudians has waned along with their purchasing power. Clearly, we are still worse off economically than we were, say, six years ago. As I have stated numerous times in this Honourable House, the only way to reduce the gap between the haves and have-nots is to cause the overall economic pie to grow.

Even though insurance and reinsurance has been relatively solid throughout all our long recession, the economic model is changing and therefore the job-creating machine of years gone by is no longer as strong as it once was. There has also been job contraction in other areas of financial services.

The construction sector has not recovered to previous levels of activity. The new hospital project has provided some relief, but this is now coming to an end. The opportunities for small entrepreneurs in this sector have been severely reduced over the past five years. Also jobs in the retail and hospitality sectors have not experienced much growth in the past five years.

There are too many Bermudians struggling at a subsistence standard of living and needing government Financial Assistance to get by. In fact, cash grants for Financial Assistance have skyrocketed in recent years and now have become a major Government budget issue for the first time. The trajectory of this trend in Financial Assistance is unsustainable and has to be addressed.

Last year, with Cabinet Ministers having taken a 10% pay cut, Government called on Bermudians to embrace the spirit of shared sacrifice for the common good. We initiated talks with the public service unions in this regard, and during the summer reached an historic agreement in which public sector workers agreed to take an unpaid furlough day each month to help reduce the cost of running the government. The agreement resulted in a 4.6% pay reduction for public sector employees. Government is very pleased and grateful that our staff have recognized the magnitude of the

financial crisis facing the public sector and that they are pitching in to help resolve the situation. There remains much more work to be done before government finances are normalized, but the agreement with the workers is a good start.

Mr. Speaker, despite the long recession, the cost of living remains stubbornly high. During our discussions with the unions, their spokesmen pointed out the continuing challenges their members faced with the cost of food, the cost of electricity and the cost of banking services, such as loans and mortgages. While all of these goods and services are provided by private sector entities and are therefore not directly under the control of Government, we had already recognized that these concerns were legitimate and promised to initiate discussions with the suppliers of these goods and services.

We were pleased when major supermarkets agreed to expand food cost relief by increasing the discount on “Discount Wednesday” from 5% to 10%. We understand that this action has been well received by price conscious shoppers. However, the other two areas, namely banking and electricity, are matters of ongoing discussion. Mr. Speaker, I will come back to these sectors later on in this statement.

Mr. Speaker, many Bermudians are feeling frustrated and there is a growing sense of impatience. Not only are people sick and tired of these difficult conditions, they’re sick and tired of being sick and tired. As a Government we too wish conditions would improve more quickly, but underneath it all, we recognize that things will not improve on their own, they will only improve if we strive together to make them better. We cannot continue to do things the same old way and expect a better outcome.

CUTS AND GROWTH

Why We must Have Spending Cuts

Mr. Speaker, the OBA is following a two-track policy to achieve economic recovery, reform and renewal. The first track is to enact policies to grow the economy and the second track is to take actions to control and reduce government spending.

Some observers have suggested that we can simply grow our way out of our fiscal challenge without resorting to spending cuts and with better efficiencies.

Mr. Speaker, we cannot just rely on growth. It is imperative we do all we can to grow

the economy and cut back the cost of government. And it is vital that we do both at the same time.

Let us take a look at the growth-only hypothesis. What if we did take the approach of concentrating on growing the economy, and by extension government revenues, as opposed to cutting costs? Let us examine a few facts.

The highest annual revenue figure in the history of the Bermuda Government was \$990 million. This was achieved in 2010/11, and then only because of the ill-fated payroll tax increase, which was rolled back the next year. A more realistic figure for maximum revenues is \$951 million in 2008. If you allow for inflation, that figure rises to \$956 million, as estimated in Government's Medium Term Expenditure Framework. We estimate it would take three years to get to that total based on a number of assumptions; certainly four years to get to the \$990 million peak.

In the meantime, if we did nothing about spending, currently at \$1,112 million, the absence of cost cutting would see a deficit of about \$300 million each year for, say, four years; increasing public debt by another \$1.2 billion. Add that to the debt we already owe and we are looking at \$4 billion in public debt in four years. And we STILL would not have balanced the budget, even if we reached our peak revenue level of \$990 million.

Of course this simplified analysis assumes we can press a button and create economic growth that will grow revenues to levels never before achieved. It's a fantastic assumption and a dangerous one at that. The approach of concentrating solely on growing revenues by way of overall economic growth is just not realistic.

Therefore, we must have a two-track policy that grows the economy and, at the same time, reduces government costs in order to restore our fiscal health.

KEY ELEMENTS OF ECONOMIC GROWTH

Mr. Speaker, just another word or two on growth. Bermuda has experienced a very significant decline in population over the last five years. The debate over the exact number of people we have lost is a distraction from a very important economic truth:

Change in GDP = Change in Population. + Change in Productivity

This simple expression shows that it is virtually impossible to grow GDP with a shrinking population, unless there is some game-changing jump in productivity, as

happened with the invention of the Internet. Without a game-changer, we have to depend on incremental growth in population and small increases in productivity to grow GDP.

Therefore, population growth is an important component of economic growth. The simple truth is, to grow the Bermuda economy we have to increase the resident population. Biologically we are not growing fast enough to even sustain our population, and even if somehow Bermuda started its own baby boom, it would take too long to have any timely economic impact. The only alternative is to import people.

The right policy is to attract people who bring lots of capital to our shores, and by that I mean financial capital and/or intellectual capital. This is a crucial element in creating growth, jobs and opportunity in the Bermuda economy. In former times, immigration policies were about protection, hence the name of the act, The Immigration and Protection Act. Today immigration policy is a central component of economic policy and must be seen as that by Bermudians. To allow the Bermuda economy to grow, immigration policy must be liberalized to allow easier entry of persons with financial and or intellectual capital to fuel the recovery of our economy.

60/40

Mr. Speaker, perhaps living on a small island in the middle of the ocean means the fear of being overwhelmed by outsiders is in our DNA. Those who want to hold on to protectionist rules appeal to that fear. But the facts speak for themselves. Historically, foreign participation in Bermuda, both by way of capital and people, is what helped Bermuda grow from a sleepy, isolated community to a highly developed, sophisticated country. The infrastructure for tourism, for example, the airport, the hotels, hotel management expertise and of course the tourists themselves were all foreign-sourced. And then there is international business — surely the term speaks for itself.

The bottom line fact is that a successful and vibrant Bermuda economy, which Bermudians want to participate in, cannot occur without the participation of the outside world.

And yet we have rules such as the 60/40 ownership rules that hinder the inflow of investments that are needed today to power recovery that can restore hope, opportunity and jobs for our people.

The truth is the 60/40 rules were established by the old oligarchy to protect their

own interests; to enable them to retain their position of economic dominance. So the sources of the calls for the retention of the 60/40 rule are most ironic.

Mr. Speaker, consider where we would be if we retained 60/40 in telecommunications. Our infrastructure would not be up to date and would be absurdly expensive. Consider where we would be if we still retained 60/40 when the financial crisis of 2008 struck. Our banking system would have surely collapsed and the Bermuda economy along with it.

Today's Bermuda needs capital to recover and there is only one place to get it: from outside Bermuda. So people who try to stir up the fear of being overwhelmed by foreigners do so only for political gain.

Mr. Speaker, Bermudians have a choice, either we acquire the fuel we need from abroad to power ourselves back to growth and prosperity or we allow political demagogues to trap us with our own fears. This Government chooses growth and prosperity not fear and stagnation.

FINANCIAL INDEPENDENCE

Mr. Speaker, Bermuda has long been proud of its financial independence. We pay our own way and we receive aid from no one. The English poet John Donne wrote: "No man is an island," but in today's globalized economic world no island is an island either. In today's globalized world no nation, no matter how large or small, is completely financially independent. However, the fact that Her Majesty's Government has no say in how much we spend or what we spend it on, or how much we tax or what form of taxation we choose, or how much we borrow or who we borrow from, is unique among Overseas Territories and something of which we should be justly proud.

But there's a catch. Our financial independence does not mean we can do what we like. There are limits. If we are perceived to have lost control of our fiscal affairs, we stand to lose that financial independence.

If we don't manage our fiscal challenges successfully, I guarantee somebody else will, and the somebody (or somebodies) won't care about Bermudians and the standard of living we've become accustomed to. They won't care about our pensions, or our property values, or our collective bargaining agreements or our trips.

Budget debates in this Honourable House will become purely perfunctory, as the real

decisions will be made, not here in these islands, nor in this Chamber, but somewhere across the seas.

Other Atlantic basin islands, both Overseas Territories and independent nations, have lost their financial independence. Outside entities call the shots, either Her Majesty's Government or supranational financial institutions.

Any island that trades with the outside world is subject to the judgments of its larger trading partners. Those that have high levels of debt will be subject to the judgments of the global credit markets. Unfavourable judgments can result in the shutting off of the credit tap. For example, an island nation we are all familiar with had a \$500 million bond issue withdrawn in 2013 due to lack of interest on the part of investors; now they are in the unfriendly arms of the International Monetary Fund. Credit markets are hyper-aware of the risks posed by large external debts owed by small countries with few if any natural resources. So it is vital that we get back to being smart and prudent in how we manage our affairs.

The only thing we have to back our debt with is our ability to trade favourably with the rest of the world while also managing our own fiscal affairs responsibly. Continuous government deficits and rising debt indicate poor fiscal management, thereby heightening the risk of rating agencies downgrading our paper. Credit markets will make it more expensive to borrow, thereby forcing Bermuda into an downward economic spiral.

All bail-outs or back-stops by outside entities come with a cost. It is our collective misfortune that Bermuda sunk so deeply into debt because it called into question our long-established reputation for prudent and responsible management of the public purse. The onus is on us to do better. Any continuing failure to manage our spending prudently will surely cost Bermuda its financial independence.

Higher debt service costs will pressurize the Government to raise tax rates to fund this burden. How many people want to have their taxes raised? No one.

Some might say, "Why not just tax the rich, or the rich exempted companies? They can afford to pay." They can also afford to leave! The last government tried that with disastrous results. The departure of some of those companies in the years running up to the last election was connected to that bad policy mistake.

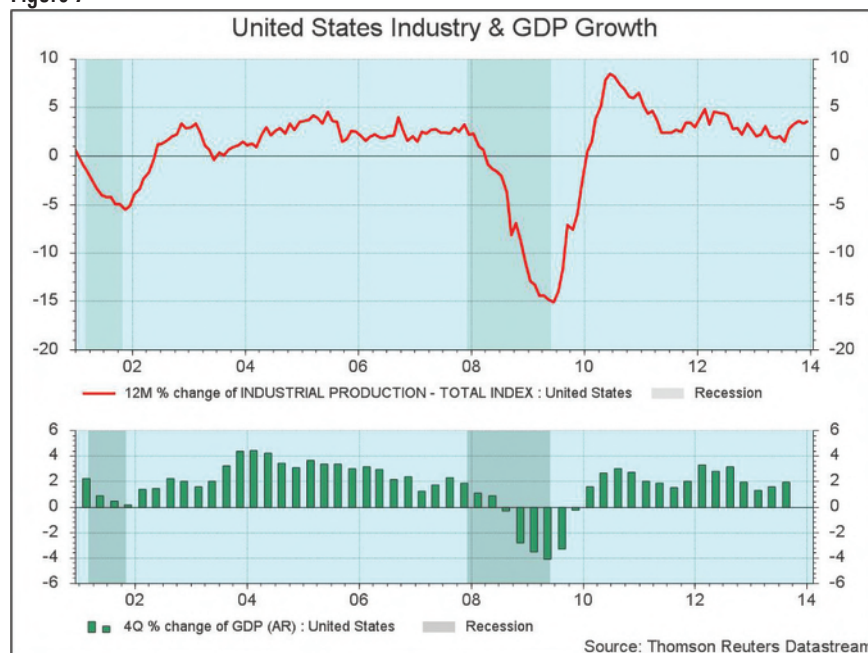
So, yes, we are still financially independent, but there is little room for error and the risks are real. These risks are shouldered by Bermudians from all walks of life

— landlords and tenants, employers and employees, borrowers and savers, shoppers and shopkeepers, entrepreneurs and civil servants, rich and poor.

Mr. Speaker, it is with this background in mind that I reiterate that the option of doing nothing, that is continuing as we are, or ‘steady as she goes’, is not an acceptable option. Such a course, lacking in courage and fortitude, will only lead to financial calamity for this island. We must embrace change and make the best of it.

BERMUDA IN THE GLOBAL ECONOMY

Figure 7



Mr. Speaker, while OBA economic policy has, from our inception, emphasized local economic factors and issues, the global environment in which Bermuda trades is also an important factor in Bermuda’s economic fortunes.

The global economy continues its unspectacular recovery. Figure 7, shows US Industrial Production growth

as well as GDP growth. While the economic expansion has been in place since 2010, growth rates have been below those of previous recoveries.

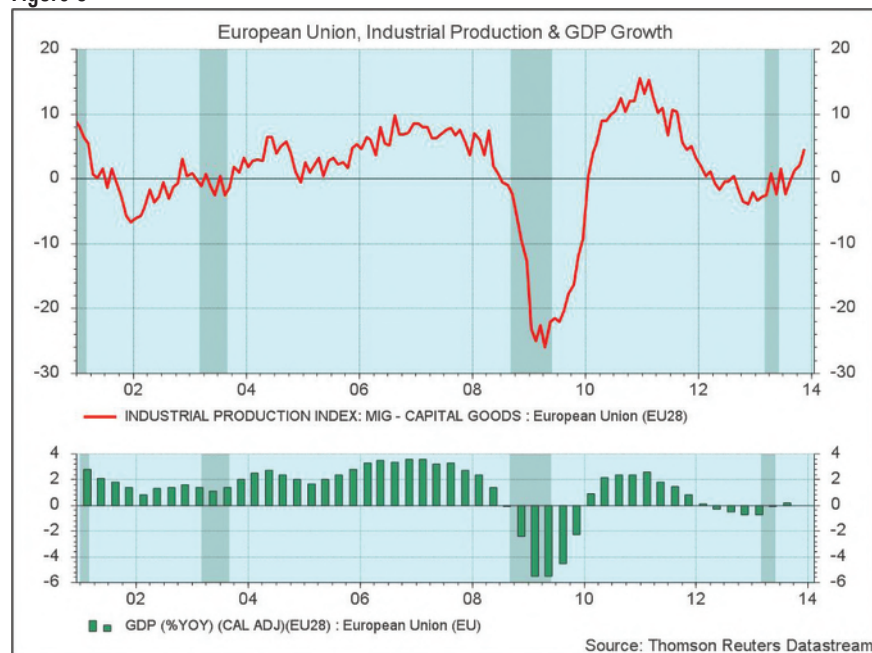
This sluggish recovery has had two side effects that directly affect Bermuda. First, inflationary pressures have been all but invisible, thereby enabling the Federal Reserve to continue to pump credit into the system at unprecedented rates, keeping US dollar interest rates close to record low levels.

Secondly, the sluggish recovery has kept competitive pressures very high, forcing corporations to continue to focus on cost containment. The effect on a high cost, offshore

financial centre like Bermuda has been to make profit growth more challenging for Bermuda-based companies in financial services and insurance. The pressure has caused Bermuda-based companies to out-source functions to lower cost jurisdictions. Such practices rob Bermudians of job opportunities.

Growth has proven to be much more elusive in Europe. Figure 8, shows the European Union actually slipped back into recession briefly in 2013. High taxes and

Figure 8



excessive bureaucracy have been some of the factors holding the EU back. During the past year, this difficult environment has translated into elevated external threats to Bermuda that the Government has had to deal with.

Mr. Speaker, we have witnessed a rising fervour, particularly in Europe, about how much so called Tax Havens are draining the treasuries of certain G8

nations. In 2013 this rising tide boiled over into what can only be described as a paroxysm of uninformed and mindless media hysteria; a hysteria that targeted Bermuda among other dots on the map.

The former PLP Government had gone out of its way to recognize and engage this rising tide, and when I assumed the office of Minister of Finance I found a professional and competent team that was fully engaged in this issue. The Ministry had been assiduous in ensuring that Bermuda was ahead of the curve in anti-money laundering procedures. In addition, its team was engaged in the Peer Review Group of the OECD that oversees the international effort against tax evasion and the hiding of the proceeds of crime. We were, in fact, not only ahead of the curve, but ahead of most of the members of the OECD as well.

So it was with great dismay when Bermuda was publicly chastised by Her Majesty's Government to "Get your house in order." Then, out of the blue, Bermuda was

blacklisted by France. During the period the blacklist was in place, over \$40 million worth of French reinsurance contracts with Bermudian companies were cancelled. The rhetoric had become real.

Mr. Speaker, Her Majesty's Government, in particular HM Treasury, were very helpful in our frantic efforts to have Bermuda removed from the French blacklist. On behalf of the Bermuda Government, I would like to publicly express our appreciation for their assistance.

The Bermuda Government is aggressively engaged with the relevant entities to combat what are clearly efforts by powerful forces to use dots on the map as scapegoats, to misdirect people's attention away from the stagnant economic performance vividly illustrated in the chart on EU growth. The international environment for Bermuda is currently hostile, through no fault of our own. This is yet another challenge against which we must be vigilant and steadfast. We still have many friends and allies in the global marketplace and we must continue to work with them so that our business model remains not just viable but robust.

The one thing Bermudians know for certain is that Bermudians do pay taxes, significant taxes. So why is Bermuda continuously labelled as being a Tax Haven? Today's definition of a Tax Haven is pejorative. It is a place that ring fences certain companies so that they pay no taxes, a place that lacks transparency thereby hiding dirty money, a place that refuses to cooperate with the legitimate inquiries of other countries, a place that is so lax in its governance that it doesn't even know who are the beneficial owners behind the companies incorporated there. The truth is that we don't ring fence companies for tax purposes and exempt companies pay the same taxes as local companies. We are a leading country in international transparency, with tax information exchange agreements (TIEA) with 41 countries plus many others covered under the Multilateral Tax Convention through which we answer legitimate inquiries. And we have had a central register of beneficial owners of companies since the 1940s.

Most importantly, the recent OECD TIEA Request compliance ratings of over 50 countries rates Bermuda with the rating of "Largely Compliant," the same rating as the United Kingdom, the United States of America and many other G8 countries.

Mr. Speaker, Bermuda is not a Tax Haven.

In fact, Government revenues comprise about 17% of GDP. By way of reference, US

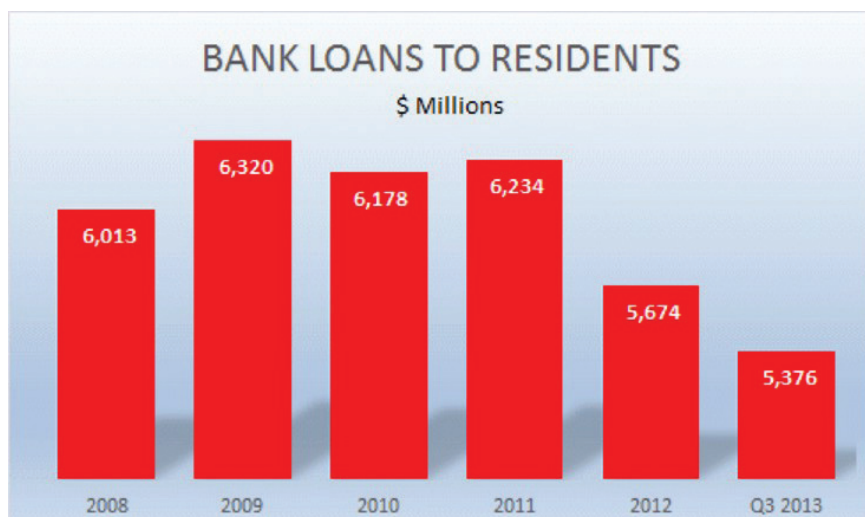
federal taxes comprise about 19% of their GDP. So it's not that we don't pay taxes, it's just that our tax system is different from those of many countries. Payroll taxes and customs duties make up the majority of our tax base. We have no income tax and we do not apologize for that. It is the inalienable right of every country to have the tax system that it wants. Ours goes back over 100 years. Many OECD countries use taxes, or tax breaks to attract business to their shores, the UK, US and Canada included. In that respect we are no different from them, only smaller and therefore perceived as a soft target.

Mr. Speaker, we are not taking this attack on our economic model lying down. The preservation of existing jobs and the platform upon which to build new jobs in the future depend on our current economic model remaining intact and robust. We are already actively engaged in the appropriate places, in the appropriate forums, and in the appropriate manner to get the Bermuda story out there. The Bermuda story is a good, honourable, positive story and we should be proud of it. The Government will continue to push back when external forces try to pervert that story.

BANKING

Mr. Speaker, banks always occupy a special position in any economy as they are the bridges between savers and borrowers, between locals and foreigners, between inves-

Figure 8



tors and investments, and between buyers and sellers. Moreover, the actions and policies of banks have a profound impact on economic growth or contraction. In the Department of Statistics table that enumerates the sectors that make up Bermuda's GDP, the largest one is International Business, the second largest is

something called Financial Intermediation. Banks make up the lion's share of this sector.

The standard banking model for most countries gives the government the ability,

through actions of the central bank, to induce the banking sector to enact policies that are in sync with the macroeconomic objectives and interests of the country. For example, if inflation is viewed to be a risk to the overall economy, the government, through the central bank, could adjust the reserve requirements to cause banks to curb their lending, thereby reducing inflationary pressures.

In Bermuda, banks follow the monetary dictates of the Federal Reserve in the US and also their own individual appetites for lending. In the last 10 years, the combination of these two factors has put bank lending policies at odds with Bermuda's national economic interests; that is, ultra-easy money lending when the economy was already red-hot followed by debilitating, ultra-cautious lending during economic weakness. The domestic banking environment at present features deposit interest rates at infinitesimally low levels, coupled with excessively wide margins between deposits and loans. Moreover, there is currently no appetite for lending, see Figure 9. And to top it off, banks continue to lay off Bermudian staff. This is, on multiple levels, contractionary banking policy at a time when we need to expand this economy. We have stated repeatedly that in order for Bermuda to move forward, all oars must be pulling in the same direction. Attaining such forward momentum is much more difficult to achieve when such an important economic driver as the banking sector is pulling in the wrong direction.

Mr. Speaker, the Government is in discussions with the Bermuda Bankers Association about these matters to find a way to have everyone pulling in the same direction.

ENERGY

Mr. Speaker, the supply and cost of energy is the foundation of the entire cost structure of any modern society. It is even more crucial for an isolated island that lacks its own energy resources. One of the reasons that Bermuda's recession has lasted five years is due to its loss of competitiveness. A significant part of our uncompetitiveness is high cost, a big component of which is the high cost of electricity. The break-even point for our hotels and other enterprises is pushed significantly higher by the high cost of electricity, making them less competitive versus other jurisdictions where costs are lower and therefore more attractive to investors. Also, the high cost of electricity is a great burden for the Bermudian people whose buying power is reduced due to the high cost of just keeping the lights on.

Mr. Speaker, islands as small as Bermuda often do not have enough size to justify competitive markets, making electrical power a so-called "natural monopoly." While

BELCO has had a generally good record for reliability, Bermudians have paid dearly for the lack of competition in electrical power. Over the long history of BELCO's tenure as the monopoly electricity provider, the company has more in common with Government in terms of accountability and innovation than it does with private enterprises that operate in a competitive environment — an environment in which if you don't innovate, minimize your costs and provide the best value to your customers, your competition will bury you. For BELCO and Government, being buried is not an issue.

Ironically, while BELCO and the Bermuda Government have no local competition, their inefficiency is eroding Bermuda's competitive position as a jurisdiction that provides value to customers in what is obviously a very competitive world. The time has come to address this issue in both these institutions.

Mr. Speaker, the jewel in the crown for BELCO is the distribution grid itself, and while there is now the possibility of alternate sources of power like wind, solar and wave, they will all have to access the BELCO distribution network. The price that they will have to pay BELCO to access that network is crucial to their economic success or failure. Former governments have not exerted much regulatory control over BELCO and while this OBA Government is a great believer in the power of private enterprise to provide best value to customers, the monopoly power of BELCO requires close attention and regulation. Government is in discussions with BELCO about these and other matters and the Regulatory Authority will be brought to bear to ascertain fair and equitable interconnect rates for alternative energy producers.

GROWTH: WHERE IS IT GOING TO COME FROM?

Mr. Speaker, first a statement of economic philosophy. In a market economy such as ours, economic activity or growth is not dictated by Government but rather determined by entrepreneurs and their employees working in their own self interest. The Government's job is to create a favourable and fair environment for job makers to thrive, just as a farmer's job is to provide fertilizer and water for his crops to grow. The farmer knows he can't make his plants grow — nature has to take its course — but he does what he can to nurture growth. Similarly with the economy, growth will come from innovative people who see the need for a product or service and are free to seize the opportunity to make it happen.

When contemplating a growth strategy we should first look to the areas we are already active in with a view to improving performance. Why? Because the fact that we are

already involved in an area means there is at least some demand for its products and services and that assets and infrastructure are already in place to provide them. Government supports growth in new areas of endeavour which would help expand the economy's narrow base. However, the Government is not keen to support questionable schemes that have no hope of being competitive over time.

(Re)insurance

Several Wall Street analysts have painted a rather grim outlook for the reinsurance industry, citing too much capacity and too few disasters. As a major reinsurance centre, we need to look at what we can do to make our offerings in this sector more attractive and competitive. As there is already a highly developed physical, legal, professional and regulatory infrastructure in place for insurance, our emphasis should be to keep on doing what we're already doing, only do it better.

Mr. Speaker, the Insurance Linked Securities (ILS) business is here, and although it does not generate the number of jobs like more traditional risk management models, we must be, and be seen to be, innovators and on the leading edge in the risk business. This will enhance Bermuda's reputation as the crucible for risk management innovation which will surely augur well for this sector and Bermuda.

Asset Management

In 2013 Government passed new legislation to make Bermuda more competitive in the business of investment funds and asset management. We now have to continue ramping up our marketing and business development efforts internationally through the newly formed Bermuda Business Development Agency (BDA) to promote our advantages internationally. BDA is a joint venture between Government and our private sector partners. The offshore funds business is a highly competitive business, heavily reliant on speed to market and sensitive to costs, and we have not traditionally excelled at either of these. However, we can, must, and will improve our performance. We used to dominate the offshore funds sector but have lost ground to the competition. As financial markets continue to recover, there will be opportunities to rebuild this business in Bermuda.

Infrastructure Development

Mr. Speaker, the term "economic stimulus package" has been so widely used by politicians around the world that it has become part of our popular vernacular. On a number of occasions members of the public have asked me, "Where is the Government's stimulus package?" There are a number of large infrastructure development projects that are available to stimulate employment. The key to these becoming reality is

how these can be financed. Government's financial capability is tapped out by the burden of debt, so the old way of developing such projects using government debt is unavailable. The alternative approach is to structure such projects so that private capital can be used. Therefore, the stimulus package contemplated by this Government lies in this alternative approach whereby institutional and other private sector investors will participate alongside Government in developing or redeveloping parts of our infrastructure.

The answer is public-private partnerships (P3s) which can make private sector capital available for these development projects. The most strategically important, and probably largest, is the redevelopment of the airport. Parts of that terminal date back to the 1940s. Such a development would include a new causeway that is hurricane resistant and a new terminal building that is not susceptible to flooding in the event of a hurricane. We cannot allow another Fabian-like storm to cut us off from the rest of the world. A P3 for this project is high on the list of possible infrastructure development projects. An advantage with this project is that international institutional private sector investors are highly experienced in and familiar with the financing of airports in island settings. This will be a job creator and revenue generator for Bermuda.

Bermuda's waste management system, including the Tynes Bay waste-to-energy facility, is another example of the type of infrastructure redevelopment project in which overseas investors have had great experience. A P3 for this project would be a job creator.

Tourism

Mr. Speaker, although tourism today is a mere shadow of what it once was, the Government believes in tourism. It is essential to the provision of long-term job opportunities for Bermudians, as well as offering meaningful diversification from international business. Government has made huge commitments to the support and revitalization of tourism. The Bermuda Tourism Authority and its funding is a manifestation of this commitment, in addition to millions of dollars of tax concessions to the hotel, restaurant and retail sectors. This support will continue. There is a clear need in Bermuda for new hotels — hotels bearing top brand names. However, these days, the top brand hotel operators seldom actually develop the physical product themselves, requiring developers to take that risk.

During the past year, Government extensively researched this market. In addition, we hosted a tourism development conference and information gleaned therefrom has steered us to our latest tourism initiatives. Government has made the decision to

introduce casino gaming by way of the integrated resort concept. The inclusion of casino gaming is central to our initiatives in tourism development. Moreover, we believe overseas direct investment in hotel development will be key to sparking growth in the future — a catalyst for creating construction jobs as well as hotel and other hospitality related jobs.

Mr. Speaker, Bermudians should be aware that the gaming model envisioned for Bermuda will be highly structured and regulated. No more than three licences will be issued and the model will be based on the successful Singapore casino model. The granting of casino licences will be tied to new hotel development. Casinos will be licensed and strictly regulated by a Gaming Authority which will be appointed by and answerable to the Premier. The latest technology will be employed to monitor casino revenues, which will be the source of funding for the Gaming Authority.

Mr. Speaker, the cruise ship industry is burgeoning worldwide due to increased efficiencies and the continuing push to provide onboard attractions and activities. Bermuda is a key destination in the western Atlantic marketplace and Government intends to maintain that status. We must therefore continue port and channel improvements around the Island to enable our cruise line partners to bring their newest most exciting ships to Bermuda.

Government has been engaged in talks with Morgan's Point Ltd. and is near an agreement with that company to amend the agreement it had with a former government to develop the property. When final agreement is reached, it is anticipated a Bill will be laid before Parliament to formally authorise the amendments. Government was already committed to remediate the pollution and remove the old aboveground and underground structures left by the US Navy. This commitment means that we have already spent \$6.6 million out of the total estimated \$38 million to finish the job. Much of this spending has been awarded to small Bermudian entrepreneurs and represents future opportunities for them as well. It is due to this investment in this property that Government agreed to be open to a limited guarantee to support the development of Morgan's Point. We continue to support this development which represents another form of government stimulus.

The infrastructure projects at the airport/causeway, Morgan's Point and new hotels will create many opportunities for local contractors, both large and small and result in those investments being multiplied over and over again throughout the Bermuda economy.

Financial Services

Government is seeking to expand Bermuda's offerings in the overall arena of financial

services, both quantitatively as well as in diversity. Our Island enjoys a solid reputation in the global institutional marketplace — despite hostility from Euro-based media — as a well regulated jurisdiction with all the advantages of modern infrastructure necessary for the conduct of financial services. We must build on this platform. Government is engaged in private discussions with entities interested in using our platform to broaden our offerings in financial services.

Light Industry

During the past year, Bermuda has been successful in attracting the first of what we hope will be many light industry enterprises to set up in Bermuda. These industries are likely to be reliant on proprietary technology or other intellectual property. We will also investigate aqua-culture on a commercial scale and its suitability and viability for Bermuda.

Risk Institute

As Bermuda is one of the three risk capitals of the world, one that leads the world in innovation, it seems logical to set up an institute of higher learning that specializes in risk management. Such an institution would attract recognized world experts in the field as well as students from around the world to learn from them. Not only would the combination enhance Bermuda's reputation as a centre for innovation in risk management but also enable more people to grace our shores and contribute to our economy at the same time.

REVIEW OF INITIATIVES OF LAST BUDGET

Mr. Speaker, there were two initiatives announced in last year's budget statement both of which were intended to provide the local economy with a boost without raising the deficit.

The first was the tax break for employers who hired unemployed Bermudians. This initiative was implemented and monitored by the Tax Commissioner's Office. Revised records from that department show that 207 persons qualified for the relief under this initiative and were hired during the period between 1 April and 31 December 2013. The Office also reported that an estimated 200 other Bermudians were also hired during the same period but, after further compliance testing, it was discovered that these new hires did not qualify for the relief under the conditions of the Act. Mr. Speaker in view of the positive results of this initiative it will remain in place for the next fiscal year.

The other tax initiative was the reduction of taxes on the purchase of Bermuda property by non-Bermudians. The reduction was to be in place for 18 months and return to higher levels thereafter. The purpose of this policy was to spark the remodelling and renovation activity that frequently accompanies such purchases, thereby helping the beleaguered construction sector. While this initiative sparked a great deal of interest on the part of non-Bermudians, and PRC buyers in particular, there were few actual transactions consummated. Investigation into the cause of the problem uncovered several layers of obstructions and red tape in the Department of Immigration. We have identified the problem areas and will be announcing initiatives to rectify the situation in the coming weeks.

We continue to believe that this initiative will help stimulate the economy. We therefore will extend the period of the lower taxes another 12 months.

Shortly after being elected, the new Government formed a Cabinet committee, chaired by the Premier, called the Economic Development Committee (EDC). On the EDC are the ministers of Economic Development, Public Works, Home Affairs, Tourism Development and Transport and Finance. The purpose was to bring together all the relevant ministries on a weekly basis to review and fast-track potential inward direct investment proposals. Through the EDC process, proposals are reviewed by the various departments in parallel rather than the traditional, time-consuming linear fashion. The EDC, for example, accelerated the approval process for the Fairmont Hamilton marina project from proposal stage to actual construction in record time; bringing jobs to Bermudians sooner than otherwise would have happened.

Mr. Speaker, the EDC continues to meet and is considering other proposals that, if approved, will inject much needed job-creating investment capital into the island. The EDC has been an outstanding success in Government's ongoing efforts to improve the way the Bermuda Government does its business.

BUDGETING PROCESS

Mr. Speaker, budgeting and financial performance starts at the very top of the Government structure, that is, with the Cabinet. Previous governments appear to have operated whereby Cabinet decided what services the Government desired to provide to the public and the spending budget became the total of all those services. This approach has been one of the key factors behind the fiscal crisis that the Bermuda Government finds itself in; like a family deciding on its annual shopping and "to do" list without any reference to what they can actually afford.

This Government takes the opposite approach, virtually the same approach a prudent family would take when arranging its budget. Our approach is based on the cash inflows we expect to have available to spend. We then allocate spending limits to each ministry so that services provided to the public fit within the overall budget limit. This is what is meant by living within one's means.

Now, the Bermuda Government has not lived within its means for many, many years, so it is difficult to wean it off bad habits. We are still living beyond our means at present, and must work towards reestablishing that prudent benchmark without crashing the economy in the process.

Mr. Speaker, that is the big challenge.

At its highest level, the decision-making process that shapes the budget is simple. If the objective is to reduce the annual deficit, then you can do one of three things: increase revenues by raising taxes and/or imposing new taxes, cut government spending or some combination of both. With the economy still fragile, it would be bad policy to raise taxes at this time. We also have what might be referred to as negative taxes: like tax concessions given to the hospitality and retail sectors. Cancelling these subsidies wouldn't technically be raising taxes but such action would have the same effect as a tax increase. If we cancelled these subsidies, jobs would likely be lost. So that option is not on.

Therefore, the only other option is to directly cut government spending.

MEDIUM TERM EXPENDITURE FRAMEWORK

Mr. Speaker, the Medium Term Expenditure Framework (MTEF) is the name given to Government's medium term plans to eliminate the deficit and ultimately reduce the debt. The full implementation of MTEF involves the introduction, from the 2014/15 budget cycle, of rolling three-year budgets and forward estimates to establish hard multi-year budget ceilings for ministries. The MTEF programme allows flexibility in the allocation of resources across a series of annual budgets to meet objectives related to debt service and other Government commitments that cannot be achieved in a single budget cycle. This will enable the Ministry of Finance to begin to fulfill its commitment to changing the trajectory of deficits and debt over the medium-term.

To achieve the Ministry of Finance's strategy for fiscal consolidation (i.e. deficit reduction), the Ministry is setting an ambitious target of cost savings on current

account expenditure of 15%, in real terms, to be achieved by the end of three years. This plan will be a challenge but can be accomplished if all Ministries work together as a team. Further, the discipline of the exercise will also provide a strong platform for more effective financial management in the medium term. If fiscal consolidation is not successfully implemented, there is a real risk of a credit ratings downgrade.

Mr. Speaker, Current Account spending in the 2014/15 Budget will be set at approximately \$945.6 million; representing an approximate 7% reduction from revised 2013/14 spending levels. Further 5% and 3% reductions will be implemented for the 2015/16 and 2016/17 fiscal years respectively. Capital outlays should also be prioritized and remain within the range of \$55 – \$65 million.

Moving forward, the Government will drive fiscal policy management by top-down, hard debt targets rather than by the bottom-up methodology of the past, whereby priority was given to spending plans.

PUBLIC DEBT

Mr. Speaker, as at 31 March 2014, gross public debt will stand at \$2.305 billion and debt, net of the Sinking Fund will stand at \$1.772 billion. In July 2013 Government borrowed US\$750 million in the international bond markets and in December 2013 borrowed \$50 million in the Bermuda dollar market. This was done to take advantage of favourable, low interest rates and was part of the Ministry's multi-year borrowing strategy.

In 2014/15 certain government notes will mature. Government will draw from the Sinking Fund to pay off \$120 million in Private Placement Notes. This will reduce our debt interest costs by \$6.99 million. The maturing notes are:

- \$75 million 5.390% Private Placement Senior Notes, maturing on 10 June 2014. Interest cost – \$4.0 million per year.
- \$45 million 6.550% Private Placement Senior Notes, maturing on 21 May 2014. Interest cost – \$2.947 million per year.

As at 31 March 2015, gross public debt will stand at \$2.185 billion, and debt, net of the Sinking Fund will be \$1.988 billion.

Mr. Speaker, last year Government set up debt related targets, or rules, that were appropriate for an economy the size of Bermuda's. These rules committed Government to keep public debt at such levels that the net debt/GDP ratio would not exceed 38%.

Additionally, Government recognized the desirability of achieving a net debt/revenue ratio that would not exceed 80% and a debt service cost/revenue ratio that would be below 10%. These were targets we would work toward over the medium term.

As at 31 March 2014, the net debt/GDP ratio will be 32%, the net debt/revenue ratio will be 199%, and the debt service cost/revenue ratio will be 16%. There is much work to do to bring them in line with our targets.

THE BUDGET

Mr. Speaker, the headline figures for the Government Budget for the financial year 2014/15 are as follows:

	ESTIMATE 2014/15 \$000
Revenue and Expenditure Estimates	
Revenue	901,709
Current Account Expenditure (excl. debt service)	945,838
Current Account Balance (excl. debt service)	(44,129)
Interest on Debt	113,500
	(157,629)
Sinking Fund Contribution	47,693
Deficit before Capital Expenditure	(205,322)
Capital Expenditure	61,945
Budget Surplus (Deficit)	(267,267)

2013/2014 FISCAL PERFORMANCE

Mr. Speaker, Honourable Members will notice that the original budget estimates approved by this Honourable House last year are different from the revised estimates for the fiscal year 2013/14. There is good and bad news contained in these revisions. The good news is that revenues for the current fiscal year are some \$21.4 million greater than originally estimated. The bad news is that current expenditures are now estimated to be some \$32 million larger than originally estimated, yielding a Current Account deficit that is \$10.8 million greater than originally estimated. Interest on

debt is estimated to be \$12.7 million greater than originally estimated. Capital Expenditure has been revised down by \$22.2 million. Therefore the Overall Deficit is now estimated to have been revised up by \$1.4 million or a 0.4% variance.

Mr. Speaker, while I am pleased at the positive surprise in revenues, I am certainly not happy regarding unexpected spending overruns. I say unexpected because the overrun on interest was not unexpected due to our decision to finance multiple years' deficits in one bond issue last summer. The other overspends have occurred as a result of inertia and inadequate budgetary controls within the Government. This is clear evidence that the old corporate culture in some ministries of Government, the absence of strictness and accountability as it relates to budgets, has not yet been squeezed out. Surely, some expenses are more difficult to project than others — financial assistance and the Bermuda Hospital subsidy for example have increased to support families in need — nevertheless the problem remains.

Of course this is the precise reason we set up the SAGE Commission. Its work was focused on this very area of concern. The Commission's report was received in October and the Government has yet to implement actions emanating from its recommendations. I will describe some of these intended actions later in this statement.

Highlights from the 2014/15 Budget

Mr. Speaker, the revenue estimate for 2014/15 is \$901.7 million, \$29.8 million or 3.4% higher than the original estimate for the previous year. The most significant increase will be in Customs Duty yield, expected to rise by \$25.7 million or 14.7% compared to the previous year. The biennial adjustment of Government fees will be increased by about 5% for most fees and the anticipated increased yield should be \$2-3 million.

Other than the fee adjustments there are no new taxes contained in the Budget for the ensuing fiscal year. Despite signs of recovery, the Bermuda economy remains fragile. An increase in tax rates would hurt recovery and impose new pressures on individuals and families struggling to make ends meet. Subsidies currently in place for the hospitality, restaurant and retail sectors — so-called concessions — will remain in place for the next fiscal year. The tax initiatives started last fiscal year will also continue into next fiscal year. We are being conservative with our revenue estimates, projecting them to grow marginally next year.

Mr. Speaker, the overall budget expenditure including current account and capital account outlays, debt service and sinking Fund Contributions is \$1.169 billion. The

big change is the forecast cut in current spending by 6.9%. This does not sound like much, but it represents a \$70.2 million cut in current expenditure. Capital expenditure will stay about the same as 2013/14 revised estimates. We expect that the planned reduction in spending can be achieved without layoffs of workers in the public sector for the coming fiscal year.

The overall budget balance is projected to be a deficit of \$267.3 million. This represents a \$64.3 million or 19.4% deficit reduction when compared to the 2013/14 deficit of \$331.6 million. So we are moving in the right direction but much more work is required.

Mr. Speaker, these estimates do not include progress on opportunities for outsourcing, privatization or mutualization of government operations during the fiscal year. This is not to say that Government will be idle on this front, not at all, but such actions are not factored in.

SAGE COMMISSION

Mr. Speaker, last year, during the budget session, Parliament authorized the SAGE Commission to conduct an unprecedented investigation into, and evaluation of, the structure, procedures and practices of the Government with a view to making recommendations to improve efficiency and save money. SAGE multiplied itself into a committee structure that included a wide cross section of Bermudians. They conducted several public meetings before submitting their final report.

Findings

Mr. Speaker, the report contained more than 200 recommendations and many more observations. However, the areas covered can be divided into three broad sections:

- Structure, accountability and reform within the public service
- Reduction in the size and cost of the public service through disposal of non-core functions, and
- Implications of the structure of pension funds.

Public Service Reform

Mr. Speaker, Government deems it imperative that we move forward with the reforms required to transform the public service into a modern organization that is purpose-

driven, cost-effective and efficient. The Public Service Reform initiative will borrow from both the recommendations made by SAGE as well as the model used in the United Kingdom.

The Public Service Reform Plan will embrace those recommendations contained in the SAGE report that the Government supports, particularly those relating to strong leadership and accountability. Reform will also incorporate other major change initiatives that might not have appeared in the SAGE Report. For example, Government's own Management and Consulting Section and a number of independent consultants have, over the past few years, produced a series of organizational development reports that have merit.

Public Service Reform represents a significant undertaking that affects internal operations as well as the delivery of services. At the heart of the Plan is the need to harness the talent, reduce the bureaucracy and to put systems in place that allow it to deliver the services in a manner that meets the needs and expectations of the public.

Disposal of Non-Core Functions

Mr. Speaker, to enable any type of savings through mutualization, privatization or outsourcing, umbrella legislation called the Public Bodies Reform Act will be brought before Parliament. This act will establish the legal authority of the Minister of Finance to make various reforms, i.e. abolish, merge, modify or transfer Government departments, quangos, Government funds, boards and committees and related legislation. This authority will include the transfer of functions or the provision of public services to an "eligible person", which may be an entity such as a company, a public service mutual, a registered charity or a trust body.

The Public Bodies Reform Act will also establish the Efficiency and Reform Authority to transform the delivery of services to the public to achieve financial savings and enhance public use of such services. The Authority, which will report to the Minister of Finance, will have a board consisting of seven members, five members from the public, two members representing unions and ex officio members from the Ministry of Finance and the Authority's CEO.

Mr. Speaker, Government is considering the following departments for mutualization, outsourcing or privatization:

- Airport Operations/Causeway
- Emissions and Vehicle Testing
- Aircraft Registry
- Ship Registry

CITV

Waste Management, including Tynes Bay and Garbage Collection

Vehicle and Equipment Operations and Maintenance

GEHI and Health Insurance Department

Parks Maintenance

Water and Sewage

Department of Social Insurance

Highway Maintenance

Conservation Services

The Efficiency and Reform Authority will be the body which decides, along with the Minister of Finance, which departments will be spun off and what the form of that spin-off will take. This will all be new to Bermuda and Bermudians, and we will be keeping the public apprised as we move forward. Also we will have to obtain expertise from other jurisdictions, most notably the UK and Canada, which have experience in this regard.

We recognize and understand people's fears about change and we will work carefully to make change work for the individual and for the common good. But let there be no mistake about why we're moving in this direction: The cost of government, as the SAGE Report concluded, is "unsustainable and out of control." The status quo is not an option.

Mr. Speaker, I am hoping to lay the enabling legislation before Parliament before the end of this Budget session.

PENSIONS

The other basket of recommendations that SAGE made was with regard to the implications of the structure of pensions. SAGE concluded that promises will have to be broken with respect to pensions. This may very well be true; certainly the current structure of pensions combined with our ageing and declining population is not sustainable.

Pensions are a complex, arcane topic with important medium and long-term implications for individuals, corporate bodies and the country. Nevertheless it is important that Government take early action to ensure that sufficient provisions are made to meet future pension obligations. While SAGE's work was excellent, it

revealed very little extra information that Government's own actuaries and pension consultants had not already told us. Of course the real value is that now there is a heightened public awareness of the problem. Moving forward the Ministry of Finance will formulate pension funding policies in a manner that is responsible and fair to both the pensioners, and members of the pension plans and Bermuda taxpayers.

OPTIONS GOING FORWARD

Mr. Speaker, Government has been able to project a reduced deficit and a reduced spending profile for the next fiscal year with no plans for redundancies. However, if we are to achieve the targets set out in the MTEF and avoid losing our financial independence and our ability to retain the confidence of international investors, upon whom we rely, spending cuts must continue year after year until the deficit is erased. Further reductions in costs after 2014/15 will not be achievable without either staff layoffs or the outsourcing of non-core functions through mutualization or privatization. Remaining as we are, with the current number of civil servants, will not be possible.

No one, particularly this Government that has been elected to create jobs, would want to add to the ranks of the unemployed. There are too many struggling Bermudian families out there now. Furthermore, to lay off civil servants only to have them apply for Financial Assistance would be, financially, a wasted exercise. Outsourcing by way of mutualization and/or privatization is the alternative that offers affected staff and union members the least disruptive option. This option represents job shifts instead of losses and staff remain employed, retaining union membership if they so desire.

Mr. Speaker, this is the tough decision that will have to be made.

Mr. Speaker, I would now like to provide a few highlights of programme initiatives related to the key Ministries of Health and the Environment and National Security.

MINISTRY OF HEALTH AND ENVIRONMENT

The Ministry of Health is the highest spending department in Government, budgeted at \$194.8 million. The whole problem with containing the rising cost of healthcare is of major concern and a threat to Government's attempts to wrestle its finances under control.

Demographics are working against us from a cost perspective, as the Bermudian

population gets older and puts greater demands on healthcare services. Many of the younger healthier guest workers, whose health insurance premiums helped finance services provided to older residents, have returned home, compounding the problem. The Bermuda Hospitals Board which comprises 40% of all health care costs, continues to grapple with the costs of delivery of service and the costs of the new acute care facility. It is clear that there is a systemic problem with the costs of delivery of health care, like a fast car with no brakes. Government is actively analysing the problem and is formulating plans on how to install brakes on this runaway. Otherwise healthcare costs threaten to bankrupt the Government. To avoid that calamity we must strive to have the best healthcare facilities our limited resources can provide.

NATIONAL SECURITY

Mr. Speaker, if foreign direct investment is a major requirement to shift Bermuda into job creation mode, then surely public safety, and the perception of public safety, is a prerequisite for such investment to actually occur. The efforts of this Government, and previous administrations, in the area of public safety are now seeing measurable, positive results. Recent crime statistics indicate that Bermuda is seeing significant reductions in all areas of criminal activity. Additionally, public perception of Bermuda's safety is now growing to levels that validate the strategy of the Bermuda Police Service to engage the community at all levels of prevention, investigation and general policing.

In the midst of public safety challenges there has been sound management of overtime budgets with consistent, year-over-year reductions, concurrent with the strong enforcement and community engagement that has been a feature of overall policing strategy since 2009's spike in gang violence.

WORKING TOGETHER

Mr. Speaker, the boiling over of industrial disputes into the streets has the potential to be extremely costly to Bermuda. The growth strategy I have outlined here is dependent on overseas direct investment, primarily in hotel properties but also in a new airport. The connection between striking hotel workers and how that could negatively affect the perception of a potential investor in a new Bermuda hotel is obvious. What is not so obvious is the connection between labour unrest and airport redevelopment. Investors in a new airport will be looking for increased future traffic at our new airport as a rationale for their investment. If labour unrest dampens the

prospects for new hotel investment, then it will reduce the probability for increased future traffic which will, in turn, dampen investor enthusiasm for the new airport. Our future plans are all connected.

The bottom line is Government has a strategy to stimulate and restore the economy but the strategy can be derailed if stakeholders do not work together in a collaborative manner to quietly sort out their differences.

I call on all stakeholders — management and labour, public and private sector — to pull together in the same direction. Do your respective parts to nudge our island home along the road to recovery. As I said earlier, in another context, we will not move forward if all oars are not pulling in the same direction. The Government is doing its part and will continue to do so, but we need the cooperation of all stakeholders to make this work. Government cannot do it alone.

To close out this Budget Statement, I want to paraphrase a message the Premier has been carrying into the community for many months now — a message we would all do well to follow:

We are Bermudians first, in this boat together, and the best thing we can do is pull together to keep it moving forward. Collaboration and shared sacrifice will not come easy to some, but the mutual benefits of reaching out and working together far outweigh the behaviours that keep us from reaching our collective potential. The stakes could not be greater for Bermuda. Now is the time for all of us to work together, to do our best and be at our best for the sake of the island we call home.

Thank you.

Table I**GOVERNMENT OF BERMUDA SUMMARY OF CONSOLIDATED FUND ESTIMATES FOR 2014/15 TO 2016/17**

ACTUAL 2012/13 \$000		ORIGINAL ESTIMATE 2013/14 \$000	REVISED ESTIMATE 2013/14 \$000	ESTIMATE 2014/15 \$000	ESTIMATE 2015/16 \$000	ESTIMATE 2016/17 \$000
Revenue and Expenditure Estimates						
866,578	1 Revenue (i)	871,199	892,569	901,709	928,760	956,623
967,812	2 Current Account Expenditure(excl.debt & s/fund) (ii)	983,883	1,016,081	945,838	898,546	871,590
(101,234)	3 Current Account Balance(excl.debt & s/fund)	(112,684)	(123,512)	(44,129)	30,214	85,033
30,441	4 Interest on Debt (iii)	96,675	109,400	113,500	115,500	116,861
(131,675)		(209,359)	(232,912)	(157,629)	(85,286)	(31,828)
30,750	5 Sinking Fund Contribution	37,625	37,625	47,693	51,374	56,304
(162,425)	6 Surplus Available for Capital Expenditure	(246,984)	(270,537)	(205,322)	(136,660)	(88,132)
63,474	7 Capital Expenditure (See line 21 below)	84,609	62,458	61,945	60,000	60,000
(225,899)	8 Budget Surplus (Deficit)	(331,593)	(332,995)	(267,267)	(196,660)	(148,132)
Sources of Financing						
2,619	9 Consolidated Fund	0	0	267,267	129,507	0
223,280	10 Borrowing	331,593	800,000	0	67,153	148,132
225,899	11 Total Financing	331,593	332,995	267,267	196,660	148,132
Capital Appropriations						
76,190	12 Appropriations in Original Estimates	84,609	84,609	61,945	60,000	60,000
10,036	13 Supplementary Appropriations	0	0	0	0	0
86,226	14 Appropriated During the Year	84,609	84,609	61,945	60,000	60,000
(5,860)	15 Appropriations Frozen	0	(60,713)	0	0	0
(4,083)	16 Appropriations Lapsed	0	0	0	0	0
76,283	17 Net Appropriations	84,609	23,896	61,945	60,000	60,000
25,753	18 Unspent Appropriations from Prior Year	0	38,562	0	0	0
102,036	19 Appropriations to Meet Spending	84,609	62,458	61,945	60,000	60,000
63,474	20 Capital Spending	84,609	62,458	61,945	60,000	60,000
38,562	21 Unspent Appropriations Carried Forward	0	0	0	0	0
Consolidated Fund Balance (March 31)						
1,000	22 Contingency Fund	1,000	1,000	1,000	1,000	1,000
38,562	23 Unspent Capital Appropriations	0	0	0	0	0
(1,869,719)	24 Undesignated Surplus (Deficit)	(2,162,750)	(2,164,152)	(2,431,419)	(2,628,079)	(2,776,211)
(1,830,157)	25 Consolidated Fund Surplus (Deficit)	(2,161,750)	(2,163,152)	(2,430,419)	(2,627,079)	(2,775,211)

Note: (i) Revenue growth assumptions as follows: 2015/16 – 3% & 2016/17 – 3%

(ii) Expenditure reductions as follows: 2015/16 – 5% & 2016/17 – 3%

(iii) In 2012/13 - \$51M of Interest on Debt was funded from the Sinking Fund

Table II
ANALYSIS OF CURRENT ACCOUNT REVENUE

HEAD	REVENUE DESCRIPTION	2012/13 ACTUAL (\$000)	2013/14 ORIGINAL (\$000)	2013/14 REVISED (\$000)	2014/15 ESTIMATE (\$000)	DIFFERENCE 2013/14 vs 2014/15 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TAXES & DUTIES							
12	CUSTOMS DUTY	169,693	175,000	197,820	200,660	25,660	15
27	SALE OF LAND TO NON-BERMUDIANS	5,967	10,000	7,500	10,008	8	0
29	TIMESHARING TAX	169	92	105	105	13	14
38	PASSENGER TAXES	34,578	35,670	34,400	35,784	114	0
38	STAMP DUTIES	18,754	19,962	18,746	20,500	538	3
38	BETTING TAX	1,544	1,450	1,500	1,600	150	10
38	LAND TAX	55,845	59,000	59,000	59,000	0	0
38	FOREIGN CURRENCY PURCHASE TAX	22,072	24,000	21,300	21,500	(2,500)	(10)
38	PAYROLL TAX	328,023	320,000	329,000	332,000	12,000	4
38	HOTEL OCCUPANCY	10,002	9,500	10,000	10,050	550	6
38	CORPORATE SERVICE TAX	3,185	4,800	4,200	4,500	(300)	(6)
FEES, PERMITS & LICENCES							
03	LIQUOR LICENCES	278	50	50	180	130	260
11	INSURANCE FEES	15	0	0	0	0	0
12	OTHER CUSTOMS FEES & CHARGES	2,150	2,264	2,074	1,999	(265)	(12)
12	WHARFAGE	8,335	8,421	9,120	900	(7,521)	(89)
13	POST OFFICE	5,322	4,774	4,774	4,757	(17)	(0)
27	IMMIGRATION RECEIPTS	7,985	10,000	10,000	10,637	637	6
29	TRADE & SERVICE MARK	1,584	1,640	1,640	1,731	91	6
30	FERRY SERVICES	1,777	1,822	1,822	1,852	30	2
30	SERVICES TO SEABORNE SHIPPING	2,768	3,069	3,016	2,712	(357)	(12)
31	AIR TERMINAL AND AVIATION	10,682	10,286	10,334	10,599	313	3
32	PLANNING FEES AND SEARCHES	714	875	852	685	(190)	(22)
34	VEHICLE LICENCES AND REGISTRATION	26,031	28,216	28,309	28,156	(60)	(0)
35	BUS REVENUES	7,704	8,700	8,753	8,300	(400)	(5)
36	SOLID WASTE	4,094	3,520	3,220	3,500	(20)	(1)
36	WATER	4,705	5,100	3,319	4,462	(638)	(13)
36	RENTALS	2,384	2,115	2,119	2,059	(56)	(3)
39	COMPANIES - INTERNATIONAL	62,163	56,728	56,998	56,079	(649)	(1)
39	COMPANIES LOCAL	2,809	2,620	2,620	2,770	150	6
39	COMPANIES LICENCES	774	613	608	582	(31)	(5)
46	TELECOMMUNICATIONS RECEIPTS	13,647	10,000	10,000	10,360	360	4
57	AIRCRAFT REGISTRATION	23,926	23,512	23,527	24,497	985	4
72	PLANT PRODUCTION & MARKETING CTRE	38	295	295	274	(21)	(7)
73	REGISTRATION OF SHIPPING	4,177	4,151	4,151	4,982	831	20
OTHER RECEIPTS							
03	FINES AND FORFEITURES	2,075	3,570	3,551	3,591	21	1
11	INTEREST ON DEPOSITS	2,831	2,500	2,500	4,750	2,250	90
	OTHER REVENUE	17,778	16,884	15,346	15,588	(1,296)	(8)
		866,578	871,199	892,569	901,709	30,510	4

Table III
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD	DESCRIPTION	2012/13 ACTUAL (\$000)	2013/14 ORIGINAL (\$000)	2013/14 REVISED (\$000)	2014/15 ESTIMATE (\$000)	DIFFERENCE 2013/14 vs 2014/15 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
NON-MINISTRY DEPARTMENTS							
01	GOVERNOR & STAFF	1,604	1,638	1,638	1,544	(94)	(6)
02	LEGISLATURE	5,171	6,079	6,079	5,206	(873)	(14)
05	OFFICE OF THE AUDITOR	3,817	3,846	3,846	3,760	(86)	(2)
63	PARLIAMENTARY REGISTRAR	1,524	1,600	1,600	1,285	(315)	(20)
85	OMBUDSMAN'S OFFICE	749	822	886	772	(50)	(6)
92	INTERNAL AUDIT	1,476	1,773	1,773	1,659	(114)	(6)
		14,341	15,758	15,822	14,226	(1,532)	(10)
CABINET OFFICE DEPARTMENTS							
09	CABINET OFFICE	7,139	7,091	7,091	6,992	(99)	(1)
14	DEPT. OF STATISTICS	2,643	2,975	2,975	2,773	(202)	(7)
26	DEPT. OF HUMAN RESOURCES	3,827	4,247	4,247	4,094	(153)	(4)
43	INFORMATION TECHNOLOGY OFFICE	8,107	7,329	7,329	6,742	(587)	(8)
51	DEPT. OF COMMUNICATION & INFORMATION	2,376	2,561	2,561	2,375	(186)	(7)
80	PROJECT MANAGEMENT & PROCUREMENT	1,287	977	812	913	(64)	(7)
84	E-GOVERNMENT	1,005	1,059	1,059	1,057	(2)	(0)
96	SUSTAINABLE DEVELOPMENT	495	500	500	438	(62)	(12)
		26,879	26,739	26,574	25,384	(1,355)	(5)
MINISTRY OF LEGAL AFFAIRS							
87	MIN. OF LEGAL AFFAIRS HQ	6,652	7,360	7,448	5,725	(1,635)	(22)
03	JUDICIAL DEPARTMENT	8,004	8,360	8,367	8,141	(219)	(3)
04	ATTORNEY GENERAL'S CHAMBERS	3,434	4,286	4,180	3,982	(304)	(7)
74	DEPT. OF COURT SERVICES	3,415	4,378	4,371	4,073	(305)	(7)
75	DEPT. OF PUBLIC PROSECUTIONS	2,611	2,993	2,997	2,930	(63)	(2)
		24,116	27,377	27,363	24,851	(2,526)	(9)
MINISTRY OF FINANCE							
10	MIN. OF FINANCE HQ	5,062	5,042	5,001	5,160	118	2
11	ACCOUNTANT GENERAL	54,368	84,636	84,636	82,308	(2,328)	(3)
28	SOCIAL INSURANCE	6,074	6,583	6,195	6,333	(250)	(4)
38	OFFICE OF THE TAX COMMISSIONER	3,090	3,448	3,202	3,240	(208)	(6)
58	INTEREST ON DEBT	30,440	96,675	109,400	113,500	16,825	17
59	SINKING FUND CONTRIBUTION	30,750	37,625	37,625	47,693	10,068	27
		129,784	234,009	246,059	258,234	24,225	10
MINISTRY OF EDUCATION & ECONOMIC DEVELOPMENT							
95	MIN. OF EDUCATION & ECONOMIC DEV. HQ	7,787	10,502	10,527	8,677	(1,825)	(17)
17	DEPT. OF EDUCATION	116,015	121,000	119,030	114,900	(6,100)	(5)
39	REGISTRAR OF COMPANIES	2,732	3,329	3,329	3,171	(158)	(5)
41	BERMUDA COLLEGE	18,119	18,119	18,119	16,851	(1,268)	(7)
46	TELECOMMUNICATIONS	3,504	1,257	1,257	900	(357)	(28)
67	E-COMMERCE	625	1,080	925	962	(118)	(11)
89	ENERGY	565	730	730	1,040	310	42
		149,347	156,017	153,917	146,501	(9,516)	(6)
MINISTRY OF HEALTH & ENVIRONMENT							
21	MIN. OF HEALTH & ENVIRONMENT HQ	11,545	15,147	15,267	15,578	431	3
22	DEPT. OF HEALTH	29,799	27,453	27,240	27,096	(357)	(1)
24	HOSPITALS	149,553	141,344	152,826	146,835	5,491	4
72	ENVIRONMENTAL PROTECTION	3,299	4,074	4,074	3,877	(197)	(5)
91	HEALTH INSURANCE	12,041	11,300	11,264	1,436	(9,864)	(87)
		206,237	199,318	210,671	194,822	(4,496)	(2)

Table III continued

SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD	DESCRIPTION	2012/13 ACTUAL (\$000)	2013/14 ORIGINAL (\$000)	2013/14 REVISED (\$000)	2014/15 ESTIMATE (\$000)	DIFFERENCE 2013/14 vs 2014/15 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MINISTRY OF ENVIRONMENT & PLANNING							
50	MIN. OF ENVIRONMENT & PLANNING HQ	696	1,118	1,091	0	(1,118)	(100)
		696	1,118	1,091	0	(1,118)	(100)
MINISTRY OF TOURISM DEVELOPMENT & TRANSPORT							
48	MIN. OF TOURISM DEV. & TRANSPORT HQ	669	882	975	25,161	24,279	2,753
30	MARINE & PORTS	21,201	18,536	22,300	21,312	2,776	15
31	AIRPORT OPERATIONS	25,246	19,777	22,244	20,561	784	4
33	TOURISM	28,949	27,273	31,523	0	(27,273)	(100)
34	TRANSPORT CONTROL DEPARTMENT	5,528	6,332	6,330	5,751	(581)	(9)
35	PUBLIC TRANSPORTATION	25,272	20,945	22,790	19,445	(1,500)	(7)
57	CIVIL AVIATION	9,008	10,500	10,500	10,131	(369)	(4)
73	MARITIME ADMINISTRATION	1,754	1,904	1,965	2,653	749	39
		117,627	106,149	118,627	105,014	(1,135)	(1)
MINISTRY OF PUBLIC WORKS							
36	MIN. OF PUBLIC WORKS HQ	12,662	6,246	7,102	5,679	(567)	(9)
49	LAND VALUATION	1,007	832	1,056	822	(10)	(1)
53	BERMUDA HOUSING CORP	6,500	8,199	8,000	7,440	(759)	(9)
68	PARKS	11,106	10,537	10,537	9,893	(644)	(6)
69	CONSERVATION SERVICES	5,395	4,851	4,851	4,559	(292)	(6)
81	PUBLIC LANDS & BUILDINGS	23,435	22,869	23,518	20,532	(2,337)	(10)
82	WORKS & ENGINEERING	39,694	32,286	35,295	31,767	(519)	(2)
97	LAND, SURVEYS & REGISTRATION	1,392	1,753	1,605	1,621	(132)	(8)
		101,191	87,573	91,964	82,313	(5,260)	(6)
MINISTRY OF COMMUNITY, CULTURE & SPORTS							
71	MIN. OF COMMUNITY, CULTURE & SPORTS HQ	2,280	2,356	2,530	2,602	246	10
18	LIBRARIES	2,304	2,273	2,273	2,127	(146)	(6)
19	ARCHIVES	1,278	1,547	1,547	1,412	(135)	(9)
20	YOUTH, SPORT & RECREATION	11,494	11,662	11,662	10,745	(917)	(8)
23	CHILD & FAMILY SERVICES	17,606	18,148	18,148	16,980	(1,168)	(6)
52	COMMUNITY & CULTURAL AFFAIRS	3,549	3,729	3,692	3,411	(318)	(9)
55	FINANCIAL ASSISTANCE	43,111	39,476	48,476	46,948	7,472	19
56	HUMAN AFFAIRS	2,080	2,269	2,294	2,122	(147)	(6)
		83,702	81,460	90,622	86,347	4,887	6
MINISTRY OF NATIONAL SECURITY							
83	MIN. OF NATIONAL SECURITY HQ	1,259	1,324	1,214	1,195	(129)	(10)
06	DEFENCE	6,822	6,959	6,959	7,314	355	5
07	POLICE	68,865	71,000	68,789	67,925	(3,075)	(4)
12	CUSTOMS	6,081	20,000	20,000	18,175	(1,825)	(9)
13	POST OFFICE	13,447	13,621	13,621	11,781	(1,840)	(14)
25	DEPT. OF CORRECTIONS	28,483	27,469	27,469	26,174	(1,295)	(5)
45	FIRE SERVICES	13,656	13,809	13,809	13,798	(11)	(0)
88	NATIONAL DRUG CONTROL	4,130	4,120	4,221	4,127	7	0
		142,743	158,302	156,082	150,489	(7,813)	(5)

Table III continued
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD	DESCRIPTION	2012/13 ACTUAL (\$000)	2013/14 ORIGINAL (\$000)	2013/14 REVISED (\$000)	2014/15 ESTIMATE (\$000)	DIFFERENCE 2013/14 vs 2014/15 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MINISTRY OF HOME AFFAIRS							
93	MIN. OF HOME AFFAIRS HQ	614	7,172	7,172	3,466	(3,706)	(52)
27	IMMIGRATION	16,915	4,894	4,894	4,407	(487)	(10)
29	REGISTRY GENERAL	1,232	2,205	2,205	1,966	(239)	(11)
32	DEPT. OF PLANNING	3,543	3,782	3,733	3,331	(451)	(12)
42	RENT COMMISSIONER	524	569	569	480	(89)	(16)
60	WORKFORCE DEVELOPMENT	5,358	5,741	5,741	5,200	(541)	(9)
		28,186	24,363	24,314	18,850	(5,513)	(23)
MINISTRY OF ECONOMY, TRADE & INDUSTRY							
94	MIN. OF ECONOMY, TRADE & INDUSTRY HQ	4,153	0	0	0	0	0
		4,153	0	0	0	0	0
		1,029,002	1,118,183	1,163,106	1,107,031	(11,152)	(1)

Table IV
ANALYSIS OF CURRENT ACCOUNT EXPENDITURE BY OBJECT CODE

EXPENDITURE						DIFFERENCE	
OBJECT CODE DESCRIPTION		2012/13 ACTUAL (\$000)	2013/14 ORIGINAL (\$000)	2013/14 REVISED (\$000)	2014/15 ESTIMATE (\$000)	2013/14 vs 2014/15 (\$000)	%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SALARIES		321,173	350,954	340,312	325,042	(25,912)	(7)
WAGES		84,133	70,714	78,345	72,313	1,599	2
EMPLOYER OVERHEAD		42,480	73,879	73,879	72,950	(929)	(1)
OTHER PERSONNEL COSTS		5,563	6,734	6,804	6,939	205	3
TRAINING		2,307	6,737	5,335	6,678	(59)	(1)
TRANSPORT		3,977	5,205	5,295	4,489	(716)	(14)
TRAVEL		3,418	4,683	5,067	4,079	(604)	(13)
COMMUNICATIONS		9,181	10,297	10,553	8,745	(1,552)	(15)
ADVERTISING & PROMOTION		18,136	13,247	16,578	2,564	(10,683)	(81)
PROFESSIONAL SERVICES		95,944	89,466	89,240	68,860	(20,606)	(23)
RENTALS		16,794	17,244	18,576	17,013	(231)	(1)
REPAIR & MAINTENANCE		17,614	19,921	20,488	21,754	1,833	9
INSURANCE		12,499	11,710	10,634	9,998	(1,712)	(15)
ENERGY		20,573	20,652	22,313	21,264	612	3
CLOTHING & UNIFORMS		1,576	2,190	1,614	1,470	(720)	(33)
MATERIALS & SUPPLIES		26,947	25,786	28,143	25,006	(780)	(3)
EQUIPMENT		1,197	855	995	664	(191)	(22)
OTHER EXPENSES		4,200	4,058	4,393	3,595	(463)	(11)
RECEIPTS CREDITED TO PROG		0	(17,454)	(16,464)	(18,871)	(1,417)	8
TRANSFER TO OTHER FUNDS		30,750	37,625	37,625	47,693	10,068	27
PUBLIC DEBT CHARGES (i)		33,155	97,650	110,375	113,735	16,085	16
GRANTS & CONTRIBUTIONS		277,385	266,030	293,006	291,051	25,021	9
		1,029,002	1,118,183	1,163,106	1,107,031	(11,152)	(1)

Note: (i) In 2012/13 – \$51M of Interest on Debt was funded from the Sinking Fund

Table V**GOVERNMENT DEBT TRANSACTIONS AND AMOUNTS OUTSTANDING 2003/4 TO 2016/17**

YEAR	GROSS BORROWING	REPAYMENTS	NET BORROWING (REPAYMENTS)	GROSS DEBT OUTSTANDING	MEMORANDA INTEREST ON DEBT
(1)	(\$000) (2)	(\$000) (3)	(\$000) (4)	(\$000) (5)	(\$000) (6)
2003/04	50,000	50,000	0	160,000	8,445
2004/05	50,000	35,000	15,000	175,000	8,347
2005/06	50,000	0	50,000	225,000 (i)	10,400
2006/07	50,000	20,000	30,000	255,000	13,929
2007/08	180,000	90,000	90,000	345,000	16,800
2008/09	217,250	0	217,250	562,250	18,186
2009/10	415,000	93,410	315,000	823,410	38,980
2010/11	264,080	0	0	1,087,490	56,300
2011/12	263,230	0	0	1,350,720	70,000
2012/13	223,280	0	0	1,574,000	(ii) 81,576
2013/14 (Rev)	800,000	69,000	731,000	2,305,000	109,400
2014/15 (Est)	0	120,000	(120,000)	2,185,000	113,500
2015/16 (Est)	67,153	0	67,153	2,252,153	115,500
2016/17 (Est)	148,132	90,000	58,132	2,310,285	116,861

(i) Includes \$49.5 million of outstanding debt on-lent to the Bermuda Housing Corporation (BHC).
as of 01/04/06 BHC received full debt relief from the Government.

(ii) In 2012/13 – \$51M of Interest on Debt was funded from the Sinking Fund

Table VI
BERMUDA GOVERNMENT DEBT AND LOAN GUARANTEES
UTILISATION OF STATUTORY BORROWING POWERS

ACTUAL 2012/13 (\$000)	DETAILS	REVISED ESTIMATE 2013/14 (\$000)	ESTIMATE 2014/15 (\$000)
	DEBT & LOAN GUARANTEES OUTSTANDING AS OF MARCH 31		
1,574,000	BORROWINGS UNDER LOAN FACILITIES (GOVT)	2,305,000	2,185,000
1,574,000	TOTAL DEBT OUTSTANDING (GOVT)	2,305,000	2,185,000
97,142	Less: SINKING FUND CONTRIBUTIONS (i)	532,700	197,879
	NET CUMULATIVE GOVERNMENT		
1,476,858	DEBT & GUARANTEES OUTSTANDING (ii)	1,772,300	1,987,121

- i) Government introduced a Sinking Fund with effect 31 March 1993. The intent being to set aside a sum equivalent to 2.5% of the public debt outstanding at the end of the preceding year, in order to repay the principal sum borrowed after approximately 20 years.

With effect from March 2013, the statutory debt limit was increased to \$2.5 billion.

- (ii) The Government has the following guarantees: National Education Scheme (\$69K); Bank of N.T. Butterfield (\$200M); Bermuda Housing Corporation (\$36M); West End Development Corporation (\$25M) and Bermuda Hospitals Board (\$260M). With effect from 1 April 2011 these guarantees are no longer charged against the statutory debt ceiling unless the guarantee obligation becomes due and payable by the Government, pursuant to the amended Government Loans Act 1978. The total amount of utilised Loan Facilities are restricted by the Government Loans Act 1978, as amended.

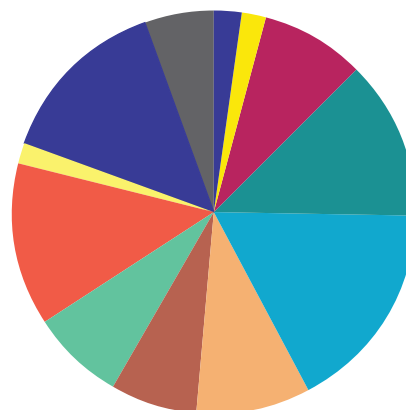
Table VII
PROFESSIONAL SERVICES

ACCOUNT DESCRIPTION		ACTUAL 2012/13 (\$000)	ORIGINAL ESTIMATE 2013/14 (\$000)	REVISED ESTIMATE 2013/14 (\$000)	ESTIMATE 2014/15 (\$000)
(1)	(2)	(3)	(4)	(5)	(6)
	5260 Local Consultants	10,693	11,458	11,457	8,273
	5265 Overseas Consultants	23,299	21,949	21,559	14,992
	5270 Contractors	24,025	18,507	20,201	20,087
	5272 Medical Fees Non Hospital	1,541	3,036	0	0
	5275 Medical	18,538	17,522	18,538	10,072
	5280 Optical Services	34	20	22	20
	5285 Educational Services	113	228	123	124
	5290 Chiropodist Services	6	8	8	6
	5295 Psychological Services	17	50	50	50
	5300 Dental Services	304	430	435	431
	5305 War Pension Award	2,381	2,400	2,400	2,208
	5310 Counselling Services	304	326	355	305
	5315 Child Care Services	167	192	191	192
	5320 Recreational Services	287	227	352	223
	5325 Legal Services	4,363	3,961	4,144	3,115
	5330 Liquidation Fees	(38)	250	244	175
	5340 Membership Fees – Govt.	624	528	503	393
	5345 Forensic/Lab Services	602	721	742	701
	5350 Forensic/lab accounting	50	157	157	157
	5355 Security Services	7,756	5,899	6,177	5,849
	5360 Conservation Services	11	22	13	23
	5365 Animal Control Services	29	28	43	29
	5370 Board & Comm. Fees	667	979	955	896
	5375 ID Parade – Police	30	30	30	30
	5380 Jury & Witness Fees	133	150	140	125
	5385 Court Costs	12	50	50	16
	5390 Audit Fees	0	65	65	65
	5395 Examination Fees	(4)	273	286	303
		95,944	89,466	89,240	68,860

Table VIII

Estimated Expenditure 2014/15 in BD\$ Millions

Non-Ministry.....	14.2
Cabinet Office Departments.....	25.4
Legal Affairs.....	24.9
Finance.....	97.0
Education & Economic Development.....	146.5
Health & Environment	194.8
Tourism Development & Transport	105.0
Public Works	82.3
Community, Culture & Sports.....	86.3
National Security.....	150.5
Home Affairs	18.9
Interest & Sinking Fund.....	161.2
Capital Estimate.....	61.9



Categories of expenditure expressed as a percentage of total estimated expenditure for 2014/15 of \$1,169.0 million



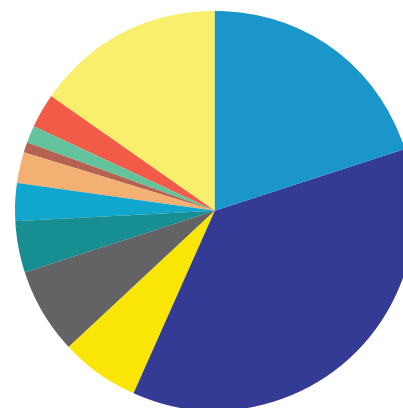
Non-Ministry.....	1.2
Cabinet Office Departments.....	2.2
Legal Affairs.....	2.1
Finance.....	8.3
Education & Economic Development.....	12.5
Health & Environment	16.7
Tourism Development & Transport	9.0
Public Works	7.0
Community, Culture & Sports.....	7.4
National Security.....	12.9
Home Affairs	1.6
Interest & Sinking Fund.....	13.8
Capital Estimate.....	5.3

Table IX

Estimated Revenue 2014/15 in BD\$ Millions

Total Revenue \$901.7 million

Customs	200.7
Payroll Tax	332.0
Companies Fees	56.1
Land Tax	59.0
Passenger Tax	35.8
Vehicle Licences	28.2
Stamp Duties	20.5
Hotel Occupanc	10.1
Immigration	10.6
Foreign Currency	21.5
All Other	127.4



Categories of revenue expressed as a percentage of total estimated revenue for 2014/15 of \$901.7 million



Customs	22.3
Payroll Tax	36.8
Companies Fees	6.2
Land Tax	6.5
Passenger Tax	4.0
Vehicle Licences	3.1
Stamp Duties	2.3
Hotel Occupancy	1.1
Immigration	1.2
Foreign Currency	2.4
All Other	14.1