



GOVERNMENT OF BERMUDA

Ministry of Finance



2016 – 2017 BUDGET STATEMENT

In support of the Estimates of Revenue and Expenditure



Presented by The Hon. E.T. Richards, JP, MP – Minister of Finance
Friday, 19 February 2016



BUDGET STATEMENT
IN SUPPORT OF THE
ESTIMATES OF REVENUE AND EXPENDITURE
2016–2017

PRESENTED BY THE HON. E.T. RICHARDS, JP, MP
MINISTER OF FINANCE
19 FEBRUARY 2016

Published by:
Government of Bermuda
Ministry of Finance

Government Administration Building
30 Parliament Street
Hamilton HM 12, Bermuda
February 2015

Design: Department of Communication and Information
Printed in Bermuda by Bermuda Press Ltd.

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

Most Bermudians remember hurricane Fabian. In its aftermath, BELCO swung into action to restore power throughout the Island. You could see linemen working overhead and underground, hour after hour, day after day and yet your power might still not have been restored. That is because electricity is delivered by way of a complex interconnected distribution network, and even though BELCO might have repaired most of the major trunk lines, many of the local lines might still have been down. So even though major progress was being made it was easy to get frustrated because your lights might still have been off.

The Bermuda economy is like the BELCO distribution network, only much more complex. The Government, the Ministry of Finance in particular, like those BELCO linemen, has been tasked to fix it and bring the whole network back up. Major parts have been repaired but many of the local lines, that bring the power to individuals, may not yet have been completely restored. The thing is, like BELCO, the major parts of the network have to be repaired first before power can be restored to many individuals.

Many people across the Island continue to experience difficulties every day because the restoration of the economy has not yet reached them. While we understand and sympathize with the frustration some Bermudians may now feel, like the BELCO linemen, we will restore your power. We have already repaired major parts of the economy and are now repairing the parts of the economy that touch you.

Mr. Speaker, the economy is growing once again after 6 years of contraction.

The major parts of the economy – the trunk lines if you like – would be international business, inward investment, consumer confidence, property values, bank credit and last but by no means least, Government solvency. All of these are much stronger than when we first took the reins of Government.

The reason Government solvency is so important is because, like the BELCO linemen, Government needs the necessary tools to get the job done. But when we took the Government over in 2012, many of the tools were broken or locked away, because of the high level of the national debt and the stubborn government deficit. So in order to unlock our most powerful tools – government spending – we have to repair the debt problem first. Failing to do that risked bringing the whole economy down.

Mr. Speaker, we are winning the war on spiraling public debt. We are wrestling the deficit to the ground. Our progress, and the prospects for further economic growth that it signals, has created a window of opportunity that enables us to confront more vigorously the fiscal challenges that cloud the future of every Bermudian.

Our first order of business in this regard is to eliminate the deficit, which is the difference between what government spends and what it takes in. The continuing deficit has been driving our debt, and the huge costs to service that debt, to levels that threaten Bermuda's solvency. To illustrate, debt service costs in FY2016/17 are projected at \$187.4 million. Debt service will soon overtake the Ministry of Health as the largest expense in Government if not aggressively addressed. This situation undermines our ability to support the needs of the Bermudian people. We are going to fix it.

Mr. Speaker, from Day 1, we approached our work with urgency because the situation was so serious for people without work and because our fiscal situation was cratering. In the three years since, we have worked every possible angle, following a two-track strategy to stimulate economic activity and bring much needed control to the public purse.

We do this fully aware that economic recovery is never even, coming to some before others. But our over-riding mission remains, that is, to extend the recovery into every household across the Island.

That is our commitment and the Budget Statement for the 2016/17 Financial Year continues the work, building on a solid record of progress that is moving the Island in the forward. For example:

- We have worked our way out of The Great Recession, with five consecutive quarters of GDP growth.
- The property market is stabilizing, signaling a return of value to the family home.
- Credit is starting to expand.
- Upticks in economic activity have become positive trends – in retail sales, in construction permits, in company formations and consumer confidence.
- Hotel developments are taking shape across the Island, with ground breaking for a St. George's hotel just a few months away.
- The Airport project will break ground later this year creating hundreds of jobs for Bermudians.

- With the badge of excellence inherent in Solvency II equivalence, Bermuda’s insurers and reinsurers – the core of our international business sector – are well positioned to freely compete in the EU.
- The Government deficit has been slowed, with the Current Account this fiscal year recording a surplus before debt service for the first time in more than seven years.

This Budget, accordingly, represents the first year of a three-year plan to eliminate the deficit, after which we will be in a position to begin paying down the public debt. We will make this happen by broadening the tax base, and doing so through progressive measures that require more from those who earn more. I will speak to this plan in detail later in this Statement, but the time has come to broaden the commitment to solutions that will benefit us all.

Our work to grow the economy and to get our financial house in order is about building a solid foundation upon which Bermudians can go about their lives with confidence, optimism and pride, knowing their homeland works for them.

This Budget will take us closer to that goal.

ECONOMIC CONDITIONS & OUTLOOK

Global

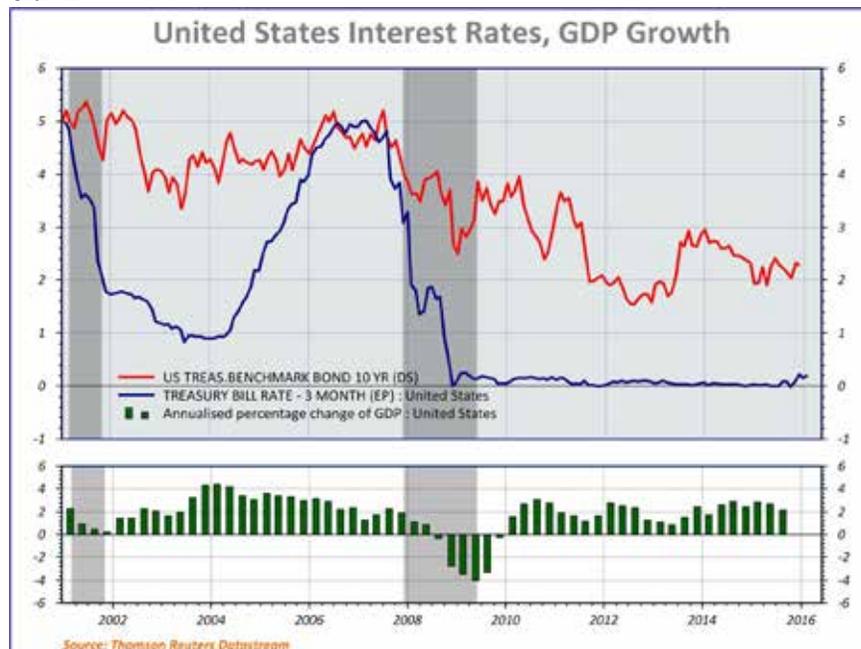
Mr. Speaker, globally, there are three mega-trends shaping the world at this time: US economic recovery, dramatic slowing in China and slumping oil prices.

Chart 1



Chart 1 shows major economic indicators for the US. The green bars show growth in GDP at around 2%. The red line in the upper pane shows the trend in employment continuing to be quite strong. The blue line represents manufacturing which is weakening, while the services component of the economy continues to keep GDP growth on a positive track.

Chart 2

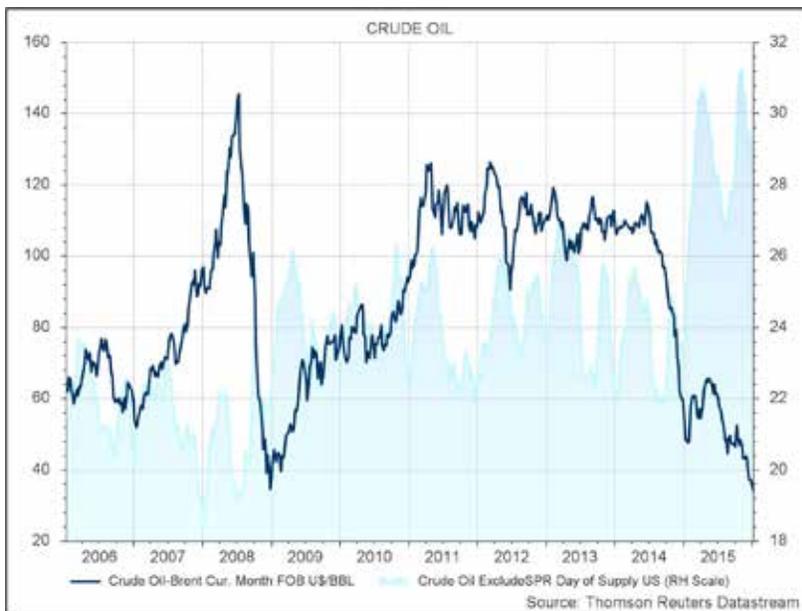


The Federal Reserve has finally signaled the end to unprecedented monetary support after the recession by raising short term interest rates in December. Chart 2 shows, however, that longer term rates, which more closely represent Bermuda Government borrowing costs, have

been on a rising trend since the middle of 2012. As Government continues to have to borrow to finance budget deficits plus refinance existing debt, rising interest rates pose a significant threat to Government finances in the future.

Mr. Speaker, another mega-trend in the global economy is the downward shift in China's economy to slower growth. As the Chinese economy gets to be very large it was always expected that the pace of growth would slow. Now it is actually happening and stock markets in China and other far eastern countries that feed off China are experiencing that deceleration. While there is no recession in China the slowing of growth rates is having a dampening effect on the global economy.

Chart 3



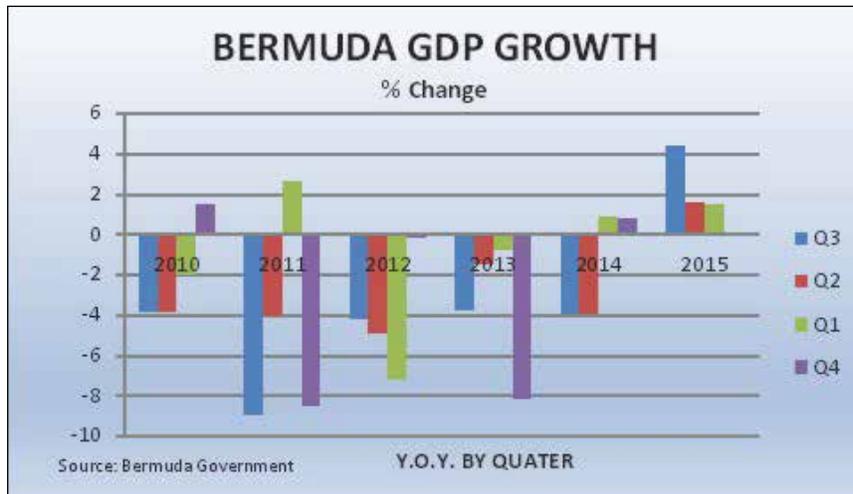
The third mega-trend is the further collapse in the world price of oil. (Chart 3) Saudi Arabia's decision to produce enough oil to maintain its global market share, in its attempts to undermine fracking producers in the US, has resulted in a major glut in the supply of oil. So far the fracking industry has survived the lower price environment. Global demand for oil is still rising at over one million barrels

per day, but with excess supply we do not expect to see a major rebound in the price of oil any time soon, particularly with more supply coming on stream with the lifting of sanctions on Iran. It is cheaper oil that has underpinned the struggling recoveries of many oil consuming nations, including Bermuda. Indeed the collapse in the price of energy that Bermuda imports from abroad has been a significant factor in the resumption of growth in GDP.

Bermuda

Mr. Speaker, economic activity in Bermuda appears to be steadily improving. This improvement has been the result of external factors already described as well as internal factors. Internal factors include the Government's success at restoring

Chart 4



confidence in Bermuda as a place to conduct business and as a place to live.

Chart 4 shows year over year change by quarter in GDP over 5 years. 2014 indicated positive growth for two of the four quarters while 2015 registered positive growth for the three

quarters available for that year. The fourth quarter is likely to continue that growing trend with blockbuster results generated by the America’s Cup World Series event in October.

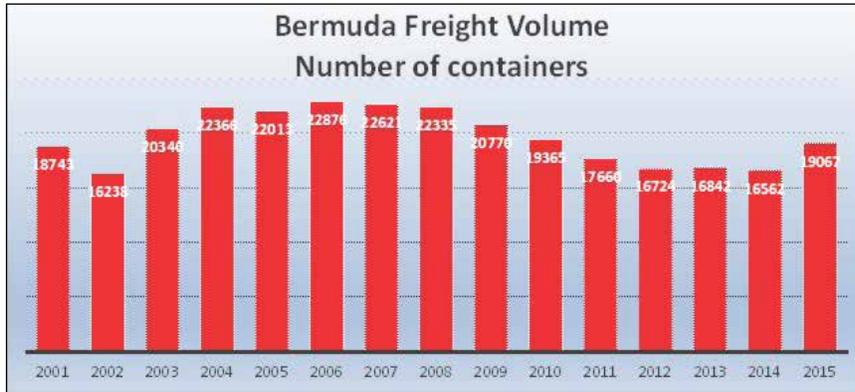
Mr. Speaker, on the consumption front Chart 5 shows percentage changes in Retail Sales over a period of 12 months. The Motor Vehicle segment of this index has been the strongest, followed by Food and Liquor Stores. As expected, Service Stations were relatively weak and Building Materials were mixed. Apparel Stores continue to struggle.

Chart 5



These figures underscore the return of confidence in the consumer sector of the economy, a sector that was hard hit by the long recession. Chart 6 shows the number of containers crossing our frontier each year. Clearly, anything can be in a container, either consumer goods or capital equipment. However, the volume through the waterfront is an indicator of broad demand on-island.

Chart 6



2015 registered 19,067 containers versus 16,562 the previous year – a clear sign of growth.

Mr. Speaker, there has been some public debate about whether the recession in Bermuda is over. Recession is a word

clearly defined in economics as a period of at least two consecutive quarters of negative GDP growth. Bermuda has had four consecutive quarters of positive GDP growth, so, the recession is over.

But does that mean everyone is enjoying good times? No it does not. Does it mean jobs are there for everyone? No it doesn't. Does it mean that everybody has received an increase in pay? No it doesn't. Does it mean the economy is generating enough demand that there is widespread opportunity for multiple jobs, as in days gone by? No it doesn't. Does it mean that every business is profitable? No it doesn't.

What it does mean is that the vicious circle Bermuda experienced in recent years – the most severe since the end of the Second World War – is finally over.

This was a downturn that evaporated confidence, causing the inflow of job-supporting investments to stop and the outflow of residents to start. This was a one-two punch that led to serious hardship across the economy, including:

- Declines in consumer spending and the Bermudian jobs that relied on it
- The loss of rents from vacated housing that supported mortgage payments, leading to loan defaults and foreclosures, and
- Reduced business volumes that triggered further job losses and the need for tax breaks that helped businesses survive, but also harmed Government's fragile finances and swelled its deficit.

Mr. Speaker, that vicious circle is over.

But have we now entered a virtuous circle where the main drivers of the economy are firing on all cylinders, generating plentiful jobs and enabling Government to satisfy the demands of all sectors of the community, as well as pay off its debt? Are we there yet?

No, not yet, but that is the goal we continue to pursue.

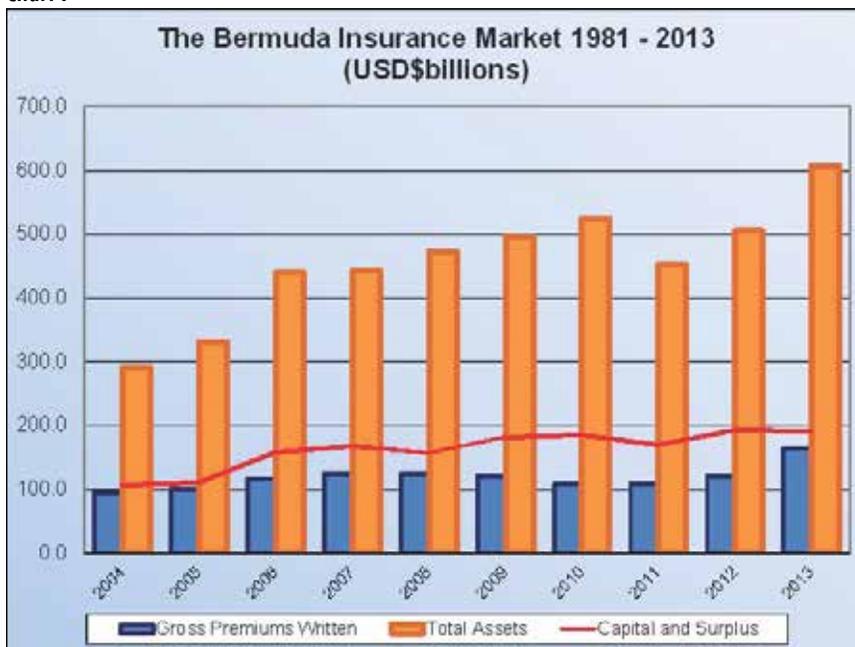
International Business

Mr. Speaker, the term International Business covers the entire spectrum of offshore businesses centered in Bermuda. The dominant sector remains insurance and reinsurance. Chart 7 shows trends in major indicators in the Bermuda Insurance market. Premiums are up as well as total assets, which total more than \$609 billion. Capital and Surplus were flat year over year.

Globally, the insurance market is experiencing a glut in capital resulting in soft renewal rates. It is this glut that has driven the merger mania strongly evident in the markets the last few years. The mergers have reduced the number of players but the financial strength of Bermuda insurers remains very strong.

On the regulatory front, the good news is that Bermuda acquired Solvency II equivalence in the European Union. The participation of Bermuda insurers and reinsurers in the EU market is very significant, and the failure to achieve equivalence in Europe would have set the Bermuda participants back competitively and driven jobs out of the Island. With Solvency II equivalence, Bermuda companies can freely participate in the EU on an equal footing with their European competitors. Equivalence is also a stamp of approval for Bermuda as a top quality jurisdiction, and for this validation to come from a part of the world which is home to “tax vigilantes” who attack our business model, really puts Bermuda in a class by itself.

Chart 7



Achieving Solvency II equivalence was an effort that spanned 8 years. It was an effort where the private sector, the Bermuda Monetary Authority and the Government teamed up to make what appeared to be the impossible become a reality. I would like again to congratulate Mr. Jeremy Cox and his team at the BMA for successfully spearheading this important effort.

Captive insurance, the genesis of our insurance business, was excluded from the Solvency II exercise. Bermuda remains the premier captive centre in the world. There were 22 new captive companies incorporated in 2015 versus 14 in 2014.

Other Segments of International Business

Mr. Speaker, the Bermuda Business Development Agency (BDA), an agency partially funded by Government, is responsible for developing and promoting business development efforts across key industry sectors. New markets explored include Latin America and Canada, which have yielded positive growth results. Trust & Private Client business is being developed in promising Asian markets through competitive legislation that enables us to promote Bermuda as a prime location for family offices.

In Asset Management, BDA has continued to push for equivalence for Bermuda-based fund managers under Europe's AIFMD regime, attracting fund managers to physically set up a Bermuda presence with a focus on emerging managers, cross-marketing with the ILS and trust sectors, and attracting more high net-worth individuals.

In international commerce, BDA is aggressively developing shipping, aviation and international arbitration, developing and refining the so-called "near-shore" proposition, Canadian e-commerce and marine-related life science companies.

Construction

Mr. Speaker, construction is an important area of employment in Bermuda. Although the blockbuster projects have not yet commenced, the sector is already expanding.

Evidence of this comes from the Department of Planning where new Planning applications rose to 567 in 2015 from 458 in 2013. Building permits are an indication of the projects that are actually being built. The number of building permits also increased to 903 from 701 in 2013. Two major projects, the St. Regis hotel resort in St. George's and the new airport terminal, are expected to break ground this year creating hundreds of construction jobs. Infrastructure preparation for the America's Cup will continue to create many job opportunities for Bermudians.

Tourism

Mr. Speaker, one of the Government's most important goals since coming to office has been to rebuild the Island's tourism industry. Our efforts have focused on the

formation of the Bermuda Tourism Authority (BTA) to grow the tourism economy and on working with investors to build and revitalize hotel properties across the Island.

We are making progress on both those fronts.

Since its formation in April 2014, the BTA has made significant progress in re-setting the Island's marketing image. It has finally crawled out of business relationships that were less than advantageous to Bermuda and strengthened its ability to market the Island in an extremely competitive environment. With a new advertising agency, a new PR firm, new social media and website platforms, the BTA is well positioned in 2016 to achieve its aggressive growth objectives for Bermuda tourism.

One of the keys to achieving those objectives is securing enough airline seat capacity to meet demand. In the first quarter of this year, as a result of Government working closely with airlines and prudent BTA-airline marketing partnerships, airline seat capacity to the Island will increase eight per cent. This will provide greater access to the Island for vacationers and greater opportunity to lure business and leisure groups – a performance area that lagged in 2015 as a result of poor group sales before the start of the BTA.

Mr. Speaker, group travel is critical to a healthy tourism industry, providing it with a base of business that can be used to manage favourable pricing for individual vacationers. It is for this reason the BTA reorganized and redeployed its group sales team in 2015 – a change that has helped get group sales on the books for 2016 and 2017. These bookings are essential to maintaining the industry's employment levels on a year-round basis.

More cruise ships will visit the Island in 2016, including more occasional visits to Hamilton and St. George by smaller ships that attract visitors with deeper pockets. The schedule projects a 10% increase in visitors and a 12% increase in spending for an estimated \$91 million in total spending.

In keeping with its mandate to grow the tourism economy, the BTA in 2016 will allocate about \$1 million to support entrepreneurs whose product ideas promise to enrich the on-Island experience for visitors and stimulate spending.

To support its activities, the Bermuda Tourism Authority grant will be increased by \$1million. In addition, the Tourism Authority Fee, which is payable by hotel owners directly to the BTA, will be raised from 2.5% to 5.5% to achieve additional revenue of about \$4.3 million for the BTA.

Property

Mr. Speaker, Bermuda property has long been a favourite investment vehicle for Bermudians and the most common form of security for loans in Bermuda. Soon after the 2012 election, the Government saw serious danger in plummeting property values. Their sharp decline, coupled with the departure of many guest workers, froze local credit markets and increased foreclosures. It was critical that we take steps to stabilize property markets. This effort involved specific steps to open up the market as well as broader steps to rebuild investor confidence in Bermuda.

The latest report from property company Coldwell Banker confirms that Bermuda property market prices have now stabilized with bargain hunters active in the marketplace. It is anticipated that a total of 300 properties will have been sold in 2015, up from 209 in 2012 — the worst year on record. When the market was overheated in 2008, 714 sales were recorded.

EXTERNAL THREATS

Mr. Speaker, Bermuda continues to face external challenges, which are economically existential in nature. The hostile regulatory and tax environment that I described last year has continued virtually unabated.

Bermuda continues to take hits in the trans-Atlantic crossfire over corporate taxation. High-tax European nations, seeking even higher tax revenues, have targeted multinational corporations doing business in their respective countries. This initiative has been spearheaded by the OECD. Their principal targets are large US multinationals that have historically used the international network of double taxation treaties to minimize their overall tax burden.

The OECD, through the so-called Base Erosion Profit Shifting (BEPS) initiative, is attempting to redress these arrangements by implementing a new arrangement tied to transfer pricing practices, called CbC (Country by Country) reporting. This new model will require each multinational enterprise to report to every country it does business in to delineate how much business and profit it has in that and other countries. Many Bermudian companies, including those not US based, will be caught in this CbC reporting protocol, along with its administrative burden. The Bermuda Government is still studying how much administrative burden this proposal will have on us. We are also consulting with the affected Bermuda companies and watching the strategic moves our number one client country, the US, will make in this area.

Mr. Speaker, since Bermuda has many US multinationals with holding and other types of companies here, we often get caught in the crossfire of anti-tax haven rhetoric. This rhetoric is often biased and ill-informed about Bermuda, causing us unwarranted reputational harm. Government conducts information sessions with key opinion makers, informing them about the real Bermuda story as opposed to the sensational, stereotypical nonsense that often can be found in the international media.

To further dispel the misinformation, we:

- Communicate the message that Bermuda embraces international standards of transparency and information sharing, when fairly applied.
- Publicly and selectively challenge erroneous statements that seek to stereotype Bermuda, and
- Demonstrate the value proposition that Bermuda brings to the global economy.

When we point out Bermuda's proven expertise, capacity and track record to insure, protect and pay claims to customers against catastrophic events around the world, thereby enabling further economic growth, it causes even our most zealous critics to pause.

Mr. Speaker, in some countries, there is an irrational fixation on punishing low/no-income tax jurisdictions – on principle. An example of this is Bulgaria, which had placed Bermuda on its national blacklist. However, due to our continuing work in Europe, I am pleased to report that Bulgaria has informed us they will remove Bermuda from its national list once they ratify the Multilateral Tax Convention, which they anticipate doing by this April 2016.

The rhetorical and real feeding frenzy for the tax dollars of multinationals is replete with double standards. Some of the countries that vilify Bermuda as a tax haven are themselves some of the biggest tax havens in the world. Delaware and Nevada rank among the world's biggest tax havens, right up there with the City of London. So the international debate about tax havens is not only about transparency, cooperation and information sharing, it is also about competition – hypocritical competition.

The irony of all of this is that if the OECD eventually gets what it wants, the consequences will likely be catastrophic to the very same economies they represent. If those trillions of dollars (yes trillions!) of allegedly unpaid taxes are actually collected, multinationals – the very engines that create all those jobs and wealth

across the globe –will be severely damaged. Corporate earnings will plunge, stock prices will collapse, unemployment will soar and pension funds that depend on those stock prices will become impaired. A global recession greater than that of 2008 will likely be precipitated, and Bermuda will be sucked down that vortex. This is a classic case of having to be careful what you wish for.

Mr. Speaker, it has been suggested in some quarters that Bermuda should introduce a low-level corporate income tax to eliminate or at least blunt attacks on us from the international tax vigilantes. There are a few reasons the Government does not think this is a viable move:

- Ireland, as a low income tax jurisdiction, has had to endure the same withering attacks as we have.
- Bermuda’s principal offshore business is (re)insurance, an industry notorious for very wide swings in profit. This would mean similar swings in Government revenue - something that Government revenue planning would not be able to tolerate.
- Last but not least, the Bermuda Government has given a legally binding undertaking not to introduce such a tax.

BERMUDA GOVERNMENT FISCAL POSITION

Mr. Speaker, Hubert Smith’s vision of Bermuda being “another world” is poetic and romantic, but, in terms of finance, the vision is far from reality. Bermuda is definitely a part of the world of finance, both as a source of finance as well as a user. (Re) Insurance assets act as a source of finance for the rest of the world (>\$½trn) and the Government is a user of finance from the outside world (>\$2bn).

This financial inter-connectivity with global financial markets means Bermuda cannot make up its own rules. Instead we must play by the rules of the financial world or suffer the consequences. This is why we constantly refer to credit rating agencies and the opinions of institutional investors. The cost and availability of credit to support our borrowing needs depends on their opinions.

Our International Businesses partners, as institutions domiciled, managed and regulated in Bermuda, are subject to the same global financial rules as the Government and hence the fate of International Business is connected to the fate of the Bermuda Government. Bluntly put, if the Bermuda Government is downgraded, many of our IB partners get downgraded too.

So, the linkages are clear: deteriorating credit worthiness of the Bermuda Government not only threatens the job security of public servants, it threatens the job security of those people employed in International Business and the job security of all those companies and individuals employed in providing services to international business. This constitutes most of the Bermuda economy.

Mr. Speaker, Bermudians need to be clear on this critical point: The plan to eliminate the deficit, the reduction of public debt, the public declaration of financial targets, and the actual progress toward meeting those goals is not just some theoretical exercise by the Minister of Finance – an exercise that doesn't really affect the man in the street. The inter-connectivity between IB, our number one industry, and the Government means that Government's success in eliminating the deficit and reducing the debt will have a decisive impact on the future economic health of this entire country and the future prospects for jobs for Bermudians.

Mr. Speaker, in last year's Budget Statement, to boost international transparency and credibility, I announced that Government intended to establish a committee of independent, internationally based economists to publicly assess Bermuda's fiscal situation. The Fiscal Responsibility Panel or FRP, as it is now called, was formed and three prominent international, independent economists were appointed. The FRP deliberated, met with a wide cross section of Bermuda society and published its first report in December. Their report was written and published without any oversight or approval from Government.

It concluded that, "Bermuda's economy faces a number of risks and uncertainties, short term and longer term. The current level of government debt – taken together with very large potential liabilities from government guarantees and underfunded public pension and health insurance schemes – risks turning the possible impact of any one of these into a serious setback for the island's economy. Reducing debt and debt service costs is therefore a priority. Meeting the aim of a balanced budget in 2018/19 is appropriate."

Mr. Speaker, there is no doubt that the biggest threat to the future prospects of the way of life we enjoy in Bermuda today is the problem of the Government deficit and public debt. If left unchecked, it threatens, as already stated, the job security of Bermudians in both the public and the private sectors. It threatens seniors, whose pension incomes come from the Government. It threatens the quality of healthcare received by Bermuda residents, as very substantial Government subsidies support the hospital. It threatens those on Financial Assistance, a Government-funded support service. And finally, it threatens our children who depend on public education.

Chart 8

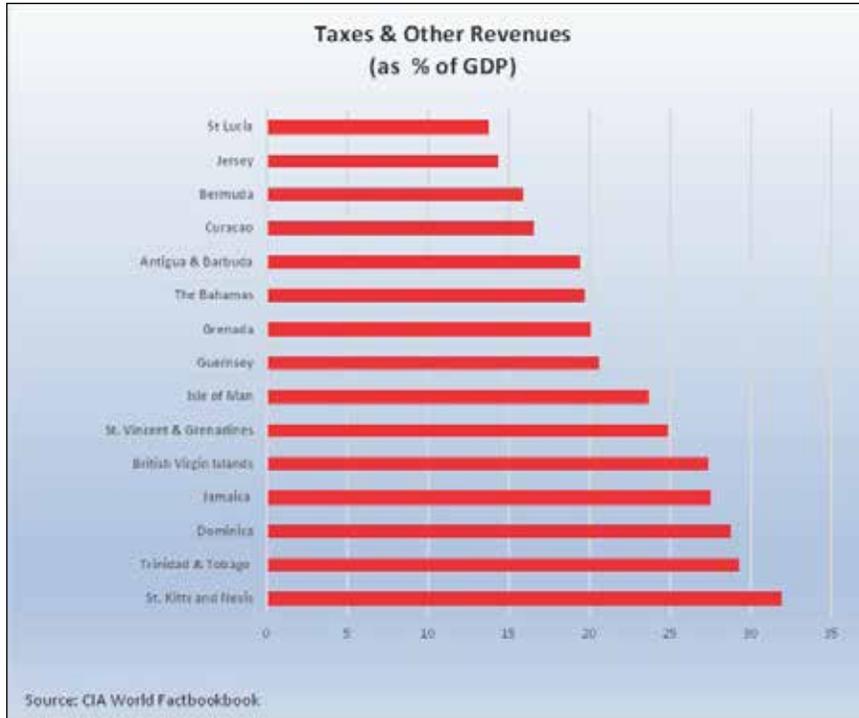


Chart 8 shows the percentage of taxes and other government revenues relative to GDP, and how Bermuda compares to other small island economies. Bermuda is third lowest at 16% versus the average of 22%. If we were balancing the budget at 16% we would perhaps have bragging rights, but under the present circumstances this chart suggests our revenue base is insufficient to meet minimal expenses of the government of an economy our size.

Mr. Speaker, the FRP also observed: *“Progress on fiscal consolidation so far has been cautious and incremental. A more aggressive approach will be needed to meet balanced budget and debt targets.”*

Government agrees with that statement. But there has been a good reason for caution, and that was the overall weak state of the Bermuda economy. We inherited an economy that was broken and in free fall. The first order of business was to stabilize the economy and restore confidence. These objectives have been largely achieved and they form a platform upon which a growing economy can be built. Now is the time for implementation of a plan to eliminate the deficit in three years and thereafter start paying down the public debt.

The question is: How do we do it? So far Government has relied on achieving efficiencies by cutting costs, efforts described by the FRP as *“cautious”*. On this point, the FRP further observed: *“With almost 85% of the Budget presently spent on wages and salaries, grants and contributions, and debt, it is clear that if further savings are to be made there would need to be a significant rationalization of public service provision and this will require difficult policy decisions.”* In plain language, significant cost reductions from here on will likely result in redundancies and/or outsourcing.

The only other policy option remaining is to significantly increase revenues over the next three years. FRP also observed that, *“Economic growth prospects over the next few years look better than for some years, providing a window of opportunity to reduce debt to a safer level.”*

Therefore, to assist with the elimination of the deficit in three years, Government has set the objective of increasing annual revenues by \$150mn over three years, which is about 2 ½ - 3% of GDP. This will be achieved by restructuring and broadening the tax base coupled with modest increases. Government will also have to continue with its cost savings efforts on the expenditure side as the above mentioned revenue increases will not alone be sufficient to completely eliminate the deficit.

ECONOMIC STIMULUS

INFRASTRUCTURE PLANS FOR NEXT 5 YEARS	SECTOR	VALUE
		\$ millions
AC VILLAGE	TOURISM	40
OTHER AC INFRASTRUCTURE	TOURISM	50
AIRPORT	INFRASTRUCTURE	250
ARIEL SANDS HOTEL	TOURISM	40
BELCO LNG BUILD-OUT	INFRASTRUCTURE	50
CASINOS BUILDOUT	TOURISM	10
CAUSEWAY BRIDGE	INFRASTRUCTURE	100
GRAND ATLANTIC	TOURISM	0
HAMILTON WATERFRONT	INFRASTRUCTURE	0
KING'S WHARF	TOURISM	3
MARGINAL WHARF	INFRASTRUCTURE	0
MORGAN'S POINT	TOURISM	1,000
PINK BEACH HOTEL	TOURISM	50
PRINCESS HOTEL	TOURISM	100
PV FARM AT FINGER	INFRASTRUCTURE	20
ST. GEORGE'S HOTEL	TOURISM	150
SWING BRIDGE	INFRASTRUCTURE	20
TOTAL		\$ 1,883

Mr. Speaker, the Government’s two-track strategy not only requires the controlling of government spending, but also the stimulation of economic activity. It would be easy for Government to simply borrow money to fund infrastructure projects, as in the past; however, under the present debt conditions, such a strategy would not be prudent.

The adjacent table lists infrastructure plans over the next five years. Some of these have already started. You will note that some have been assigned a zero value. They represent ideas that have not yet been sufficiently fleshed out, so they have

been assigned a value of zero. However, once further developed, they could be very significant in value. Most of these items would not be financed from public debt. As these projects become reality, they will provide the local economy, and the local job market in particular, with the stimulus needed to expand jobs and income.

DEMOGRAPHICS

Mr. Speaker, at the most basic level, the scope for personal opportunity approaches zero if there is no economic growth. Opportunity depends on growth and today the scope of opportunity is narrowing because demographic trends are working against growth. In short, we need growth to grow opportunity.

One way to look at the situation is to see GDP, Retail Sales, Capital Expenditure and the size of the workforce as aggregates, or totals, of many thousands of individual transactions taking place in our economy. It stands to reason that, all other things being equal, (*ceteris paribus*) the more people who are resident on the Island, the greater those aggregates will be and the greater the scope for personal opportunity.

The equation that we quoted a few years back says the same thing another way:

$$\text{Change in GDP} = \text{Change in Productivity} + \text{Change in Population.}$$

Let's look at change in population. This depends on the difference between the net flow of immigrants in and emigrants out, and the relationship between births and deaths. Emigration and immigration have been, and may always be, controversial. Births and deaths are not, but they are actually more important.

Chart 9

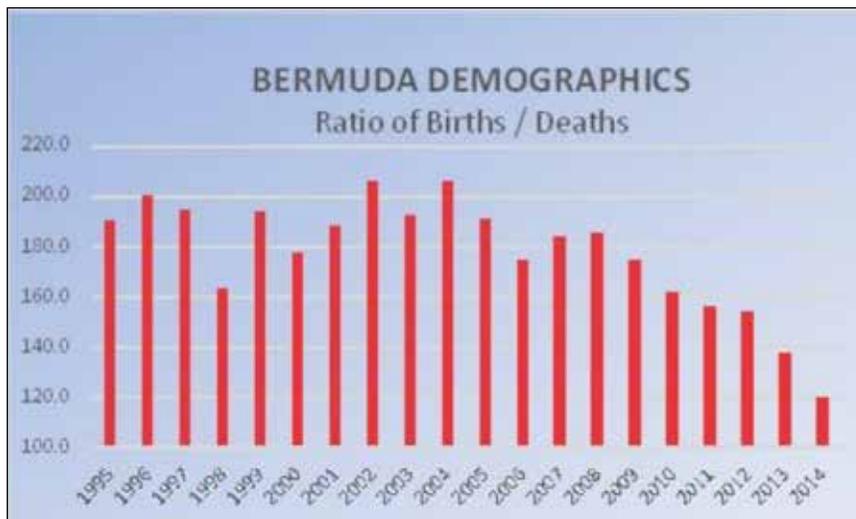


Chart 9 shows the ratio of live births to deaths on the Island over 20 years. In 1996 there were 2 babies born for every person that died. In 2014 there were 6 babies born for every 5 deaths. We are barely maintaining our numbers these days.

Also, the age profile of Bermudians has changed radically over the past 50 years. Fifty years ago Bermuda schools were bursting at the seams with so called “baby boomers” – people born shortly after the close of World War II. Today these same schools are far less populated. Baby boomers are now “seniors”, or soon to be. They and their children have not been making babies at the rate their parents and grandparents did.

These two demographic changes – the decreasing birth rate and the aging population –are having profound effects on economic growth and on demands for Government resources. The FRP identified and analyzed this issue in some depth in their report.

A stagnating population will likely result in a stagnating economy, assuming no major increases in productivity. In view of our falling birth rate, the only avenue to population growth is net immigration, which is the difference between people coming to Bermuda to live minus those leaving to live abroad.

Mr. Speaker, Bermuda’s immigration doctrine dates back, at the very least, to 1959 when baby boomers were, well, booming. We needed to keep people out of Bermuda to protect the potential opportunities for our burgeoning population. Fast forward to today, the demographics have reversed, but the doctrine hasn’t.

Today, we need to encourage people to come here to live, to grow the population, to grow consumer spending, to grow earnings of foreign capital, to grow the tax base, to live in our vacant houses, and thereby grow opportunities for Bermudians.

From an age perspective, we need more young, well-educated people in our Island to not only help grow the economy, but to re-balance the current imbalance between retired seniors, who are major users of the health care system, and the younger healthier working population who are supplying the funds, through their healthcare premiums, taxes and pension contributions, to pay for the care of our seniors.

Mr. Speaker, making the reversal of the long-established immigration doctrine will be difficult, just as is breaking an old habit. But doctrines, laws and policies, like the *ios* on your iPhone, have to be updated or else they will no longer serve the purpose of today’s users. We need to update our immigration policy to better serve Bermudians today and tomorrow. This is the reality and logic behind the Government’s new Pathways to Status initiative.

EMPLOYMENT

Mr. Speaker, the latest jobs figures from the Department of Statistics show that as of last August, year over year, there were 298 fewer jobs reported than the previous year. This is not surprising as employment is a 'lagging indicator'. Let us refer back to Chart 1 for the US economy, where we see the recession ended in the second quarter of 2009 yet employment continued to fall for several quarters after that. In fact employment did not surpass its level when the recession ended until well into 2011. That is not an unusual pattern and that is what we mean when we say employment is a lagging indicator. GDP in Bermuda started to expand in about the middle of 2014, so job numbers measured in August 2015 should not be expected to register job growth yet.

Mr. Speaker, it is not like flipping a light switch.

It should also be noted that the Jobs Survey includes people who have retired and/or left the workforce for other reasons and whose positions have remained vacant or discontinued. This is of particular note with respect to Government. Of the 298 fewer jobs reported, 225 were in Government. During that period, Government was implementing its hiring freeze policy and early retirement drive - to reduce the size of Government. Positions vacated by early retirement are not allowed to be filled for at least two years. In this regard, this initiative can be viewed as successful and therefore the hiring freeze will continue throughout the next fiscal year as well.

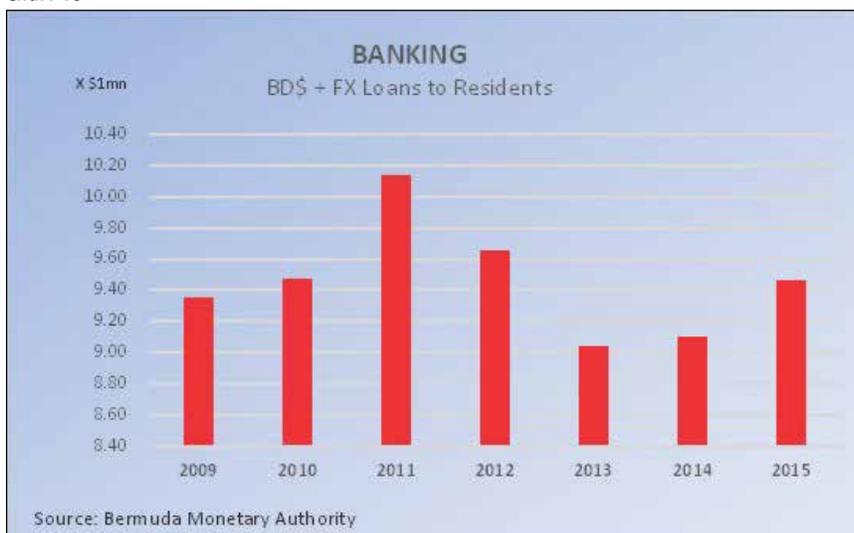
Anecdotally, it is known that many Bermudians who have retired or otherwise lost their former jobs have become entrepreneurs – small business owners and operators – or part-time workers. Such occupations may not be captured in this survey or the Employment Survey. We also know that there has been a significant pick up in employment in the construction sector relating to hotel construction and the America's Cup infrastructure build-out. A visit to Dockyard will convince anyone of that. These activities also may not have been captured by the surveys.

Mr. Speaker, the powerful demographic dynamic of aging baby boomers is at work in our economy, as outlined in the previous section, and it is also having a dampening effect on the size of the workforce. As retiring baby boomers fall off the rolls of the workforce, they are not being replaced by equal numbers of young people because there are fewer of them. Thus, all other things being equal, the workforce is being shrunk by this demographic fact.

The data contained in this survey should be interpreted carefully and intelligently. There are those who conclude that the shrinkage in the workforce must be the result of emigration from Bermuda or people “giving up” on seeking work. There is no statistical evidence supporting such conclusions. However, the aging and retirement of baby boomers is a statistical fact that has worked to shrink the workforce. Nevertheless, the need to create jobs in the economy remains paramount and the Government is doing all it can to make it happen.

BANKING

Chart 10



Mr. Speaker, the role of banks is critical in any economy, particularly one where there is a lack of viable alternatives available to individuals and businesses who seek credit. Chart 10 shows trends in the total \$BD and Foreign Currency loans to Bermuda residents. In 2015, for the first time since 2011, there is evidence of a significant increase in bank lending in the economy. This is a positive development because, all other things being equal, the economy cannot expand without an increase in credit flow.

Chart 11



Chart 11 shows the trends in non-performing loans (NPL). NPLs remain well above acceptable levels, albeit problem loans

appear to be trending downward. Repairing problem loans is an important prerequisite to the expansion of bank lending. However, the stabilization of the price of property, the most common form of loan collateral, has helped in the march to normalize bank lending markets.

Merger and Acquisition activities in the local banking sector have had the effect of delaying Government's plans for banking reform. In terms of employment, the sector continues to shed jobs. We are concerned that there are a large number of Bermudians who have "former banker" in their resumes. Our efforts at banking reform envisage an expanded banking sector that will provide a greater variety of banking services for our international business partners thereby enabling former bankers to put their skills and experience to work.

For a number of years the Bermuda Monetary Authority has been shepherding the Financial Stability initiative. Out of this effort, the Financial Policy Council (FPC) was formed. The FPC convened for the first time during the fourth quarter in 2015 and performed a high-level review of all the risk factors that had the potential to undermine the Island's financial system.

TAX REFORM

Mr. Speaker, in last year's Budget Statement, I announced Government's intention to commission a review of Bermuda's tax system. Government subsequently asked a division of the IMF, known as CARTAC (Caribbean Technical Assistance Centre), to conduct an analysis of Bermuda's tax system. CARTAC, which specializes in issues of small island economies, was given certain guidelines by Government:

- No income tax
- No Value-Added Tax or VAT, and
- The need to raise revenue to help eliminate the deficit.

Like the FRP, the tax economists from CARTAC consulted widely before providing their report. CARTAC recommended many widespread changes to our tax system and many of their recommendations form the basis for the tax reform measures I am announcing today. These measures also take into account consultations with major stakeholders and modifications by Government.

Mr. Speaker, the entire tax system, excluding various government fees, can be placed into three basic types of taxes: taxes on remuneration such as Payroll Tax, taxes on consumption such as Customs Duties and taxes on property such as Land tax.

Payroll Tax

An important part of Tax Reform consists of changes to the payroll tax structure. Currently, payroll taxes are payable by the employer at rates up to 14.5% of the remuneration paid to staff members. Up to 5.5% of that tax may be recovered by the employer from employees.

Government is currently considering reforms to the Payroll Tax structure to make it more progressive and to yield additional revenue. The current structure takes little or no account of the ability to pay of employers or their employees. It therefore puts a heavier relative tax burden on lower income employees. The challenge is to weigh the desire to make payroll tax more equitable, against the needs of the Government to raise revenue and its impact on businesses.

In order to get that balance right Government will continue its consultation with business, receiving more detailed data from employers, in order to model the outcomes of various payroll options. This will be performed over the coming fiscal year. The restructured payroll tax system is to be implemented in fiscal 2017/18.

Implementation

While the reformulated Payroll Tax structure is slated for implementation in the next fiscal year, the demands on Government to reduce the deficit are immediate. Therefore, as an interim measure, Payroll Tax, as it is currently constituted, will remain in place for another year, except that the standard rate will be adjusted to 15.5%, an increase of 1.0%. There will also be a similar increase of 1.0% for most other tax rate categories. The rate of tax recoverable from employees will be set at 6.0%.

“Notional” Taxable Payroll

Mr. Speaker, the payroll tax system has remained virtually unchanged for the last 20 years. An integral part of this system has included so-called notional salaries for payroll tax purposes (notionals). Such notionals are applied to people who are self-employed or principals in small business or professional practices, such as health care and professional advisory services in a business or legal context.

A review of these notionals indicates widespread and flagrant abuse. Government intends to conduct a thorough review of all the notionals in the system with a view to updating them to reasonable and fair levels. It is not the intent to penalize entrepreneurs in small or embryonic businesses. Each case will be decided on its own merit after the provision of quantitative data. Where feasible, for professionals, notionals will be based on occupational benchmark salaries found elsewhere in Bermuda. This notional “loophole” is an inequitable feature of our tax system that is long overdue for reform.

In addition to the changes in the payroll tax area, legislation providing concessions for new Bermudian hires will be allowed to expire at the end of the current fiscal year.

Consumption Taxes

Mr. Speaker, often when explaining Bermuda’s tax system to people from abroad we describe it as a consumption-based system. This refers primarily to Customs Duties on goods crossing our frontier. But goods form a diminishing proportion of our services-based economy. Government will therefore, as part of our tax reform plan, alter the structure of customs duties as well as broaden the tax system to include services.

Customs Duties and Excise Tax

The current customs tariff imposes a selected number of excise duties on alcohol and tobacco products, petrol, and passenger vehicles. Excises account for about half of all revenue collected on imports. In 2017/18, the Government will seek to establish a separate statute from the customs tariff to impose excise taxes. Separating the imposition of excise taxes from customs duties would improve the transparency of the fiscal system. This tax will be payable at the frontier, just like customs duties and will be administered by HM Customs.

In 2016/17, currently imposed excises will be increased to begin the process of increasing the revenue yield from indirect taxes. These increases in specific excise duties on alcohol, tobacco, and petrol will increase revenue by approximately \$14.7 million.

With regard to Customs Duties in 2016/17, the Government will commence preparations for the introduction of a single unified tariff.

General Services Tax

Mr. Speaker, in order to broaden the tax base, a new services sales tax, to be called the General Services Tax (GST), will be levied on turnover from the provision of most services by service providers to the public. It is proposed that this GST will be levied at a rate of 5%. As this is a change that will require significant adjustments in operations, billing, and reporting on the part of service providers and collecting, tracking and enforcement on behalf of Government, this tax will not be implemented until April 1st 2017 at the earliest. Notable exemptions to the General Services Tax will be in the sectors of banking, insurance and health care. Small service providers will also be exempted from the tax.

The net uptake from this new tax is anticipated eventually to be approximately \$50 million per year.

Land Taxes

Government already announced, at the end of 2015, the new land tax rates applicable to the new Annual Rental Values (ARV) list. The long recession has had the effect of lowering ARVs across Bermuda. Not adjusting the actual tax rates would have resulted in a loss of revenue by Government of \$19.2 million. Clearly, under the circumstances, Government cannot absorb such a loss. Therefore, tax rates on the new ARVs have been adjusted to retain Government's total revenue intake to be the same as it was last year. The exemption from Land Tax for seniors in their own homes will be adjusted down to \$42,000 from \$50,000. The originally announced level of \$29,000 was issued in error. This adjustment keeps the exemption the same as under the old regime.

Concessions

Mr. Speaker, during the recession Payroll Tax concessions to hotels, retail and restaurants were extended so that such enterprises could retain the number of jobs being filled to the greatest extent possible. These concessions started being rolled back last year and the roll back will continue over the next 2 years.

Simplification

Mr. Speaker, large corporations around the world, irrespective of what industry they are in, are today actively engaged in initiatives involving reducing complexity in their organizations and operations. Simplification reduces costs and increases the

organization's ability to effectively manage and control itself. One of CARTAC's themes was the need to simplify the Bermuda tax code and the Customs Tariff. The simpler the rules are the fewer man-hours needed to oversee and enforce them, making the system more efficient. The Customs Tariff has become complicated and confusing to administer over the years. The tax reform plan will therefore seek to simplify it and other revenue-raising regulations to make them efficient and user friendly.

Office of Tax Commissioner

Mr. Speaker, major changes to our tax system will increase pressure on the Office of the Tax Commissioner (OTC). One of the fundamental tenets supporting the tax structure we've always had in Bermuda is to keep taxation simple so as to avoid the necessity of creating a large bureaucracy to administer it. The OTC is still relatively small and this Government intends to keep it that way.

Mr. Speaker, it has been noted that only 25% of taxpayers currently file their taxes online using the existing E-Tax system. This rate is unacceptably low and must be raised dramatically during the coming fiscal year and beyond. Too much of the OTC's time and resources are devoted to processing manually filed tax returns, and this will become particularly burdensome as it deals with the changes and reforms outlined here today. Steps will be implemented to incentivize the public to use the online facilities that are far more time efficient for taxpayers and OTC officers. Since the overwhelming majority of Bermuda taxpayers have computers and online access, tax payers should think of online filing as merely another 'app' available to online users, but its primary purpose is to facilitate payment of taxes. It's already available and ready to be used.

A new filing policy will therefore be implemented on April 1st 2016 for taxpayers of gross annual payrolls in excess of \$1 million per year. It will be mandatory for taxpayers over that threshold to file electronically using the E-Tax system. Manual tax returns from these taxpayers will not be accepted. Accepted methods of payment using the E-Tax system are direct debit from a local bank account or via credit cards.

Mr. Speaker, we strongly encourage all taxpayers to avail themselves of the efficiency and convenience of electronic filing which is fast, reliable and accessible 24/7.

With a more efficient deployment of resources, the OTC will be able to get more aggressive as it relates to compliance and enforcement. The majority of tax payers in Bermuda are responsible when it comes to paying their taxes but there will always

be those who deliberately flout the law. Government will pursue those individuals to the greatest extent of the law.

AIRPORT REDEVELOPMENT

Mr. Speaker, the Master Development Plan prepared by the former government in 2008 concluded that Bermuda needed a new purpose built terminal and that the existing terminal's useful life would expire in 2008. Since then the facility has continued to deteriorate.

Moreover, the site of the present terminal renders it vulnerable to storm surge from Castle Harbour, as happened with hurricane Fabian. No amount of patching up can reduce that vulnerability - the terminal has to be moved. The 2008 Master Plan recognized that and recommended another location. This Government is using that recommendation.

The construction of a modern airport terminal implies many large risks which form obstacles to moving forward: first and foremost, financial risk. The Government does not have the money or borrowing capacity to fund such a large undertaking. Secondly, operational risk. There is no one locally that has the expertise or experience in designing and building modern airport terminals, so the risks of a Bermuda based company "learning on the job" would likely result in massive overruns. Thirdly, there is the risk of quality control.

The facts are simple. This is a facility we need but we, Bermuda, do not have the financial capacity nor the know-how to build it. We need an overseas partner.

Of course, an overseas partner is nothing new as it relates to our airport. The American military built the airport, occupied and operated everything there, except the terminal itself, for over 50 years. When they left we had to depend on the British company Serco Plc for 20 years to operate key parts of the facility. So engaging an overseas partner to facilitate progress with respect to our vital gateway has worked for us in the past and is nothing new.

This time our overseas partner is Canada, the Government of Canada. The arrangement is built upon a Government to Government agreement which provides solutions to the obstacles preventing us from replacing the crumbling facility. The Canadian Government is represented by Canadian Commercial Corporation (CCC).

The Prime Subcontractor is Aecon, Canada's largest infrastructure development company, which has the expertise and experience in airport development we need. As concessionaire Aecon will arrange financing from institutional investors abroad and that debt will not form part of Bermuda's national debt. The project will pay for itself from revenues it earns during the life of the concession period. After the debt is repaid there will be a profit sharing arrangement between Aecon and the Bermuda Government.

At a time when Bermudians have been crying out for projects to create jobs, this project fits the bill. Aecon does not intend to import an army of Canadian workers to build this terminal. It will be Bermudian subcontractors and workers that will build it, by the hundreds. This project is a major job creator for Bermudians, something no Bermudian could object to.

The project continues to gather momentum. A number of major milestones were achieved in 2015 in the airport development process. Firstly, Government was successful in negotiating a workable Letter of Entrustment from the UK Government. This settled any questions relating to the Bermuda Government's authority to enter into an agreement with CCC.

Secondly, the Airport Development Agreement was signed to move the development process into Phase 2. This was an interim agreement that ushered in the most important phase of the entire process where final specifications, detailed cost estimates, legal contracts, engineering and architectural details are developed, along with subcontracts to local contractors.

Thirdly, two town hall meetings were held, one in St. Georges, the other in Hamilton, to communicate the various important features and rationales for this project and dispel various misstatements and myths that were floating around out there in cyberspace. Work continues both within the Ministry of Finance, the Ministry of Tourism Development and Transport and with our partners to fill in the "gaps" identified by the Deloitte report that we commissioned to ensure value for money in the project. We will fulfill all requirements stemming from the Letter of Entrustment.

Fourthly, both ministries have actively engaged in consultation with the staff at the airport to address any queries they may have had. The Government has committed that no jobs will be lost and that their compensation packages will remain secure. That consultation continues.

Finally, geo-technical and other related technical studies that were conducted by local expert service providers removed any uncertainty as it relates to the capability of the ground where the new terminal will be built to support the new terminal building. This is a demonstration of how Aecon will use local expertise where available.

Upon financial close construction will commence creating hundreds of jobs for Bermudians.

AMERICA'S CUP

Mr. Speaker, following the success of the Bermuda Louis Vuitton America's Cup World Series event in October, attention is now focused on continuing preparations for the 2017 AC Event Village at the Royal Naval Dockyard and associated site works for additional team bases on the South Basin dock.

The WEDCO land reclamation project in the South Basin will be the primary location for the America's Cup Event Village. It is a collaborative effort led by WEDCO and the Ministry of Public Works with technical assistance from the ACBDA. The tendered project is currently ahead of schedule and on budget with financing for the projected \$39 million reclamation cost provided by a local banking institution.

Following Oracle Team USA and SoftBank Team Japan, Groupama Team France and team BAR, UK, are scheduled to set up bases on the South Basin dock before the end of 2016. Artemis, the Swedish Team, has nearly completed construction of their base and boat building operation at Morgan's Point. They employed over 70 local workers for the project.

Mr. Speaker, since April 2015, Oracle, Artemis and Team Japan have established business operations in Bermuda with a cumulative spend of over \$10.2 million to date for fiscal 2015/16. This local spending excludes additional economic activity generated by the relocation to Bermuda of some 147 America's Cup team employees along with their families, who have become fully integrated and are utilizing goods and services provided by restaurants, transport services, construction and trades, wholesale and retail operators, security services, marine services, shipping and forwarding companies, telecommunications providers, service industries, small businesses and real estate. To date, two teams have accounted for more than 80 house and apartment rentals from local landlords, primarily in the central and western parishes.

In addition, some 390 workers were employed in America's Cup related projects in the Royal Naval Dockyard valued at over \$4.9 million. Approximately 70 subcontracting companies were involved in the projects. This amount does not include local spending associated with sectors such as transport, shipping, shipping agents, hotels and airlines.

A detailed economic impact assessment for the October Bermuda World Series event is in the process of being finalized. The hotel, retail, transportation and restaurant sectors of the economy all reported healthy spikes in activity in the lead up to and during the World Series event. It is anticipated that total additional spending will exceed the \$1.7 million original estimate for the event. More than 60 local vendors provided retail, food and beverage, and direct professional services over the three days of the event. In addition, there was the extraordinary visibility Bermuda gained from television and media coverage as well as visiting sponsors and spectators. The media exposure is expected to continue this year with confirmed Louis Vuitton World Series events in Oman, New York, Chicago, the U.K., and France, where Bermuda as the host venue for 2017 will be prominently featured.

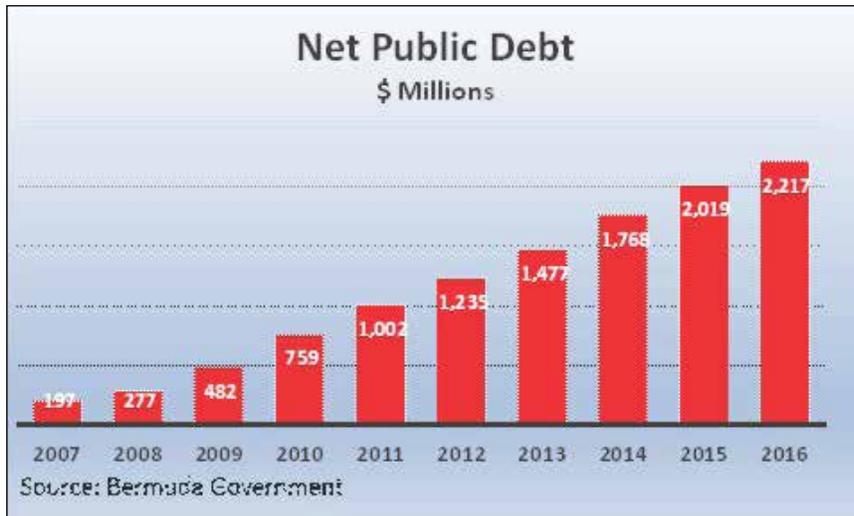
In the current fiscal year, the estimated \$11.7 million in America's Cup-related expenditures, including \$4 million in sponsorship and \$4.9 million in capital costs are on budget, with the capital development projects on schedule.

Mr. Speaker, the total Government budget for America's Cup-related expenses during the 2016/17 fiscal year will be \$24 million. This amount includes \$5 million for the third tranche of the \$15 million committed sponsorship to the America's Cup Event Authority that will be spent in Bermuda, and \$15 million in capital spending on infrastructure and site preparations for team bases and event sites for AC35 Finals from May through June of 2017. The remainder will be allocated to operational costs. So, Mr. Speaker, in response to those asking why is Government spending all this money on America's Cup when there are so many other worthy things upon which we could spend, the answer can be summed up in three words: Jobs, rents, and income.

In addition to the continuing economic impact and excitement generated by the AC teams and international World Series Events, Bermuda will further benefit in 2016 through the America's Cup Endeavour Programme which focuses on the development of young Bermudians, both on the water and through the school STEAM educational programme. The selection of a Bermuda youth team to represent the Island in the Red Bull Youth America's Cup in 2017 will also provide young Bermudians with world-class exposure and opportunity.

GOVERNMENT DEBT

Chart 12

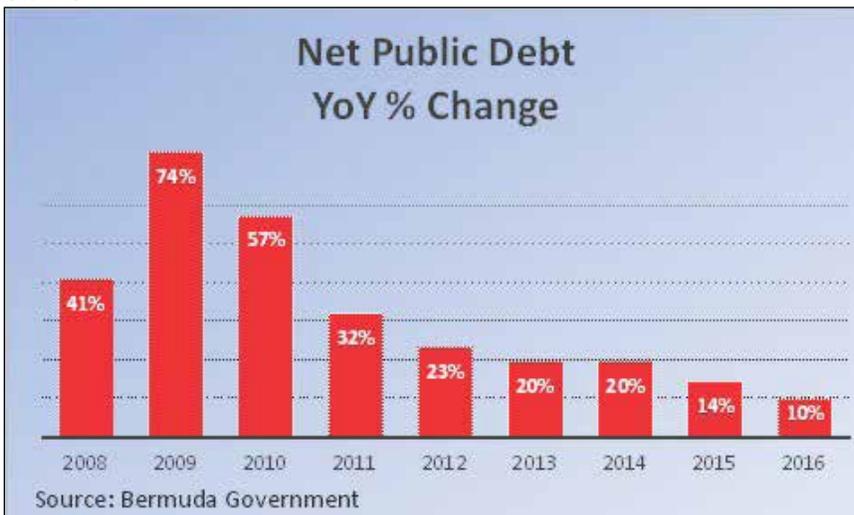


Mr. Speaker, Chart 12 shows the increase in public debt from a low of \$197 million in 2007 to \$2,217 million by the end of 2016. This chart illustrates the path taken to the present precarious position of public finances. One could rightfully say to this Government: “Well, you’ve been in power for 3 years now, why haven’t you fixed the problem?”

Firstly, one needs to appreciate that this is a very big problem that will take time to fix. Secondly, to stop the debt from rising the annual net deficit needs to be slowed down, then eliminated. Only then can the problem of debt reduction begin to be addressed. One could also rightfully ask, “What and how have you done so far?”

Chart 13 sheds light on that question. This graph shows the year-over-year percentage change in public debt levels. Clearly, between 2008 and 2012 the situation was out of control. Since that time, the increase in debt has slowed substantially.

Chart 13

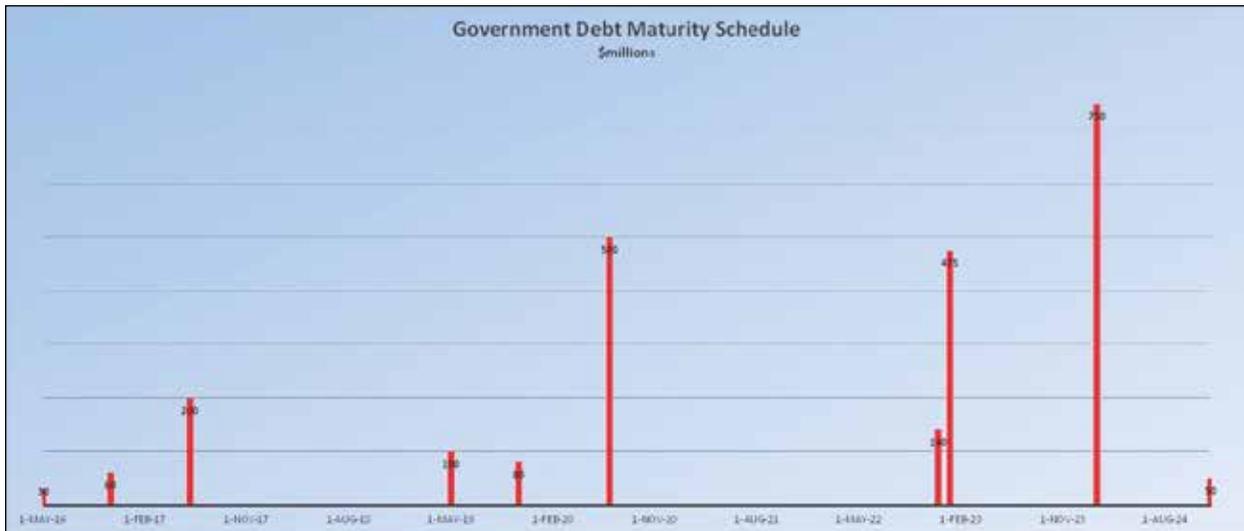


Last year the year-over-year growth in debt was 10%. The objective of this budget is to lay out a specific pathway to get that down to zero.

The Fiscal Responsibility Panel recommended that we dispose of the debt target ratio of debt-to-GDP. We agree with that, as it has been a

point I have been making for many years. Government agrees with the aim of meeting the 80% Debt-to-Revenue target and the 10% Debt Service-to-Revenue target.

Chart 14



Mr. Speaker, the Bermuda Government lives off credit. As the deficits will continue for the next three years Government will still have a borrowing requirement. We have a credit facility with a local bank for that purpose. The total net debt is getting close to the authorized debt ceiling, but it is not anticipated that that level will be breached in the fiscal year 2016/17.

There is also the requirement to retire outstanding debt as it matures. Chart 14 shows the maturity dates of existing debt. As these mature, Government will have to refinance these bonds in international credit markets. Such refinancing will be real world tests of our credit worthiness, determining the availability of credit flow and its cost.

Sale of Fixed Assets

Mr. Speaker, every balance sheet has two sides: assets on one side and liabilities plus capital on the other. The irony of the Government's debt situation is that, on the asset side of the balance sheet, there are literally billions of dollars worth of assets, all owned by the Government. So, despite the precarious debt situation, our assets far exceed our liabilities. Unfortunately, this does not help very much until and unless some of these assets can be converted into cash to assist us in meeting our obligations.

During 2015, Government conducted a survey of the assets it owns but does not need for any foreseeable purpose. A number of properties have been marked for sale by way of public auction. This will be done in an orderly fashion so as not to distort the market.

The proceeds of these sales will be placed directly into the Sinking Fund for debt reduction.

Such fixed asset sales require the approval of Parliament and Honourable Members can anticipate the appropriate notices of motion in due course.

PENSION AND SENIORS

Mr. Speaker, Bermuda, like most other countries, currently provides retired individuals with a combination of social insurance from the Contributory Pension Fund (CPF) and an occupational pension from their employer. In a perfect world the social insurance should provide a first tier or basic pension, which would most likely be supplemented by a second tier or occupational pension. Through no fault of their own, currently a number of retired persons are not receiving an occupational pension and are therefore relying on their social insurance as their sole source of income. Obviously, this is not an ideal situation and the Government continues to do its utmost to ensure that seniors who rely heavily on their social insurance benefits are cared for suitably.

Mr. Speaker, notwithstanding the above, the CPF benefit provides an important base retirement income. The Government is aware that pension benefits under the CPF were last increased by 3.0 per cent in August 2011 and this is causing some difficulties for some of our seniors as other expenditures have been rising.

I can report that the latest Actuary report for the CPF is due to be completed this quarter. This report is for the period August 1, 2014 and will be tabled in this Honourable House as soon as it is completed. At that time I shall have a better understanding of the financial position of the Fund and prudently consider increasing pensions and other benefits under the Contributory Pensions Act 1970 in August of this year, when benefits under the Act are uplifted.

2015/2016 FISCAL PERFORMANCE

Mr. Speaker, I will now focus briefly on the forecast financial results for the current 2015/16 fiscal year as they form the foundation for the 2016/17 Budget.

The revised revenue forecast of \$935.4 million is \$4.1 (0.4%) million more than the \$931.3 million in the 2015/16 approved budget and is due mainly to strength in Customs Duty receipts and Payroll Taxes.

The forecasted 2015/16 operating expenses of Central Government are \$921.8 million or \$9.1 million (1.0%) higher than the \$912.7 million originally budgeted in 2015/16. This resulted from increased demand for Financial Assistance, the cost of minimum revenue guarantees for certain airlines serving the Island, legal aid and other legal cost incurred by Government. These amounts were offset by underspends in staff cost as the Government has continued its efforts to gradually downsize the Public Service.

The Government has remained steadfast in prudently managing expenditures.

Revised capital expenditures for the year should come in at \$57.3 million or \$11.4 million (16.6%) below the budget allocation of \$68.7 million.

Debt service cost for 2015/16 is slightly below budget.

The overall deficit, therefore, is revised down by an estimated \$7.8 million, a 3.6% variance. The forecast deficit for the financial year ending March 31, 2016 of \$212.2 million is \$87.5 million less than the 2014/15 deficit.

Public Debt

Mr. Speaker, as at March 31st 2016, gross public debt will stand at \$2.335 billion and debt, net of the Sinking Fund will stand at \$2.217 billion. In 2015/16 the Government executed a US\$200,000,000 2-year term loan facility agreement with the Bank of NT Butterfield & Son Limited to meet some of its financing requirements. As at March 31, 2016 the Government has drawn \$150 million on this facility.

The Sinking Fund balance is projected to be approximately \$118.2 million at the end of 2015/16.

In 2016/17 certain Government notes will mature. Government will draw from the Sinking Fund to pay off \$90 million in Private Placement Notes. This will reduce our debt interest costs by \$5.3 million.

The financing required to fund the 2016/17 deficit is estimated at \$199.4 million. Government will have to incur new borrowing of \$150 million as a portion of the deficit can be funded from the Butterfield loan facility.

As at March 31st 2017, it is estimated that gross public debt will stand at \$2.444 billion, and debt, net of the Sinking Fund will be \$2.357 billion.

Mr. Speaker, in 2013 the Government set up debt-related targets, or rules, that were appropriate for an economy the size of Bermuda's. These rules committed the 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%. We stated these were targets we would work toward over the medium term. The Government reaffirms these limits, except for the net debt/GDP ratio which the FRP has recommended we drop. With determined action they are achievable.

As of March 31, 2016, the net debt/revenue ratio will be 237%, and the debt service cost/revenue ratio will be 18%. There is still much work to do to bring our situation into line with our targets.

THE BUDGET

2016/2017 BUDGET ESTIMATES

	ESTIMATE 2015/16 \$000	ESTIMATE 2016/17 \$000
Revenue and Expenditure Estimates		
Revenue	931,298	996,935
Current Account Expenditure (excl.debt & s/fund)	912,744	921,643
Current Account Balance (excl.debt & s/fund)	18,554	75,292
Interest on Debt	117,619	129,050
	(99,065)	(53,758)
Sinking Fund Contribution	52,250	58,375
Surplus Available for Capital Expenditure	(151,315)	(112,133)
Capital Expenditure	68,734	87,620
Budget Surplus (Deficit)	(220,049)	(199,393)

Mr. Speaker, the highlights of the 2016/17 Budget feature a modest 1.0% increase in expenditure of \$8.9 million from last year's budgeted figure. Revenues are forecast to rise by 7.0% or \$65.6 million. The Current Account Balance, before debt service charges, is budgeted to be a surplus of \$75.3 million.

However, the Current Account Balance, after debt service, is a deficit of \$112.1 million. This represents a drop in the deficit of \$39.1 million, or 25.9%. The overall deficit is budgeted to be \$199.4 million, a drop of \$20.7 million or 9.4% when compared to the 2015/16 original estimates.

The projected Current Account Balance (excluding debt service) indicates whether revenues can support the day-to-day running of government, excluding finance costs and capital expenditure. This year's budget, with a surplus of \$75.3 million in Current Account before debt service, represents an improvement over the 2015/16 surplus with revenues sufficient to cover the day-to-day running of government and the annual

contribution to the Sinking Fund. This represents another fiscal milestone along the road to fiscal sustainability. The next milestone will be to cover current expenditure including all debt service costs.

Revenues

Mr. Speaker, the revenue estimate for 2016/2017 is \$996.9 million, which is \$65.6 million, or 7.0%, higher than the original estimate for the previous year.

The Government has already implemented certain spending reductions in our medium-term fiscal framework. This work must continue though it is recognized that additional fiscal gains must come from revenue increases.

In order to reduce the deficit, and provide for much needed services, the Government considers it appropriate now to increase our revenues. Accordingly, in 2016/17, the Government will increase Payroll Tax, Customs Duty on fuel, tobacco and alcohol and implement the biennial review of government fees.

The standard rate of payroll tax will be set at 15.5% in 2016/17, an increase of 1%. There will also be a similar increase of 1.0% for most other tax rate categories. The limit on taxable wages for purposes of payroll taxes will remain the same at \$750,000. The rate of tax recoverable from employees will be set at 6.0% in 2016/2017, up from 5.5%. This is so that the increase may be shared by both employer and employee.

Payroll concessions currently in place for the hospitality, restaurant and retail sectors will be partially rolled back in 2016/17 with businesses in these sectors paying a rate of 8.0%. The yield from Payroll Tax following the revised rate structure and partial rollback for payroll tax concessions is estimated at \$390 million in 2016/17.

Mr. Speaker, the duty on fuel will be raised by 8 cents per litre in April 2016 and 5.5 cents for fuel imported by BELCO to achieve additional Customs revenue of about \$11.7 million.

The duty on cigarettes and tobacco and beer, wines and spirits will be raised in April 2016 to achieve additional customs revenue of about \$4.0 million.

Government fees for an array of services provided to the public will be increased by about 4% for most fees and the anticipated increased yield should be \$1-2 million.

Finally Mr. Speaker, Government anticipates \$3 million in receipts from sale of government property that is surplus to requirements.

Expenditures

Mr. Speaker, against the background of moderately improving economic conditions, Government has set the overall budget expenditure including current account and capital account outlays, debt service and sinking Fund Contributions at \$1.196 billion. Mr. Speaker, this increased level of spending will enable the Government to service our debt, strengthen infrastructure, educate our children, provide healthcare and security for our citizens and assistance to the less fortunate among us.

The level of current account spending projected in the 2016/17 Budget, excluding debt service, is \$8.9 million higher than the budgeted expenditure approved in 2015/16. This increase includes additional Financial Assistance and other grants, increased government overheads due primarily to health insurance premiums, and the expiry of the partial suspension of Government's matching contribution to the Public Service Superannuation Fund. These increases and others were partially offset by reductions in other expenditures such as professional services.

Mr. Speaker, since March 31, 2013 Current Account spending levels have been reduced by \$74 million, or 7.4%. This is good news, but the Ministry of Finance's Medium Term Expenditure Framework (MTEF) called for a 15% spending reduction over a three-year period. Whilst we have had some success in cutting cost, it has become increasingly difficult to implement further reductions under the current Government structure and the formulaic approach to expenditure cuts in previous budgets. The Ministry remains committed to the MTEF, but moving forward it is clear that the Government must revise its approach in order to implement further savings, either by way of increased efficiencies or through reforms in the way services are delivered and departments are structured.

The Government is confident that the short-term sacrifices being made by way of increased expenditures will realize long-term benefits to the country.

Debt Service

Debt service costs for the 2016/17 Budget are projected at \$187.4 million, 10.3% higher than the 2015/16 allocation of \$169.9 million. This represents \$129.0 million in interest payments and a \$58.4 million contribution to the Sinking Fund.

Capital Expenditures

The capital expenditure component of the 2016/17 Budget is set at \$87.3 million to meet the Government's infrastructure needs and to support the key pillars of our economy.

CONCLUSION

Mr. Speaker, nobody likes tax increases, not the Ministry of Finance, not the rest of the Government, not the business community, not the man in the street. Some of the measures outlined in this Budget Statement will not be popular. But Debt Service has become the second largest "ministry" in Government. It is stealing from the future of our children and their children. It is constricting our ability to respond to people's needs. It is weakening our ability to maintain the infrastructure that supports everyday life. It is threatening our solvency and, with that, our financial independence. So we must get to grips with the deficit and debt problem because they stand between us and a secure future.

The economic turnaround we were elected to bring about was never going to be easy, but we have made solid progress. I have been very impressed with the work of my colleagues to make things happen, big and small. They have been helped by Bermudians in every sector, bringing to bear hard work, expertise and pride to end The Great Bermuda Recession. Everyone should be proud of this accomplishment and see it as a sign that, beneath the shot and shell of our political life, Bermudians are working together effectively on the common goal of a better tomorrow.

The three-year plan we are putting in place shows light at the end of the tunnel, in the form of a deficit that will no longer exist. Eliminating the deficit will free us to begin paying down public debt that narrows our options and bleeds our resources.

The tax reforms that will help free us from the burden of that debt constitute a major change in the tax structure of the Island – broadening the tax base coupled with the intention to introduce more progressivity into payroll taxes, because we must account for the challenges lower income people have with the cost of living. This recovery must work for the people as it happens.

Our mission is to get the Island's economy in all its manifestations back on solid ground, so that people can grow, plan and build the life they want. This Budget will help us do just that.

Thank you, Mr. Speaker

Table 1**GOVERNMENT OF BERMUDA SUMMARY OF CONSOLIDATED FUND ESTIMATES FOR 2016/17 TO 2018/19**

ACTUAL		ORIGINAL	REVISED	ESTIMATE	ESTIMATE	ESTIMATE
2014/15		ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE
\$000		2015/16	2015/16	2016/17	2017/18	2018/19
		\$000	\$000	\$000	\$000	\$000
Revenue and Expenditure Estimates						
880,408	1	931,298	935,426	996,935	1,068,192	1,146,397
935,094	2	912,744	921,846	921,643	907,818	894,201
(54,686)	3	18,554	13,580	75,292	160,374	252,196
113,223	4	117,619	116,250	129,050	132,000	134,000
(167,909)		(99,065)	(102,670)	(53,758)	28,374	118,196
47,669	5	52,250	52,250	58,375	61,111	63,553
(215,578)	6	(151,315)	(154,920)	(112,133)	(32,737)	54,643
49,753	7	68,734	57,297	87,260	65,000	50,000
(265,331)	8	(220,049)	(212,217)	(199,393)	(97,737)	4,643
Sources of Financing						
265,331	9	95,000	62,217	0	0	0
0	10	125,049	150,000	199,393	97,737	(4,643)
265,331	11	220,049	212,217	199,393	97,737	(4,643)
Capital Appropriations						
61,945	12	68,734	57,297	87,260	65,000	50,000
4,878	13	0	0	0	0	0
66,823	14	68,734	57,297	87,260	65,000	50,000
0	15	0	0	0	0	0
(24,082)	16	0	0	0	0	0
42,741	17	68,734	57,297	87,260	65,000	50,000
7,511	18	0	499	0	0	0
50,252	19	68,734	57,796	87,260	65,000	50,000
49,753	20	68,734	57,297	87,260	65,000	50,000
499	21	0	499	0	0	0
Consolidated Fund Balance (March 31)						
1,000	22	1,000	1,000	1,000	1,000	1,000
499	23	0	499	0	0	0
(2,415,073)	24	(2,634,623)	(2,627,290)	(2,826,184)	(2,923,921)	(2,919,278)
(2,413,574)	25	(2,633,623)	(2,625,791)	(2,825,184)	(2,922,921)	(2,918,278)

TYPE	DESCRIPTIONS	2015/16	2016/17	2017/18	2018/19
Revenue	Growth, Tax Reform and Rate Increases	3.4%	7.0%	7.1%	7.3%
Expenditure	Spending Reductions	3.5%	+1.0%	1.5%	1.5%
Debt Repayment	Senior Notes Due		\$90M		

Table II
ANALYSIS OF CURRENT ACCOUNT REVENUE

HEAD (1)	REVENUE DESCRIPTION (2)	2014/15	2015/16	2015/16	2016/17	DIFFERENCE	
		ACTUAL (\$000) (3)	ORIGINAL (\$000) (4)	REVISED (\$000) (5)	ESTIMATE (\$000) (6)	2015/16 vs 2016/17 (\$000) (7)	% (8)
TAXES & DUTIES							
12	CUSTOMS DUTY	171,470	187,409	194,015	209,484	22,075	12
27	SALE OF LAND TO NON-BERMUDIANS	5,493	9,983	8,451	9,000	(983)	(10)
29	TIMESHARING TAX	164	110	18	20	(90)	(82)
38	PASSENGER TAXES	32,908	42,294	40,195	43,166	872	2
38	STAMP DUTIES	23,885	21,500	23,815	24,159	2,659	12
38	BETTING TAX	1,668	1,075	1,300	1,375	300	28
38	LAND TAX	61,101	63,186	63,186	63,186	0	0
38	FOREIGN CURRENCY PURCHASE TAX	20,069	21,000	19,800	21,000	0	0
38	PAYROLL TAX	333,860	353,363	353,363	390,000	36,637	10
38	HOTEL OCCUPANCY	9,187	11,000	10,500	11,000	0	0
38	CORPORATE SERVICE TAX	4,444	5,467	5,639	5,750	283	5
FEES, PERMITS & LICENCES							
03	LIQUOR LICENCES	311	50	149	320	270	540
12	OTHER CUSTOMS FEES & CHARGES	2,161	2,100	2,077	2,077	(23)	(1)
12	WHARFAGE	639	750	737	750	0	0
13	POST OFFICE	4,222	4,730	4,580	4,541	(189)	(4)
27	IMMIGRATION RECEIPTS	12,281	10,662	12,018	11,429	767	7
29	TRADE & SERVICE MARK	1,770	1,653	1,512	1,624	(29)	(2)
30	FERRY SERVICES	1,484	1,825	1,367	1,538	(287)	(16)
30	SERVICES TO SEABORNE SHIPPING	2,633	2,660	2,695	2,693	33	1
31	AIR TERMINAL AND AVIATION	9,915	10,698	13,509	17,895	7,197	67
32	PLANNING FEES AND SEARCHES	1,100	955	1,040	970	15	2
34	VEHICLE LICENCES AND REGISTRATION	28,435	27,230	27,239	28,047	817	3
35	BUS REVENUES	7,628	7,881	8,754	8,750	869	11
36	SOLID WASTE	3,662	4,471	3,854	3,849	(622)	(14)
36	WATER	3,575	3,500	3,093	2,888	(612)	(17)
36	RENTALS	2,826	1,667	1,964	2,096	429	26
39	COMPANIES - INTERNATIONAL	62,776	60,820	60,820	66,063	5,243	9
39	COMPANIES LOCAL	2,666	2,800	2,800	2,800	0	0
39	COMPANIES LICENCES	574	610	821	635	25	4
46	TELECOMMUNICATIONS RECEIPTS	10,595	12,260	11,763	13,366	1,106	9
57	AIRCRAFT REGISTRATION	25,367	26,884	29,137	17,000	(9,884)	(37)
72	PLANT PRODUCTION & MARKETING CTRE	172	274	274	200	(74)	(27)
73	REGISTRATION OF SHIPPING	5,332	4,791	4,837	501	(4,290)	(90)
OTHER RECEIPTS							
03	FINES AND FORFEITURES	2,970	3,570	3,229	2,982	(588)	(16)
11	INTEREST ON DEPOSITS	2,970	1,000	1,412	406	(594)	(59)
	OTHER REVENUE	20,095	21,070	15,463	25,375	4,305	20
		880,408	931,298	935,426	996,935	65,637	7

Table III
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD (1)	DESCRIPTION (2)	2014/15	2015/16	2015/16	2016/17 ESTIMATE (\$000) (6)	DIFFERENCE 2015/16 vs 2016/17		
		ACTUAL (\$000) (3)	ORIGINAL (\$000) (4)	REVISED (\$000) (5)		(\$000) (7)	% (8)	
NON-MINISTRY DEPARTMENTS								
01	GOVERNOR & STAFF	1,482	1,409	1,409	1,395	(14)	(1)	
02	LEGISLATURE	4,749	4,946	4,946	5,051	105	2	
05	OFFICE OF THE AUDITOR	3,754	3,572	3,572	3,572	0	0	
56	HUMAN RIGHTS COMMISSION	1,928	1,862	1,704	1,268	(594)	(32)	
63	PARLIAMENTARY REGISTRAR	931	1,221	1,221	1,502	281	23	
85	OMBUDSMAN'S OFFICE	750	910	911	910	0	0	
92	INTERNAL AUDIT	1,480	1,576	1,576	1,504	(72)	(5)	
98	INFORMATION COMMISSIONER'S OFFICE	0	666	565	864	198	30	
		15,074	16,162	15,904	16,066	(96)	(1)	
CABINET OFFICE DEPARTMENTS								
09	CABINET OFFICE	6,054	6,296	6,244	7,070	774	12	
14	DEPT. OF STATISTICS	2,530	2,555	2,555	4,137	1,582	62	
26	DEPT. OF HUMAN RESOURCES	3,799	3,884	3,657	3,657	(227)	(6)	
43	INFORMATION TECHNOLOGY OFFICE	6,331	6,304	6,195	6,142	(162)	(3)	
51	DEPT. OF COMMUNICATION & INFORMATION	2,270	2,420	2,420	2,318	(102)	(4)	
80	PROJECT MANAGEMENT & PROCUREMENT	754	868	868	852	(16)	(2)	
84	E-GOVERNMENT	1,106	1,022	872	872	(150)	(15)	
96	SUSTAINABLE DEVELOPMENT	373	477	472	0	(477)	(100)	
		23,217	23,826	23,283	25,048	1,222	5	
MINISTRY OF LEGAL AFFAIRS								
87	MIN. OF LEGAL AFFAIRS HQ	7,070	5,119	7,404	6,113	994	19	
03	JUDICIAL DEPARTMENT	7,523	8,198	8,198	8,161	(37)	(0)	
04	ATTORNEY GENERAL'S CHAMBERS	3,810	4,343	4,403	4,554	211	5	
74	DEPT. OF COURT SERVICES	3,717	4,255	4,260	4,266	11	0	
75	DEPT. OF PUBLIC PROSECUTIONS	2,682	3,097	3,097	3,156	59	2	
		24,802	25,012	27,362	26,250	1,238	5	
MINISTRY OF FINANCE								
10	MIN. OF FINANCE HQ	5,447	4,407	4,707	4,297	(110)	(2)	
11	ACCOUNTANT GENERAL	76,790	76,541	77,054	86,817	10,276	13	
28	SOCIAL INSURANCE	7,270	6,016	6,716	6,100	84	1	
38	OFFICE OF THE TAX COMMISSIONER	2,904	3,126	3,126	3,181	55	2	
58	INTEREST ON DEBT	113,223	117,619	116,250	129,000	11,381	10	
59	SINKING FUND CONTRIBUTION	47,669	52,250	52,250	58,375	6,125	12	
		253,303	259,959	260,103	287,770	27,811	11	
MINISTRY OF EDUCATION								
16	MIN. OF EDUCATION HQ	2,032	1,220	1,220	2,287	1,067	87	
17	DEPT. OF EDUCATION	111,314	109,902	107,599	107,085	(2,817)	(3)	
41	BERMUDA COLLEGE	16,851	16,008	16,008	15,528	(480)	(3)	
		130,197	127,130	124,827	124,900	(2,230)	(2)	

Table III continued
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD (1)	DESCRIPTION (2)	2014/15 ACTUAL (\$000) (3)	2015/16 ORIGINAL (\$000) (4)	2015/16 REVISED (\$000) (5)	2016/17 ESTIMATE (\$000) (6)	DIFFERENCE 2015/16 vs 2016/17	
						(\$000) (7)	% (8)
MINISTRY OF HEALTH, SENIORS & ENVIRONMENT							
21	MIN. OF HEALTH, SENIORS & ENVIRMNT. HQ	14,463	13,345	12,056	9,732	(3,613)	(27)
22	DEPT. OF HEALTH	24,881	27,066	25,474	26,966	(100)	(0)
24	HOSPITALS	147,862	146,835	146,835	145,674	(1,161)	(1)
69	CONSERVATION SERVICES	4,469	4,638	4,448	0	(4,638)	(100)
72	ENVIRONMENTAL PROTECTION	3,087	3,776	3,776	0	(3,776)	(100)
79	ENVIRONMENT AND NATURAL RESOURCES	0	0	0	8,038	8,038	0
91	HEALTH INSURANCE	744	1,040	1,040	3,995	2,955	284
		195,506	196,700	193,629	194,405	(2,295)	(1)
MINISTRY OF TOURISM DEVELOPMENT & TRANSPORT							
48	MIN. OF TOURISM DEV. & TRANSPORT HQ	25,375	23,510	23,710	24,798	1,288	5
30	MARINE & PORTS	21,087	19,727	20,478	19,900	173	1
31	AIRPORT OPERATIONS	21,055	19,331	19,421	19,959	628	3
34	TRANSPORT CONTROL DEPARTMENT	5,717	5,202	5,694	5,350	148	3
35	PUBLIC TRANSPORTATION	21,548	18,049	19,618	19,200	1,151	6
57	CIVIL AVIATION	8,033	9,007	7,296	0	(9,007)	(100)
73	MARITIME ADMINISTRATION	2,801	2,435	2,435	0	(2,435)	(100)
		105,616	97,261	98,652	89,207	(8,054)	(8)
MINISTRY OF PUBLIC WORKS							
36	MIN. OF PUBLIC WORKS HQ	16,927	5,301	7,603	5,425	124	2
49	LAND VALUATION	681	810	687	795	(15)	(2)
53	BERMUDA HOUSING CORP	7,440	6,050	6,050	6,050	0	0
68	PARKS	9,166	9,644	9,589	9,845	201	2
81	PUBLIC LANDS & BUILDINGS	20,593	20,522	19,822	20,799	277	1
82	WORKS & ENGINEERING	30,271	30,165	31,635	31,426	1,261	4
97	LAND TITLE & REGISTRATION	1,301	1,371	1,212	1,050	(321)	(23)
		86,379	73,863	76,598	75,390	1,527	2
MINISTRY OF COMMUNITY, CULTURE & SPORTS							
71	MIN. OF COMMUNITY, CULTURE & SPORTS HQ	2,672	2,420	2,420	2,970	550	23
18	LIBRARIES	2,110	1,951	1,877	1,861	(90)	(5)
19	ARCHIVES	1,258	1,307	1,307	1,294	(13)	(1)
20	YOUTH, SPORT & RECREATION	10,449	9,541	9,482	9,055	(486)	(5)
23	CHILD & FAMILY SERVICES	15,468	14,909	14,819	15,907	998	7
52	COMMUNITY & CULTURAL AFFAIRS	2,619	3,081	2,976	2,939	(142)	(5)
55	FINANCIAL ASSISTANCE	51,925	49,131	55,132	54,561	5,430	11
		86,501	82,340	88,013	88,587	6,247	8

Table III continued
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD (1)	DESCRIPTION (2)	2014/15	2015/16	2015/16	2016/17	DIFFERENCE	
		ACTUAL (\$000) (3)	ORIGINAL (\$000) (4)	REVISED (\$000) (5)	ESTIMATE (\$000) (6)	2015/16 vs 2016/17 (\$000) (7)	% (8)
MINISTRY OF NATIONAL SECURITY							
83	MIN. OF NATIONAL SECURITY HQ	1,445	1,360	1,360	1,297	(63)	(5)
06	DEFENCE	8,063	6,948	7,202	7,086	138	2
07	POLICE	66,692	64,423	64,487	64,595	172	0
12	CUSTOMS	17,196	17,267	17,123	17,112	(155)	(1)
13	POST OFFICE	11,215	11,192	10,604	10,677	(515)	(5)
25	DEPT. OF CORRECTIONS	24,375	24,866	27,366	25,337	471	2
45	FIRE SERVICES	12,824	13,109	13,109	12,506	(603)	(5)
88	NATIONAL DRUG CONTROL	4,415	3,921	3,921	4,179	258	7
		146,225	143,086	145,172	142,789	(297)	(0)
MINISTRY OF HOME AFFAIRS							
93	MIN. OF HOME AFFAIRS HQ	4,049	4,951	4,951	4,562	(389)	(8)
27	IMMIGRATION	4,167	4,475	4,173	4,633	158	4
29	REGISTRY GENERAL	1,603	1,840	1,730	1,750	(90)	(5)
32	DEPT. OF PLANNING	2,871	3,149	3,149	3,202	53	2
42	RENT COMMISSIONER	455	0	0	0	0	0
60	WORKFORCE DEVELOPMENT	4,281	4,776	4,776	4,557	(219)	(5)
		17,426	19,191	18,779	18,704	(487)	(3)
MINISTRY OF ECONOMIC DEVELOPMENT							
95	MIN. OF ECONOMIC DEV. HQ	7,205	12,253	11,875	13,727	1,474	12
39	REGISTRAR OF COMPANIES	2,227	2,845	2,786	2,712	(133)	(5)
46	TELECOMMUNICATIONS	773	1,083	1,253	1,033	(50)	(5)
67	E-COMMERCE	744	914	1,122	1,537	623	68
89	ENERGY	790	988	988	943	(45)	(5)
		11,739	18,083	18,024	19,952	1,869	10
		1,095,985	1,082,613	1,090,346	1,109,068	26,455	2

Table IV
ANALYSIS OF CURRENT ACCOUNT EXPENDITURE BY OBJECT ACCOUNT

EXPENDITURE						DIFFERENCE	
	OBJECT CODE DESCRIPTION	2014/15 ACTUAL (\$000)	2015/16 ORIGINAL (\$000)	2015/16 REVISED (\$000)	2016/17 ESTIMATE (\$000)	2015/16 vs 2016/17 (\$000)	%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	SALARIES	301,988	322,267	313,025	317,916	(4,351)	(1)
	WAGES	81,260	70,392	70,500	68,605	(1,787)	(3)
	EMPLOYER OVERHEAD	71,474	67,895	69,057	78,511	10,616	16
	OTHER PERSONNEL COSTS	5,460	6,146	5,636	6,240	94	2
	TRAINING	2,104	3,603	3,191	3,005	(598)	(17)
	TRANSPORT	4,757	3,753	2,914	1,862	(1,891)	(50)
	TRAVEL	2,818	3,684	3,574	3,026	(658)	(18)
	COMMUNICATIONS	7,171	8,038	7,907	7,362	(676)	(8)
	ADVERTISING & PROMOTION	3,554	2,088	1,881	3,535	1,447	69
	PROFESSIONAL SERVICES	68,784	61,706	66,899	56,168	(5,538)	(9)
	RENTALS	15,507	15,145	14,806	13,767	(1,378)	(9)
	REPAIR & MAINTENANCE	18,342	20,462	20,096	19,611	(851)	(4)
	INSURANCE	9,020	9,185	10,766	9,559	374	4
	ENERGY	18,064	18,539	19,121	19,888	1,349	7
	CLOTHING & UNIFORMS	1,703	1,140	1,049	1,075	(65)	(6)
	MATERIALS & SUPPLIES	24,191	22,772	22,991	23,437	665	3
	EQUIPMENT	628	513	534	567	54	11
	OTHER EXPENSES	1,878	3,261	3,392	3,055	(206)	(6)
	RECEIPTS CREDITED TO PROG	0	(19,245)	(14,402)	(16,501)	2,744	(14)
	TRANSFER TO OTHER FUNDS	47,669	52,250	52,250	58,375	6,125	12
	GRANTS & CONTRIBUTIONS	296,390	291,400	298,909	300,955	9,555	3
	PUBLIC DEBT CHARGES	113,223	117,619	116,250	129,050	11,431	10
		1,095,985	1,082,613	1,090,346	1,109,068	26,455	2

Table V**GOVERNMENT DEBT TRANSACTIONS AND AMOUNTS OUTSTANDING 2005/06 TO 2018/19**

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)
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	800,000	69,000	731,000	2,305,000	109,245
2014/15	0	120,000	(120,000)	2,185,000	113,223
2015/16 (Rev)	150,000	0	150,000	2,335,000	116,250
2016/17 (Est)	199,393	90,000	109,393	2,444,393	129,050
2017/18 (Est)	97,736	0	97,736	2,542,129	132,000
2018/19 (Est)	(4,643)	0	(4,643)	2,537,486	134,000

(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 2013/14 - \$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 2014/15 (\$000)	DETAILS	REVISED ESTIMATE 2015/16 (\$000)	ESTIMATE 2016/17 (\$000)
	DEBT & LOAN GUARANTEES OUTSTANDING AS OF MARCH 31		
2,185,000	BORROWINGS UNDER LOAN FACILITIES (GOVT)	<u>2,335,000</u>	<u>2,444,393</u>
2,185,000	TOTAL DEBT OUTSTANDING (GOVT)	2,335,000	2,444,393
135,764	Less: SINKING FUND CONTRIBUTIONS (i)	<u>118,250</u>	<u>87,375</u>
	NET CUMULATIVE GOVERNMENT		
<u>2,049,236</u>	DEBT & GUARANTEES OUTSTANDING (ii)	<u>2,216,750</u>	<u>2,357,018</u>

(i) Government introduced a Sinking Fund with effect 31st 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. In 2013 the Government Loans Act 1978 was amended to allow excess funds borrowed to be deposited and extracted from the Sinking Fund to fund future year deficits. 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 (\$15K); Bank of N.T. Butterfield (\$182.9M); Bermuda Housing Corporation (\$36.7M); West End Development Corporation (\$65.2M); Bermuda Hospitals Board (\$247M) and Morgan's Point (\$6M). With effect 1st 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 Gov't Loans Act 1978. The total amount of utilized Loan Facilities are restricted by the Government Loans Act 1978, as amended.

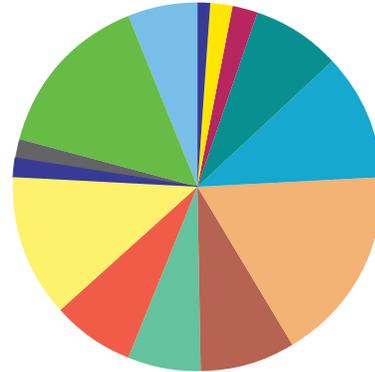
Table VII
PROFESSIONAL SERVICES

(1)	(2)	ACTUAL 2014/15 (\$000) (3)	ORIGINAL ESTIMATE 2015/16 (\$000) (4)	REVISED ESTIMATE 2015/16 (\$000) (5)	ESTIMATE 2016/17 (\$000) (6)
	5260 Local Consultants	7,528	7,969	9,956	9,445
	5265 Overseas Consultants	13,566	11,212	10,696	7,317
	5270 Contractors	20,881	19,182	19,643	18,453
	5275 Medical	10,559	7,960	9,267	4,951
	5280 Optical Services	12	13	18	13
	5285 Educational Services	59	108	54	120
	5290 Chiropodist Services	2	5	4	4
	5295 Psychological Services	0	50	40	40
	5300 Dental Services	118	29	29	26
	5305 War Pension Award	2,030	2,083	2,000	1,965
	5310 Counselling Services	271	269	269	284
	5315 Child Care Services	166	172	177	165
	5320 Recreational Services	263	237	237	205
	5325 Legal Services	5,541	4,204	6,411	4,768
	5330 Liquidation Fees	21	175	175	223
	5340 Membership Fees - Govt.	374	394	358	363
	5345 Forensic/Lab Services	320	664	681	664
	5350 Forensic/lab accounting	61	157	157	157
	5355 Security Services	5,608	5,378	5,133	5,416
	5360 Conservation Services	30	6	2	6
	5365 Animal Control Services	34	29	28	29
	5370 Board & Comm. Fees	855	762	893	931
	5375 ID Parade - Police	20	30	30	30
	5380 Jury & Witness Fees	119	115	138	115
	5385 Court Costs	11	16	16	16
	5390 Audit Fees	0	55	55	55
	5395 Examination Fees	335	432	432	407
		68,784	61,706	66,899	56,168

Table VIII

Estimated Expenditure 2016/17 in BD\$ Millions

■ Non-Ministry.....	16.1
■ Cabinet Office Departments.....	25.0
■ Legal Affairs.....	26.3
■ Finance.....	100.4
■ Education	124.9
■ Health, Seniors and Environment	194.4
■ Tourism Development and Transport.....	89.2
■ Public Works	75.4
■ Community, Culture and Sports.....	88.6
■ National Security.....	142.8
■ Home Affairs	18.7
■ Economic Development	20.0
■ Interest and Sinking Fund.....	187.4
■ Capital Estimate.....	87.3



Categories of expenditure expressed as a percentage of total estimated expenditure for 2016/17 of \$1,196.3 million



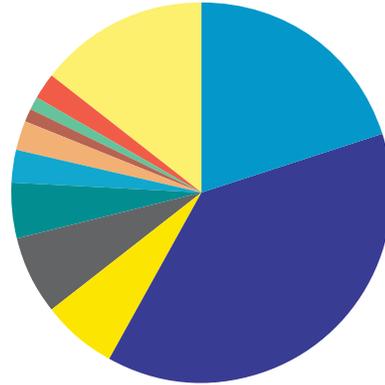
— Non-Ministry.....	1.3
— Cabinet Office Departments.....	2.1
— Legal Affairs.....	2.2
— Finance.....	8.4
— Education	10.4
— Health, Seniors & Environment.....	16.3
— Tourism Development & Transport	7.5
— Public Works	6.3
— Community, Culture & Sports.....	7.4
— National Security.....	11.9
— Home Affairs	1.6
— Economic Development	1.7
— Interest & Sinking Fund.....	15.7
— Capital Estimate.....	7.3

Table IX

Estimated Revenue 2016/17 in BD\$ Millions

Total Revenue \$996.9 million

■ Customs	209.5
■ Payroll Tax	390.0
■ Companies Fees	66.1
■ Land Tax.....	63.2
■ Passenger Tax	43.2
■ Vehicle Licences.....	28.0
■ Stamp Duties.....	24.2
■ Hotel Occupancy.....	11.0
■ Immigration	11.4
■ Foreign Currency.....	21.0
■ All Other.....	129.4



Categories of revenue expressed as a percentage of total estimated revenue for 2016/17 of \$996.9 million



—	Customs	21.0
—	Payroll Tax.....	39.1
—	Companies Fees	6.6
—	Land Tax	6.3
—	Passenger Tax	4.3
—	Vehicle Licences	2.8
—	Stamp Duties.....	2.4
—	Hotel Occupancy	1.1
—	Immigration	1.1
—	Foreign Currency.....	2.1
—	All Other.....	13.0



Design and pre-press production:
Department of Communication and Information
Printed in Bermuda by The Bermuda Press Ltd. ~ February 2016