



BUDGET STATEMENT

IN SUPPORT OF THE

ESTIMATES OF REVENUE AND EXPENDITURE

2004/05

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

Minister of Finance

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

Mr. Speaker,

As the first female Finance Minister for the Government of Bermuda, I have an awesome task. I may be creating a precedent on the one hand as a woman Finance Minister and then there is the dual responsibility of following in the footsteps of a man who is said to have had many of the attributes for a perfect Minister of Finance.

I am honoured to press forward on the path of prudent stewardship of the public purse that was so ably mapped by my predecessor and father, the Progressive Labour Party's first Minister of Finance, the late Hon. C. Eugene Cox, CBE, JP, MP. So I acknowledge the responsibility and distinction of presenting the sixth successive Annual Budget from the Progressive Labour Party Government and should therefore like to salute and acknowledge the efforts of the former Minister of Finance.

Mr. Speaker, this next term of Government has a great starting point: a firm foundation from which to continue our work.

Mr. Speaker, in the midst of many challenges, both international and domestic, Government is committed to the on-going transition and transformation to the 'New Bermuda'. The Budget for 2004/05 further strengthens the economic and financial foundation and simultaneously provides a catalyst for action in further advancing the social policy agenda in the 'New Bermuda'.

Mr. Speaker, Government's objective is to provide an enabling environment for businesses, stable levels of growth and employment, a proper system of governance and equity for the people of Bermuda.

Budget 2004/05 is about building a Bermuda that is strong economically and that is sensitive to the needs of the people. It is about building a Bermuda that recognises the importance of focusing on the domestic social agenda, while at the same time we continue with robust sustained economic diplomacy and remain vigilant in protecting Bermuda's position as a premier financial services jurisdiction. We will not take our eyes off the ball. We must protect the home hearth in terms of our social policy agenda so that Bermuda is truly regarded as a 'Mecca' where we promote policies geared to equity and justice for all, without fear or favour and without adopting an exclusionary approach.

Mr. Speaker, it is critical that as a country we grow and develop our economy and provide social safety-net protections to our citizens. This way, we promote greater overall financial and therefore social stability - these are critical public policy issues for the future. This way, we build confidence and trust based on a philosophy and policy of economic and social equity. It is our intent to maintain Bermuda's economic stability through sound economic management.

Our objective is to deliver a sound economy, where there are continued stable levels of growth, to promote investment in education and training for our people, to foster an enabling environment for business and entrepreneurs, to tackle the complex issues of providing affordable housing, to address the needs of our youth and our seniors, to promote a climate where those who work in our hospitality and tourism sector have a renewed sense of enthusiasm and commitment, to continue to build on the strong foundation and to see a

Bermuda that is dynamic, responsive, able to compete in a global environment and fair to all.

Mr. Speaker, we want to do what we can to promote enterprise, efficiency, innovation and skills in all of our people. We may not all have equal talents but we should all have an equal opportunity to develop our talents.

A few weeks ago, the Premier of Bermuda, the Hon. W. Alexander Scott, JP, MP in a speech to the Rotary Club of Bermuda spoke passionately and unabashedly of Government's focus and vision. He stated and I quote: "We must strategise to create a 'New Bermuda' where the 'haves' continue to have and the 'have nots' have more. Given the proliferation of the social issues in Bermudian society today, there is a need more than ever to address these issues collectively. The focus of the Government should now be on the social agenda addressing the negative elements in society to improve the overall quality of life for all Bermudians."

So it is noteworthy that at this stage I announce some specific initiatives that underscore the Premier's and this Government's commitment to further advancing the country's social policy agenda.

Mr. Speaker, you will be aware that as part of the negotiations with the US Government, the Bermuda Government received a lump sum payment from the US Government as part of the termination of the US Base Lands Agreement. There was consideration paid of some US \$11 million. Of that sum, a charge of US \$3 million has already been made for repairs to Longbird Bridge. The remaining balance of US \$8 million is currently in the Consolidated Fund.

Mr. Speaker, I note that these monies received from the United States Government were to be used for whatever purposes the Government of Bermuda so determined.

Mr. Speaker, there are any number of worthy initiatives that are deserving of Government's consideration. However there are six areas to which we considered it most appropriate to devote additional attention and funding: housing, seniors, youth, small business, community renewal and sports and recreational development.

Mr. Speaker, it gives me great pleasure on behalf of the Government to present a raft of initiatives designed to assist the people of Bermuda by providing additional funding - that is, funding above what is to be appropriated in this year's Budget - in a directed way to address some of the most pressing issues that we need to tackle on an urgent and expedited basis. The top priorities that Government is focusing on at this time are (i) a payment of \$1.2 million to contribute to a housing for the homeless initiative; (ii) a payment of \$2 million to the Contributory Pension Fund in support of an extraordinary increase in pension benefits in August 2004; (iii) a special grant of \$300,000 to the National Drugs Commission to expand the "Communities That Care" project to the central and western parishes; (iv) a contribution \$1 million to the Bermuda Small Business Development Corporation so that it is able to more readily assist small businesses and entrepreneurs in need of venture capital; and (v) a grant of \$500,000 to the Trustees of the National Sports Centre for the completion of the facilities building at the National Sports Centre.

Mr. Speaker, these additional funds for various initiatives to benefit the people of Bermuda are estimated at approximately \$5 million in total. The balance of \$3 million will be kept as a general reserve. During this Budget session Government will establish a separate statutory

fund for this purpose.

Mr. Speaker, Government's pursuit of its main economic and social policy objectives of building and maintaining a strong economic and financial foundation, improved student performance, better trained Bermudians for key decision-making roles, affordable and more accessible health care, adequate and affordable housing for all Bermudians and improved public safety occurs in the context of a rapidly changing and challenging global economic environment.

What are some of these changes and challenges?

Mr. Speaker, the fundamental nature of our economy has changed and it continues to evolve before our eyes. During the last decade in the 20th Century, employment in hotels, restaurants and other travel-related establishments declined significantly. In contrast, the expansion of financial services and international business generated sufficient jobs to accommodate our growing labour force. The locus of job creation is in the financial services sector and for that reason, Government has assigned a high priority to the continued expansion of the financial services sector.

Mr. Speaker, Bermuda is now ranked as the world's leader in captive insurance and has one of the largest reinsurance markets in the world outside of London and New York. Indeed, one leading industry executive has remarked that Bermuda has established "itself as the centre for global insurance and reinsurance".

In addition to insurance and reinsurance, Bermuda has achieved a significant degree of development in trust business and in the provision of services for mutual funds and asset managers.

Mr. Speaker, in today's global economy, financial services is increasingly supplied by extremely large and complex corporations operating technology-based systems on a global scale. These enterprises require vast amounts of capital and the employment of thousands of highly skilled professional and technically-trained personnel.

Mr. Speaker, Government is preparing our young people - our most precious resource - to actively contribute and compete in the local and international economy. That is why this Government continues to place such emphasis on student performance and training of Bermudians.

Mr. Speaker, Bermuda's success as an international business jurisdiction has attracted the attention of supra-national bodies such as the International Monetary Fund, commonly referred to as the IMF. You may recall, Mr. Speaker, that the IMF conducted an assessment of Bermuda's financial service supervisory and regulatory regimes in March 2003. The finalisation of the Report is on-going but there are clear signals for some further changes and enhancements to our supervisory and regulatory processes. The challenge as always is to strike the proper balance between effective regulation and sustaining a competitive business environment. Government has taken, and will continue to take, great care to implement international standards of financial supervision and regulation in order to protect our national economic interest.

Mr. Speaker, there is also the vital need to sustain our efforts at economic diplomacy. Bermuda's economic interests continue to be challenged on a number of international fronts.

Government has been proactive in establishing a network of advisors in key locations in the United States and in the United Kingdom. These relationships, among others, have helped to ensure that Bermuda maintains its international reputation as a vibrant, well-regulated and stable financial jurisdiction. We will continue to further underscore these efforts by strengthening mutually beneficial partnerships, both locally and internationally.

Mr. Speaker, we also face the challenge of post-Fabian Bermuda. The blow to our tourism industry was devastating but our proud industry leaders are unbowed and are rebuilding their properties to world class standards. The community came together in a demonstrable showing of humanity, humility and compassion to collectively rebuild our storm-ravaged Island.

Mr. Speaker, the resilience of our people and the resilience of this Government have been tested and both have stood up to the challenge. The challenge now before us is to regain the lost ground in tourism.

Mr. Speaker, while the international business sector has grown in importance, the tourism sector remains as the largest and most diversified provider of jobs to a wide range of Bermudians. Therefore it is vital that the tourism industry is sustained. Further, there is a symbiotic relationship between the twin pillars of our economy. In very simple terms, the continued growth and development of the international business sector is absolutely dependent upon a healthy and profitable tourism sector. Therefore Government will continue to support and assist the tourism industry in regaining its point of equilibrium in the 'New Bermuda'.

Mr. Speaker, very few Bermudians are aware of how well regarded we are as a small nation in the vast global economy. Euromoney, one of the world's leading financial journals, publishes a listing of some 185 countries ranked on an assessment of country risk. The overall ranking takes account of political risk, economic performance, debt indicators, credit ratings and access to bank finance and capital markets, amongst other factors, in its assessment. In the September 2003 issue of Euromoney, Bermuda was ranked 31st out of 185 countries and had the highest ranking amongst all small countries included on the list.

This significant recognition took place on our watch as Government and we intend to maintain our competitive edge amongst the nations of the world. In that regard Mr. Speaker, Budget 2004/05 builds on the resilience and steadfastness that has been demonstrated by our people and our business leaders. Therefore Government will continue its focus on four key areas:

1. Strengthening social cohesion in our community;
2. Developing and training our young people;
3. Improving the quality of life of our seniors; and
4. Stabilising, rejuvenating and encouraging business activity in all economic sectors.

This focus will ensure that no-one is left behind or locked out. It will ensure that the needs of all Bermuda's people are met.

Mr. Speaker, before turning to the highlights of the 2004/05 Budget, I wish to comment, albeit very briefly, on economic developments in 2003 and provide Government's economic outlook for 2004.

Recent Economic Developments and the Outlook for 2004

Mr. Speaker, Government is committed to maintaining a stable and sustainable level of economic expansion while also improving the economic well being of all members of our community.

Preliminary estimates of GDP growth last year suggest a better than anticipated economic expansion of 2.5 per cent following the 2.0 per cent increase in output in 2002.

Mr. Speaker, Bermuda's rate of consumer price inflation averaged 3.2 per cent in 2003, not very different from some G7 countries. Bermuda's rate was driven by higher than average increases in fuel costs, health care services and education costs for private schooling in Bermuda and overseas university programmes.

With a cautiously optimistic outlook for oil prices in 2004, consensus forecasts for consumer price inflation in G7 countries for 2004 is in the range of 1.5 to 2.6 per cent. Barring any sharp increases in university and private education costs in 2004, Government anticipates that Bermuda's inflation rate should moderate in 2004 and track in a range centered around 3.0 per cent.

Mr. Speaker, preliminary results from the Annual Employment Survey indicate a marginal decline in overall employment levels of 0.4 per cent in 2003, reflecting a loss of some 135 jobs across the economy. In contrast, the international business sector remained buoyant in 2003. Employment levels in the international business sector rose by 5.3 per cent in 2003 while employment levels in the public sector and real estate sector rose by 2.0 per cent year-over-year. The wholesale and motor-vehicle sector posted an increase of 1.8 per cent. Employment levels in the construction sector were virtually unchanged from the previous year but are likely to have increased appreciably in the wake of Hurricane Fabian.

Mr. Speaker, the economic story of Bermuda in 2003 may really be summed up by the impact of Hurricane Fabian. This Category 3 storm ravaged Bermuda leaving in its wake massive damage to residential and commercial buildings, overhead power and telecommunications lines, infrastructure, our foreshore and foliage. Overall damage has been estimated at \$160 to \$180 million. In particular, Bermuda's hospitality sector suffered substantial property damage to hotels, restaurants and golf courses. The hotel sector lost, albeit temporarily, some 20 per cent of its capacity - about 1,200 beds. As a result, there was a rise in short term structural unemployment in the sector with a negative knock-on effect to related sectors of the economy.

Mr. Speaker, Bermuda's agricultural sector was also devastated by Hurricane Fabian. Crop growers, dairy farmers and beekeepers all suffered tremendous losses estimated in the region of \$2 - \$3 million.

Mr. Speaker, the good news is that we weathered the storm. The even better news is that notwithstanding the ravages of Hurricane Fabian, the economic outlook for 2004 is promising.

In the United States, the economy is expected to expand at a pace well above the long-run potential rate. Overall activity is expected to be sustained by strong consumer spending, restocking of business inventories, and a large Federal Government Budget deficit. US GDP is forecast to expand by 4 to 5 per cent in 2004.

Mr. Speaker, GDP forecasts for the United Kingdom, Canada and Western Europe in 2004 are mixed and, on balance, less favourable but consensus forecasts suggest a period of modest growth.

There may be an additional boost to our tourism sector if the strength of the Euro vis-à-vis the American dollar is sustained. The change in the exchange rate has increased the spending power of the Euro in dollar areas. This development in conjunction with the recent launch of Bermuda's new tourism marketing campaign in Europe may encourage more Europeans to consider Bermuda as a holiday destination.

In Bermuda, the international business sector is expected to continue on its path of steady growth, the construction sector will continue to operate near full capacity and the prospects of additional air lift from the United States bodes well for our tourism sector.

Mr. Speaker, based on these positive factors, Government forecasts Bermuda's GDP to grow in the range of 2.0 to 2.5 per cent in 2004.

Review of 2003/04 Revenue and Expenditure

Mr. Speaker, the passage of Hurricane Fabian through Bermuda in September 2003 left a mark on Government's 2003/04 Budget. As a consequence of storm damage to infrastructure and public buildings and equipment, the projected current account surplus of \$25.3 million in 2003/04 was reduced by some \$10 million in order to cover uninsured costs to Government.

Further Mr. Speaker, even though Government now anticipates exceeding its revenue target by \$16 million, the outcome would likely have been stronger had Hurricane Fabian not impacted on revenue streams linked to tourism such as Hotel Occupancy Tax and Airport Departure Tax.

Revenue

Mr. Speaker, Government has revised upwards its estimated revenue intake for 2003/04 to \$666 million compared to the Original Estimate of \$650 million.

The major revenue sources contributing to this very favourable outcome are Payroll Tax (+\$23 million), Cruise Passenger Tax (+\$1.5 million), Customs Duty (+\$1.1 million) and Land Tax (+\$1 million).

On the downside, Airport Departure Tax and Hotel Occupancy Tax are both expected to be under budget by \$1 million each, and Stamp Duty receipts due from voluntary conveyances and land acquisition by non-Bermudians are expected to be down by nearly \$4.5 million. Also, transportation receipts were down by \$1.1 million.

Expenditure

Mr. Speaker, the revised estimate of current account expenditure for the fiscal year 2003/04 is \$643.2 million, or \$18.3 million higher than the \$624.9 million appropriated at the beginning of this fiscal year.

Mr. Speaker, the unanticipated costs of Hurricane Fabian amounting to some \$10 million together with an extraordinary transfer of \$3.5 million to the Bermuda Monetary Authority

account for the additional spending.

Mr. Speaker, it is safe to say that if not for Hurricane Fabian, Government current account expenditure would have been within budget in 2003/04.

The estimate of the total damage to infrastructure, buildings and equipment in the public sector has been put at \$40 million. Approximately \$30 million of this estimate represents damages covered by insurance. In all, some 850 public buildings and sites had to be surveyed after Hurricane Fabian; 500 of these buildings and sites sustained varying degrees of damage. The process of loss adjustment is now complete and Government is confident that the uninsured costs will be contained within the \$10 million.

Mr. Speaker, of the \$10 million, \$2.2 million was expended on rebuilding the Causeway. Another \$1.8 million was spent on emergency services during the clean-up in the immediate aftermath of the storm. Supplementary estimates to cover these unanticipated expenditures will be presented to the House prior to the close of this financial year.

Mr. Speaker, the extraordinary transfer of \$3.5 million to the Bermuda Monetary Authority represents license fees from banks and deposit companies that are deposited into the Consolidated Fund in accordance with the Banks and Deposit Companies (Fees) Act 1975.

In order to position the Bermuda Monetary Authority on a sounder, more independent footing, Government will amend the Banks and Deposit Companies (Fees) Act 1975 during this Budget Session so that the license fees established under the Act are paid directly to the Authority. The first such direct payment will accrue in 2005.

For 2004, Government will transfer the proceeds of the license fees that are due 31st January of each year by way of a one-off contribution to the Bermuda Monetary Authority equal to the amount previously collected by Government.

Mr. Speaker, the decision on this matter was reached in December 2003 following consultations between the Bermuda Monetary Authority and the Ministry of Finance on the likely implications of the International Monetary Fund's March 2003 review of Bermuda's supervisory and regulatory framework for the financial services sector.

Mr. Speaker, this transfer of \$3.5 million will occur after Government presents a supplementary estimate for this amount to this House.

Mr. Speaker, supplementary estimates will also be presented to cover the cost of salary awards arising from arbitration rulings rendered during the course of this financial year. The arbitration awards were well outside of the economic guidelines established for Government negotiators and had the effect of exceeding departmental allocations approved by the House.

Mr. Speaker, inevitably the size of the arbitration awards had implications for the cost of certain Government services on a going forward basis. I will address this matter in my comments on the 2004/05 expenditure and revenue estimates.

Current Expenditure Estimates

Mr. Speaker, Government has made good progress in the implementation of Zero Base Budgeting. In the Estimates of Revenue and Expenditure for 2004/05, seventy per cent of

central government current programme expenditure was developed using this approval.

Ministers of Government were involved fully in the process of ranking and selecting programme initiatives that serve and support key Government policy priorities.

Mr. Speaker, Government's total planned current account expenditure for 2004/05 is \$660.2 million. This reflects an increase of \$35.4 million over the original estimates for the previous financial year.

The scale of the increase is largely explained by the size of public sector arbitration awards for salary increases in 2003. These arbitrated awards were far outside of the economic guidelines and the salary increase mandates that were set for Government negotiators. Regrettably however, few settlements were concluded at the negotiating table.

Mr. Speaker, the upshot is that the bundle of services that Government delivers to the community now has a price tag that is \$26 million higher than it was last year. The arbitrated settlements drove expenditures to the limit of the existing revenue base. Consequently, in framing the Budget for 2004/05, Government was faced with a choice of either raising the additional revenue or cutting back on service levels.

Mr. Speaker, Government opted not to reduce service levels as the community is demanding more, not fewer services. However, Government has increased its efforts in accountability and performance measurement and management to ensure that the community is getting value for money.

Mr. Speaker, the 2004/05 allocation of current programme expenditure by Ministry is as follows:

2004/05

1. Ministry of Health and Family Services \$138.8 mn
2. Ministry of Education and Development \$114.2 mn
3. Ministry of Labour, Home Affairs & Public Safety \$ 90.0 mn
4. Ministry of Finance \$ 84.7 mn
5. Ministry of Works & Engineering & Housing \$ 59.1 mn
6. Ministry of Transport \$ 56.8 mn
7. Ministry of Tourism, Telecommunications & E-Commerce \$ 43.4 mn
8. Ministry of the Environment \$ 20.5 mn
9. Ministry of Justice \$ 17.1 mn
10. Ministry of Community Affairs & Sport \$ 15.7 mn
11. Cabinet Office Departments \$ 15.6 mn

Mr. Speaker, with an overall budget of \$138.8 million, the Ministry of Health and Family Services continues as the single largest provider of public services to our community. This Ministry's resource endowment is increased by \$6.5 million in 2004/05. The lion's share of this increase - some \$4.1 million - is directed towards the hospitals for subsidised care of the elderly, youth and persons without the means to pay for services rendered. The increasing level of subsidy payments reflects a combination of increases in the cost of services and higher utilisation. The total transfer of funds to the hospitals in 2004/05 amounts to \$83 million or 60 per cent of the Ministry's budget.

Mr. Speaker, a part of the new monies allocated to the Ministry of Health and Family Services will go towards the provision of therapy services for students in the new special school. The services include physiotherapy, occupational therapy, speech and language therapy and the services of a qualified nurse. The provision of forensic services provided by the Central Laboratory has also been augmented.

Mr. Speaker, funds have also been provided through a grant to the National Drug Commission for the establishment of a dedicated women's treatment facility.

Mr. Speaker, the Ministry of Health and Family Services wishes to acknowledge Fordham University which has joined the Ministry in a public-private partnership to spearhead a study on "Ageing in Bermuda". The data and findings of the study will be an invaluable resource as Government continues to develop policy and programmes to benefit seniors in this key area of our social policy agenda.

Mr. Speaker, the Ministry of Education and Development is provided an overall budget of \$114.2 million in 2004/05, an increase of \$11.6 million. Of the total budget, \$13.9 million represents a grant to the Bermuda College to assist with its administration and delivery of academic and technical diploma and degree programmes to our community.

Mr. Speaker, the Ministry of Education will use some of the additional resources in 2004/05 to consider the feasibility of establishing a School for the Performing Arts, the establishment of a Financial Services Academy and a grant to the Bermuda Sloop Foundation.

Our public educational institutions are making strides in improvements to student performance. The additional resources and investment devoted to education are bearing fruit. Smaller class sizes in primary schools have provided more opportunity for individualised attention and the accommodation of different learning styles.

Mr. Speaker, in keeping with its commitment to improve the delivery of programmes and services through the BEST Initiative, the Ministry of Education and Development will continue to focus on the provision and delivery of programmes intended to improve the knowledge base of students, to improve the delivery of instruction to students by teachers and to provide safe and healthy environments for all staff.

The primary school curriculum, which has been implemented, is now being monitored. Schools are being surveyed to determine the extent to which the curriculum is effective, to identify any additional needed resources and to determine staff development needs.

Mr. Speaker, as part of this review process, \$292,000 is provided for a mathematics literacy project, designed to enhance the delivery of the mathematics programme at the preschool, primary and middle levels. This project will include interventions for low and high achieving students. The aim will be to spark interest and to raise awareness regarding the importance of mathematics and showcase student work and achievements.

As a result of the review of the operation of our two senior schools in the public system, renewed efforts will be made to engender a spirit of system unity. A transition programme to assist students as they move through the school system will be developed. Particular emphasis is being placed on developing a two year transition programme for students who move from middle school to senior school. In addition, plans will be developed to address the drop out rate at the senior level. Alignment of curriculum and programmes at both senior

schools and the respective boards working closely together will also help to achieve this needed system unity.

Mr. Speaker, the Ministry has allocated funding for research and development of plans for a School for the Performing Arts. This is to provide an opportunity so that public school students at the senior level with an aptitude for the arts can further hone their skills. Funding has also been provided to establish a Financial Services Academy - in partnership with the private sector - at the senior level. This will help to provide career pathways for our students to the financial services sector and allow them to better understand and contribute to the needs of the local economy.

Mr. Speaker, there will be renewed focus on helping students develop into good citizens. New funding in the sum of \$220,000 will permit the character education programme which was piloted at three schools to expand to other schools. The "Ashay Rites of Passage", a cultural education programme through which students learn values such as honesty and integrity, is being piloted at the middle school level at a cost of \$60,000.

Also as part of building awareness of culture, and in keeping with our maritime heritage, there will be a renewed focus on the aquatics programme in public schools, with students learning to swim and to sail. This focus will culminate with students participating in the Bermuda Sloop Foundation Programme, for which the Ministry will also provide a grant. Additionally, in order to support organisations which assist our students, the Ministry will provide the Bermuda National Gallery and the Family Learning Centre with funding for the upcoming year. For the first time, a specific amount of \$204,000 has been provided for Teen Services to ensure adequate funding is available for a number of students who may opt to continue their education during the course of pregnancy through the assistance of Teen Services.

The allocation for staff development of teachers has been maintained at \$456,000 for this upcoming year in order to facilitate training for teachers in identified areas such as differentiated instruction so that they better meet the needs of our diverse student population. Aspiring administrators will continue to be developed through our School Officers programme (\$446,000) in order to expand the leadership base within the Bermuda Public School System.

Mr. Speaker, public safety also is a key policy priority. Therefore the Ministry of Labour, Home Affairs and Public Safety is provided with an additional \$4.6 million in 2004/05 for a total budget of \$90 million.

Mr. Speaker, you will be aware of the Government's commitment to enhance public safety within our community, to restore Bermuda's reputation as one of the safest jurisdictions on earth. To that end, the Government has approved \$700,000 for an additional eleven police officers who will join the highly-specialised Police Support Unit that has a dedicated focus to combat lawlessness in the community. Government has also approved \$600,000 of new funding for five additional police and civilian support staff for the Bermuda Police Service's Financial Investigations Unit to address the increased incidence of white collar crime. Additionally, funding has been made available for the hiring of new station duty officers in anticipation of the completion of the new East End Police Station at Southside.

Mr. Speaker, I wish to share that as part of the ongoing efforts to protect Bermuda's borders and public safety concerns, more rigorous monitoring procedures at Bermuda International

Airport have led to the detection and subsequent deportation of a number of non-Bermudians who attempt to enter the Island illegally. Accordingly, Government has increased by 50% the amount of funding allocated to deportation.

Mr. Speaker, Government strongly believes that an investment in the Bermuda Cadet Corps is an investment in Bermuda's future. I am particularly pleased to advise, therefore, that the Government has approved some \$217,000 in funding for the Bermuda Cadet Corps in order to accommodate an anticipated increase in numbers from 100-150 to 300-350. Additionally, Government has approved a total of \$693,000 in funding for the Summer Employment Programme within the Department of Labour and Training. The programme provides opportunities for some 250 senior secondary and university level students to be employed in various Government Departments - five weeks for senior secondary students and eight weeks for university students - during the summer recess. This programme is yet another important initiative designed to assist Bermuda's young people.

Mr. Speaker, as the Government continues to hire Bermudians for key positions, funding has been provided to enable the Registry General to assist in the university studies of a new trainee in intellectual property law. With the expansion of e-commerce and e-government, these issues loom larger with the focus on the sensitive issue of protection of the consumer's right to privacy and information security. The successful training of a Bermudian will further enhance the succession plan implemented with the earlier training of another Bermudian student in the ever dynamic international area of Intellectual Property Law.

Also, some \$10,000 has been allocated in the 2004/5 budget to cover the costs of an experienced consultant from the United Kingdom, who will assist in the classification of marks currently on the register and to train staff and agents in the use of the system. Training will focus on the Vienna Classification, an internationally recognized classification system for the registration of devices. It is a system used by the United Kingdom office and Bermuda, by legislation, is obliged to register UK registered trademarks under the same classification and specification as that of the UK. A sum of \$50,000 has been provided for the Registry General to continue work on its project, commenced in fiscal 2003/04, to provide a fully integrated system for the management and administration of all intellectual property registers.

Mr. Speaker, the Ministry of Finance's overall budget will increase by \$2.3 million to \$84.7 million, largely reflecting an inflation level adjustment compared to the previous year and the provision of additional grant funding. Within that overall budget, the Ministry of Finance's Headquarters' allocation of \$4.1 million has a provision for on-going economic diplomacy in defence of Bermuda's broad economic interests in the global economic arena.

Mr. Speaker, as I referred to earlier in my Statement, Budget 2004/05 re-iterates Government's commitment to improve the quality of life of our senior citizens. In December 2003, in a letter to pensioners, former Minister of Finance, the late Hon. C. Eugene Cox, CBE, JP, MP, stated and I quote: "Government is committed to further improving the quality of your life and the quality of life for all seniors in our community. As part of our programme of continuing improvements, I plan to include an outline of further increases to seniors' pensions in my 2004/2005 Budget Statement that will be presented to Parliament in February 2004."

Mr. Speaker, in honoring the former Finance Minister's pledge, I am delighted to announce that Government will bring forth a Pension Increase Order to raise pension benefits by 9 per

cent with effect from August 2004. This benefit increase will raise the maximum pension to \$1,000 a month.

Mr. Speaker, the increase in benefits will not result in any further increase in contribution rates in 2004/05 beyond the already approved 4.25 per cent adjustment which also takes effect in August 2004. The special injection of \$2 million that I announced earlier in my Statement will assist the Fund's cash flow position.

Mr. Speaker, you will be aware that residents in the municipal area of the Corporation of St. George have endured the burden of double-taxation from Corporation property taxes and Government Land Tax. Following a successful meeting with the Mayor of St. George on this issue, I am pleased to announce that Government and the Corporation of St. George will move quickly to eliminate the double tax. In light of this, Government will provide an operational grant of \$350,000 to the Corporation in 2004/05. Government also will work with the Corporation during the 2004/05 financial year to identify savings and other economies in order to eliminate the need of a similar grant in 2005/06.

Mr. Speaker, the Ministry of Works and Engineering and Housing entered the Zero Base Budget programme in 2004. The Ministry has used this new process to review service delivery options, to reconsider service level offerings and to re-prioritize programmes. Through this process the Ministry has been able to develop a budget that enables it to fulfill its primary mandate, to meet the public's expectations and to introduce a new Planned Maintenance programme that has a resource cost of \$3.1 million. However, the cost of this increase will be offset by an increase in revenues of \$2.8 million, leaving a net budget increase of \$312,000.

Mr. Speaker, the new Planned Maintenance service will enable Government to ensure that planned maintenance of Government's property assets is managed in a coordinated and scheduled manner. At present the existing staff is restricted to responding to emergencies due to the absence of a specific budget provision for planned maintenance.

The additional offsetting revenue of \$2.8 million will be achieved by implementing a new revenue stream through tipping fees for the disposal of horticultural waste, the sale of map products and surveying services, increased production of water for sale, and the production of additional electricity for sale to BELCO.

Mr. Speaker, in the Ministry of Transport, a number of new initiatives are planned for 2004/05. In the Transport Control Department, an Appointment Management System will allow TCD customers to make on-line appointments for driving tests and vehicle inspections. Customers will also be able to change and confirm appointments on-line. The new system will link with the vehicle inspection and driver testing work flows to facilitate the inspection and testing processes. This is part of the e-government initiative - making delivery of services to the public easier, more accessible and user-friendly.

In addition, a system is being developed to automatically transfer vehicle insurance details on-line to TCD. Customers will be able to renew their insurance policies on-line with their insurers and the updated information will be able to be transferred on-line from the insurer to TCD. The transfer of information to TCD will also apply to customers who renew their insurance at the insurer's office. As a result of this initiative, customers will not have to take their insurance certificates to TCD in order to license or re-license their vehicles; their

insurance details will already be on file. Government is committed to making the delivery of government services to the consumer more user-friendly and efficient.

Mr. Speaker, TCD is also computerising the rules of the road test to build in greater security and provide for a wider range of questions from which to select. The proposed system will randomly select the questions from a pool that will present each customer with a different test.

Mr. Speaker, the Ministry of Tourism, Telecommunications and E-Commerce is provided with an overall budget of \$43.4 million. The Department of Tourism is committed to working with all our partners in the hospitality industry to properly position Bermuda so that there is a marked increase in our visitor arrivals. Recent efforts with the 'Tourism in Focus' forum attest to this commitment. As tourism is a key pillar of our economy that employs large numbers of Bermudians, Government is working assiduously towards improving Bermuda's tourism product.

Mr. Speaker, the Tourism Department accounts for the largest share of this Ministry's allocation with a budget of \$35.7 million in 2004/05.

The Tourism Department's North American operations have been re-organised to concentrate sales promotions around gateway cities such as Toronto, Halifax, Atlanta, Chicago, Boston, Philadelphia, Baltimore/Washington, Charlotte, Orlando, Ft. Lauderdale and New York. This will increase the visibility of Bermuda and help to drive conversion to Bermuda from these key gateway markets.

All communications will be focused into Bermuda's gateway markets, therefore increasing exposure significantly in the regions that are serviced by direct air lift. Marketing dollars will be allocated within each region based on the total population, air capacity and historical arrival data. A majority of the marketing budget will be spent during the peak visitation period for Bermuda respecting the six to eight week booking period. Television and newspaper travel section advertising will dominate the media schedule.

E-mail marketing and e-tourism will be used aggressively to target and convert visitors to the island. The internet remains the fastest growing sector for purchasing travel and therefore it is important that Bermuda remains present in the environment and also provides all travel goods and services on-line. The capture of the email address on the immigration card will provide greater opportunity for Bermuda remaining in contact with its loyal visitors.

Mr. Speaker, all marketing activity will be tracked and measured for its effectiveness and changes will be made as necessary based on the results of each activity. Visitor arrival objectives and budget activity by month have been established and will provide a better understanding of Government's overall return on investment and financial contribution by visitor to the economy.

The cruise industry remains a key element of Bermuda's tourism economy and therefore the Tourism Department will continue to focus on the high-end premium brand ships and their passengers. The Department is committed to finding new opportunities for our cruise partners to further diversify their products on the Bermuda route.

Greater focus and emphasis will be placed on our current port infrastructure to ensure that Bermuda remains competitive in the cruise environment and is best able to accommodate the new brand of ships entering the market.

Mr. Speaker, as part of the new marketing strategy, the Ministry has sought to streamline its sponsorship of events to focus and support only those events that have a high visitor conversion component and create broader opportunities to increase Bermuda's awareness in our targeted markets.

Accordingly, the Ministry has moved away from supporting those events that, while having a local flavour, tend to attract a higher percentage of local attendance. We believe that these events such as walking tours, lectures and Gombey revues definitely enhance the Bermuda experience for our visitors. However these events would be better placed in a more appropriate Ministry to execute and create greater synergies with the local community. To this end you will see the transfer of such events from Tourism to the Ministry of Community Affairs and Sport.

Mr. Speaker, the Ministry of the Environment has been granted an additional \$821,000 to bolster its programmes. The figure represents 4% of the Ministry's total budget of \$20.5 million.

Thirty-three percent of the new money (\$271,000) will fund five additional posts, including two industrial posts in the Department of Parks for the maintenance of Bermuda's extensive system of National Parks. The new post of Environmental Compliance Officer and an additional Animal Warden will improve significantly the implementation and enforcement of legislation that is the responsibility of the Department of Environmental Protection.

Mr. Speaker, \$86,000 is earmarked for the successful education programme run by the Bermuda Aquarium, Museum and Zoo within the Department of Conservation Services. For the first time, the Department will run its own bus to provide free transport to the Aquarium for public school children. These cross-Ministry initiatives are encouraged and are another instance of seeking to improve service delivery by this Government to our customers.

The Department of Planning will receive an additional \$63,000 to finance the production and printing of documents associated with the review of the Bermuda Development Plan.

Mr. Speaker, the Ministry of Community Affairs and Sport is provided with a budget of \$15.7 million in 2004/05. This allocation includes a sum of \$308,000 for the cost of special interest programmes and signature sporting events that have been transferred from the Ministry of Tourism, Telecommunications and E-Commerce. These programmes and sporting events include the Gombey Revue, Beat the Retreat Ceremony, Harbour Nights Entertainment, Walking Tours, African Diaspora Heritage Trail, International Race Weekend, Rendezvous Bowling Tournament amongst others.

While the management and presentation of these well-established programmes and events will now be in the hands of the Ministry of Community Affairs and Sport, Tourism will retain the responsibility for overseas marketing and promotion of these programmes and events.

Mr. Speaker, the Ministry of Community Affairs and Sport is also provided with additional grant funding for community programmes including one programme that the Minister has dubbed as his "Grass Roots Programme". This programme is intended to assist organisations that reach unrepresented groups in the community. The programmes and initiatives to which this funding is directed will develop and strengthen social cohesion in places where our social fabric has been bruised and torn.

Mr. Speaker, you will recall that Government stated in the 2003 Speech from the Throne its intention to begin the process of establishing full-time Ministers of Government. Accordingly, a provision for this purpose is included in the 2004/05 budget for the Legislature. The process will include a review of the salaries of all Members and Officers of the Legislature.

Capital Expenditure Estimates

Mr. Speaker, I turn now to Government's Capital Expenditure Plan for 2004/05. By way of background, the planning design, and implementation phases of the Capital Expenditure Plan covers a six year period which rolls forward annually by one year. Therefore, in producing the plan for 2004/05, Government considered capital projects in the plan over the six year period 2004/05 through to 2009/10.

Mr. Speaker, it will come as no surprise that the considerable damage to infrastructure and public buildings caused by Hurricane Fabian in September 2003 has impacted Government's Capital Expenditure Plan.

The Hurricane's impact had the effect of delaying some projects that were underway in 2003/04 and bringing forward into 2004/05 phases of projects that had been allocated to the years 2005/06 and beyond. Examples of the latter effect include the impact on projects such as bridges reconstruction, foreshore protection works and refurbishment of ferry docks and public landings. Each of these projects now will feature more prominently in the planned infrastructure investment in 2004/05.

The delays to work that was on-going in 2003/04 occurred as construction crews left some major building sites in order to carry out emergency hurricane repairs. While the delays were untimely, they contributed toward a significantly reduced borrowing requirement for capital projects in 2003/04.

Mr. Speaker, you may recall that in respect of the planned capital investment in hard assets in 2003/04, Government anticipated a borrowing requirement of \$78.1 million. As a result, of very strong revenue yields in 2002/03 - which resulted in very favourable cash balances at the beginning of 2003/04 - and the afore-mentioned construction delays in 2003/04, the borrowing requirement has been reduced to an estimated \$15 million.

Mr. Speaker, in 2004/05 Government plans to invest \$115 million in educational plant and equipment, rest home development, the refurbishment of ferry docks and public landings, the start of the new Hamilton Police Station and Magistrates Court, new buses and ferries, new bridge design work, and a number of other key projects.

Mr. Speaker, this position was reached only after long sessions with my ministerial colleagues. We tightened our belts in terms of some of the capital expenditures, deferring some projects and not including some others. For this I salute my colleagues for their indulgence and their fiscal prudence. I will signal here that Government does not propose to increase the statutory debt limit at this time even though our growth in GDP would allow for it.

Mr. Speaker, the largest proportion of the planned investment in 2004/05 represents the continuation of work on projects that were already in the Capital Expenditure Plan. These on-going projects account for \$101 million or 88 per cent of the planned investment of \$115

million in 2004/05.

The introduction of new projects into the plan was limited to a small number of schemes that were deemed essential as they largely address health and safety issues. The total value of the new schemes added to the plan over the six year period is \$72.7 million.

Mr. Speaker, amongst the new projects that have been added to the plan, the largest project is the addition of the Third Stream at the Tynes Bay Waste Treatment Facility. It has a total project cost of \$56 million. The other major project in this group of new schemes is the Ministry of Transport's Emissions and Safety Testing Facility that has a project cost of \$5.3 million. Other significant projects include the purchase of an asphalt plant (\$2 million) and a provision to complete the full acquisition of White Hill Field.

Mr. Speaker, these new schemes account for \$14 million of the planned capital outlays in 2004/05. They will feature more prominently in 2005/06 and beyond.

Mr. Speaker, the Ministry of Education and Development's investment in educational plant in 2004/05 represents 26.5 per cent of the capital development budget. With this additional investment, Government will have substantially completed the work on the second senior school and the work that remains to be done on the middle schools. In total, approximately \$37 million has been set aside for this capital development work in 2004/05. In addition, \$3.9 million is provided for major upgrades to computers and IT equipment in public schools and \$1.9 million for furniture and other school equipment.

Mr. Speaker, our seniors will take pride of place in Budget 2004/05's capital expenditure planned for the Ministry of Health and Family Services. A state-of-the-art purpose built modern seniors' residence facility features in capital investment planned for 2004/05. The construction of the St. George's Residential Care Facility for Seniors is slated to start in 2004/05 and is scheduled for completion in the following year. A sum of \$7.6 million has been earmarked for the construction of this modern seniors' facility in 2004/05. This will be a stellar achievement and this expenditure is worthy of the use to which it is being put - to provide a residence for our seniors. No one can begrudge this expenditure.

In the Ministry of Transport, the long-awaited replacement of floor tiles in the Departures Lounge at the Bermuda International Airport will be undertaken in 2004/05. Mr. Speaker, the storm surge from Hurricane Fabian flooded the ground floor of the Airport and destroyed the floor covering in ground floor of the Departures Lounge. An amount of \$1.1 million has been set aside for this work. An S-Band Doppler Weather Radar system is to be purchased and deployed at the Bermuda International Airport in 2004/05 at a cost of \$1.6 million.

Mr. Speaker, funds are also provided for an airport fire truck (\$425,000), navigation aids (\$110,000), and provision for final installments on a consignment of new buses (\$2.1 million) and ferries (\$930,000).

Mr. Speaker, Government regards public safety as a key policy priority. I have remarked that work will begin on the new police station and court complex. In addition the Ministry of Labour, Home Affairs and Public Safety is provided with \$1.2 million to complete the work on the Southside Police Station in 2004/05, and a further \$2.5 million for upgrades to Police computer systems, communications equipment and vehicles replacement.

Mr. Speaker, the Ministry of Works, Engineering and Housing is provided with \$22.3 million

for capital development works in 2004/05. The refurbishment of ferry docks and public landings will absorb \$3 million or 13 per cent of the overall Ministry allocation. The relocation of the Recycling Centre accounts for \$2.2 million, and \$1.2 million is provided for foreshore protection works. In addition \$2 million is earmarked for Mobile Water Treatment/Desalination Plants.

Mr. Speaker, Government is also providing the Bermuda Land Development Company with a further capital grant of \$3 million in 2004/05. In addition, Government is providing a grant of \$5 million to the West End Development Corporation to assist in repairs to the cruise ship dock at King's Wharf. The cruise ship dock suffered extensive damage from Hurricane Fabian last September.

Mr. Speaker, Government's planned investment in hard assets for the delivery of public services is a significant commitment of resources. Therefore every project in the Capital Expenditure Plan was rigorously examined by technical officers before being thoroughly reviewed by the Cabinet Capital Expenditure Committee. Only those projects that address government policy priorities, health and safety, or international security standards have been included in the Capital Expenditure Plan. In other words we have continued on with those projects that in the public interest we consider to be both essential and unavoidable at this time.

Mr. Speaker, I turn now to the revenue measures proposed for 2004/05 and the residual borrowing requirement.

Revenue Estimates

Mr. Speaker, Government proposes to collect total revenues of \$693.9 million in 2004/05.

Earlier in my statement, I referred to the additional pressures that extraordinary arbitration salary awards for some public sector workers have put on the public treasury. Mr. Speaker, I had hoped to avoid raising tax rates in 2004/05 but that is not a realistic option in all the circumstances that we face as Government. It also was not a feasible option to reduce service levels with the resultant loss of jobs in order to contain expenditure.

Mr. Speaker, the community is demanding greater services, not fewer services. Therefore, there will be some increases in taxes. Mr. Speaker, Government purposefully sheltered our economy from tax increases during the past two years to facilitate recovery from the devastating impact of September 11th in 2001 and the ensuing depressed global economic conditions.

Mr. Speaker, we consider that as Government, we have steered the economy through the stormy waters of recession to calmer seas. The outlook for 2004 in the United States is brighter than it has been in recent years. As the US is Bermuda's major trading partner and source of business, the anticipated stronger US economy in 2004 should have a beneficial effect on Bermuda's economy.

Mr. Speaker, Bermuda's economic fundamentals are relatively stable and the outlook is for steady improvement in 2004. In this context, Government proposes to raise some rates of taxation in order to help generate \$28 million in additional revenue in 2004/05 compared to the revised revenue estimate of \$666 million for 2003/04.

Mr. Speaker, the additional revenue will derive from changes in the standard rate of Payroll Tax together with an increase in the salary cap, higher rates of Customs Duty on cigarettes, increases in licence fees for motor vehicles, fare increases for buses and ferries, and the biennial adjustment to Government fees.

Mr. Speaker, Government will bring forth legislation to increase the standard rate of Payroll Tax to 13.5 per cent from its existing rate of 12.75 per cent. This increase will apply to all businesses with payrolls in excess of \$200,000 per year that are subject to the standard rate. In addition, the Payroll Tax salary cap of \$225,000 will be increased to \$235,000. These changes will have effect from April 1, 2004. Government anticipates an additional yield of approximately \$12 million from this increase.

Mr. Speaker, Government is aware that many sectors of the economy are still in the recovery phase following Hurricane Fabian and therefore Government does not propose to increase the rate in any of the other Payroll Tax categories. These categories include farmers and fishermen, hotels, guest houses and restaurants, charitable organizations and churches and small businesses. Also, the employee portion will remain at 4.75 per cent in 2004/05.

Mr. Speaker, the higher rate on cigarettes takes immediate effect from today's date. The duty on cigarettes is raised from 13 cents per cigarette to 15.5 cents per cigarette. The duty increase will add \$5 to the existing retail price of a carton of cigarettes. Government anticipates that the additional revenue should approximate \$1.6 million if consumption remains the same. However, Government would be most encouraged if the increase in duty had the effect of giving extra encouragement to some smokers in order to quit the habit. If this did occur, the reduced revenue yield would possibly be offset - in the longer term - by reductions in health care costs due to lower incidence of lung cancer, heart disease and other smoking-related diseases.

At the Bermuda International Airport, the allowance of \$100 for persons entering or returning to Bermuda with goods purchased overseas will remain in place but Government will remove the condition of having to have been outside Bermuda for 72 hours.

Government is also revising the fees payable by the Executive Jet Facility to more fully reflect the opportunity cost of deploying Customs Officers to service the facility. These adjustments will be included in the raft of changes in the amendments to Government fees.

Mr. Speaker, a further amendment will be made to the Customs Tariff to lower the rate of duty relating to steel doors, windows and their frames. The duty will be reduced from 22.25 per cent to 10 per cent. This category was overlooked when the new harmonised tariff system was introduced in 2000. The change in this rate of duty also has effect from today's date.

Mr. Speaker, bus and ferry fares have not been increased since 2000/01. However, the cost of operating the public transportation system has increased in each of the intervening years. Accordingly, Government proposes to increase the fares in order to raise an additional 10 per cent in revenue yield with effect from April 1, 2004.

Mr. Speaker, it would not be appropriate to increase bus and ferry fares without similarly increasing licence fees for private vehicles. Therefore, motor vehicles licence fees will be increased by an average of 5 per cent from April 1, 2004 in order to maintain an incentive to choose public transportation over private vehicles and thereby reduce vehicle congestion on

our roads.

Mr. Speaker, you will be aware that the Land Valuation Department is in the process of finalising the revaluation of Annual Rental Values. The new Valuation List will take effect from July 1, 2004. The details of the work on the revaluation are not yet complete. It is well known that real estate and property prices have risen appreciably in recent years. The early indications are that the increases in Annual Rental Values are in the range of 25 to 30 per cent.

Mr. Speaker, let me hasten to state categorically that Government does not propose to increase the revenue yield from Land Tax in 2004/05 by 25 to 30 per cent. Consequently, a revision of the existing tax rates will be necessary in order to minimise the impact of the new Valuation List on taxpayers. So far as it is possible to do so, Government's intent is for these required changes to the new Valuation List to have only a limited effect in terms of the Land Taxes payable. However, given the nature of the computation and its complexity, it may be that there will be some small increases or even some small reductions in individual cases.

Therefore Mr. Speaker, Government proposes to amend the Land Tax Act 1967 to take simultaneous effect on July 1, 2004. This legislation will be brought to the House after the Easter Recess in order to allow the Ministry of Finance to thoroughly analyse the new Valuation List after the work on it has been completed by the Land Valuation Department.

Mr. Speaker, the biennial update of Government fees for a range of services will see an average increase of 5 per cent for most items. However, for some items, a new base will be established in 2004/05. For example, the annual licence fee for cellular telephones will be set at \$60 annually from April 1, 2004. As per the agreement with cellular phone service providers, the licence fee will be pro-rated and charged monthly. Mr. Speaker, there are an estimated 38,000 of these units in active use and the numbers increase monthly. Government anticipates that the new licence fee will yield an additional \$1.4 million annually. The new monthly licence fee of \$5 is less than the price of a movie ticket or a packet of cigarettes and therefore is not expected to negatively affect demand for cell phones.

Mr. Speaker, amongst other market dynamics in the tourism sector, our hospitality industry faces the additional challenge of recovering from Hurricane Fabian. Hoteliers have consulted with Government on the state of the industry and specifically requested an extension of the Hotels (Temporary Customs Duty Relief) Act 1991. Government considers that an extension will be of considerable assistance to hotel owners seeking to rebuild their properties after the severe damage meted out by Hurricane Fabian.

Accordingly Mr. Speaker, Government will bring forth legislation to extend the Act by a further five year period. In addition, Hotel Occupancy Tax and Passenger Taxes will remain unchanged in 2004/05.

Mr. Speaker, other groups including retail merchants and farmers have requested relief from Customs Duty. While it was not fiscally prudent at this time to accommodate such requests in the 2004/05 Budget, Government will continue discussions with these groups to understand more completely their unique requirements and the scope of the relief that they seek so as to arrive at a feasible and workable solution.

Mr. Speaker, the full details of the revenue estimates are shown in the annexes to this

statement and in the Estimates of Revenue and Expenditure for the Year 2004/05. Therefore, I shall not burden you, or the Honourable Members of this House, with a recounting of further details.

Capital Borrowing

Mr. Speaker, with projected revenue of \$694 million and a combined current and capital expenditure budget of \$775 million, Government projects a borrowing requirement of \$81 million in 2004/05.

Mr. Speaker, in strict keeping with this Government's fiscal philosophy and policy, the planned borrowing will be used to finance the development and acquisition of hard capital assets as detailed in the Estimates of Revenue and Expenditure for the Year 2004/05.

Mr. Speaker, in the continuing environment of low interest rates, the planned borrowing is logical, moderate, affordable and sensible.

Government's current expenditure programme of \$660 million is more than provided for by the revenue budget of \$694 million, leaving a surplus of \$34 million to help finance the capital outlays on infrastructure, buildings and equipment.

Mr. Speaker, Government's loan facilities of \$245 million includes a \$75 million private placement that matures in June 2004.

While considering the options available to meet this obligation Government has also reviewed Bermuda's capital needs in the wake of Hurricane Fabian and re-assessed the underlying strengths of our economy in relation to its debt carrying capacity.

Following this review, Government has re-affirmed its debt policy limit of 10 per cent of GDP and has also determined to retain the statutory debt ceiling at its existing level of \$250 million. However, as GDP is now estimated at \$3.9 billion, Government will actively monitor the pressures on the statutory debt ceiling over the course of the next financial year.

Mr. Speaker, I would like to point out that raising the statutory debt limit would allow for more flexible capital financing arrangements including public-private partnerships and private finance initiatives. With many of these kinds of financing arrangements, Government would not be required to borrow funds for the projects. However, for accounting reasons, the value of many of the projects would be recorded as contingent liabilities and would therefore be charged against the statutory debt ceiling in the same way as a government guarantee. In that regard, it makes sense to set the statutory debt ceiling at a level that would allow for an array of different financing arrangements. However, as the need is not pressing at this time, the ceiling of \$250 million will remain in place.

Mr. Speaker, Government's debt financing requirement for the Capital Expenditure Plan is \$81 million. However, Government proposes to draw down an additional sum to lend to the Bermuda Housing Corporation. Therefore \$85 million will be drawn from our lending facilities in 2004/05. Government projects that the total net debt outstanding at the end of the 2004/05 fiscal year will be \$216 million, some \$34 million below the statutory ceiling of \$250 million.

Mr. Speaker, Government's debt management performance has received excellent reviews

from credit rating agencies such as Moody's Investors Service (Aa1), Standard and Poor's (AA) and Fitch Ratings (AA). Government remains committed to prudent and sensible borrowing for investment in infrastructure and other hard capital assets. Therefore, all other things remaining equal, Government is confident that Bermuda's credit ratings will be maintained at investment grade level in 2004/05.

Conclusion

Mr. Speaker, Budget 2004/05 is not intended to be just entertaining reading but a platform of action to build a stronger and more cohesive community. It is a serious plan to get the community to heal itself and for us all to work for the public good and in the country's national economic interest.

Bermudians should not just be working for the economy; the economy should be working for Bermudians.

The economic picture, and external objective assessments, suggests that we are on course in this arena and that Government's policies are on track to advance our goals. Budget 2004/05 demonstrates that we are on course.

Mr. Speaker, budgets are not just about numbers. They speak to the intention of the Government: its policies, its priorities and its allocation of resources. Planning for the year ahead and the future is not an issue that lends itself to the quick-fix or to a single solution or a simple plan.

There is much talk about balanced budgets but the focus is often one limited purely to figures when it should be about values.

Budgeting reflects the ability to think ahead to years in the future, to plan what we want for our children, our communities, our Island. We have to think about spending responsibly - our values, those things we hold dear and want to be reflected as to who we are.

Budgets provide the wherewithal - the glue to be able to translate our wishes and dreams of the community into action. It is the foundation of good governance and of what is required if we are to become more independent and self sufficient.

Mr. Speaker, what does it take to compete in a borderless world? Kennedy and others define what it takes. It requires excellent and well-maintained infrastructure, a well-educated population, a sophisticated financial structure, good communications and adequate capital managed with entrepreneurial skill. Bermuda has a sizable share of these qualifications and the means to develop this.

Fairness and equity are the watchwords of Governments across the globe in large measure and it is interesting to see how often the benchmark of success and the litmus test is whether the society and the economy is one that advocates and promotes inclusion. We have to meet the needs of all of our people. As the Premier articulated in his recent Rotary Speech: this Government intends to promote a Bermuda for all.

Mr. Speaker, we cannot afford to waste our resources. No one can be left out or locked out. We intend to see a Bermuda and to encourage an economy that can better meet the needs of all of its citizens - an economy that recognises the dignity and worth of labour and that there

is a symbiotic and necessary indivisible link and social contract between the people and the business community and that Government has to provide the glue so that we can all work together for the good of the country, for the health of the community.

Mr. Speaker, this can only happen if we strive to ensure that everyone reaches their full potential - our schools have to become even more effective as learning communities, we have to undergird and encourage the professional development of our administrators and educators. We know that a vibrant community needs to use all of the varying talents of its people, both artistes, artisans and sportspersons, our professionals, technicians, entrepreneurs, hospitality workers and tourism workers.

Thank you Mr. Speaker.