

## **Responsible Governance in Challenging Times**

Madam Speaker, I am pleased and humbled to rise, as Cayman's first Premier, in this 60<sup>th</sup> year of the reign of Her Majesty Queen Elizabeth II, Her Majesty's Diamond Jubilee year, to offer heartfelt congratulations to Her Majesty, and best wishes and God's blessings to the whole Royal family, on behalf of the Government and people of the Cayman Islands.

The Jubilee spans the past 60 years, during which Cayman has come from being a Crown Colony and Dependency of Jamaica, to the vigorous Overseas Territory it now is. While I will speak in some detail on our solid fiscal performance over the term to date, the question I would like to keep focused on is 'What of the next 60 years'?

Madam Speaker, in May 2009 the people of our beloved country elected those of us in this chamber, entrusted us to take up the powers and duties of government, to positions of leadership in the economic, social and political development of the Cayman Islands. On taking office we found the most challenging environment for managing our public and economic affairs; before we could plan for success, we had to plot a course to keep us afloat. We faced the challenge without fear or favour. We formed genuine partnerships – public/private partnerships, domestic/foreign partnerships and employee/employer partnerships – to pave a path to economic recovery. Getting others to believe in the process required our commitment to curb the growth of government, while promoting the role of the private sector. We have done that.

These recent challenges confirmed what we know: that Caymanians are a resilient people; that we believe in fairness, and trust good leadership. We give them thanks, and salute their spirit of resilience.

Unfortunately, the international economic environment has remained unfavorable and very uncertain over the last four years. Indeed just recently, two major European economies slipped back into recession. The

United Kingdom and Spain experienced two consecutive quarters of economic decline, with Spain's unemployment rate approaching 25%, and they have now had to seek assistance for their banks. The UK's slippage prompted the British Prime Minister David Cameron to deliver a speech on the economy on May 17<sup>th</sup>, in which he said "We are living in perilous economic times. Turn on the TV news and you see the return of a crisis that never really went away. Greece on the brink: the survival of the Euro in question. Faced with this, I have a clear task; to keep Britain safe. Not to take the easy course – but the right course. Not to dodge responsibility for dealing with a debt crisis – but to lead our country through this to better times." That's what I've been trying to do as well, to lead our Islands through all this, to better times.

Madam Speaker, in my first budget address in 2010, speaking in a spirit of optimism, I said that "in spite of the threatening clouds, my government is focused on strengthening the economy of these Islands; pursuing responsible financial management that will pave a better way forward for the citizens of these Islands; and leading Caymanians and residents to safer and calmer waters, no matter what the season." End of quote.

In last year's budget speech, I stated that "there is evidence that the country is heading in the right direction, through our Partnership for Recovery. But we must stay the course; we must make some tough decisions, to guarantee a brighter future." End of quote.

The UDP government found significant budget deficits in 2009; the result of the last PPM government's lack of grasp of fiscal prudence. In last year's reply to the budget, the Leader of the Opposition confirmed their aversion to fiscal prudence when he queried whether or not I was correct in suggesting that poor management of our economy, especially poor management of our fiscal affairs, could trigger a devaluation of the Cayman dollar.

Madam Speaker, the UDP government was also confronted with huge financial commitments for capital expenditure - in the hundreds of millions –

which were not properly provided for. This situation was compounded by significant increases in debt. We however faced the situation, and we fixed it! But it has burned every budget we produced – and will continue to do so until the world and our economy moves upwards.

In the grip of a declining economy, we found the government's revenue base also declining. This compounded the fiscal difficulties of the government, and made prudent management much more difficult, as large recurring public expenditure had to be carried, to maintain the Civil Service, capital plant, and other standing commitments, along with those that the last government shocked us with!

My government takes comfort from the fact that the mother country is moving in a similar direction. Prime Minister Cameron is saying that, and I quote, "we must resist dangerous calls for us to retreat. Yes, we are doing everything we can to return this country to strong, stable economic growth. But no, we will not do that by returning to the "something for nothing" economics that got us into this mess." End of quote. We – my government – Madam Speaker, understand this: we have adopted the 'something for something' economics, through encouraging private sector investment to assist us in our partnership for recovery.

Madam Speaker, I and the entire Cabinet have spent many hours in contemplation, we have reflected on the tasks of governing in these times, and found solace in the words of Governor Adlai Stevenson, who was nominated for president of the United States of America by the Democratic Party in 1952. He said: "Help me to do the job in the autumn of conflict and of campaign; help me to do the job in these years of darkness, of doubt, and of crisis which stretch beyond the horizon of tonight's happy vision, and we will justify our glorious past and the loyalty of silent millions who look to us for compassion, for understanding, and for honest purpose. These will serve our great tradition greatly." End of quote.

While our little country is not on the scale of the United States of America and there are not millions of us, yet some sixty years later, the world's

current period may be characterized as also one of doubt and of crisis. While we do not have millions of people, our thousands of people are looking to us for compassion, understanding and honest purpose. And we too have years of self-governance, and a great tradition that has grown through steadfastness.

The builders of our nation over the past 60 years, for decades, long before we learned some of the skills of the trade of marketing, long before there were ad campaigns, and brand developments, they themselves were the brand. The phase after our men in their droves went to sea, was not a phase where our people stopped being hard workers, and stopped achieving. Men came home and began adapting and ensuring that their children were going to be prepared for what was coming. Women – the wives, mothers and grandmothers – didn't lose their leadership skills; they provided large amounts of the drive to embrace the new opportunities, much of the grounding that enabled us to continue our proud traditions of private good manners, and public graces.

We have in many ways been blessed, as a people: and our elders have behaved, and shown to the world such simple class in their ways of being, to make them – to make us – justly renowned. This is why we celebrate them; this is why we shower them praise, and thank the good Lord for his guidance and watchfulness over their lives and ours.

Times are changing, the demands on families are changing, and the stress on governments is changing. Caymanians seamen used to travel the world – from Japan, to South Africa, to Greece; now the world is at our door; we serve interests from around the world, and we have rapidly learned to serve them well. We continue to learn to serve them because the requirements of business becomes increasingly complex, the technology to manage business transactions is evolving rapidly, and the regulatory framework here to keep one step ahead of all of this.

We have come a long way; when we face rough seas now they are across the negotiating table, seeking new business and trying to ensure Caymanians interest are protected. We have come a long way. To think that our eldest, had few radios to go around, and now probably the only person who doesn't walk with or work with a cell phone, or some other personal computerized device, is a person who doesn't really want one. The challenges of governance press increasingly hard on those with responsibility. This applies to Cayman and every other country in the world. The current world economic stagnation has reminded us of all that; peoples around the world need to fully appreciate that making economics work so people can benefit, while ensuring that this is sustainable both socially and environmentally, is all a daunting task.

The people in and out of government, who made us what we became over the last 60 years, could not have done so had Cayman not already developed a tradition of robustly working on our own initiative, using our own strong sense of judgment – and having been left alone, even encouraged in that way by the UK.

As we celebrate the great nation-building contributions of our good and strong Caymanian people, we do so keen to look towards, to work for an even better future. We can look back, but this is no time to turn back. Let us pledge to work together, for the common – good. Any seeds we plant now for future development have fertile ground in which to take root.

We take self-reliance and personal responsibility seriously. We believe nevertheless in fairness, in being good neighbours. We believe in the rule of law, and justice, tempered with mercy. We have held onto these things, they continue to shape our expectations and evaluation of good government, and the way in which to secure the place and order that make good government possible, because we humble ourselves to the grace of an almighty God. These things are at the core of our resilience, our hope in the future, our capacity for self-governance.

In the knowledge that the Almighty does not put more on man than he can bear, I have tried “to do justly, to love mercy, and walk humbly with my God,” as the prophet Amos proclaimed.

Madam Speaker, in an effort to put systems in place to deal with the challenges of leadership and management of the Islands, we started immediately in 2009 to correct and improve the country’s international image by means of real performance. Early in this term, we engaged in intense negotiations with the then new Government in the United Kingdom to permit us as the new Caymanian government the space to renegotiate existing credit facilities. The restructured government loans resulted in some fiscal space to assist in working our way out of the inherited economic problems.

In addition, this UDP government made changes to major areas of policy to assist businesses, and agreed to the construction of a major medical tourism facility as an example of our foreign investment strategy.

To find solutions to the challenges before these three great little islands, we embraced the philosophy of essential partnerships for recovery in which new emphasis was placed on private/public sector partnerships to drive our economic recovery. We also put a renewed emphasis on the partnership between the government and the people to deliver social cohesion. In addition, we established a stronger partnership between the government and public institutions to secure our political stability.

I have said it before; Caymanians have a history of stability, in our economy, society and politics. It is known that our stability was founded on the backs of hard-working people, respect for the law, accompanied by the freedom to allocate our limited resources and to distribute the benefits of our collective efforts.

Over the past four years, we have had to work even harder to combat the negative effects of the most prolonged international economic recession in

recent history, which has witnessed rising oil prices, rising food prices and a sluggish economic recovery, accompanied by painfully slow job creation. These negative effects have combined to make the management of our economy that much more difficult.

It is a remarkable positive in our favour that in this sea of international economic turbulence and uncertainty, Moody's – the International Credit Rating Agency – maintained a double 'A' 3 credit rating for the Cayman Islands.

Madam Speaker, it must not go unnoticed that in 'Navigating Towards Prosperity', the title of last year's budget address, that the government was taking a step forward from a 'Partnership for Recovery', as described in the budget address of 2010. This recovery was conceptualized in the context of the 3-year plan which we agreed with the FCO and which identified five key strategies: (1) public sector reform; (2) limits on new borrowing; (3) broadening the revenue base of government; (4) reducing operating expenditures and (5) creating public/private finance initiatives.

The approach in the public sector reform is on maintaining employment levels and delivering services more efficiently. This boils down to higher productivity in the sector – that is, achieving more output from the available inputs. To achieve this, greater attention is paid to training and the use of technology, which demands keeping an eye on the quality of the workforce including its capacity to be trained and retrained.

The initial sacrifice requested of public sector workers has paid dividends and has contributed to the improved fiscal position of the government over the course of the last three years. We are therefore grateful to the civil servants for their role in restoring hope, through assisting in paving the way for future prosperity.

Madam Speaker, perhaps the single greatest indicator of the maintenance of fiscal discipline is that the country incurred no new long-term debt in

fiscal year 2011/12 and there is no plan to incur any such debt in the current fiscal year 2012/13. Our national debt management strategy rests upon solid principles of controlling borrowing especially external borrowing, improving pension security, increasing reserves and working towards the achievement of budget surpluses.

So far, all four principles are on course. The strategy has allowed us to reverse the mess we found, when unsustainable budget deficits, rising debt and declining reserves were the order of the day.

Madam Speaker, even when my government has increased its revenue base, it has done so very responsibly by taking on board sound tenets of public policy. We have been clear, in outlining the purpose of the policy. We have been certain, in assessing the incidence of the policy. We have been sure, in measuring the cost-effectiveness of the policy.

Perhaps the best example of this approach is demonstrated in the very modest fee on 'master funds' regulated by the Cayman Islands Monetary Authority (CIMA), since it was introduced in last year's budget.

The certainty of the incidence of the 'master funds' fee goes without saying, but more importantly the leaders in the local Financial Services sector agreed that the fee could be introduced without any adverse effects on the sector. This agreement provided strong assurances of the cost-effectiveness of the policy.

Madam Speaker, as noted in last year's Budget, there are major benefits inherent in the good fiscal discipline of the government:

- It puts checks on Government's expenses and this in turn means that the private sector can price its goods and services to remain competitive; and
- It reduces the need for external borrowing – which in turn reduces the debt burden on the public purse, and as such Government's

resources can then be more extensively utilized to provide services that the public needs.

The fiscal discipline achieved over the last three years is even more remarkable, when it is recalled that in the first two years of my administration, the government incurred debt for the continued building of Clifton Hunter High School and John Gray High School which were started by the previous Government. These schools will each cost approximately one hundred and ten million Caymanian dollars (CI \$110 million), to construct, equip and furnish.

My administration has also completed the Government Administration Building at a total cost of approximately one hundred million US dollars (US\$100 million).

Madam Speaker, the way in which the last PPM government went about the financing of the two high schools is a lesson in how not to conduct the fiscal affairs of government. The lack of planning is indicative of how small vulnerable countries can find themselves overnight almost paralyzed by a self-induced stroke. Fortunately for us, we could manage the symptoms found in 2009 once the appropriate diagnosis revealed the facts and the government acted immediately.

The potential paralysis from the swelling debt in the Caymanian economy was enough to further encourage, the UDP government to find a more viable approach to investing, both domestic and foreign. We have made encouraging progress with this alternative approach.

In June 2011, I announced the contents of the investment alliance with Dart Cayman Islands, known as the ForCayman Investment Alliance. At the time, I stated boldly, as is my nature, that investment around the world has been uncertain. The Government will not plan engage in further long-term borrowing – even for needed projects, including schools and roads;

Investors the world over are still exercising caution, waiting and watching, before committing to large projects.

Therefore the need for partnerships with the private sector to build national infrastructure, facilities, and social and educational programmes, without incurring any debt or obligation to repay, now or in the future, is an essential part of my government's economic growth strategy. This approach is far superior to that which the PPM government pursued prior to 2009.

Madam Speaker, government's investment strategy is integrated with our debt strategy. An everlasting principle of investment is that it is done out of national savings. However, not even large countries are able to rely only on their domestic savings for investment and therefore foreign investment is an absolutely essential component of their strategy. This is even truer for small countries with limited financial resources, and truer still for countries like the Cayman Islands which live and thrive on providing internationally credible opportunities and services for foreign financial sources.

In the circumstances, anyone who goes against such a clearly articulated debt strategy, given what the country has had to contend with, through the most prolonged economic recession for decades; must do the responsible thing, and come forward with something better. This is why they are supposed to be called Her Majesty's Loyal Opposition. It is however understandable that the Opposition party, having failed to conceptualize a plan of action for managing the Cayman economy in its last term in office, would wish to ascribe improper motives to such a well conceived investment strategy. This is their way of diverting attention from their failure to perform when in office, and their failure now to conceive of credible alternatives.

In the speech to which I referred earlier, I said that the Dart Group of Companies has contributed very significantly to the economic growth and development of our country. In fact, the total economic impact to the Cayman Islands by their Camana Bay project has been estimated at

approximately eight hundred and twenty-six million US dollars (US\$826 million) and its construction has generated more than a thousand jobs since it began in 2005.

Furthermore, the group has demonstrated its commitment to help make Cayman a better place through its charitable activities and contributions, which have exceeded thirty million US dollars (US\$30 million) in the last decade alone. I repeat. We are proud of that partnership agreement.

The ForCayman Investment Alliance satisfies the underlying principle that government facilitates while the private sector finances. This principle is born out of a more enduring philosophy that we believe in – that the best strategy for achieving sustainable growth in the Cayman Islands' economy is to inspire the private sector to do what it does best, create wealth and generate jobs. I see the people who are talking about doubt and making insulting statements. I have never said that the projects I have outlined would be built immediately. What I have said is that:

- the Dart projects;
- ForCayman Investment Alliance;
- enhancements to our Immigration policy;
- the Narayana Cayman University Medical Center;
- cargo dock to do trans-shipment;
- the Dart agreement with new hotels and other commercial property developed;
- a golf community development in North Side/East End;
- a new 4-star hotel in the Bodden Town area;
- a re-development for a cruise ship jetty at Cayman Turtle Farm to make it more tourism oriented;
- numerous partnerships with the private sector in the building of condos and commercial development that is keeping the construction industry going; and
- new gateways for CAL and other airlines to enhance tourism

will put these Islands in a good economic position in the future. The country will be better off when those projects are developed.

Madam Speaker, since 2008 growth in the world's wealth has been cut dramatically and so too has the capacity of the world's economy to create jobs. This woeful combination was triggered by the pursuit of greed within certain sectors in the world's largest economy, without the appropriate regulatory framework in place to prevent the misuse and abuse of financial resources. As a result, the governments around the world saw the need for intervention to protect not only their own economies but also to "shore up" major economies as well.

The intervention was carried out by respective governments and effectively shifted the burden of adjustment to the public sector. Eventually, it was recognized that the public sectors, especially in European Countries, were themselves in need of reform and not just their financial systems.

In the process of reform, several major European countries and even the United States of America suffered downgrades in their credit ratings from international rating agencies like Moody's. So the international economic environment has not been favorable to either wealth or job creation, and yet these three blessed little Islands, founded upon the seas, are riding the pounding waves and looking forward to the lull and rewards of a calm sea.

## **Government Finances**

Madam Speaker, since assuming office in 2009, my government has brought down the unaudited deficit of the entire public sector operations from a whopping eighty-one million (CI\$81 million) at the end of June 2009, to a mere ten million (CI\$10 million) at the end of June 2012. The make-up of these unaudited Deficit results is: Central Government experienced a small Deficit of approximately \$2.0 million for the year to 30 June 2012; and the performance of Statutory Authorities and Government Companies resulted in an unaudited Net Deficit of \$8.0 million. This has been achieved without having to send home the 20% of civil servants the Labour Government in the UK wanted me to cut, and without compromising the quality of goods and services delivered by the government.

There is absolutely no doubt that the government continues to play its part in the “partnership for recovery” through sustained fiscal discipline. But the fiscal performance in the current financial year is even more remarkable, when it is recognized that the government does not plan to incur any new external debt during the financial year.

In order for the public to understand the magnitude of my government’s accomplishments, they must review the financial statements and look at the facts. Madam Speaker, rumour is rife in today’s Cayman Islands. As the old people used to say, ‘Don’t believe everything you hear. Look at the facts.’

It is time for all concerned to recognize the fiscal discipline exercised by my government, and to hopefully give credit where credit is due. It is known that last year, there were differences of opinion between the FCO and my government with respect to the level of budgeted operating expenditure. Indeed it was suggested that our proposals be reconsidered – and this was done many times.

The bone of contention came over the operating expenditure in 2011/12 not exceeding four hundred and ninety point two million dollars (CI\$490.2 million) as set out in a letter by the FCO of 10 June 2011. This figure represented total operating expenses before financing, for the core government.

Madam Speaker, a year has passed and the budgeted amount for operating expenses has been revised from four hundred and eighty-nine point nine million dollars (CI\$489.9 million) to five hundred and nineteen point four million dollars (CI\$519.4 million) for the year ended June 2012. This represents an increase of twenty-nine point five million dollars (CI\$29.5 million); but on the other hand, the total government revenue was forecast to be sixteen point nine million dollars (CI\$16.9 million) more than budgeted for. Therefore the fiscal deficit for the 2011/12 year was forecast

to be a breakeven result for Central Government for the year ended 30 June 2012.

The preceding was the revised forecast position for the core government. The unaudited actual results for the year ended 30 June 2012 indicate that Central Government experienced a small – \$2 million – Deficit for the year.

When we include financing expenses, we find that the total operating expenses of the Cayman Islands government have increased from five hundred and forty point seven million dollars (CI\$540.7 million) for the financial year ended 30 June 2009, to five hundred and forty-six million dollars (CI\$546.0 million) for the year ended June 2012. This amounts to an extremely small increase of five point three million (CI\$5.3 million) over 3 years, or an average of just one point seven million dollars (CI\$1.7 million) per year. This is a remarkable testament to the Government's fiscal stewardship.

Put another way, our total operating expenses have remained virtually unchanged between the comparison dates of 30 June 2009 and 30 June 2012. This has been achieved during the worst international economic recession in over eighty years. By any measure this shows remarkable fiscal prudence on the part of this government.

On the other hand, over the last three years, growth in total operating revenue contributed to the reduction in the deficit. Revenue grew by forty-five point nine million dollars (CI\$45.9 million), predominantly on the back of higher prices, and some nominal growth in the economy.

Madam Speaker, the other major contributor to the reduction in the fiscal deficit has been a deliberate strategy on the part of my government, to avoid investing in extraordinary items and restricting deficits on investments in public authorities.

I now turn to some specifics for the fiscal year 2011/12.

Instead of the budgeted surplus for the Entire Public Sector of three point six million dollars (CI\$3.6 million) stated in the original 2011/12 Budget the unaudited actual results is an Entire Public Sector deficit of ten point three million dollars (CI\$10.3 million) for the year ended June 2012; that is a difference of thirteen point nine million dollars (CI\$13.9 million).

In terms of total revenue, a figure of five hundred and fifty-two point seven million dollars (CI\$552.7 million) was budgeted for the financial year, but the unaudited actual results indicate Revenue of five hundred and forty-four million dollars (CI\$544.0 million) was earned in the year ended 30 June 2012.

The one new revenue measure introduced during the course of this past fiscal year was a very modest fee of twenty-five hundred dollars (CI\$2,500) on certain “master hedge funds”.

On the expenditure side, Central Government’s operating and financing expenses of five hundred and fifty-two point eight million dollars (CI\$552.8 million) were budgeted for, but the unaudited actual results for the year to 30 June 2012 were five hundred and forty-six million dollars (CI\$546.0 million): that is six point eight million dollars (CI\$6.8 million) less than budgeted.

Madam Speaker, the lower than budgeted figure for operating and financing expenses is a consequence mainly of reduced personnel costs of seven point three million dollars (CI\$7.3 million); higher than budgeted outputs from non-government suppliers of four point eight million dollars (CI\$4.8 million) and less transfer payments of three point two million dollars (CI\$3.2 million).

I will provide more details for the movements in these latter two components of operating expenses just mentioned above. The category of Outputs from non-government suppliers was budgeted for twenty-four point six million dollars (CI\$24.6 million) but actual costs incurred in the year were twenty-nine point five million dollars (CI\$29.5 million) in the financial year 2011/12.

The jump in spending is attributed to certain critical components. For example, the allocation for tertiary care at various overseas institutions has been exceeded by five point three million dollars (CI\$5.3 million) from thirteen point two million dollars (CI\$13.2 million) to eighteen point six million dollars (CI\$18.6 million). In respect of the expenditure account, Rental Accommodation for Persons in Need, actual costs incurred were point seven million dollars (CI\$0.7 million) more than the original budgeted amount of one point one million dollars (CI\$1.1 million).

These are the kinds of increases in spending that cannot be avoided. These represent some of our development challenges, Madam Speaker – both to come to grips with the Chronic Non-Communicable Diseases, which represent such a large share of our health expenses, and to turn our welfare system from entitlement to enablement. Both the Ministries involved recognize these challenges and are seeking to address them.

I now turn to transfer payments. An initial figure of twenty-eight point eight million dollars (CI\$28.8 million) was budgeted, but this was increased during the year to thirty-four point two million dollars (CI\$34.2 million). The actual unaudited expenditure for the year to 30 June 2012 is thirty point nine million dollars (CI\$30.9 million). The increase in the allocation for transfer payments of five point four million dollars (CI\$5.4 million) comes predominantly from “poor relief vouchers” which was initially budgeted at one point one million dollars (CI\$1.1 million) and subsequently increased to two point nine million dollars (CI\$2.9 million).

Unaudited results show costs for this category was two point one million dollars (CI\$2.1 million) for the 2011/12 year. In addition, the category of

“local and overseas scholarships and bursaries” had expenditures by the end of June 2012, of eight point nine million dollars (CI\$8.9 million) up from an initial budgeted amount of seven point five million dollars (CI\$7.5 million). Again these increases in spending are virtually compulsory, for a caring government. They also highlight a combination of existing development challenges, that I spoke of earlier, and actions to facilitate positive human development.

Madam Speaker, on assuming office in 2009, we found a net public debt for the core government of four hundred and nineteen point seven million dollars (CI\$419.7 million). This figure is estimated to reach five hundred and ninety-nine point two million dollars (CI\$599.2 million) by the end of June 2012. Most of the new debt arises from commitments made by the PPM administration for school buildings; administration buildings – major capital items.

We successfully restructured some of the debt, in a way that increased the maturity period of the debt, and realized some short benefit for the country. For this, I have been criticized, even though we reduced the interest burden on the debt. As I cautioned before, look at the facts!! We are being advised to restructure more debt and we intend to do that by November this year.

In 2009, public debt with a maturity period of five years and less accounted for one hundred and eighty-six point six million dollars (CI\$186.6 million) out of the total public debt of four hundred and nineteen point seven million dollars (CI\$419.7 million). In other words, short/medium-term debt accounted for almost forty-five percent (45%) of total debt.

Madam Speaker, our restructuring of the debt resulted in the short/medium-term debt being reduced to twenty-two percent (22%) in the financial year 2011/12. This short/medium term debt is now one hundred and thirty-one point six million dollars (CI\$131.6 million) out of a total public debt of five hundred and ninety-nine point two million dollars (CI\$599.2 million). This is change for the good! It is ‘something for something’ economics!

Despite not borrowing during the fiscal year 2011/12, my government has been able to sustain a very credible capital investments programme. Equity Investments in Ministries, Portfolios and Offices amounted to sixty-two point four million dollars (CI\$62.4 million). The total figure also includes a four point one million dollars (CI\$4.1 million) Budget allocation for the construction of the Mosquito Research and Control Unit (MRCU) aircraft hangar.

To date, the major equity investments made for the fiscal year include:

- Ministry of Education, Human Resources and Culture, some forty-four point two million dollars (CI\$44.2 million), been spent on the John Gray and Clifton Hunter Campuses, Sunrise Adult Training Centre and other capital works and capital purchases.
- Ministry of Health, Environment, Youth, Sports and Culture, one point six million dollars (CI\$1.6 million) spent on the purchase of equity assets, plus write off of overseas medical debts for indigents and uninsured.
- In the Portfolio of Internal and External Affairs, some two point nine million dollars (CI\$2.9 million) was invested for crime suppression equipment and assets for use by the RCIPS.

Equity Investments in Statutory Authorities and Government Companies were some twenty-two point one eight million dollars (CI\$122.18 million). Some five point one million dollars (CI\$5.1 million) was used to repay debt for Cayman Airways Limited. In a similar vein, Cayman Turtle Farm (1983) Limited received nine point five million dollars (CI\$9.5 million) for debt repayment and working capital injection.

The forecast for the coming fiscal year 2012/13 – which is presented later – will benefit from the fiscal prudence practised over the last three years. I am happy to be able to report that there has been some expression of confidence in the fact that the government has evidently committed itself to a budgetary process that is both credible and sustainable.

As I said in my letter dated 14 June 2011, to the Parliamentary Under Secretary of State of the Foreign and Commonwealth Office: “Please be assured that the Foreign and Commonwealth Office’s objective and that of

my government is the same: to improve the state of public finances in the Cayman Islands on an ongoing basis.” The evidence over the last three years supports our performance according to that commitment.

## **International Environment**

Madam Speaker, in a recent speech given by British Prime Minister David Cameron which I quoted earlier, I wish to make reference to speeches delivered by the US Treasury Secretary Tim Geithner, and the Managing Director of the International Monetary Fund (IMF) Christine Lagarde, in May and April 2012, respectively, that caught my attention. However, for reasons relating to the issues and the themes, Cameron’s speech was especially noteworthy, and I will draw further from it before turning to the others.

The British Prime Minister identified some familiar themes such as the debt crisis, with the need for rebalancing, and for the creation of wealth, as responses, and with special emphasis on the reform of education, as a necessary investment to yield medium to long term benefits. He said that “this is not a conventional economic crisis, of the kind Britain has had to deal with in the recent past. This is a debt crisis.”

This observation is important because the coming financial year 2012/13 will be the last year in which this government falls short of any of the compliance targets in the PMFL. But it is more pertinent to note that the two targets which we will miss are related to debt. The first target relates to debt servicing cost, and the second is the net public debt relative to our government’s revenue.

In December of last year when Moody’s, the international credit rating agency, maintained Cayman’s credit rating at double A, it observed that debt to GDP ratio was still low by international standards, but had grown significantly since 2007.

The Moody's Report also noted that recent actions by the government had reduced the fiscal deficit, which contributed to the stable economic outlook for the Islands.

Madam Speaker, this leads me back to the theme of rebalancing, mentioned in Cameron's speech. He stated "first, we must continue to get to grips with the deficit and build recovery at home." He further stated "getting our debt under control is necessary for growth." We similarly believe that these two economic strategies will help rebalance our economy, away from debt-fuelled consumption and towards exports and investment.

The theme of recovery was the focus of my first budget speech in 2010. Last year, in concert with the view taken in most parts of the world, we said that to ensure a healthy and sustained economic recovery globally, rebalancing has to take place on two fronts: the external and internal. Those on the other side of the aisle may not wish to recognize it, but the internal rebalancing is the main reason for Moody's positive assessment of the Cayman's economic outlook.

The world economic recovery has been timid, with economies around the globe still quite fragile. Figures from the OECD predict that global growth will increase by 3.4 per cent this year, following last year's 3.6 per cent, but further improvement (4.2 per cent growth) is predicted for next year. However, fears abound that this momentum could be derailed.

Madam Speaker, in April of this year, Christine Lagarde publicly recognised that the global economy still faces high risks, with some dark clouds on the horizon. She identified the Euro Zone as the epicentre of potential risk, but added that action taken during the last six months displayed significant determination to defend the common currency.

The other dark clouds on the global economic horizon, Lagarde said, are sustained high unemployment in many corners of the world, not just the

advanced economies; protracted slow growth; potential bank deleveraging; renewed financial stress in the euro area; and potential oil price hikes.

US Treasury Secretary Geithner observed that the economic challenges we face today can only be met with an economic agenda that focuses on strengthening economic growth, investing in education and innovation so that we are expanding income growth and opportunity, and a balanced approach to restoring long-term fiscal sustainability.

To help the international economic recovery, the IMF is advocating the building of a stronger global firewall of resources to contain any further financial crises, and up to April 2012 had accumulated US\$320 billion worth of pledges from member countries.

Madam Speaker, it is my fundamental belief that wealth creation is necessary to economic recovery and prosperity in the Cayman Islands. We have talked about the need to let the private sector do what it does best, create wealth and generate jobs. It is therefore inspiring to hear the eloquence of Prime Minister Cameron on this theme: “A government resolutely committed to being on the side of enterprise, entrepreneurs, businesses large and small, wealth creation of all types and descriptions and hardworking people right across the country and that is what I am committed to delivering.” End of quote.

At the global level, what is being advocated is the adoption of an economic structure, which not merely produces economic growth, but is also concerned about the attendant issues of equity and inclusiveness. We endorse this approach, as the common good must remain front and centre of any programme for development. If the concerns of the IMF are followed, at least important major sub-goals are likely to be adopted internationally, which would also support this approach.

These sub-goals will focus on financial systems, with key considerations; appropriate regulation and supervision, and coordination across countries;

job markets reform and social programmes, to protect safety nets that may be in danger as a result of other economic reforms.

Fiscal adjustment is still being seen as a necessary step for advanced countries, but it is being suggested that the pace of the adjustment must be country specific.

For the Cayman Islands, given our political and economic relationships, even as we move to engage with emerging markets such as Latin America, the performance of the United States and the European economies remain of extreme importance.

Britain has been facing high inflation which is driven by the higher Value Added Tax (VAT), commodity and import prices. Dealing with this issue remains problematic, as economists fear that the use of monetary policy could expose the country to the risk of deeper recession and unemployment.

Few, if any, are predicting when normalcy will return globally. But there is awareness that the current conditions have left many countries with little macroeconomic policy space, to implement the kind of short-term measures that could build towards a remedy for economic recovery.

### **Development of the 2012/13 Budget**

Madam Speaker, the development of the 2012/13 Budget has been a most arduous process but it has provided Government with further valuable experience.

The current Budget preparation process started in earnest from December 2011, to establish a Budget for the Government's fiscal year that started on 1<sup>st</sup> July 2012. In December 2011, the Legislative Assembly approved the Strategic Policy Statement – the foundation for the establishment of a

Budget for the 2012/13 fiscal year.

In mid-January 2012, as Minister for Finance, I issued a Budget Circular that granted Ministries, Portfolios and Offices that make up Government, their Expenditure Allocations for both Operating and Capital Expenditures. These Allocations should NOT have been exceeded when agencies of Government submitted their expenditure requests for the 2012/13 fiscal year; however, the Expenditure limits set out in the Budget Circular were exceeded by a significant extent – in the region of \$150 million.

Honourable Ministers of Government and senior Civil Servants have spent the past several months reviewing expenditure submissions with the objective of reducing those submissions to more affordable and sustainable levels. As an example of the seriousness of our efforts, the policy has been implemented that there is a moratorium on the recruitment of Civil Servants. The notable exemption granted has been to enable continuity of classroom-cover by teachers.

On 13 June 2012, the Government presented to the FCO for its prior approval, its intended 12-month Budget for the 2012/13 fiscal year before presenting the Budget to the Legislative Assembly and Finance Committee.

The key elements of the 2012/13 Budget that were presented to the FCO on 13 June 2012 were:

- Operating Revenues of \$598 million;
- Operating Expenditure of \$576 million;
- an Operating Surplus of \$22 million;
- Capital Expenditures and Investments in Public Entities of \$83 million;
- New Borrowings of \$59 million; and
- Operating Overdraft of \$65 million for the period 1 July 2012 to 31 January 2013 and for it to revert to \$25 million from 1 February 2013 to 30 June 2013.

The FCO refused that Budget request.

The FCO insisted that the Government strengthen its fiscal position by implementing a greater level of expenditure reductions than had hitherto been made by Honourable Ministers and senior Civil Servants. The concern expressed by the FCO was that expenditures should be made more sustainable going forward into future fiscal years. The FCO is also of the firm view that the strengthening and improving of fiscal results for the Government must not occur solely as a result of reductions to expenditure, but revenues of the Government need serious enhancement and expansion.

The FCO's Economic Advisor arrived in the Cayman Islands on 4 July 2012 to assist with an understanding of what the FCO would like to see the 2012/13 Budget, and subsequent years' Budgets, turn out to be in order that Minister Bellingham be in a position to approve Government's 2012/13 Budget.

The FCO's Economic Advisor, on 10 July 2012, established what he referred to as the "frame" for the 2012/13 Budget and subsequent years' Budgets: by the "frame" the FCO's Economic Advisor meant the aggregate levels of: Operating Revenues; Operating Expenses; Financing Costs; and ultimately, the Net Operating Surplus expected to be achieved by Government.

The Net Operating Surplus established by the FCO's Economic Advisor for 2012/13 was \$76 million.

You might ask why such a very high level of Surplus was established for the Government. This high level of Surplus is explained by one simple condition: the FCO does NOT want the Government to finance or fund any of its operations by increasing Government's long-term debt. The FCO wants Government to fund its operations – first and foremost – from Revenues and secondly, by making use of an Overdraft facility.

As I have just said, Government was told in no uncertain terms that, simultaneously, revenues should be increased, and expenditures should be reduced. Indeed, it was suggested to Government that the total improvement in our fiscal results and position should be achieved by 50%, or half, from Revenue Measures and 50%, or half, from Expenditure Reductions. Hence Government HAD to do BOTH: increase Revenue and reduce its Expenditures.

Since 28 June 2012, there have been material reductions to Government's Operating Expenditures.

Government established an Expenditure Review Committee (ERC). It was comprised of a broad and knowledgeable team of Civil Servants who made a number of recommendations to reduce expenditures. The Government accepted a number of them.

Some of these represent a "sea-change" to the sharing of expenses between the Government and members of the Public Service.

An example that illustrates this fundamental shift from the past is the fact that Civil Servants will be required to contribute to their health-care costs.

Government is of the firm view that in order for expenditure reductions to be truly sustainable, such reductions should not be restricted to a particular category of expenses: instead, the reductions should be spread across a broad base.

So, you will naturally ask the question where are we now or how close is the Government to satisfying the broad "frame" that the FCO's Economic Advisor developed on 10 July 2012 which culminated in an Operating Surplus of \$76 million.

On 31 July 2012, the Government submitted details of another 12-month Budget for the FCO's consideration.

The key features of the 31 July submission were:

- Operating Revenues of \$661.9 million;
- Total Operating and Financing Expenses of \$592.3 million;
- Operating Surplus of \$69.6 million;
- Capital Expenditures and Investments in Public Entities of \$56 million; and
- No long-term Borrowing.

On 6 August 2012, the FCO declined such a submission – arguing that Revenue Measures should not have been included within the overall Revenue figures at 100%, but should instead, have been discounted by up to 30%. The FCO also required detailed evidence to support the Revenue Measures estimate.

On 9 August 2012, the Government provided the FCO with further details in respect of Revenue Measures. In particular, the information submitted to the FCO showed individual items of Revenue Measures at various percentages – ranging from 70% to 95% - for inclusion in the overall revenue estimate figure.

The Government received verbal representation after the 9 August submission that a “compliance factor” of 95% was deemed too high by the FCO.

On 12 August 2012, the Government made another submission to the FCO which had **ALL** Revenue Measures being subjected to a “compliance factor” of 75% for inclusion in the 2012/13 Budget.

After 12 August 2012, again the Government received verbal representation that its 2012/13 Budget was not acceptable to the FCO as the latter considered that further Operating Expenditure reductions were required of the magnitude of twenty million dollars (CI\$20 million).

In response thereto, yesterday, 16 August, the Government made further Operating Expenditure reductions totaling three point four million dollars (CI\$3.4 million) to Transfer Payments and Non-Governmental Suppliers.

The public should therefore draw the conclusion that the Government has not, in any way, been deficient in its preparation of the 2012/13 Budget. The preparation of this year's Budget was done with the same degree of competence as previous year's Budgets were compiled. What distinguished this year from previous years is the level of detail required by the FCO in the formulation of this year's Budget – a level of detail that was not required in previous years. Madam Speaker, the Government has diligently performed its responsibilities in respect of the formulation of this year's Budget.

### **Fiscal Outlook for 2012/13**

Madam Speaker, I turn to the outlook for the 2012/13 fiscal year. Our fiscal strategy continues to be similar to that followed for the two previous budgetary periods of 2010/11 and 2011/12. The primary goal of the strategy is to comply with the principles of responsible financial management. The benefits of genuinely pursuing such principles over the last three years are reflected in the numbers, and are consistent with the objectives of the 3-year plan agreed with the FCO.

In order to convert the principles enshrined in the PMFL into action, the aggregate financial targets for the core government are set by the Cabinet. The aggregate targets fall into three categories: operating targets, balance sheet targets and cash flow targets.

Apart from the setting of targets, it is necessary to speak to the conceptualization of the three year fiscal plan in May 2010 between the government and the Foreign and Commonwealth Office, as this government undertook to clean up the fiscal mess that we inherited in 2009. To date, the greatest endorsement of the plan has come from the double A international credit rating assigned to the Cayman Islands during the depths of the world's most prolonged international recession in recent decades.

It must also be reiterated that the UDP government was proactive in commissioning the Miller Report. The findings and recommendations of the report did not sit on a shelf to gather dust; instead the recommendations were taken seriously, and initiatives to review the public sector were put in place. There is no doubt that such action contributed to increased efficiency, so evident in the public sector during a most unfavorable economic environment.

Having not given in to suggestions to trim the size of the public sector in the way the previous UK Labour Government wanted in the face of the recession, those same public sector workers have had to put the systems in place to achieve the targets, consistent with our fiscal plan. As a consequence, the government has been able to comply with all non-debt related principles of responsible financial management outlined in the PMFL.

Madam Speaker, the forecast operating surplus for 2012/13 is expected to be eighty-one point nine five million dollars (CI\$81.95 million). This represents a significant improvement from the actual unaudited operating deficit for the 2011/12 fiscal year of ten point three million (CI\$10.3 million).

The total forecast operating revenue is projected to improve significantly due to the introduction of some twenty-four (24) revenue enhancement measures along with the slow but steady recovery in the economy. As

such, the revenue target is six hundred and forty-nine point five million dollars (CI\$649.5 million) for the fiscal year 2012/13.

The 24 revenue measures included in this Budget have been developed in conjunction with input and support from various Private Sector partners. These new revenue measures are a combination of increases to existing fees as well as the introduction of some completely new fees; together they are expected to generate approximately ninety point four million dollars (\$90.4 million) in new revenue for the Government during the 2012/13 fiscal year.

The main revenue measures being introduced for the 2012/13 Fiscal Year are:

- Increases in Fees charged to Directors for various regulated and unregulated entities under the Companies Law – this is forecast to earn approximately twenty-one point three million dollars (\$21.3 million);
- Increases in Fees charged to Exempted Limited Partnerships which is forecast to earn approximately thirteen million dollars (\$13.0 million);
- The introduction of new set of fees for Professional Directorships – this is forecast to earn approximately ten million dollars (\$10.0 million);
- Increases in Bank and Trust License fees – this is forecast to earn approximately nine point four million dollars (\$9.4 million);
- Increased Work Permit Fees – this is forecast to earn approximately six point three million dollars (\$6.3 million); and
- Increased annual registration fees for Exempt Companies – this is forecast to earn approximately five point two million dollars (\$5.2 million).

Other Revenue measures included in the Budget are: Import Duty on Cigarettes; Import Duty on Alcohol; Tourist Accommodation Taxes; Departure Taxes; Stamp Duty of Land Transfers; Stamp Duty on Property Insurance Policies; Master Hedge Fund Registration Fees; Traffic Regulatory Fees; Boat Fees for non-commercial vessels; Company Registry Fees; and Monetary Authority Transaction fees.

Our confidence in the revenue projection is consistent with the development and implementation of a more stable and sustainable revenue base for government, which is one of the elements of our fiscal strategy.

The total forecast operating expenditure of five hundred and sixty-seven point five million dollars (CI\$567.5 million) for 2012/13, reflects government's strategy of taking definitive steps to control expenditure in a sensible and logical manner.

Madam Speaker, of the two balance sheet targets, net worth is the easier to comply with because it represents the difference between the assets and liabilities of the core government. The other balance sheet target is borrowing, which is set in terms of debt servicing cost for the year; bearing in mind, however, that debt servicing cost in any given year is the cost associated with debt that has accumulated over preceding years.

Therefore, the fact that the government did not engage in any new borrowing in 2011/12 does not necessarily translate into an immediate reduction of debt servicing cost on outstanding debt. This is why in 2009 my government embarked on restructuring some of the government's existing short-term debt to more long-term debt, to achieve some reduction in interest costs.

Typically governments around the world are involved in deficit financing, but this option is not available in the context of Cayman's PMFL legislation. As a result, the best of initiatives have to be conceived within available operating surpluses, which we are expected to achieve. The green initiative

to push for solar power and other alternative energies is a case in point. This policy is so crucial that we tried to borrow some twenty to twenty-five million dollars (CI\$20 to CI\$25 million) to make it happen. This is another critical development challenge, Madam Speaker; to ensure sustainable development, we need sustainable energy sources, and we need to start in earnest now. However, the FCO rejected that financing plan so we had to pull the plan to come back another day.

Madam Speaker, being in a position to not have incurred new long-term borrowing in 2011/12 is a major accomplishment that will be continued in the 2012/13 fiscal year. This demonstrates in a most profound way, my government's commitment to and ability to sustain fiscal discipline as a major plank of our fiscal strategy.

I stated in last year's budget address, and I can repeat it this year, that fiscal discipline has reduced the need for external borrowing, and, has accordingly reduced financing costs. As a result, the available resources can now be applied to provide services which the public needs. Furthermore, the country's debt burden will decline over time – thereby protecting the public purse for the longer term.

The fiscal year 2012/13 will be the second consecutive year in which the government does not undertake any long-term borrowing. My government claims this as a major accomplishment for the second time in a row.

We have made meaningful progress as my government paid down the outstanding public debt by twenty-five point nine million dollars (CI\$25.9 million) in 2011/12, and plan to pay down a further twenty-six point four million dollars (CI\$26.4 million) in 2012/13.

Madam Speaker, cash flow targets relate to the three categories that make up the cash flow statement: operating cash flows (consisting of operating receipts and payments); investing cash flows (made-up of equity injections and the purchase or construction of assets); and financing cash flows (which relate to loan repayments).

It is imperative that the 2012/13 financial year becomes the last year in which the government does not meet any of the compliance targets in the PMFL.

Madam Speaker, the best ways to address this lack of compliance will entail ongoing control of Operating Expenditure; limiting long-term borrowings; and a return of healthy sustainable growth in the economy. The latter is also clearly the best way to ensure incremental growth in government revenue.

This course of fiscal prudence will put our government in a position to make better use of the public budget to chart the Cayman Islands' social and economic development path. As we seek to address the broad development agenda, however, it is inappropriate at this stage in our development that failure to comply with a PMFL ratio by a narrow margin should be enough to allow any external authority, including the Foreign and Commonwealth Office, to dictate the nature of our annual budget.

I have said it before and I say it again, in my capacity as Premier and Minister of Finance, and on behalf of the Government – this is a retrograde step for Cayman, with our long history of competent self-governance, and our ability to pay our own way, without Grant Aid. But we cannot get away from this situation, which was brought about by the PPM when it left the Islands' finances in a terrible state.

Notwithstanding such sentiments, my government is determined to comply with the financial targets as outlined in the Public Management and Finance Law, within the context of the 3-year plan. So committed is my government to the principles of prudent fiscal strategy that we are prepared to finance executive capital investment activity, out of cash generated from operating surpluses, and existing cash reserves only – no borrowings.

This commitment makes it more critical to partner with private sector investors, in ways that do not add to the country's public debt in the immediate future.

## **Domestic Outlook and Strategic Focus**

While I have presented solid evidence of the improvement in government's finances over the last three years within the framework of the 3-year plan, as a government, we do not intend to rely solely on growth in the international economies as the basis for growth in the Cayman Islands' economy. Therefore my government's focus, having restored some stability to its finances, is to revive the country's economic activity by continuing to encourage investment and creating jobs, through private/public sector partnerships.

These partnerships present both great investment vehicles in a soft economy, and an excellent means to assist in the management of the public debt. Instead of borrowing externally to fund capital investments or operating activities, the government is opting to give incentives to the private sector with the objective of creating jobs, facilitating wealth investments across different economic sectors and to the benefit of both small and large businesses.

Madam Speaker, I say again: the best strategy for achieving sustainable growth in the Cayman Islands' economy is to inspire the private sector to do what it does best, create wealth and generate jobs. In the meantime, we will manage the government's finances to stave off any threat of devaluation of our currency, and maintain an international credit rating befitting of a country of choice.

The seriousness of the need to have a workable strategy which supports inward and domestic private sector investments, is brought home sharply in light of the downgrading of the economic outlook for both the United States and the Euro Zone. Last month, the economies of Britain and Spain went back officially into economic recession. These developments suggest a

continuing high degree of uncertainty among the advanced economies, which remains a threat to the pace of the Cayman Islands', and the whole world is economic recovery. It is of particular concern that the two major source markets for our financial and tourism services are not yet over the hump.

## **GDP Growth**

The forecast growth of real GDP in the Cayman Islands is two point three percent (2.3%) in 2012/13, supported by modest but stable growth of demand for tourism and financial services, and some concrete evidence of start-ups in the construction sector. These start-ups include the development of Cayman Enterprise City, the new Narayana Cayman University Medical Center plus other projects, as well as the ForCayman Investment Alliance development of hotel and related services to enhance tourism and infrastructure facilities along the Seven Mile Beach.

In addition, government projects such as the cruise ship berthing facility in George Town, the extension of the Owen Roberts Airport, and the continuing work on the schools, will assist in boosting construction.

Any significant stimulation of growth prompts a rise in the level of population on the Islands. This in turn stimulates demand for services in several other sectors such as wholesale and retail, real estate, renting and business activities, hotels and restaurants and even financing and insurance. We are grateful for these investments and happy to encourage them, since clearly the inability to borrow as part of our fiscal strategy, reduces the capacity of the government to assist in stimulating economic activity. All of this will bring growth and jobs; money in people's pocket.

Madam Speaker, it therefore does not require a Doctorate in Economics to understand that private sector investment, facilitated by government incentives, is an absolute must for achieving sustainable economic growth in the short to medium term. The role that government has in influencing

investment decision-making is proportionally larger in a small, open economy with a fixed exchange rate, like ours in the Cayman Islands.

One of the ways we intend to generate value for money, efficient delivery and best results for the common good, is by deploying targeted expertise. There will therefore be established a Strategic Delivery Unit under the Office of the Premier, reporting to a Delivery Board consisting of myself, the Deputy Governor, the Chief of Staff, and the Financial Secretary. The dual task of the experts to be employed within this Unit will be to drive the project delivery from established undertakings – the Special Economic Zone, the Narayana Cayman University Medical Center, etc; as well as to otherwise facilitate key areas of cross-Ministry cooperation and collaboration.

Another significant measure we propose to undertake is the re-appointment of the Term Limit Review Committee, to review the recommendations made. We are looking at this critical area closely, knowing its potential to support or discourage business, through the whole economy.

Apart from fiscal prudence, the prices of energy, food and money are crucial factors that impact the rate of growth in all economies. Changes in the price of energy, as measured by changes in oil prices, are expected to favour economic growth over the next twelve months. Over the same period, the rate of growth of food prices is forecast to slowdown; again sending a positive signal to the economy. In the meantime, the price of money – interest rates – is not projected to rise significantly.

It is anticipated that the modernization and enhanced regulation of the financial services industry will yield greater benefits for government and the private sector in the coming year. An example of such benefits may be seen in association with the passing of our Insurance Law 2010, which facilitated the creation of two new classes of insurance. The Law encouraged the formation of special purpose vehicles explicitly for the creation of reinsurance arrangements such as catastrophe funds financed

through the capital markets. In addition the law accommodates a class of reinsurers or reinsurance companies domiciled in the Cayman Islands.

The net position therefore is that notwithstanding the recent setback in two of the major economies in the Euro Zone, the conditions for stronger growth in the Cayman Islands' economy are in place for 2012/13.

### **Inflation Rate and Employment**

With a forecast for stronger economic growth, this is expected to lower the unemployment rate and increase inflation at a slower pace. These changes while positive are not expected to be dramatic; with the unemployment rate forecast to be five point nine percent (5.9%), and inflation to reach two point one percent (2.1%) in the coming fiscal year 2012/13.

A major contributor to the slightly higher inflation rate is the increased demand for rented housing, which comes with the boost in economic activity. A pick-up in the labour-intensive construction industry, while improving employment levels will not generate a return to the pre-crisis employment numbers experienced in the fiscal year 2007/2008. However the increased numbers of employed persons will impact on the domestic cost of living.

### **Current Account**

For the fiscal year 2012/13, the deficit on the current account of the balance of payments as a percentage of GDP as in 2011/12, is expected to be about the same, that is, eighteen point one percent (18.1%). This is based on the forecast that the growth in imports and remittances, caused by increased economic activity and higher employment, will match changes in the inflows from tourism and financial services.

Madam Speaker, it is very important that it is clearly understood that the balance on a country's current account of its balance of payments is

completely different to a National Government's Budget results. It is therefore quite possible for a National Government – as is the case with the Cayman Islands Government – to have a Surplus arising from its Revenues and Expenditures whilst the entire country has a Deficit on the current account of its balance of payments: the two differing results can co-exist.

Apart from inflows related to tourism and financial services, the overall balance of payments will receive a boost from private capital investment associated with the projects which were outlined earlier in the speech. When declining debt service payments are accounted for, given the restructuring of debt and no new external borrowing, the benefits are reflected in the overall balance of payments, not just the current account.

The benefits of the government's foreign investment and external debt policies become even more evident in the following fiscal years 2013/14 and 2014/15. The government will be in compliance with all the principles of responsible financial management outlined in the PMFL by 2015/16, if not earlier, that is in 2013/14, given how close we are to meeting the net public debt target.

### **Economic and Social Policy Focus**

Madam Speaker, there is no doubt that my administration took over the reins of government at a most difficult time and in fact, had handed over to us some very serious financial problems. In my message in the UDP's Manifesto for 2009, I told the voters that we are facing the largest global economic crisis since the 1930s and that the Islands are at a critical point in our country's history. The crisis is still with us, but its focus has shifted away from the United States of America to the European countries. Wherever its focus, the Cayman Islands' economy has had to battle in the last four years; and notwithstanding the shifting tides of economic turbulence, we as a government have much to report in terms of promises kept and positive performance.

Last year, I talked about the marriage between the economy and the society. I talked about the unemployment rate being the ultimate indicator of the country's economic performance. Then I asked the question: what good is it, if by some statistical measures we have a strong economy, but people cannot find work?

The task of ensuring work for our people is a fundamental responsibility of any caring government. In the circumstances, it required us to clean up some mess which we found and we have done just that. As a result, the environment is truly set for stronger economic growth, through the partnerships for recovery that we have embarked upon.

Our tourism sector, which was in decline when we assumed office, has recovered because of measures we took. Our financial services industry, which was facing major international challenges, is recovering. Because of measures we took, our economy, which deteriorated every year while the PPM Government was in office, is showing signs of recovering.

We did not put the economy on auto pilot and hope for external forces alone to drive our recovery. I would have had better sense to say that with the fall of Lemman Brothers, our loss would be negligible; we would only lose a mere \$200,000. In keeping with our Manifesto, we acknowledged the need to actively address the economic crisis in the Cayman Islands. The main focus was on restoring prudent fiscal management and by any indicator, although through the most difficult circumstances, the UDP government has done so. We promised, and we have performed!

The Cayman Islands needed new ideas and strong leadership – not only to weather the economic storm – but to put us back on solid footing for the challenges and opportunities ahead. The marriage between the economy and the society, at a minimum, demands quality healthcare for every family, and requires that not only each child, but each person, in this fast-changing world, has the ongoing educational opportunities to prepare them for success.

A fundamental part of achieving stability and sustainability in our economy and society is to ensure the successful participation of Caymanians in the financial services industry and tourism. We recognized that the foundation for successful participation is more effective partnerships between the public and the private sectors, the domestic and foreign entities, between workers and employers. This network of partnerships is required for success, whether economic, social or political.

Almost immediately on assuming office, we made important changes to bolster our policy, legislative and communications infrastructure within the Ministry of Finance to ensure that we are in the best possible position, to manage our interests in relation to the international community. Today, the Financial Services Secretariat is strengthened with integrated policy, and staffed by Caymanians with legislative, legal and communications expertise, under the Ministry's direction.

In addition to strengthening the Secretariat, the work-load of the Cayman Islands Monetary Authority (CIMA) has been expanded to cope with the increased international scope of our regulatory, supervisory and anti-financial crime framework. To facilitate this expansion, CIMA has enhanced its automation of businesses processes. For example, on-line submission has improved efficiency and speed of the application process for the industry and allowed more effective monitoring of licensees and registrants, both in-jurisdiction and on-site.

CIMA has also implemented on-line payments and expanded automation across the Authority, which now makes it easier for the industry to do business with CIMA. The improved management information systems and electronic reporting have generated more accurate industry data, and by extension contributed to better decision making.

In addition to having upgraded the administrative and legal structure for CIMA, it also became the formal auditor oversight body under the 8<sup>th</sup>

European Union (EU) company law directive. This created a significant advantage to business for Cayman in the EU market, as we are now exempted from the registration and regulation requirements of the individual member states. Apart from the EU auditor oversight requirements, other initiatives were introduced in 2010 to put new standards in place and to enhance the supervisory regime.

As stated earlier, the passing of the Insurance Law 2010 has attracted large international reinsurance companies to Cayman, which has necessitated the training of staff in this class of business. The upgrading of the skills of existing workers, as well as the provision of guidance and counseling services and enhancement of careers assessment, are all part of paving the way for greater participation by Caymanians in the financial services industry.

Madam Speaker, along with expanding the traditional areas of the financial services industry, we embarked on a mission to attract foreign film and television productions to utilize our Islands and our surrounding seas for filming purposes. It is hoped that opportunities will become available for our local talent to get a start from which to develop.

We have established a one-stop repository of information for businesses seeking to expand, relocate to, or establish, a presence in the Cayman Islands. We promised, and we have performed!

Madam Speaker, in setting the stage for success in the Tourism Industry as promised in our Manifesto, we encountered the most prolonged international economic recession in decades, yet we were able to expand the service of our national airlines to include destinations like Dallas, and Panama. These are destinations that show great promise for traffic from their respective attachment areas. As indicated by the President of the CDB at its recent Board Meeting in the Cayman Islands, Panama's canal expansion in 2014 is also expected to offer significant new opportunities to our region.

## **Executive Assets and Equity Investments: 1 July 2009 to 30 June 2012**

Madam Speaker, notwithstanding that we have governed in the depths of a prolonged world economic recession, we are in a position to present a list of Executive Assets, Equity Investments of Ministries/Portfolios/Offices and Statutory Authorities and Government Companies, for the period 1 July 2009 to 30 June 2012 with projections to 30 June 2012.

During the period 1 July 2009 to 30 June 2012 Equity Investments of two hundred and fifteen million point three dollars (CI\$215.3 million) was used by Ministries, Portfolios and Offices for the purchase of entity assets, which included the following:

- Construction of two new high schools;
- Completion of the Government Administration Building;
- Construction and repairs to the Golden Age and Frances Bodden Homes;
- Design and commencement of construction of the Drugs Task Force Marine Base;
- Implementation of the work permit Biometric System and upgrades to 911 system;
- Purchase and installation of CCTV cameras; and
- Other minor works and the purchase of other assets such as vehicles and equipment used by the Police and Ministries, Portfolios and Offices in the delivery of their outputs.

Madam Speaker, during the same period, 1 July 2009 to 30 June 2012, fifty-two point two million dollars (CI\$52.2 million) was provided as Equity Investments to Statutory Authorities and Government Companies.

Madam Speaker, during the same period 1 July 2009 to 30 June 2012, funding for Executive Assets of seventy-nine point five million dollars (CI\$79.5 million) was used primarily for the following:

- Fifty-eight point three million dollars (CI\$58.3 million) on the construction of the new government administration building;
- Fourteen point two million dollars (CI\$14.2 million) on construction and upgrade of road works on the three islands;

- Resources are being added in the 2012-13 Budget for community boxing gyms in East End and West Bay. This has proven to be an outreach that is effective in teaching young men greater discipline, self-respect, and respect for others.
- Two point one million dollars (CI\$2.1 million) on the ongoing construction of a Cayman Brac emergency shelter;
- Zero point seven million dollars (CI\$0.7 million) on ramps and jetties including ongoing works on the Coe Wood Public Beach;
- One point two million dollars (CI\$1.2 million) for commencement work on the Juvenile Remand Facility; and
- Eleven point seven million dollars (CI\$11.7 million) for the purchase/construction of other executive assets such as works at the landfills, playfields and public facilities, agricultural facility, cemetery vaults and improvements to the central business district.

The Nation-Building Programme continues to go from strength to strength, despite the cold water thrown on it at the outset. Our so-called 'slush fund' has thus far provided 100 scholarships to young Nation Builders in a wide range of fields, and includes some with secondary school sports scholarships, going up to the level of others who are pursuing Master's level studies. The students overall are performing well, and justifying the decision to give them the chance – some of whom might otherwise not have qualified for a scholarship.

And there is more, Madam Speaker, but I cannot go into all the details at this time; only to add that the Nation Building programme is proving its value many times over. There is a special sense of reward in seeing our young people excel, and we do look forward to their input as young leaders in this community. I do give the example that we spend \$52,000 per annum for a prisoner. Do we not give our children an opportunity to get ahead – through Nation Building programmes – rather than leave them to the whims and fancies of people who don't care so that they become the inmates of Northward Prison if the future?

## **Ministry of Finance, Tourism and Development**

### **Financial Services**

Our statistics indicate that financial services continues to be Cayman's major economic driver; in 2010 finance and insurance services contributed 43% of our GDP while in 2011, it represented 41.9% of the GDP.

Government and the private sector have reinvigorated their partnership, notably through the Financial Services Council (FSC) and Financial Services Legislative Committee (FSLC) – though the Cayman Islands Monetary Authority (CIMA) has also received vigorous support from private participants, in developing recommendations in the area of mutual funds governance regulatory reform.

Whereas the FSC provides a forum for consultation particularly on policy matters affecting the financial services sector, the FSLC provides for the fast-track consideration of industry proposals to improve the financial services legislative framework. Both the policy and legislative elements will of course come into play in CIMA's major funds governance initiative, in the context of which leading minds in funds governance, locally and internationally, have been consulted.

I can say that subject to the passage of enabling legislative changes, in particular the registration of directors, the funds governance initiative would bring about two very significant outcomes: first, it would reinforce our reputation for integrity, thus bolstering our position as global leaders in this area. Secondly, it would bring significant new inflows to Government's revenues.

Such Leadership in best practices development will serve us well in the context of investor's search for domiciles in which they can place confidence, given the ongoing instabilities in the global economy.

Under my stewardship as Minister of Finance, the Government made several key accomplishments. These include:

- Increasing the number of signed Tax Information Exchange Agreements (TIEAs) between the Cayman Islands and other Countries from 8 as of 1 April 2009 to 27 at present. This resulted in the Cayman Islands being once again returned to the OECD's "white list". This was a critically important achievement in order to protect our Financial Services Sector – a key pillar in our local economy;
- With a steady hand at the wheel and prudent fiscal management, the Cayman Islands retained its coveted Aa3 rating by Moody's even as other countries experienced downgrades. This again was another key accomplishment in preserving favorable interest rates and access to Capital;
- For years, the country bemoaned the lack of timely annual accounts. Under my leadership, the Government prepared and submitted a complete set of annual accounts in 2011 by the legal deadline established in the Public Management and Finance Law. This was the first time that such an achievement occurred since the introduction of the Public Management and Finance Law in 2004;
- The Government had a successful bond issue in November 2009 which was several times oversubscribed. This allowed us to amalgamate certain long-term debts into a single bond at a favorable interest rate and was part of a wider debt strategy for fiscal sustainability;
- I inherited a fiscal position where Government's finances ended the 2008/9 fiscal year with an \$81.0 million Entire Public Sector deficit. Within two fiscal years, that result was turned around into an unaudited surplus and our current budgetary plans will feature an even greater surplus of eighty-one point nine five million dollars (CI\$81.95 million) for the 2012/13 fiscal year;
- I have been a staunch defender of our Financial Services Sector and have ensured a presence at the negotiating table whenever discussions or threats presented themselves. This afforded the Cayman Islands an opportunity for robust engagement and to also ensure that measures with potentially adverse impacts on our jurisdiction was effectively mitigated. Such efforts have resulted in the

Cayman Islands taking the top spot in the second quarter of 2012 as the most popular offshore business destination for investors;

- Under my leadership, the good ship Cayman has been sailing the turbulent financial seas to calmer waters; we have faced the storms of proposals from previous FCO administrators for direct taxation on property, income and value added tax (VAT); and we've overcome those obstacles by rejecting them while keeping our finances afloat;
- Each government has a 4-year term. The Government had to borrow during the first two years of our administration as we inherited substantially incomplete capital projects that were started by the PPM government and for which there were insufficient revenues to support capital payments. My government has since worked hard and I am pleased to say that, again under my stewardship, the Government incurred no long-term borrowing in 2011/12 and will not be incurring any long-term borrowing in 2012/13;

Conversely, over the two-year period, the Government would have paid back over \$50.0 million in principal, thereby reducing our debt stock and also over \$60.0 million in interest. We have done so in the midst of a worldwide economic crisis, and have also been able to improve our infrastructure and deliver on several key capital projects such as the expansion of our primary school classrooms and new facilities for MRCU;

- Last year, our GDP grew by 1.1% signaling the start of a turnaround from the contraction which began in 2008. Achieving growth in this global economic environment is no easy feat; the key drivers for this growth were increased demand in our stay-over tourism services and our financial services sector – both of which fall under my responsibility as a Minister of Cabinet; and
- Finally, after much hard work, long nights and marathon negotiation sessions, we have now prepared a fiscal trajectory that places the Cayman Islands on a path whereby in 4 years time, we will have cash reserves of just over \$200 million, compliance with all debt ratios (ones which are even more onerous than those which existed during the previous PPM administration), one where no borrowing will be required during that period and will result in our current debt stock

being reduced by a further \$100 million. I believe that is a fiscal path that any Minister of Finance can rightfully be proud of and it is something that I have worked hard to achieve.

## **Public Finance**

The Customs Department continues to be Government's key revenue earner; so the effective implementation of the new Total Revenue Integrated Processing System will be of singular importance. Efficient management of the new x-ray scanner is also expected to enhance revenue collection as well as public safety and security.

Other areas of Public Finance are expected to play solid developmental roles:

- The Economics and Statistics Office will continue to upgrade economic statistics, as well as the social indicators vital to socio-economic development planning; and
- The Internal Audit Unit will facilitate the establishment of an Audit Committee, which will provide independent assurance and advice to the Minister of Finance on the quality of compliance, governance, and internal controls including risk management.

All of these will cascade with varying force across the Entire Public Sector. They will provide significant supports for the important movement towards a 'whole of government' approach to improved governance.

## **Tourism and Development**

### **Tourism**

Madam Speaker, this side of the House has much to be proud of, with regard not only to fiscal prudence, but also our stewardship of the economy in a time of difficulty outdone only by the 1930s Depression. The Department of Tourism is a case in point, where, despite a 25% reduction in budget over the last 3 years, and cut of 19% of staff positions in 2010, large contributions were made to the economy, and direct revenues from Tourism Accommodation Tax were increased by 29%.

I can only share a few of the highlights on this occasion:

1. A hard-working, forward-looking young Caymanian Director was appointed after Acting for 4 years, which has seen 3 years of positive performance. In addition, the head office team has gone from 72% to 94% Caymanians].
2. At the end of 2011, visitor arrivals were up for 26 of the preceding 28 months. We were one of only 3 Caribbean destinations to have that positive trend (up by 6% at the end of 2010; up by 7% at the end of 2011).
3. These are our best stay-over visitor arrivals in 10 years, and 2012 is on track to again feature record numbers.
4. This is due in part to the excellent synergies being developed between the Department of Tourism and Cayman Airways Limited, along with the other airlines providing air lift: we opened new Service from 5 cities via different airlines, in the past 3 years.
5. Much has been done also to consolidate the relationships with private sector partners, and to work with them on keeping up standards of guest accommodation, and services.

### **Cruise Berthing Facilities Update**

I am pleased to report continued progress on the project to develop purpose-built world-class cruise berthing facilities. There are two major parts to this project – the docking and passenger landing facilities, and the uplands commercial operations.

We are working through in detail, the design, finance, engineering, construction, maintenance and operations elements, with the preferred developer, China Harbour Engineering Company (CHEC); and including also a consortium of local contractors to partner in the uplands construction. These include DECCO, McAlpine, and Hurlstone.

The primary benchmarks guiding these discussions include feasibility, local participation, and ultimately, the achievement of value for money in the project delivery.

To ensure effective management and timely delivery in this project, we have employed a highly experienced local Project Manager.

We expect to begin the Spotts jetty by October/November 2012.

## **Development**

Planning is the major department in the 'development' sector, a common euphemism for the construction and built environment field. Vigorous efforts are being made by the Department backed by the Central Planning Authority, to streamline their service delivery and strengthen industry standards.

Their plans call for development of facilities to enable electronic submission of plans, processing of payments, and to generally make their document management and workflow as near paperless as possible. Along with staff and industry training in the requirements of building code amendments, it is anticipated that the approval process will be shortened; administrative costs will be reduced; industry performance will be enhanced; and quality improvements will be seen in the finished product.

The Public Transport Unit is a small, rather overlooked but important Unit, which regulates both the flow of local public bus services, and the operations of tour and taxi services.

It is estimated that about 100,000 persons annually use public transport dispatched from the George Town Bus Depot. Add to this the important 'tourism ambassador' role performed by tour and taxi operators, and the importance of maintaining a high quality of service in this area quickly becomes obvious. The Ministry will strive to reinforce and uphold this.

## **Ministry of District Administration, Works, Lands and Agriculture**

In the Deputy Premier's Ministry, the Ministry of District Administration, Works, Lands and Agriculture, entities' projected engagement over the budget year will continue to span the broad scope from maintenance support for approximately 1 million square ft. of public facilities and over 100 parks, cemeteries, and recreational spaces on the one hand; to the advancement of our Renewable Energy commitment, and the liberalization of Information and Communications Technology networks and services, on the other hand.

The Deputy Premier has made a strong and bold commitment to the pursuit of food security for the Cayman Islands. Whilst promoting the further development of the impressive Geographic Information System, and completing the Doppler Radar Station will provide immediate benefits in revenues and public safety, the food security policy is an example of the kind of policy position that will help to build sustainable development for the Cayman Islands. Important health, as well as economic impacts, are associated outcomes; and of course, we have already seen and continue to build on the potential for culinary tourism.

Divestment of the Water Authority's Waste Water assets will proceed; and other significant positive budget impacts are expected from the adoption of E-conveyance in the Land Registry, along with the electronic submission of all legal surveys, once all the technical and legal steps are completed. Valuable contributions are also expected in the form of maintenance, supervision, and building of both the road system in general and the works associated with the Narayana Cayman University Medical Center, Special Economic Zone, and ForCayman Investment Alliance.

The work of the Ministry in District Administration is planned and executed as per the district needs of the Sister Islands. This budget will include –

- construction of 16 Affordable Homes
- construction of the Brac Hurricane Shelter, and the new Emergency Facility

- continued marketing of the Sister Islands as a prime destination for tourists and investors

### **Ministry of Education, Training and Employment**

My Government takes seriously its responsibility for the development of our people. This is reflected in the four key strategic objectives my Government, through the Ministry of Education, Training and Employment, will pursue for the 2012/13 financial year.

1. **We will continue our drive towards the attainment of a world-class education system** in the Cayman Islands, building on an impressive track record of critical improvements that have been made in the past three years.

Under this Government we have seen a significant improvement in public examination results at Key Stage 4. I remind this Honourable House that when my Government took office the average percentage for five or more passes was in the twenties, as it had been for many years. Under the leadership of this Minister for Education, schools achieved an average of 45 percent last year, with better still expected for this year.

2. **We will build on the establishment of the new National Workforce Development Agency to deliver services that will support work readiness and job placements for Caymanians actively seeking employment or career progression.** Through this new agency we will also establish, for the first time, a national workforce development and training agenda.
3. Recognising that this objective will only be achieved in a well-regulated jurisdiction, **we will build upon the establishment of the new Department of Labour and Pensions to provide more effective and efficient mechanisms for managing compliance and enforcement in both pensions and labour matters.**
4. We will further develop the **Public Library Service and National Archive, as partners in the Ministry's human capital development agenda,** making more strategic use of the

programmes and resources these agencies can provide for personal enrichment, enjoyment and education.

These broad strategic objectives combine to outline and demonstrate my Government's commitment to the holistic development of our people. However, as is often said, the "devil is in the detail". The Ministry of Education, Training and Employment has also meticulously and strategically mapped out the process by which we will achieve these objectives, and I intend now to take some time to share with you a few of the planned initiatives for this next financial year, focusing on education, training and workforce development.

## **Education**

When the Minister for Education took leadership of Education in 2009, it quickly became clear that standards were low and that parents and teachers were not satisfied that the system was delivering good quality provision that would enable our young people to achieve and develop the skills they need to compete in competitive, global, employment markets. He acted swiftly and decisively to tackle the chaos he uncovered, by stabilising the education system, establishing new structures, frameworks and national standards where there were none, and introducing new programmes and interventions to tackle long-standing critical needs at all levels of our education system.

These firm foundations now enable us to continue to build an education system we can be proud of, which promotes high standards of achievement and helps every child to learn and succeed.

In 2012/2013, the UDP will continue to invest heavily in our children's future, the future of our country.

- The Ministry will introduce the "Teach Cayman" programme, to deliver high quality local initial teacher education and leadership training in partnership with our University College and higher

education institutions overseas, and a mentorship programme for newly qualified Caymanian teachers.

- Work is underway to ensure that a comprehensive framework will be in place for education, to legislate for the many improvements that have occurred in education, and for those still to come, during the next financial year.
- Over the past three years, through the Ministry's literacy strategy, there have been significant improvements in English passes at Year 12. Last year interventions such as the 'leveled literacy' and 'corrective reading' and 'catch up literacy' programmes were implemented to tackle underachievement at primary. These efforts will continue. In 2012/2103 the Ministry will aggressively tackle the issues of chronic underachievement in mathematics within our schools, with the introduction of a new mathematics strategy. The strategy will focus on students achieving the basic skills early within their school careers, and will build on the 'leadership in primary mathematics programme' introduced last year, to develop capacity within the education system to coach and promote best practice. Alongside this they will be implementing a suite of interventions to improve the teaching and learning of mathematics, most notably the 'Maths Recovery' programme for those students at Primary who struggle the most in this subject.
- This Government recognises that there is an ongoing need to provide our children with high quality learning environments. We are pleased to advise that four new primary school facilities at Sir John A Cumber Primary, George Town Primary, Savannah Primary and Bodden Town Primary will be opened for the start of school. These new classroom blocks, delivered in a fiscally responsible manner, will deliver state of the art facilities to provide critical improvements to our aging, primary plant. They will provide much needed additional spaces for growing enrollment and staff needs, allow us to reintroduce Reception classes at these schools, and to discontinue the use of temporary classrooms.
- I am also pleased to announce to the country that this Government will deliver the new Clifton Hunter High School at Frank Sound for the new academic year. This is an important milestone for my

Government and this country, as the investment required for these schools, at around \$100 million each, is sobering and long-term. I would like to thank the Minister and his team for their perseverance over the past three years to surmount the many challenges they inherited with these projects, to bring us to this stage.

- My Government's position on the flagrantly extravagant and costly design of the new high schools by the previous administration is well established – we could have gotten world-class facilities, with space for our growing enrollments, without financially crippling our country. However, I trust I can be equally clear on the need for new secondary facilities. I am proud to be in a position to say that this Government will deliver a new school in September, and that the Ministry is working to ensure that these facilities will benefit children from all our districts, for example as a centre for our successful extended secondary afterschool programme for both Clifton Hunter and John Gray students, and by developing and using the performance arts building as a central resource for the development of arts, drama and music for both secondary and primary schools.
- This Government's commitment to supporting the performing arts also extends to our Sister Islands. This year, an additional \$50,000 has been budgeted to support the development of music in Cayman Brac.
- This government has continued to work closely with the parents, teachers and administrators and other stakeholders on Cayman Brac to prepare of introduction of a five year high school and Year 12 programme in 2013. A pilot dual entry programme has started already with one student taking classes at both the Layman Scott High School and UCCI. The Year 12 programme will be finalized after further consultations this year, to provide a bespoke product for Cayman Brac, focusing on the local needs whilst ensuring students are prepared for the wider world within their chosen careers.
- We need no reminder of the ever present need for our school leavers to be as effectively prepared as possible for the challenges of life and work. In 2012/2013 this Government, through the Ministry of Education, Training & Employment will further develop the careers service at the CI Further Education Centre (CIFEC), which was

established last year, to incorporate components of our highly successful Passport to Success programme, and the new Work Keys programme for work readiness assessment and education to ensure all our students are adequately prepared for the next stages of their careers.

- In terms of the Technical and Vocational Education and Training (TVET), in 2012/2013 there will be an expansion of TVET offerings at the Cayman Islands Further Education Centre (CIFEC) to include accredited courses in cosmetology, construction, catering and work skills. Provision for CIFEC will be substantially enhanced by their move to the old John Gray site, enabling access to substantially more learning spaces, including a library, workshops and IT equipment.
- Beyond TVET offerings at CIFEC, this Government remains committed to expanding on successful training programmes currently running in local businesses and will seek further development of partnerships between schools and employers to enable apprenticeship programmes. Work is well underway to establish apprenticeship programmes in areas such as construction and motor vehicle studies and cosmetology.
- The Minister for Education is to be congratulated on the many critical advancements that he has championed in the area of early childhood care and education in such a short space of time. Improvements in this area is a key priority area for my government, and a long-term investment in our children's and country's future. The Ministry will now finalise the new *Cayman Islands Early Years Curriculum Framework*. The draft document has been produced and the Early Childhood Care and Education Unit within the Ministry has consulted with the stakeholders; trained the practitioners to use this document in practice and supported the centres through visits and individual professional development opportunities.
- In September this year, Reception will be reintroduced at three more of our government schools: Sir John A Cumber Primary in West Bay and Savannah Primary and Bodden Town Primary schools. These 9 new Reception classes means that over 200 more children and over 200 more Caymanian families than last year will benefit from access to one year of free, quality education prior to the start of compulsory

schooling for their children. This has been made possible as a result of the additional space provided by the new classroom blocks at these schools and the government's prioritization of the additional funding required for this critical initiative.

- The Ministry will also raise the age of entry for compulsory schooling to age 5, to ensure that our children are more ready developmentally to meet the demands of our school system and curriculum, bringing our country more in line with international best practice.
  
- The Ministry of Education is finalising preparations for the implementation of a National Strategy for Safer Schools. The Strategy provides a vision and a set of guiding principles to develop safe, supportive and respectful learning environments throughout the Cayman Islands that promote inclusion, intervention and student wellbeing. It identifies five goals that will assist Caymanian schools in creating learning environments where all members of the school community feel and are safe from aggression, violence and bullying. It also responds to new and emerging challenges for school communities such as the misuse of drugs, sexual misconduct, internet safety, cyber bullying and community concerns about gang-related activities and weapons.

## **Training and Workforce Development**

I turn now to the delivery of the Ministry of Education's second strategic objective, which primarily focuses on more effective training and workforce development.

The establishment of a National Workforce Development Agency, I can assure you, is not the status quo simply re-packaged with a new name. Under the old arrangements, the Department of Employment Relations had neither the organisational structure nor the capacity to develop the workforce and, more broadly, the human capital of our country. This overarching goal will be at the forefront of the work of the new Agency and, in so doing, will deliver on the United Democratic Party's Manifesto commitments to "ensure that the long-term human capital plan matches the needs of the economy" and that there is a "coordination of training" as part of a "holistic intervention" to "produce long-term benefits."

- The National Workforce Development Agency will establish a national work readiness programme, to address barriers to employment and career progression. It will work to identify skills deficits and personal challenges that may exist, ensure that these are effectively assessed and then put relevant remediation strategies in place. This is not the old process of simply sending someone for a job interview on a wing and a prayer, with fingers-crossed and little other reassurance that they even have a fighting chance of getting the position. That was a demoralizing experience, where we often set people up for failure.
- The National Workforce Development Agency will also develop specific programmes to target marginalized groups and to provide assistance to these priority groups in overcoming their specific barriers to employment. Interventions of this sort by my Government already have a proven track record with its highly successful Passport2Success programme.
- The National Workforce Development Agency will work with employers to provide them with access to suitably skilled and qualified job-seekers in a timely fashion. This will require a number of enhancements to the old job placement process, including the generation of data on the availability of qualified Caymanians that is fit for purpose, accurate, reliable and up-to-date, the establishment of a system which effectively pre-screens job-seekers for vacant positions, so as to provide employers with appropriate referrals and the introduction of on-line access for the posting vacancies for employers and of résumés for employees.
- Through the National Workforce Development Agency that the Ministry of Education, Training and Employment will also seek to provide fresh impetus in the area of technical and vocational education and training. To this end, the Agency will be responsible for the implementation of a new national Technical and Vocational Education and Training strategy, which will be managed in partnership with the private sector and quality education and training institutions.

- Allied to these Technical and Vocational Education and Training initiatives, the National Workforce Development Agency will establish and develop a Quality Assurance Framework for Training and Development in the Cayman Islands. This will encompass the registration of training institutions and training providers and the introduction of a register of training programmes.

### **Ministry of Community Affairs, Gender and Housing**

Here are some of the key accomplishments of the Ministry of Community Affairs, Gender and Housing:

- commencement of the Children Law 2003 for the 1st July 2012;
- reorganization of the CAYS Foundation;
- development of a framework for youth rehabilitation including suggested changes to the relevant laws;
- completion for the Foundation for the Cayman Islands Youth Center;
- redevelopment of the Windsor Park Affordable Housing site;
- completion of the suggested changes to the Adoption Law – which will be presented to Cabinet over the next few weeks;
- passing of the Gender Equality Bill and the establishment of the Gender Equality Tribunal; and
- development of a website for the Gender Equality Law

### **Ministry of Health, Environment, Youth, Sports and Culture**

#### **Health**

I have said before that the health of the nation is an absolutely critical asset. One of the less happy outcomes of our modern era of growth has been the increased incidence of chronic non communicable diseases – which also have demanded a large share of public resources. Having conducted the first-ever general Non Communicable Disease Risk Factor Survey, the Ministry will follow up with an Adolescent Health Survey later this calendar year. These will be important resources for proper planning of intervention programmes.

It is therefore gratifying that the Ministry also plans to bring forward and table in the Legislative Assembly within this calendar year, a National Health Policy. Alongside this, the Ministry intends to expand through CINICO access to a cost-effective network of providers (including use of the high quality facilities in Panama). At the same time, the benefits provided through the mandatory 'Basic Plan' under the Health Insurance Law, will be enhanced, and necessary updates to the Mental Health Law, Health Practice Law, and Pharmacy Law are planned.

### **Environment**

The Marine Parks System, already recognised internationally, is subject to a review in conjunction with Bangor University; this will conclude in early 2013.

The invasion of the very fertile and highly predatory lionfish is a cause for real concern and efforts will continue to devise an effective control programme.

In the larger, global view, our continued engagement with the challenges of climate change will be brought forward in a National Climate Change Policy.

### **Youth and Sports**

Our immediate headline news in this area is the fielding of five Caymanian Olympians in London 2012. These role models have generated national pride, and Government extends best wishes from all of Cayman to Shaune and Brett Fraser, Cydonie Mothersill, Ronald Forbes, and Kemar Hyman, as well as to their supporting families, trainers, sponsors, and the Cayman Islands Olympic Committee.

While continuing its support programmes for sports, the Ministry will mount a broad consultative process to generate a National Sports Strategy. Here again there is evidence of investment being made to lay the foundation for sustainable development policies.

At the same time, a practical addition will be made to facilities for active lifestyles in the form of a walking track at the George Hicks Field.

## **Culture**

Similar long-term development work will be undertaken in the form of work towards a National Culture Policy. Amendments to the Cayman National Cultural Foundation Law will be tabled, as an important contribution to that larger effort.

## **Cabinet Office**

The entities managed under the Cabinet Office play various roles that support the drive to a 'Whole of Government' integration:

The Policy Coordination Unit will assist with policy development and implementation across Ministries and Portfolios. This will be valuable support for the Strategic Delivery Unit to be established under the ambit of the Office of the Premier.

Similarly, the tools available through Computer Services, that facilitate Government's electronic data and document management, streamline workflows, and reduce delivery costs, will be highly valuable to the effective working of the Strategic Delivery Unit.

Government Information Services is expected to bring forward innovations to achieve better communications outcomes for Government, including support for the effective delivery of the new Government TV Channel, including the broadcasts of the proceedings of the Legislative Assembly.

## **Conclusion**

Madam Speaker, in the midst of the most challenging economic circumstances to have confronted the world in over eighty years, my government is able to hold its head high, based on our achievements over the last three years which have been most difficult. We faced the problems and immediately identified a strategy of partnerships to solve them. It is remarkable that in making the necessary fiscal adjustments to inspire private sector confidence in our 3-year economic plan, we appear to have inspired bigger countries as to the wisdom and merits in our strategy.

Madam Speaker, the economic strategy also inspired Moody's renowned for its toughness as a credit rating agency to maintain Cayman's double 'A' international credit rating. This achievement is tremendous in the context of the downgrading of several countries' credit rating, including some of the most advanced economies. This reinforces that, my government's decision to choose the path of fiscal restraint without causing diminishing returns over fiscal expansion was, and still is, the mature thing to do.

Madam Speaker, there are doomers and naysayers but I cannot help but repeat my reference to the restoration of a quiet confidence in Cayman as observed in last year's budget speech. This quiet confidence continues to be associated with the following assessments: that we are prudent; we are fair; we believe in the rule of law, and we apply ourselves to the onerous task of governing well, with integrity.

The task of governing well requires gaining the confidence of the electorate. It is about getting people to buy-in to ideas and to believe in the policies of the leadership. Thus far, the evidence demonstrates my government knows what needs to be done, and we are doing it. In this regard, I found the speech of Prime Minister David Cameron truly inspiring, which he ended by saying: "I cannot predict how the crisis will end for others. And I cannot pretend that Britain will be immune from the consequences, either. But this I can promise: that we know what needs to be done and we are doing it. Get the deficit under control, get the

foundations of recovery in place, defend the long-term interests of our country and hold our course.”

Madam Speaker, if we follow the language of my three budget speeches; it may be recalled that in speaking to a partnership for recovery, we set controlling the fiscal deficit as a major priority. We have been doing what it takes to keep these three blessed islands safe from the storm. We have done this through the grace of an Almighty God, whose word is repeated in our Motto: this should come as no surprise, for those of us who understand and internalize “For he hath founded it upon the seas.”

Caymanians have worked very hard over the years to build the country’s economic and social fabric. We feel a sense of ownership of the country’s progress. We are strict guardians of our heritage. In this vein, Madam Speaker, the work of the civil servants continues to be admired, respected and appreciated. I take this opportunity on behalf of the government to once again thank them for their invaluable service to this country. I think especially of those who have worked beyond the call of duty.

As a God-fearing people, Caymanians have learnt “to trust in the Lord, and do good; so shalt thou dwell in the land, and verily thou shalt be fed.” Psalm 37:5. This Psalm speaks to achieving peace of mind in the face of adversity. This requires an undying affirmation of faith and trust in the unchanging character of God, in his power and his mercy.

Madam Speaker, I wish to thank Honourable Members of this House and the members of the listening public for their patience and attention. I now commend The Appropriation (July 2012 to June 2013) Bill, 2012, to all Honourable Members of the Legislative Assembly, and ask that they support the Bill.

Thank You very much, Madam Speaker.