

2019-2020

BUDGET STATEMENT

IN SUPPORT OF THE ESTIMATES
OF REVENUE AND EXPENDITURE

PRESENTED BY
THE HON. CURTIS L. DICKINSON, JP, MP,
MINISTER OF FINANCE

FRIDAY, 22 FEBRUARY 2019



GOVERNMENT OF BERMUDA
Ministry of Finance





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Published by:
Government of Bermuda
Ministry of Finance

Government Administration Building
30 Parliament Street
Hamilton HM 12, Bermuda
February 2019

Design: Department of Communications
Printed in Bermuda by The Bermuda Press Ltd.

INTRODUCTION

Mr. Speaker, this Statement is a unique one in our parliamentary democracy. It is a statement made in support of the Estimates of Revenue and Expenditure for the Government of Bermuda in any given year. It is a statement centered on facts and figures and is the guide for how a Government will fiscally govern itself in the coming year. But Mr. Speaker, that basic description bears no resemblance to the significance of this process to all sectors of this country. This statement must provide the confidence necessary for investment in this country; it must speak stability and competence to businesses small and large; it must ease the golden years of seniors; it must bring hope and inspiration to the young people who stand to inherit this country and most of all, it must signal to the most vulnerable that they are not forgotten and can be made whole.

Mr. Speaker, in this my first Budget Statement, I am mindful that I represent a legacy of social justice and a struggle for equality in this country that while not yet perfected has been advanced through the work of icons like Browne-Evans, Wade, Smith, Scott, Allen, Brown and Cox; and countless others whose names we may not speak today but whose values guide what we do for and on behalf of the people of Bermuda.

Mr. Speaker, it is no exaggeration to say that we live in one of the most challenging economic eras in modern times. Delivering on even a modest agenda would be considered difficult, but the agenda set by this Government is not modest; it cannot be because these extraordinary times demand that we take strides that may not match conventional wisdom and may defy the understanding of those who do not share our vision or indeed even our common purpose.

Mr. Speaker, in his message to Congress in 1862, President Abraham Lincoln said:

“We can succeed only by concert. It is not “can any of us imagine better?” but, “can we all do better?” The dogmas of the quiet past, are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise – with the occasion. As our case is new, so we must think anew, and act anew. We must disenthrall ourselves, and then we shall save our country.”

Mr. Speaker, this call to action was made in the throes of the US Civil War and the impending end of slavery. It was a morally and economically challenging time which demanded that their country examine itself and decide if they would commit to living up to the purported values of their founders. Although no war threatens us, we face similar challenges. The question for us, the call to action on the cusp of this third decade of the 21st Century, is whether we can do more than imagine better; can we; will we commit to doing better?

Mr. Speaker, we must grow our economy. We must balance our budget and we must reduce our national debt. We must evolve our system of taxation to one that is more equitable and we must concurrently fulfill the promise of November's Speech from the Throne to reduce the cost of living for Bermudians. In the face of modest economic growth and manifested resistance to efforts at diversifying this economy, this is no easy task. Add to that external threats to our business model and the mainstay of our existing revenue base, and the enormity of the challenge becomes clearer. But Mr. Speaker, I am proud to report to this Honourable House and the people of Bermuda that their Government remains steadfast, determined and is making steady progress in delivering on those promises.

Mr. Speaker, in this budget I have struck a necessary balance between fiscal prudence aimed at promoting job creation and economic growth. Our approach to the 2019/20 national Budget includes a combination of modest revenue enhancements derived exclusively from the existing tax code coupled with the freezing of Government expenditure at the fiscal 2018/19 spending levels and a small increase in capital expenditures. This fiscally prudent and balanced approach will move us towards a small Budget surplus and, consequently, a reduction in net debt.

Mr. Speaker, this budget has been achieved following the widest possible consultation. Those groups and people most affected have had the opportunity to express their views on our proposals. Democracy can sometimes be inelegant and disheartening to some, but Mr. Speaker, the process since the pre-Budget Report and the hosting of various meetings has been an enriching experience that has informed the preparation of this Government's fiscal policy. From end to end the people of Bermuda have voiced their concerns, their fears and most helpfully their ideas

and suggestions. We heard how ordinary, hardworking women and men have been impacted by the economy since 2008 and how they have done extraordinary things to still provide for their families, to care for aging loved ones and to preserve property legacies for future generations.

In their sharing we have found inspiration and validation of the need to diversify this economy, to run their Government more efficiently and to start the exercise of fair taxation by collecting what is owed. Mr. Speaker, the voice of the people will be heard in this budget and what they have demanded of their Government is what we aim to deliver.

Mr. Speaker, the Public Service is the engine on which we as a community rely to provide services and value for money in the management of various agencies that impact the people who call Bermuda home. The men and women of the Public Service share the same concerns, responsibilities and aspirations as all other citizens. Public Sector Reform will form an important part of this fiscal year's efforts at streamlining the operations of Government to suit the modern service delivery standards demanded of any organization.

Mr. Speaker, this budget will demonstrate this Government's determination to invest in our people. From nursery through mature learning and retraining, we will invest in the building of capacity in our people so that success in economic diversification finds them ready to assume the jobs created locally. Bermuda cannot simply be cutting edge in legislation and economic ecosystems. We must present job creators with a population that can meet their business needs.

ECONOMIC OUTLOOK

Mr. Speaker, like the economies of many small countries, Bermuda's economy is highly vulnerable to external events, underlining even more the need for financial and fiscal prudence. With our open economy, a fixed exchange rate regime, high levels of Government debt and other potential liabilities from guarantees and underfunded pension and health care schemes, changes in global financial market sentiment could also have a major impact. The preparation of the 2019/20 Budget takes into consideration these global and domestic economic conditions. As the Government has limited economic tools available to influence economic activity, we have a responsibility to act prudently and to support sustainable economic growth.

The Challenges We Face

Mr. Speaker, the Government has carefully identified and assessed these risks, among others, when framing the 2019/20 Budget. Bermuda faces several challenges globally and these must be considered when planning our national Budget and charting our economic course for the future. Many of the challenges are international, but there are also domestic challenges that can pose significant risk to our economy, if not managed judiciously.

The European Union's List of Non-Cooperative Tax Jurisdictions

Mr. Speaker, the most pressing threat to Bermuda's international business sector and to Bermuda's economy is the European Union's (EU) list of "non-cooperative tax jurisdictions".

Mr. Speaker, on 5th December 2017, the Council of the European Union (the Council) adopted and published its conclusions regarding "non-cooperative jurisdictions for tax purposes", together with a list of "non-cooperative jurisdictions". The final list was determined by the Council following an evaluation, by the EU's Code of Conduct Group, of the tax regimes in those countries based on a set of specified criteria. Bermuda was not listed as a non-cooperative jurisdiction; however, the Council has stated that tax regimes exist in Bermuda, among other countries, which

facilitate offshore structures that attract profits without real economic activity. Since December 2017, the Government has been meeting with various stakeholders at home and abroad and has implemented reforms. On 17th December 2018, the Economic Substance Act 2018 was passed by Parliament. The purpose of this legislation and its accompanying regulations is to ensure that Bermuda remains off any EU list of non-compliant jurisdictions and that it will continue to thrive as an international business centre.

The Government will continue to engage the EU in constructive dialogue and we are confident that the EU will continue to recognise Bermuda's leadership in the area of global tax transparency and compliance.

Caribbean Financial Action Task Force Assessment

Mr. Speaker, the Caribbean Financial Action Task Force's (CFATF) assessment of Bermuda's Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) regime is in progress. The first draft of the report has been received and the Bermuda team has provided a detailed response to the ratings and analysis in order to seek to ensure that the report is revised to reflect the Bermuda regime appropriately. The second draft is due shortly and the team is preparing its strategy for analysis and response. It has now been confirmed that Bermuda's report will be discussed at the CFATF's November 2019 Plenary, to be followed by the CFATF's quality and consistency processes. It is therefore anticipated that Bermuda's Mutual Evaluation Report should be finalised and ready for publication in early 2020. The Bermuda team continues to work in unison to present Bermuda's best case and to ensure that issues already identified by the CFATF assessors are evaluated and strategies are developed for dealing with them in a timely manner.

US Tax Reform

Mr. Speaker, the tax reform legislation eventually passed by Congress does not appear to have had any significant negative impacts on Bermuda's insurance and reinsurance industry; this risk has therefore diminished significantly. Nevertheless, we will need to ensure that we maintain our comparative advantage as a place to do business and keep a close eye on developments in Washington.

Brexit

The legal basis for the relationship between the Overseas Territories and the EU is set out under Treaty on the Functioning of the European Union. Accordingly, Bermuda benefits from special arrangements with the EU including most favorable treatment in relation to measures affecting trade in services and other trade related matters.

While most of Bermuda's trade in goods and services is with the US, the EU exports a sizeable amount of goods and services annually to Bermuda. Annual two-way trade is normally \$30 billion. Given that the Withdrawal Agreement primarily provides for an orderly exit from the EU, there should be limited direct impact on Bermuda if an agreement can be reached prior to 29th March, 2019.

The Government of Bermuda has been working with the UK Government to ensure that issues related to Bermuda are considered. However, to the extent that the UK acts to defend Bermuda's interests in the EU, particularly in relation to financial services regulation and tax policy, Bermuda may find it more difficult to make its case in Brussels.

Bermuda's Ageing Population

Mr. Speaker, Bermuda's aging population, a certainty, not just a risk, will result in serious medium and longer-term pressures on public spending and challenges to growth. The recent census throws these issues into sharp relief, suggesting a sharp rise in the old-age dependency ratio in the near future. While demographic trends are, by their nature, slow-moving and may not be immediately visible to the public, this is perhaps the single most serious long-term issue Bermuda faces. It will not be possible for the Government to meet its obligations to our retirees and pensioners without significant structural reforms to our economy. We must have more Bermudians working in Bermuda and have more jobs located in Bermuda to ensure we collect the revenue necessary to fund our pensions and care for our seniors.

The Domestic Economy

Mr. Speaker, I will now turn my attention to the domestic economy. A narrative has been advanced that Bermuda is in a recession. However, the facts simply do not bear that out. Over the last several months we have seen signs that Bermuda's economy is improving. Many of the major economic indicators – such as employment, construction, and air visitor arrivals and spending, increased in 2018, indicating some improvement in the Bermudian economy. However, while we are seeing some evidence of growth, there are other indicators showing signs of softness that may have a negative impact on economic growth.

Employment

Mr. Speaker, preliminary data from the 2018 Employment Survey indicates that the total number of jobs in Bermuda grew by 144 from 33,653 in 2017 to 33,797 in 2018, a 0.4% increase. The year 2018 represents the third consecutive year in which there has been an increase in the number of jobs available in Bermuda. Much of the growth was fuelled by an increase in jobs filled in the construction and hotels sectors, which added 131 and 105 posts respectively. The report also showed that there were employment increases in the following sectors: retail trade and repair, real estate and rent, business services, public administration, education, health and social work, and, most importantly, international business. These increases were offset by declines in transport and communications which shed 69 jobs, and other community and social and personal services, which shed 57 jobs. Other losses in positions occurred in agriculture, forestry and fishing; electricity, gas and water supply; wholesale trade and motor vehicles; restaurants, cafes and bars; and financial intermediation.

Mr. Speaker, one of the major headwinds in our growth prospects is the level of employment. Although employment numbers are marginally positive, the pace of job growth must increase if we are to have a sustained economic recovery.

In the first three quarters of 2018, employment income decreased by \$16.4 million to \$2.61 billion, a modest decrease of 0.6%.

Tourism

Mr. Speaker, 2018 turned out to be another record-breaking year for the number of visitor arrivals when cruise, air and yacht figures are combined. The previous record was 692,947, achieved in 2017. In 2018, that number grew 11.0% to finish at 770,683. Air arrivals in 2018 grew by 4.6%, while the number of cruise passengers increased by 15.9%. Total visitor arrivals increased by 11.4% over the previous year. Total visitor spending in 2018 rose by \$74.3 million or 17.2%, settling at \$505.3 million.

Other Economic Indicators

Mr. Speaker, total retail sales for 2018 decreased by 2.1% or \$24.7 million to settle at \$1.15 billion. Despite this decrease, jobs in the sector rose by 34 positions or 1.0%. It should be noted that the value of goods included in the Retail Sales Index does not include the significant amount of goods purchased online by residents that are shipped to Bermuda. The Department of Statistics will begin to include this information as part of their monthly report on retail sales, as currently only goods that come through the airport with returning residents are reported. Declining retail sales can, in part, be traced back to the fact that over the last year many families that have mortgages have seen their monthly payments increased, and so they are forced to spend more paying the bank than eating out or shopping.

Imports decreased by 5.9% over the first three quarters of the year to register at \$798.8 million. This decrease was due mainly to the return to more normal levels following the large increases related to the America's Cup. The largest decreases were seen in the importation of transport equipment and finished equipment, which saw declines of 34.4% and 19.7% respectively.

The estimated value of construction work put in place increased from \$133.9 million in 2017 to \$156.8 million over the first three quarters of 2018, an increase of 17.1%. The majority of the increase can be attributed to an increase in the levels of work performed on roads, bridges and the airport project.

Mr. Speaker, headline inflation continues to remain low in Bermuda, as reflected in the 2018 Consumer Price Index, which indicates an average inflation rate of 1.4%. This rate is below the UK (3.3%), the US (2.4%) and Canada (2.3%).

Bermuda's Balance of Payments remains a strength in the Bermuda economy and over the first three quarters of 2018 recorded a surplus on the current account of \$727.0 million, an increase of \$59.0 million over the same corresponding period's surplus in 2017. The increase in the current account surplus was due mainly to changes in the services account reflecting higher fees and commissions earned on the provision of financial services to non-residents.

Some 827 new international companies and partnerships were registered in Bermuda during 2018, representing a 5.5% increase compared with 784 registrations in 2017.

GDP Estimate 2018

Mr. Speaker, considering all economic indicators and the recent 3rd Quarter Gross Domestic Product (GDP) publication released by the Department of Statistics, the Ministry of Finance is lowering its 2018 GDP growth estimate by 1.0% from 1.5%–2.0% to 0.5%–1.0%. The reduction follows an increase in GDP of 2.5% in 2017.

The GDP estimate highlights the urgency of the need to invest in creating a more diversified economy, which will create stronger economic growth for the Island, as our ability to reduce our debt depends upon growth of our economy and the creation of more jobs in Bermuda.

BUDGETING IN UNCERTAIN TIMES

In uncertain times, fiscal rules must accommodate volatility in the funds available for future Budgets. Sluggish international growth may continue to limit Bermuda's ability to increase GDP, generate or sustain employment opportunities, and increase government revenues to support the provision of services. There is a financing gap between the stimulatory policies that we would like to see in place to protect jobs and the policies that we can finance from revenues.

Governments must either borrow funds to bridge this financing gap, or they must cut spending to accommodate actual revenues. Spending reductions ultimately results in public sector downsizing, which creates weakness in the private sector.

Over the last decade, Bermuda has experienced recurring budget deficits and a growing national debt coupled with periods of negative economic growth. Significant attention has been focused on the Bermuda's approximately \$2.5 billion of debt with calls to reduce expenditure, deficits and consequently the debt. The Government is mindful of the effects of the debt burden on the country's fiscal posture and is taking the necessary steps to prudently manage our debt through strategic refinancings and repurchases designed to lower interest cost, extend maturities and reduce debt while providing the Government with the space to execute on its economic growth strategy.

Mr. Speaker, due to the uncertainty facing the Bermuda economy, mainly in relation to the economic substance requirements, the Government has reconsidered our fiscal strategy for the 2019/20 budget as laid out in the Pre-Budget Report. We have concluded that it is not prudent to raise an additional \$50.0 million in revenue at this time. Additionally, the Government will suspend the mandatory annual contribution to the Sinking Fund rather than borrow additional monies to make this annual contribution.

GROWING OUR ECONOMY

Mr. Speaker, it is incumbent upon the Government to create the conditions to foster economic growth, which will increase jobs, increase income, and raise the standard of living for Bermudians.

Executing our Plan

Mr. Speaker, during last year's budget statement, this Government laid out a path for economic growth that relied on targeted investment by the Government while stimulating the Bermuda economy by reducing barriers for investment.

Last year's increased investment in tourism marketing via the Bermuda Tourism Authority, increased business marketing via the Bermuda Business Development Agency, and increased support for entrepreneurs via the Bermuda Economic Development Corporation have borne fruit. In 2018, the Bermuda economy witnessed an increase in international company registrations, an increase in local company registrations, an increase in jobs located in Bermuda, an increase in insurance companies setting up in Bermuda, and an increase in tourists visiting Bermuda.

Reducing Interest Rates

Mr. Speaker, despite these positive signs, our economy remains in a fragile state. For instance, the value of retail sales has declined in eight out of the last twelve months. Some of this decrease can be attributed to the expected difference due to the one-off stimulus of 2017's America's Cup. However, we must also recognise that retail sales will continue to be impacted by increased online shopping as more overseas firms reduce or eliminate the cost of shipping goods to Bermuda. Additionally, the increase in interest rates charged by local banks for mortgages and other loans means that many residents have less money to spend in shops as they are paying more in interest. Bermuda's interest rates are tied to the US economy. This means that the rate increases put in place to slow the US economy have the effect of slowing the Bermuda economy, which needs stimulus, not slowing. The negative impact of high interest rates must be combated directly.

Over the last year, the Government has worked to attract new banking institutions to Bermuda. Although we are making progress, Bermudians who are struggling to make ends meet do not have the time to wait for new banks to set up in order to provide competition to existing institutions. Therefore, it is up to this Government to be transformational and to use the public sector to provide relief.

Mr. Speaker, the Government will do two things to reduce the mortgage pressures for hardworking Bermudians. Firstly, the Government will, in conjunction with private sector banks, pilot a mortgage guarantee programme in return for a reduction in interest rates charged to Bermudians for their mortgages. Secondly, the Government will create a government-backed mortgage lender to relieve pressure on public sector employees by providing them with reduced mortgage rates. These two measures, combined with the elimination of taxes on mortgage refinancing, are projected to save \$5,300 a year for the average family carrying a \$500,000 mortgage.

Mr. Speaker, the economic case is simple: lower mortgage rates give more Bermudians more disposable income. More disposable income means that families have more money to spend and invest in the Bermuda economy, which will support local business.

The Case for Economic Reform

Mr. Speaker, there is a constant refrain in some quarters which speaks about the need to relax our immigration laws even further to boost the population in Bermuda. It is a simplistic argument which wilfully ignores the other economic challenges faced by Bermuda.

Mr. Speaker, immigration is not the core issue; economic competitiveness is. Under our current laws, any investor who wishes to come to Bermuda to start a company can stay in Bermuda, apply to become a permanent resident, pass that PRC status to their spouse and children, and buy property here in Bermuda.

Mr. Speaker, the issue is not whether or not we have the laws to attract investors and job creators to our country. The question that must be answered is why they are choosing to invest in other places.

Mr. Speaker, Bermuda's challenge is not solely the need for immigration reform. Bermuda's challenge is the need for fundamental economic reform. Reform that reduces interest rates, reform that reduces the cost of energy, reform that reduces the cost of health insurance, and reform that reduces the cost of doing business in Bermuda. These reforms are necessary to create the better and fairer Bermuda that Bermudians voted for. A more competitive Bermuda economy will create more jobs, which will, in turn, lead to an increase in Bermuda's population as Bermudians return home to fill these new jobs, which is essential for our long-term economic survival.

Our Economic Plan

Mr. Speaker, some have asked for this Government's economic plan. Our plan was spelled out in our 2017 election manifesto and it can be summed up by the following: build on what we currently do well in financial services and tourism; diversify our economy so that we can attract companies in new industries to our shores; reduce the cost of living and the cost of doing business in Bermuda; make our government more efficient; reduce regulations and red tape to stimulate investment while promoting competition in the Bermuda economy.

Expanding Financial Services and Tourism

Mr. Speaker, our economic plan is rooted in growing the twin pillars that have served the Bermuda economy well: financial services and tourism. Our investments and combined efforts to grow these pillars have been successful, as 2018 saw an increase in incorporations and job growth in both international business and hospitality. While our property and casualty and captive insurance sectors remain stable, we have witnessed significant growth in the long-term insurance sector. Bermuda continues to make strides in attracting more asset managers to our shores, and economic substance presents a unique opportunity to leverage our proximity to the financial centres on the eastern seaboard of the US to attract more asset managers to Bermuda.

In tourism, we will continue to invest more in marketing and product development, while recognising that we must make tourism investment

in Bermuda more attractive. That is why the Government is working with unions and hoteliers to increase efficiency and boost productivity in Bermuda's hospitality industry. In 2019, when regional competition is fierce, friendly people and beautiful beaches are not enough. Reform is necessary to make investing in Bermuda hotels profitable, which will serve to protect existing jobs while attracting additional investment leading to new tourism jobs.

Diversifying the Economy

Mr. Speaker, the Government, in conjunction with the Bermuda Business Development Agency, have a multi-faceted approach to creating new areas of economic activity in Bermuda.

Mr. Speaker, over the last year, tremendous strides have been made in establishing Bermuda as a domicile for technology companies in the emerging areas of FinTech, RegTech, and InsurTech. Mr. Speaker, five of the ten largest companies in the world are technology companies, and for Bermuda to play a role in the future of financial services, we must have a leadership position in FinTech. Our size and high regulatory standards make Bermuda the ideal place for technology companies to develop and test their products in our market before exporting those products to the rest of the world.

However, Mr. Speaker, in addition to looking to attract technology companies to Bermuda, our economic diversification strategy has specific focus on: aviation and shipping, arbitration, biotech and life sciences, the blue economy, intellectual property, satellites and space, and nearshoring. The work on these initiatives will be highlighted during the budget debate and the Government looks forward to informing Honourable Members of the progress to date.

Reduce the Cost of Doing Business

Mr. Speaker, fundamental economic reform means that we need to reduce the cost of doing business in Bermuda. The costs of energy, health insurance, and interest rates directly impact our ability to grow Bermuda's economy. I have already spoken about our plans to provide relief to Bermudians struggling with high interest rates, but health insurance costs are also a burden for many Bermudian families.

Mr. Speaker, the Government committed in its platform to advance the National Health Plan, which did not advance under the former Government. Over the last 19 months, there has been extensive consultation and the Government will soon unveil this important economic reform, which will ensure that we are able to provide better coverage for all Bermudians. Mr. Speaker, the core of this plan is simple: to reduce the cost of health insurance for citizens, for employers and for seniors. Reduced health insurance rates will mean more money in the pockets of Bermudian families and that is the goal of this transformational reform.

Mr. Speaker, the regulatory authority is in the final stages of producing the Integrated Resource Plan, which will be Bermuda's national plan for our island's future electricity needs. The Government looks forward to the production of this plan, which is an important step towards reducing the cost of electricity.

Making Government More Efficient

Mr. Speaker, while we reduce the cost of doing business in Bermuda, it is important to invest to make government more efficient, so that as the economy grows, the government is able to provide services to more residents in a cost-effective manner. Over the past 15 months, the Government Efficiency Committee, chaired by the Junior Minister of Finance, has worked with government departments to streamline processes, raise additional revenue, and identify areas for additional savings.

Mr. Speaker, on Monday, the Government will launch the public service reform initiative to transform Bermuda's public services. The top level of the public service will be reorganised to create a dedicated implementation team, which will focus on the execution of the reform plan that has been developed over the last year.

Stimulating Investment & Competition

Mr. Speaker, the final pillar of our economic plan is the transformational measures necessary to stimulate investment, which will create jobs by promoting competition in the Bermuda economy, which will lead to

reduced costs. Last year, the Government announced changes to allow international law firms to enter the Bermuda market, the modernisation of the 60:40 rule, and the relaxation of height and ownership restrictions for developments in the Northeast Hamilton Empowerment Zone.

Mr. Speaker, creating an additional supply of condominiums will only work if there is additional demand for the purchasing of these units; that is the reason why the Government will relax ownership restrictions for these special developments. This is an important change, as we must provide places for money earned in Bermuda to stay in Bermuda and circulate in our economy. The narrow relaxation of these restrictions will put more Bermudians to work in construction projects throughout the city and will create fixed assets that provide ongoing maintenance jobs. More residents in Northeast Hamilton will provide more customers for local business, which will lead to an increase in economic activity in the empowerment zone. These new developments will also be key to attracting young Bermudians back to Bermuda, as the units will be ideal for singles or couples without children.

To unleash the entrepreneurial spirit of Bermudians, the Government, in conjunction with the Bermuda First think tank, will identify and eliminate antiquated regulations that make Bermuda's economy uncompetitive and serve as a barrier for entrepreneurs. Bermuda First has started working with the Ministry of Tourism and Transport to relax complex public service vehicle regulations to provide more flexible options to residents and visitors, while creating additional revenue opportunities for existing taxi and minibus operators.

Mr. Speaker, to provide clarity to Bermudian entrepreneurs who are seeking alternative sources of capital to promote competition with existing business, the Government will publish guidelines for the granting of exemptions from the 60:40 rule, while concurrently simplifying the application process.

2018/19 FISCAL PERFORMANCE

Mr. Speaker, before going into further detail on the 2019/20 Budget, I will now focus briefly on the forecast financial results for the current 2018/19 fiscal year, as they form the foundation for the 2019/20 Budget.

Mr. Speaker, the Government is forecast to earn \$1.079 billion in revenue in 2018/19. This is \$11.9 million (1.1%) less than the \$1.090 billion in the original estimates and is due mainly to lower than expected customs duty, fees for sale of land to non-Bermudians and miscellaneous receipts. These amounts were partially offset by higher collections in payroll tax, stamp duty and land tax.

The projected 2018/19 operating expenses of the Government are \$932.0 million, or \$2.8 million (0.3%) higher than the \$929.1 million originally budgeted in 2018/19. This increase was primarily a result of additional subsidy funding for the Bermuda Hospital Board in relation to dialysis claims. This item was offset partially by decreases in expenditure related to energy and materials and supplies.

Mr. Speaker, included in total operating expenses is the 2.0% salary increase awarded to some public officers. As this amount was unbudgeted, departments have had to find savings from within their current budget allocations.

Revised capital expenditures for the year are predicted to come in at \$61.7 million, or \$0.6 million (1.0%) below the budget of \$62.2 million. Debt service costs for 2018/19 will be in line with the original budget estimate of \$188.0 million.

Given the factors outlined above, the revised estimate of the overall deficit is \$102.6 million, \$12.9 million more than projected. This deficit includes the sinking fund contribution of \$64.2 million. Excluding the impact of the sinking fund contribution the deficit would have been \$38.3 million.

During the 2018/19 fiscal year, the Government executed an international bond transaction for a total of \$620.0 million. The purpose of this financing was to: i) repay a \$135.0 million loan facility with Butterfield Bank; ii) finance a portion of the 2018/19 deficit; and iii) refinance

more expensive government bonds. As a result of the transaction, the Government has lowered the weighted average rate of interest it pays on the total amount of bonds outstanding from approximately 4.63% to 4.591% and has reduced its interest expenses by about \$1.0 million per year.

Mr. Speaker, for the remainder of this fiscal year, the Ministry of Finance will exercise prudent management of funds to ensure that we do not incur any additional borrowing. Therefore, on 31 March 2019, gross public debt will stand at \$2.68 billion and net debt will stand at \$2.465 billion. This amount is \$35.0 million below the debt ceiling of \$2.5 billion.

The Sinking Fund balance is projected to be approximately \$214.6 million at the end of 2018/19.

2019/20 BUDGET ESTIMATES

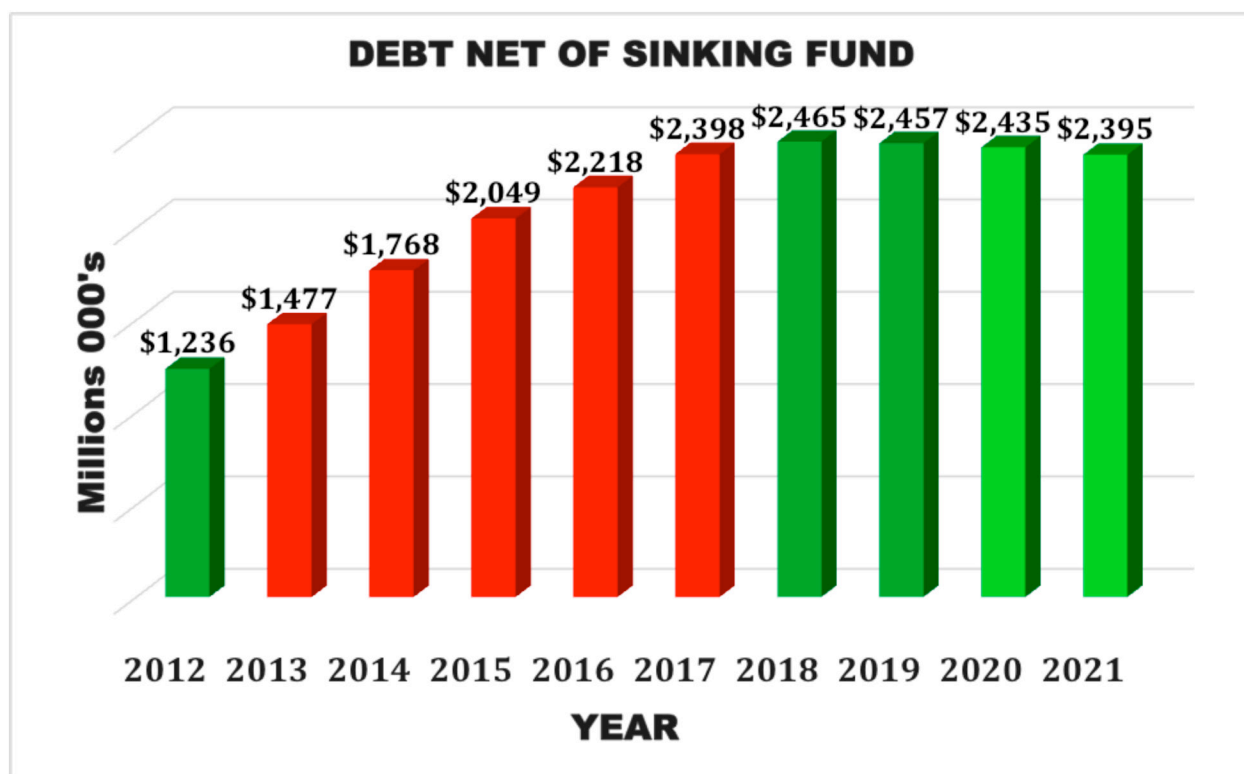
Mr. Speaker, I will now turn my attention to the details of the Budget for the upcoming fiscal year. The highlights of the 2019/20 Budget feature a 0.4% decrease in total expenditure of \$4.3 million from last year's original estimates. Revenues are forecast to rise by 2.6% or \$28.6 million and the current account balance, before interest on debt and capital expenditure, is budgeted to be a surplus of \$188.6 million.

The current account balance, after interest, is also budgeted to come in at a surplus in the amount of \$72.1 million. This represents an increase in the current account surplus of \$35.4 million when compared with the 2018/19 Budget on a like-for-like basis. Given the above Mr. Speaker, I am pleased to report that this year the Government will report a Budget surplus of \$7.4 million.

	ORIGINAL ESTIMATE 2018/19 \$000	ORIGINAL ESTIMATE 2019/20 \$000
Revenue and Expenditure Estimates		
Revenue	1,089,861	1,118,455
Current Account Expenditure (excl. debt & s/fund)	929,134	929,861
Current Account Balance (excl. debt & s/fund)	160,727	188,594
Interest on Debt	124,000	116,500
	36,727	72,094
Capital Expenditure	62,209	64,715
Surplus (Deficit) Before Sinking Fund Contribution	(25,482)	7,379
Sinking Fund Contribution	64,223	0
Budget Surplus (Deficit)	(89,705)	7,379

The projected current account balance (excluding debt service) indicates whether revenues can support the day-to-day running of Government, excluding interest on debt, capital expenditure and the mandatory sinking fund contribution. This year's budget, with a current account surplus of \$188.6 million, represents an improvement over the fiscal 2018/19 surplus, with sufficient revenue to cover not only the day-to-day running of government, but also interest on debt and capital expenditure.

Mr. Speaker, the Government does not anticipate any long-term borrowing in this fiscal year and, at 31st March 2020, it is estimated that gross public debt will stand at \$2.5 billion, and debt, net of the Sinking Fund, will be \$2.457 billion once we apply the projected surplus to the Sinking Fund.



OBA GOVERNMENT PLP GOVERNMENT PROJECTED NET DEBT

Mr. Speaker, in keeping with our pledge from last year, we expect that this year we will start reducing our debt. We will continue to reduce expenses where we can, but we will also make the strategic investments needed to stimulate economic growth.

Mr. Speaker, as our debt metrics stabilise and we project no new long-term borrowing in the 2019/20 fiscal year, the Government has no immediate plans to raise the country's debt ceiling. Our debt ceiling is currently set at \$2.5 billion and the Ministry of Finance will exercise prudent management of funds in this year, to ensure that we remain below the debt ceiling.

During fiscal year 2019/20, certain Government private placement notes aggregating \$180.0 million will mature. The Government will draw from the Sinking Fund to repay these notes. This will reduce our interest costs by \$12.1 million per year and lower our weighted average cost of borrowing from 4.591% to 4.437%.

Revenues

In order to reduce the deficit, and provide for much-needed services, the Government considers it appropriate to strategically increase our revenues.

Mr. Speaker, the estimates for 2019/20 shows Government revenues of \$1.118 billion, which is \$28.6 million or 2.6% higher than the original estimate for the previous year.

Honourable Members will note that this increase is less than the \$50.0 million in revenue increases proposed in the Pre-Budget Report. The Government has evaluated the risks facing the island, in particular the potential EU action to list Bermuda as a “non-cooperative” tax jurisdiction under the EU Code of Conduct Group. Accordingly the Government has decided that now is not the time to extract an additional \$50.0 million from the economy in taxes.

Even though we propose for deficit reduction in 2019/20 to come from the revenue side, we recognise the solution requires fiscal discipline by the Government, where it properly prioritises the country's needs and wants.

Mr. Speaker, there have been accusations from some channels that this Government is a “tax and spend Government”, that increasing revenue is only being brought about by this Government and others have not raised taxes. Well, Mr. Speaker, there can be nothing further from the truth. The record will show that during its time in office, the former administration increased taxation from \$866.0 million in 2013 to \$1.052 billion in March 2018. This amount represents a \$185.0 million (21.4%) increase. During this same period (2013–2017), GDP growth averaged a modest +0.1%. Therefore, the majority of this increase in taxes was from tax hikes rather than economic growth.

Furthermore, it was the former administration’s plan to increase revenue to \$1.146 billion by 2019/20 as set out in the last Budget produced by the OBA in 2017/18.

Also recall that the former Government engaged CARTAC to complete a review of Bermuda’s tax system and its administration in 2015. The report was completed in September of 2015. Many stakeholders requested access to this document, but the former Government refused to share its contents. This Government tabled the CARTAC review in Parliament on 6th October 2017 so that Parliamentarians and members of the community could be made aware of the recommendations.

Mr. Speaker, the report indicated that the main objective of the tax review was to increase tax revenues. The former Government’s preference was to increase the revenue provided by the existing taxes, although it was open to proposals that would expand the tax base and improve equity. The main goal of the reform was to increase revenues by about \$100–\$150 million over a three-year period. Thus we can see that tax reform is nothing new. This Government did it in a transparent manner with the publication of the Tax Reform Commission (TRC) report, while the former Government did it behind closed doors with no public scrutiny.

Mr. Speaker, I provide this information for context only.

Honourable Members are aware that the Government released the Pre-Budget Report in advance of this budget. The Pre-Budget Report spoke of the choices we face and discussed them in the context of the risks that

we face. In addition, the report contains some policy options that were under consideration by the Government.

Mr. Speaker, the objective of a Pre-Budget Report is to raise awareness of the choices faced by the country and to stimulate discussion for moving forward. The policy options that were presented in the Pre-Budget Report are just that: options. As a government, we must lead, but we will always listen.

I would like to thank all stakeholders who provided submissions during the consultative pre-Budget process. It is an example of the approach this Government will take to ensure that we conduct our business in an open and transparent manner. Following consultation, the Ministry will take the following actions to meet the Government's revenue target in 2019/20.

Payroll Tax

Mr. Speaker, despite being a possible disincentive to job creation, Payroll Taxes are a highly effective and reliable way to raise revenue. The yield from payroll tax is estimated at \$466.1 million in 2019/20, 41.7% of total Government revenues.

The TRC proposed various payroll tax recommendations, however due to uncertainties in other revenue projections it is proposed to leave most rates unchanged.

Economic Substance Incentives Programme

In the 2018/19 Budget Statement, it was also announced that this Government would encourage local and international companies to create jobs in Bermuda. To this end, the Ministry of Finance worked with key business stakeholders to generate incentives for companies to create and locate additional staff in Bermuda by providing payroll tax relief for new positions created in Bermuda.

As announced already, in the upcoming Budget the Government will promote this relief for exempted companies as part of our Economic Substance Incentives Programme. This programme will provide a

two-year employer payroll tax concession for additional jobs created in Bermuda. The new EU Economic Substance Incentives Programme will also include the application of the existing New Business Work Permit Policy.

Payroll Tax Relief for the Retail Sector

The retail industry employs nearly 3,500 Bermudians and the Government is very much aware of the pressure on certain segments of this sector. In an effort to maintain and increase employment levels in this sector, the Government will provide targeted payroll tax relief to specific businesses by providing a concessionary employer payroll tax rate of 7.0% for all retailers whose payroll is above \$500,000 and whose primary sales are in fashion, shoes, jewellery and perfume.

Payroll Tax Relief for Local Musicians

Mr. Speaker, entertainment plays a very important role in the culture and development of Bermuda. We have seen a decrease in entertainment over the years and note with concern that our entertainers have very little business, if any, during our off season.

Therefore, the Government will be providing a concession to all businesses that hire local musicians and entertainers by removing the employer payroll tax for the next three years. The Government believes that this concession will encourage more businesses to hire local entertainers and encourage more Bermudians to become involved in this extremely important industry.

Customs Duty

Mr. Speaker, the yield from customs duty is estimated at \$235.0 million, 21.0% of total Government revenues.

Mr. Speaker, in line with the Ministry of Health's consultation paper, and as announced by the Minister of Health in the House of Assembly in March 2018, it is proposed to increase the rate of duty on a limited group of items from 50% to 75%. In a further phase of the implementation of the sugar tax, it is also proposed to extend the scope of items to be

captured by the uprated 75% sugar tax. These adjustments will yield an additional \$4.0 to \$5.0 million of customs duty.

Mr. Speaker, the duty on cigarettes and tobacco and on beer, wines and spirits will be raised in April 2019 to achieve additional customs revenue of about \$1.5–\$2.5 million.

The Government will also extend the Hotels (Temporary Customs Duty Relief) Act 1991 and the Restaurants (Temporary Customs Duty Relief) Act 2002 by a further five-year period expiring on 31 March 2024. These Acts provide a zero rate of customs duty on imported capital goods intended for the renovation and refurbishment of restaurants and hotels and many properties have benefited from these Acts over the years.

Financial Service Tax

In the 2017/18 budget, the former Government enacted the Financial Services Tax Act 2017. This legislation introduced a financial services tax on insurance premiums, excluding health, money transmissions of a money service business and bank assets. Mr. Speaker, in the Pre-Budget Report we announced that the Government was considering increasing the financial services fee on banks and insurance premiums to generate additional revenue and that the increased fee on insurance premiums would be the obligation of the insurer. Following consultation, the Government will increase the tax on premiums by 1% and increase the tax on bank assets from 0.005% to 0.0075% of its consolidated gross assets as at the end of a tax period. This will yield an additional \$3.4 million in revenue.

Foreign Currency Purchase Tax (FCPT)

The Pre-Budget Report signalled the Government's proposal to increase the FCPT from 1.0% to between 1.25% and 1.75%. Following the pre-budget consultation, the Government proposes to increase the FCPT from 1.0% to 1.25%, generating additional revenue of \$4.1 million.

Residential and Commercial Rents

Mr. Speaker, the Pre-Budget Report stated that the Government was considering taxing residential and commercial rents. As announced

already, following consultation, the Government will not introduce a new tax on residential or commercial rents. Instead, the Government intends to increase land taxes.

Land Tax

In the 2018/19 Budget Statement, as a temporary measure, land tax rates on commercial properties were increased by 5.0%, raising an additional \$15.0 million in land tax revenues. This provision will expire on 30th June 2019 and the legislation provides for the rates to revert back to 7.0%.

It is now proposed to increase land tax on commercial properties from 7% to 9.5% and land taxes on tourist properties from 7.0% to 8.0%.

Mr. Speaker, it is also proposed to amend the Land Tax rate structure for residential properties by amending the taxes for properties as follows:

Land Tax Bands and Rates				
ARV Band	Value Range	Existing Tax Rate	Proposed Tax Rate	Base Charge
1	\$0 - \$11,000	0.8%	0.0%	\$300
2	\$11,001 - \$22,000	1.8%	0.0%	\$300
3	\$22,001 – \$33,000	3.5%	3.5%	\$300
4	\$33,001 - \$44,000	6.5%	6.5%	\$300
5	\$44,001 - \$90,000	12.0%	17.0%	\$300
6	\$90,001 - \$120,000	25.0%	30.0%	\$300
7	>\$120,000	47.0%	50.0%	\$300

The senior exemption will remain for all properties with an ARV of \$45,500 or less.

The total yield for land tax in 2019/20 is projected to be \$85.4 million.

Managed Service Tax

The Pre-Budget Report signalled that the Government was considering levying a tax on professional services provided by non-Bermudian businesses to local and international companies. Following consultation, the

Government will not introduce a new tax on professional services provided by non-Bermudian businesses to local and international companies.

Other Taxes and Fees

Mr. Speaker, following pre-budget consultation with the Real Estate Division of the Chamber of Commerce, it is proposed to increase stamp duty on all residential and commercial leases.

The Government will also be undertaking a comprehensive review of its stamp duty legislation with a view to updating this legislation and eliminating loopholes.

In addition, as announced in the Throne Speech, we will eliminate stamp duty on any mortgage refinancing for amounts up to \$750,000.

In the last fiscal year, the Ministry of Tourism and Transport and the Bermuda Tourism Authority (BTA) conducted a review of the current tax levels and competitive landscape in the cruise industry. Following this review, the Ministry and the BTA were of the view that the current tax structure was outdated, unnecessarily complex and, therefore, would benefit from simplification and updating. Therefore, it is proposed to introduce a new tax structure for cruise ships and cruise ship passengers: a Passenger Departure Tax, a Cruise Passenger Visitor Fee and a Large Ship Infrastructure Tax (with the Cabin Passenger Tax being repealed). This tax structure will yield \$40.2 million.

Mr. Speaker, “the statutory period” in the Schedule to the Bermuda Immigration and Protection (Land-Holding Charges) Regulations 2007 expires on 31 March 2019. These Regulations reduced License Fees for non-Bermudians’ purchase of Bermuda property. Government proposes to extend the end date of this license fee reduction period by twenty-four months, ending March 31st 2021. During this period we will evaluate the effectiveness of these concessions on property sales.

Finally, Mr. Speaker, legislation will be amended to increase company discontinuance fees from \$425, to the current annual Government registration fee for the respective company. It is noted that other jurisdictions charge up to three times the current annual registration fees.

Tax Collection and Accounts Receivable

Tax collection and accounts receivable have been a considerable problem for the Government for years and it is time to take corrective action. It is altogether unacceptable that taxes owing to Government according to the law are not being paid. It is now time to take corrective action.

In the 2018 Pre-Budget Report, we stated: “The Government will ensure that the Office of the Tax Commissioner (OTC) has the resources that it needs to collect taxes that are due. Due to staffing shortages, not all taxes are being collected and adjudicated. The Government has authorised the filling of these long-vacant posts to assist in revenue collection.” As highlighted in the latest Fiscal Responsibility Report, this item has been actioned and has already proven productive in 2018, as previously unpaid stamp duty of almost \$3.0 million has been collected and an additional \$4.7 million in uncollected stamp duty has been identified.

We have taken further action to resolve this problem by approving the addition of five new temporary staff members for a one-year period. These staff members will be working in the Operations Section of the OTC, with four in the Debt Management section and one working closely with the Assistant Tax Commissioner–Operations. These additional resources for tax collection and enforcement should pay for themselves many times over with the additional revenue collected during this period.

It has been noted that only 50.0% of payroll tax returns are received electronically. While this rate has improved in recent years, it is still unacceptably low and must be raised dramatically during the coming fiscal year and beyond. Too much of the OTC’s time and resources are devoted to processing manually filed tax returns. Accordingly, a new filing policy will be implemented on 1st April 2019 for taxpayers of gross annual payrolls in excess of \$500,000 per year. It will be mandatory for taxpayers over that threshold to file electronically using the ETax system, starting with the quarter April, May, June 2019 which will be payable by the 15th July deadline. Employers who do not adhere to the stipulated efilings requirement will be subject to penalties.

Mr. Speaker, over the years the Government has been incurring millions of dollars in credit card charges due to taxpayers using their credit cards to pay their taxes. Effective from April 2019, Government will start to recover these fees by way of a recharge fee for this convenience.

Expenditures

Mr. Speaker, the Government has set the overall budget expenditure, including current account and capital account outlays, and debt service (excluding the Sinking Fund contribution) at \$1.11 billion. The forecast for current, interest and capital account spending in the 2019/20 Budget is \$4.3 million lower than the amount approved in 2018/19. This reduction was achieved despite the Government's pay awards to public officers for this fiscal year.

Mr. Speaker, this level of spending will enable the Government to provide targeted investments to grow and diversify Bermuda's economy, to service our debt, strengthen infrastructure, educate our children, provide health care and security for our citizens and assistance to the less fortunate among us.

There is an ever-increasing demand for government services. However, the Government is mindful of the potential impact that increased operating expenditures can have on the overall fiscal performance. Accordingly, in the 2019/20 budget, the level of current account spending, excluding debt service, has been frozen to 2018/19 Budget levels.

Mr. Speaker, while there has been some success in reducing costs, it has become increasingly difficult to implement further reductions under the current Government structure and the across-the-board expenditure cuts in previous budgets. With 51.5% of the current account expenditure (excluding debt service) representing employee costs and 34.1% relating to grants and contributions, there are very few other expenditure types that can be reduced and have a material impact on the level of spending.

Moving forward, the Government will adopt a revised strategy whereby further savings might be effected, either by way of increased efficiencies or by making structural reforms in the way in which services are delivered and institutions are structured. To this end, the Government has established an Efficiency Committee (EC) to review the functioning

of all Government Departments and recommend improvements in the efficiency of operations. The EC has highlighted how savings and greater effectiveness can be obtained by the Government in the areas of financial assistance, purchasing of materials, inventory management, and handling of staff vacancies. The EC has also emphasised the critical importance of developing a detailed overall strategic plan to guide the spending priorities of the Government over the medium to long term. [

Debt Service

Mr. Speaker, debt service costs for the 2019/20 Budget are projected at \$116.5 million, which represents interest expenses on debt only

Sinking Fund

Mr. Speaker, the Sinking Fund currently has a balance of \$214.0 million. During fiscal 2019/20 \$180.0 million of the proceeds in the fund will be used to repay two tranches of maturing private placement notes.

The Government will suspend making mandatory contributions to the Sinking Fund. This decision has been made in light of the following factors: (i) apart from the private placement notes referenced above, the next maturity of Government debt will occur in 2022; (ii) the interest expense associated with borrowing to fund the mandatory sinking fund contributions will be greater than the investment return generated on those funds and (iii) the Government is forecasting continued operating surpluses which it intends to contribute to the Sinking Fund or use to make open market purchases of its existing indebtedness.

Capital Expenditures

Mr. Speaker, the Government is committed to making sound capital investments which will enhance the country's infrastructure, create jobs, generate growth and improve our quality of life.

The capital expenditure component of the 2019/20 budget is set at \$64.7 million, \$2.5 million higher than the 2018/19 original estimate. The most significant items of capital development expenditure in the 2019/20 Budget relate to upgrades to the Mid-Atlantic Wellness

Institute (\$4.5 million), schools' maintenance (\$3.0 million) and road works (\$1.5 million). While most of the planned investment is related to construction projects, there is capital acquisition provision of \$20.6 million for IT developments across Government, and new public buses and other vehicles to support public service delivery.

MINISTRY HIGHLIGHTS

Mr. Speaker, I will now review highlights from the ten ministries that form the Government.

Ministry of Education

Mr. Speaker, the Ministry of Education has been given \$136.9 million.

The ministry has allocated an estimated total of \$2.8 million in the fiscal year 2019/20 for the funding of initiatives that support the execution of Plan 2022, and the introduction of a merit-based “College Promise” programme for public school graduates to attend the Bermuda College. Plan 2022 articulates a clear mission “to provide all students with equitable access to holistic, varied and high-quality instruction that is culturally relevant and empowers students to reach their full potential”. Of the \$2.8 million, roughly \$2.2 million was found resulting from the ministry undertaking a microscopic review of its existing budget for greater efficiencies in operational activity.

At the pre-school level, an expenditure of \$327,000 will support the implementation of an Autism Spectrum Disorder programme; introduce foreign languages to expand learning opportunities; continue to offer programmes to educate parents; and hire an Early Childhood Quality Assurance Officer to provide professional training and coaching for pre-school teachers.

At the primary school level, \$770,000 will be spent to cover the cost of continuing the deployment of the STEAM programme, inclusive of professional development training for teachers; updating the social studies curricula; and expanding the literacy programme to focus more on students’ literacy skills.

A total of \$473,000 will be used to continue the implementation of a standards-based grading system covering site-based professional development training, and \$539,000 will be set aside to address the urgent need to increase the bandwidth for schools at the primary and middle school levels.

At the senior school level, \$129,500 will support the implementation of the City and Guilds programme in English, and the mathematics programme will be progressed further; and a virtual job-shadowing programme will be introduced to create a unique experience for students as part of the Career Pathway programme.

Bermuda College

As the sole tertiary institution on the island, Bermuda College is a key stakeholder in the economic growth and development of our island, and during the 2019/20 fiscal year, the college will continue to meet its mission of setting Bermuda's students on their paths to success. Outside its normal operating expenses, Bermuda College will fund the following initiatives during the 2019/20 fiscal year.

Delivering Success, Bermuda College's new five-year strategic plan, will be the blueprint to steer the college towards its 50th anniversary in 2024.

The college will continue to receive a special \$300,000 grant to assist students with financial need to ensure that no student is prohibited from attending Bermuda College as a result of limited household incomes. This investment commenced in 2017 and has supported close to 450 Bermudians in pursuing their tertiary education at Bermuda College.

In addition, and as promised in this year's Speech from the Throne, a merit-based "College Promise" programme will be introduced which will award scholarships to the Bermuda College to public school graduates with a GPA of 3.0 or higher. This initiative has been funded in this year's budget to the tune of \$279,000.

Another \$85,000 will be set aside to assist non-traditional students wishing to become certified as landscapers and compliance professionals and to assist nursing students undergoing overseas practicums. It is anticipated that \$20,000 will support landscaping training for a new cohort of students in order to decrease the number of non-Bermudian employees on work permits. A further \$20,000 will support Bermudian nursing students to undergo practicums at SickKids Hospital in Toronto, Temple University Hospital in Philadelphia and Lahey Hospital in

Boston. This funding will ensure that students are able to complete the required overseas practicums as part of the nursing programme.

With so many industries requiring compliance professionals, Bermuda College, working with its Compliance Advisory Board, will offer a range of compliance courses/certifications for those new to the industry as well as those who are currently in the industry but have no certification. It is anticipated that \$45,000 will be set aside to support students in this emerging industry.

Approximately \$40,000 will be used to support the development of the National Educators' Institute, which will provide a centralised entity for public and private school educators and counsellors of all levels to engage in and benefit from professional development, professional learning and research.

Ministry of Public Works

Mr. Speaker, the Ministry of Public Works provides its services through its six departments and has budgeted to spend \$32.59 million in capital development, \$3.18 million in capital acquisitions and \$73.45 million in operations in 2019/20, as detailed below.

The Department of Works and Engineering aims to improve service delivery and extend the useful life of key assets by repairing bridges, Tynes Bay maintenance, refurbishing King's Wharf and other ferry docks, upgrading water infrastructure and extensively resurfacing all main roads. To this end, the department is committed to aggressively attracting, training and retaining Bermudians in key and varied engineering positions to ensure efficient provision of critical services to the public. The department is aiming to achieve operational efficiencies by investing in controlled fleet and equipment modernisation to enable it to carry out its mandate.

Charged with the responsibility of efficient management of the government's property portfolio, the Department of Public Lands & Buildings will be working on the refurbishment of Parliament Building, schools maintenance and major buildings upgrades and various office relocations and alterations.

Lastly, Mr. Speaker, the Department of Land Title Registration is responsible for the creation and maintenance of an electronic register of legal rights and interests in land, thus providing legal security for owners and third parties. With an operational budget of \$1.40 million in 2019/20, the department is seeking to provide an opportunity to young, interested Bermudians to become the island's future land registrars and will continue with the voluntary registration of titles.

Ministry of Labour, Community Affairs and Sports

Mr. Speaker, the Ministry of Labour, Community Affairs and Sports is the former Ministry of Social Development. A restructuring in November of 2018 moved the Departments of Child and Family Services, Financial Assistance and National Drug Control and the Mirrors programme to other Ministries and added the Department of Workforce Development and the Labour section to this ministry. The 2019/20 budget of \$18.9 million for the ministry reflects the changes in the structure and responsibilities of the ministry, with an uplift of \$455,019 for the Department of Youth, Sport and Recreation.

Mr. Speaker, this uplift is mainly made up of a \$400,000 increase in the grant to the national stadium trustees from the 2018/19 grant of \$800,000 to \$1,200,000 for 2019/20. This is to take the grant back to its 2014/15 levels, when it was reduced from \$1,100,000 to \$850,000 and then to \$800,000 in 2016/17. The increased costs of running the facility, particularly with the addition of the swimming pool, and reduction in grant have provided a no-win situation for the trustees that has resulted in maintenance and repair works suffering and this cannot continue. The trustees will pursue alternative energy solutions for the stadium to address the very high energy costs associated with running a pool.

Mr. Speaker, the ministry has a number of key initiatives this year, including the implementation of a workforce development plan that will lay the foundation for a 21st-century workforce development system for Bermuda – a system that has the primary aim of connecting people with jobs. This Government believes that upgrading the skills of Bermuda's labour force through a solid workforce development plan is critical to our long-term prospects for broad-based and inclusive economic growth. Other

initiatives include the modernisation of the labour laws, implementation of a living wage and pay equity for Bermudians.

Our culture and history continue to be high priorities. To this end, we are promoting art, and particularly that of young Bermudians, with government buildings being used to display and promote their work. Some \$4.8 million dollars is budgeted in fiscal year 2019/20 to support sporting bodies, youth organisations, apprenticeships, scholarships, the arts and community and cultural events.

Ministry of Health

Mr. Speaker, the Ministry of Health leads the country's health system to promote and protect Bermuda's health. The ministry is comprised of five budget heads which fund seven departments, two quangos and 29 boards, councils and committees. Together, these entities work to improve the quality, access and sustainability of health services.

The Ministry of Health's budget was adjusted following the addition of the Department of Financial Assistance. No budget head received additional funding, so the total budget remained the same as in fiscal year 2018/19 at \$241.5 million. The Government recognises the fragility of some of our health services and the importance health plays to Bermuda's economic growth. Nevertheless, greater efficiencies must be found to ensure sustainability of health funding.

The amount the country spends on health care is a continued source of concern, and this Government is committed to implementing the reforms necessary. Health financing reform is in development this year in order to create the foundation for the long-term sustainability of Bermuda's health system by establishing better ways to fund and provide a decent base package of insurance. Bermuda spends over \$700 million on the total health system annually. This has to be enough to give all our residents the health care they need. But we need to be more efficient about how we utilise these funds.

The care of adults with intellectual disabilities and mental health or psychiatric problems, who have no next of kin, at times falls on the state.

Bermuda does not have the social services infrastructure to care for such individuals and the government currently funds, through the Ministry of Health, two individuals at an overseas institution as there is no local capacity to meet their needs.

The ministry is also undertaking to reform the financial assistance programme to improve its financial sustainability and assure a more equitable allocation of awards. Measures have been identified to improve efficiency to prevent the need for additional funding.

Ministry of Finance

Mr. Speaker, the Ministry of Finance, excluding debt service, is provided with a budget of \$104.3 million – an increase of \$943,470. The majority of the Ministry of Finance’s allocation (\$84.8 million – 81%) relates to non-discretionary expenditure, which includes an estimate of government overheads and payments made under the programme for war veterans.

Ministerial restructuring resulted in the transfer of the Bermuda Gaming Commission to the Ministry of Finance and \$500,000 of the above-mentioned increase relates to a partial grant to the Gaming Commission to cover their operations. The Commission will seek external financing with local institutions to cover their other operational costs.

There have been several legislative changes made in the past two years that have expanded the role and mandate of the Registrar of Companies (ROC), particularly in regard to corporate compliance as a response to requirements of Anti-Money Laundering (AML), Counter Terrorist Financing (CTF), the Organisation for Economic Co-operation and Development (OECD) and the EU’s Economic Substance Regime (ESR). Additionally, the ROC has embarked upon implementation of a new IT registry system. Considering the above, it is proposed to increase the ROC budget allocation by approximately \$533,000 to meet their increased mandate.

Bermuda faces a number of external tax and regulatory threats. These threats pose a real and present danger to our economy. During the

upcoming year, additional funds have been provided to the Regulatory Unit and Treaty Unit in the Ministry of Finance Headquarters to protect our economic security.

Mr. Speaker, the Ministry of Finance is responsible for the collection of the majority of government revenue and in 2017/18 collected \$913.1 million or 85% of government revenues. Accordingly, it is critical that the capacity of the revenue-collecting departments to effectively collect revenues is maintained. The OTC has been provided with additional funding for five temporary additional employees. This will allow increased follow-up on payment plans, which is a main requirement for increased payment plan compliance.

In the upcoming fiscal year, the ministry will continue with the development of an open budget structure. The 2019/20 Pre-Budget Report has been a great success and no doubt fostered greater public participation and clarity in budget decisions.

Finally, Mr. Speaker, the Ministry of Finance will keep the Progressive Labour Party platform promise by increasing pensions for our seniors by the rate of inflation this year, and every year as long as we are in office.

Cabinet Office

Mr. Speaker, the Cabinet Office will receive a budget allocation of \$46.0 million.

This Government's vision for public service is a future-forward government for the people of Bermuda. With input from public officers, the Civil Service Executive, Ministers, Trade Unions, and other stakeholders, a Government Reform Strategic Plan has now been completed.

Mr. Speaker, the plan includes the vision and purpose, which codify the overarching objectives of the Government of Bermuda. The main focus of the plan is the target operating model and an accompanying short-term plan that lays out specific, practical actions that can be accomplished in the near term.

The operating model is comprised of five strategic areas:

- Processes – clear administrative processes and policies; sound fiscal management
- Platform – organisational structure, workplace and IT infrastructure designed for execution
- People – committed, capable, well-trained resources receiving fair benefits for their work
- Perspective – customer service mentality embracing growth and business development
- Performance – culture of measuring activity and results, enabling true accountability

With clear direction, focused activity, and transparent performance measurement, the public service can begin to realise positive change and embed a new, sustainable culture of reform into the departments and ministries.

Mr. Speaker, substantive change will commence with the people functions. The Government will undertake a complete overhaul of the delivery of its human resource services. The future-state organisational structure will provide the resources and capabilities for the development and transformation of the Government of Bermuda's workforce to satisfy the critical need of good governance. It centralises HR strategy and policy development, it differentiates between strategic, consultative, and transactional roles, and it optimises and centralises HR processes.

The new Department of Employee and Organisational Development (Head 61) will be established and ultimately will result in the centralisation of the Department of Human Resources and the more than ten human resource satellite offices that provide duplicate services. The first phase, to occur in the upcoming fiscal year, involves the amalgamation of the Compensation and Benefits section, currently under the remit of the Accountant General's Office, and the Management Consulting Section.

In order to retain highly competent and energized individuals in the Public Service it is important for the Government to ensure that

career paths are made available that will reward those employees who demonstrate promise. To this end, one facet of the Public Service Reform plan will be to identify “high-flyers” within the Public Service and prepare those officers to assume leadership roles within the Public Service. Officers selected to participate will undergo leadership development training to prepare them for senior roles within the Public Service.

Ministry of Tourism and Transport

Mr. Speaker, the Ministry of Tourism and Transport will receive \$88.5 million in the upcoming year. In addition to funding the Departments of Transport Control, Public Transportation and Marine and Ports Services, the ministry provides grants to the Bermuda Tourism Authority (BTA) and Bermuda Airport Authority (BAA).

The BTA will see a reduction in its government grant from \$26 million to \$22.5 million. A reduction in the BTA grant does not mean, though, a reduction in this Government’s commitment to investing in tourism development. Indeed, as the BTA focuses on implementation of the new National Tourism Plan, its overall budget will increase from \$31 million in 2018 to \$35.9 million in 2019. This is possible, in part, due to the introduction of new visitor fees charged to cruise passengers and visitors taking advantage of vacation rental properties.

A portion of the \$35.9 million will be earmarked to the Bermuda Events Authority which will look to attract events to Bermuda that appeal to younger generation of traveller.

Recognising that Bermuda’s transportation infrastructure is ageing, this Government will continue its phased investment in a new fleet, while at the same time ensuring that both Marine and Ports and Public Transportation have increased capacity to undertake proper maintenance and refits of buses and ferries, as and when required. The uplift for inventory, maintenance and repair for these departments is made possible by the reduction in the grant to the BTA. The challenges faced by our ageing transportation infrastructure are real, and this Government will continue to find a path forward for solutions that are fiscally responsible.

Ministry of National Security

Mr. Speaker, the Ministry of National Security will receive an allocation of \$134.9 million, an increase of \$3.8 million compared with the fiscal year 2018/19 actual budget. This increase is attributed to the Cabinet reshuffle resulting in the Department of ICT Policy and Innovation moving to the Ministry of the Cabinet Office and the Department of Immigration moving from the Ministry of Home Affairs to the Ministry of National Security.

Several of the uniformed services, including the Department of Corrections, the Bermuda Police Service, the Customs Department and the Bermuda Fire and Rescue Service, are running recruitment drives in fiscal year 2019/20 to fill vacant but funded posts to reduce the levels of overtime and allow for best-practice services for the people of Bermuda.

In fiscal year 2019/20, the ministry will focus its efforts on two important projects: the gang violence reduction team and comprehensive immigration reform.

Mr. Speaker, the ministry continues to provide support to address and to prevent anti-social behaviour through the Gang Resistance Education and Training (G.R.E.A.T.) programme, which aims to prevent gang affiliation among school-aged children through early intervention. The team also provides restorative justice circle sessions, which focus on the intervention and mediation phases with inmates and others requiring assistance. The team will expand in 2019/20 by launching the Redemption Farm Programme. This is a 12- to 16-week therapeutic, incentivised programme for at-risk individuals and aims to restore justice and discourage criminality through case management, educational and post-training services.

Mr. Speaker, the Comprehensive Immigration Reform project has already addressed the backlog of work permits in the department in its first phase. In the next phase, the project will implement process improvements to enhance efficiencies, reduce costs and improve customer satisfaction within the department. Another phase includes amendments to current policies and legislation and will involve public consultation.

Ministry of Legal Affairs

The Ministry of Legal Affairs will receive \$48.9 million dollars, an increase of \$967,000 or a 2% increase from the current 2018/19 fiscal year.

In the 2017 platform, the Government promised to “allow licensed practitioners to prescribe their patients medicinal cannabis to address legitimate health issues and establish a regime for domestic medicinal cannabis production”. The Government has already delivered on a platform promise that targeted the removal of the criminal offence for simple possession by any person holding 7 grams or less of cannabis. In this 2019/20 budget year, the ministry intends to move from a standard of limited decriminalisation of cannabis to establishing a robust licensing regime that will create a comprehensive framework embracing the science of cannabis use for medicinal purposes.

In the 2019/20 year, the Ministry of Legal Affairs will introduce amendments that are designed to improve and modernise the functioning of the Liquor Licensing Authority under the Liquor Licence Act 1974. It remains the duty of a responsible government to ensure that adequate protections exist in law to administer the sales and consumption of alcohol in the best interests of the whole society. The gaps identified in the liquor licensing regime are preventing businesses from legally serving alcohol at certain events. It is anticipated that the amendments to the law will decrease the practice of serving alcohol without the proper authorisation.

Ministry of Home Affairs

Mr. Speaker, the Ministry of Home Affairs will receive \$18.2 million.

The ministry will focus on completing the implementation of municipalities’ reform to modernise the municipalities in today’s Bermuda, and will table a bill to provide for the long-awaited marina in the town of St. George’s.

Consumer Affairs will complete phase one of the Debt Collection Act 2018 and begin the consultative process with the BMA to bring financial service conduct under the umbrella of Consumer Affairs.

Mr. Speaker, the Department of Planning will complete the public consultation and objections process for the draft Bermuda Plan and will publish and release for public consultation the draft Local Plan for North East Hamilton. The department will also publish a world heritage management plan for the sustainable economic, social and environmental protection of Bermuda's world heritage sites.

CONCLUSION

Mr. Speaker, I am a husband and a father; I am the son of parents who worked and sacrificed to provide the best for me. The Bermuda of their youth rigidly denied opportunities to too many of its citizens. The change of 2017's General Election and the mandate to build a better and fairer Bermuda means that there is an expectation in this country that we will foster an environment for growth and the development of Bermudians.

The beauty of true democracy is that beyond the numbers, graphs and charts lie real people. This economy does not permit us to do all that we want to do, but the balance this budget brings to the delivery of services, meeting external threats, investing in the education of our children and advancing a system of fairer taxation continues to build on the economic foundation set out since our 2017 electoral victory.

Mr. Speaker, our "quiet past" has been upended by this "stormy present". The norms on which Bermuda has relied are unlikely to present the full solutions to these global issues. The change required of all of us will not be easy. It challenges us to dig deeper in pursuit of common goals, it defies our usual definitions of industry and the jobs that support them, and it tests our true value system.

I believe we are equal to the task. Hundreds of Bermudians responded to the call to acquire skills that would equip them to work in new opportunities coming to Bermuda. That is evidence of hope and proof of the importance of the work we do every day in public service. We see the same expectancy when we visit Bermudians in their homes and field questions on topics ranging from healthcare to sports development to road paving. Bermudians are keenly interested in a brighter future for themselves and their children and I submit that their trust in this Government is well placed.

Mr. Speaker, the values of hard work, sacrifice, forthrightness and dedication I learned from my parents have served me well through a decades long career in the private sector; they spurred me to seek public

office and now in this pivotal role as Minister of Finance I again draw on the lessons learned from them as I humbly present for the consideration of this Honourable House, the Estimates of Revenue and Expenditure for the Fiscal Year 2019/20.

Thank you, Mr. Speaker.

Table I

**GOVERNMENT
OF
BERMUDA**
**SUMMARY OF
CONSOLIDATED FUND
ESTIMATES FOR 2019/20 TO 2021/22**

ACTUAL 2017/18 \$000		ORIGINAL ESTIMATE 2018/19 \$000	REVISED ESTIMATE 2018/19 \$000	ESTIMATE 2019/20 \$000	ESTIMATE 2020/21 \$000	ESTIMATE 2021/22 \$000
Revenue and Expenditure Estimates						
1,058,877	1 Revenue	1,089,861	1,079,243	1,118,455	1,140,824	1,163,641
892,867	2 Current Account Expenditure(excl.debt & s/fund)	929,134	931,988	929,861	929,861	929,861
166,010	3 Current Account Balance(excl.debt & s/fund)	160,727	147,255	188,594	210,963	233,780
117,723	4 Interest on Debt	124,000	124,000	116,500	116,500	116,500
48,287		36,727	23,255	72,094	94,463	117,280
62,098	5 Sinking Fund Contribution	64,223	64,223	0	0	0
(13,811)	6 Surplus Available for Capital Expenditure	(27,496)	(40,968)	72,094	94,463	117,280
56,596	7 Capital Expenditure (See line 20 below)	62,209	61,607	64,715	65,000	65,000
(70,407)	8 Budget Surplus (Deficit)	(89,705)	(102,575)	7,379	29,463	52,280
Sources of Financing						
(14,593)	9 Consolidated Fund	0	12,870	0	0	0
85,000	10 Borrowing	89,705	89,705	(7,379)	(29,463)	(52,280)
70,407	11 Total Financing	89,705	102,575	(7,379)	(29,463)	(52,280)
Capital Appropriations						
67,451	12 Appropriations in Original Estimates	62,209	61,607	64,715	65,000	65,000
1,171	13 Supplementary Appropriations	0	0	0	0	0
68,622	14 Appropriated During the Year	62,209	61,607	64,715	65,000	65,000
0	15 Appropriations Frozen	0	0	0	0	0
(5,954)	16 Appropriations Lapsed	0	0	0	0	0
62,668	17 Net Appropriations	62,209	61,607	64,715	65,000	65,000
17,004	18 Unspent Appropriations from Prior Year	0	23,076	0	0	0
79,672	19 Appropriations to Meet Spending	62,209	84,683	64,715	65,000	65,000
56,596	20 Capital Spending	62,209	61,607	64,715	65,000	65,000
23,076	21 Unspent Appropriations Carried Forward	0	23,076	0	0	0
Consolidated Fund Balance (March 31)						
1,000	22 Contingency Fund	1,000	1,000	1,000	1,000	1,000
23,076	23 Unspent Capital Appropriations	0	23,076	0	0	0
(3,026,303)	24 Undesignated Surplus (Deficit)	(3,092,932)	(3,128,878)	(3,098,423)	(3,068,960)	(3,016,680)
(3,002,227)	25 Consolidated Fund Surplus (Deficit)	(3,091,932)	(3,104,802)	(3,097,423)	(3,067,960)	(3,015,680)

TYPE	DESCRIPTIONS	2018/19	2019/20	2020/21	2021/22
Revenue	Growth, Tax Reform and Rate Increases	1.9%	2.6%	2.0%	2.0%
Expenditure	Spending Reductions/Increases	4.4%	0.8%	0.0%	0.0%
Debt Repayment	Senior Notes Due		\$180M		
Budget Surplus	Debt Re-purchases and/or Sinking Fund Contributions			up to 75%	up to 75%
NET DEBT	Position as at end of year	2,465,000	2,457,062	2,434,714	2,395,255

Table II

ANALYSIS OF CURRENT ACCOUNT REVENUE

HEAD	REVENUE DESCRIPTION	2017/18 ACTUAL (\$000)	2018/19 ORIGINAL (\$000)	2018/19 REVISED (\$000)	2019/20 ESTIMATE (\$000)	DIFFERENCE 2018/19 vs 2019/20 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TAXES & DUTIES							
12	CUSTOMS DUTY	223,003	235,000	224,500	235,000	0	0
27	SALE OF LAND TO NON-BERMUDIANS	6,070	7,000	2,414	5,500	(1,500)	(21)
29	TIMESHARING TAX	51	20	30	20	0	0
38	PASSENGER TAXES	22,177	25,000	25,000	32,300	7,300	29
38	STAMP DUTIES	26,714	23,000	27,790	29,000	6,000	26
38	BETTING TAX	164	800	150	800	0	0
38	LAND TAX	62,846	78,330	80,330	85,375	7,045	9
38	FOREIGN CURRENCY PURCHASE TAX	20,896	22,000	20,931	26,164	4,164	19
38	PAYROLL TAX	456,736	454,000	460,500	466,100	12,100	3
38	HOTEL OCCUPANCY	11,991	11,000	11,512	12,000	1,000	9
38	CORPORATE SERVICE TAX	5,393	5,500	5,271	5,270	(230)	(4)
38	FINANCIAL SERVICES TAX	7,160	8,900	8,600	12,250	3,350	38
FEES, PERMITS & LICENCES							
03	LIQUOR LICENCES	509	320	526	526	206	64
12	OTHER CUSTOMS FEES & CHARGES	1,919	2,100	1,969	2,000	(100)	(5)
12	WHARFAGE	805	840	806	806	(34)	(4)
13	POST OFFICE	4,665	4,652	4,651	4,735	83	2
27	IMMIGRATION RECEIPTS	15,982	16,500	16,203	16,300	(200)	(1)
29	TRADE & SERVICE MARK	1,787	1,801	1,530	1,860	59	3
30	FERRY SERVICES	1,532	1,636	1,237	1,237	(399)	(24)
30	SERVICES TO SEABORNE SHIPPING	3,082	3,088	3,074	3,074	(14)	(0)
32	PLANNING FEES AND SEARCHES	1,760	1,200	1,215	1,110	(90)	(8)
34	VEHICLE LICENCES AND REGISTRATION	29,291	30,449	30,974	30,984	535	2
35	BUS REVENUES	6,435	8,142	6,228	7,351	(791)	(10)
36	SOLID WASTE	5,359	5,473	5,775	5,473	0	0
36	WATER	3,327	3,692	4,924	3,692	0	0
36	RENTALS	2,227	2,025	1,860	2,104	79	4
39	COMPANIES - INTERNATIONAL	63,353	68,461	67,966	66,655	(1,806)	(3)
39	COMPANIES LOCAL	2,653	2,940	2,363	2,750	(190)	(6)
39	COMPANIES LICENCES	711	820	796	820	0	0
48	CIVIL AVIATION RECEIPTS	21,000	19,850	18,833	16,000	(3,850)	(19)
79	PLANT PRODUCTION & MARKETING CTRE	137	190	191	189	(1)	(1)
89	TELECOMMUNICATIONS RECEIPTS	14,459	17,950	17,980	17,685	(265)	(1)
95	VACATION RENTAL FEE	0	750	0	0	(750)	0
OTHER RECEIPTS							
03	FINES AND FORFEITURES	2,911	3,500	2,647	2,647	(853)	(24)
11	INTEREST ON DEPOSITS	3,674	406	3,000	1,500	1,094	269
81	ASSET SALES	700	1,000	0	0	(1,000)	(100)
	OTHER REVENUE	27,398	21,526	17,467	19,178	(2,348)	(11)
		1,058,877	1,089,861	1,079,243	1,118,455	28,594	3

Table III

SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD	DESCRIPTION	2017/18 ACTUAL (\$000)	2018/19 ORIGINAL (\$000)	2018/19 REVISED (\$000)	2019/20 ESTIMATE (\$000)	DIFFERENCE 2018/19 vs 2019/20 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
NON-MINISTRY DEPARTMENTS							
01	GOVERNOR & STAFF	1,379	1,395	1,395	1,395	0	0
02	LEGISLATURE	4,937	5,530	5,450	5,651	121	2
05	OFFICE OF THE AUDITOR	3,443	4,082	4,082	4,082	0	0
56	HUMAN RIGHTS COMMISSION	1,124	1,269	1,238	1,269	0	0
63	PARLIAMENTARY REGISTRAR	1,599	1,571	1,405	1,571	0	0
85	OMBUDSMAN'S OFFICE	870	924	924	1,079	155	17
92	INTERNAL AUDIT	1,035	1,426	1,426	1,426	0	0
98	INFORMATION COMMISSIONER'S OFFICE	846	957	1,037	957	0	0
101	PRIVACY COMMISSIONER'S OFFICE	0	567	111	567	0	0
		15,233	17,721	17,068	17,997	276	2
CABINET OFFICE DEPARTMENTS							
09	CABINET OFFICE	5,734	13,230	13,230	15,334	2,104	16
13	POST OFFICE	9,684	10,677	10,677	10,502	(175)	(2)
14	DEPT. OF STATISTICS	1,957	2,493	2,493	2,493	0	0
26	DEPT. OF HUMAN RESOURCES	3,270	3,813	3,813	3,813	0	0
43	DEPT. OF INFORMATION & DIGITAL TECH.	6,117	6,690	6,690	6,627	(63)	(1)
51	DEPT. OF COMMUNICATIONS	2,751	3,150	3,150	3,150	0	0
61	DEPT. OF EMP & ORG. DEVELOPMENT	0	0	0	1,672	1,672	0
67	DEPT. OF INFORMATION & COMM. TECH.	1,136	1,475	1,475	1,475	0	0
80	PROJECT MANAGEMENT & PROCUREMENT	686	772	772	930	158	20
		31,335	42,300	42,300	45,996	3,696	9
MINISTRY OF LEGAL AFFAIRS							
87	MIN. OF LEGAL AFFAIRS HQ	6,144	5,718	5,641	6,627	909	16
03	JUDICIAL DEPARTMENT	7,756	8,473	8,473	8,723	250	3
04	ATTORNEY GENERAL'S CHAMBERS	4,542	5,309	5,386	5,308	(1)	(0)
23	CHILD & FAMILY SERVICES	13,361	15,715	15,715	15,915	200	1
74	DEPT. OF COURT SERVICES	3,782	4,675	4,675	4,658	(17)	(0)
75	DEPT. OF PUBLIC PROSECUTIONS	3,106	3,503	3,503	3,329	(174)	(5)
88	NATIONAL DRUG CONTROL	3,809	4,511	4,511	4,511	0	0
		42,500	47,904	47,904	49,071	1,167	2
MINISTRY OF FINANCE							
10	MIN. OF FINANCE HQ	4,509	5,050	5,732	5,895	845	17
11	ACCOUNTANT GENERAL	82,502	86,461	85,516	86,153	(308)	(0)
28	SOCIAL INSURANCE	5,054	5,250	4,950	4,825	(425)	(8)
38	OFFICE OF THE TAX COMMISSIONER	3,449	3,451	4,301	3,761	310	9
39	REGISTRAR OF COMPANIES	2,246	3,187	2,787	3,709	522	16
58	INTEREST ON DEBT	117,723	124,000	124,000	116,500	(7,500)	(6)
59	SINKING FUND CONTRIBUTION	62,098	64,223	64,223	0	(64,223)	(100)
		277,581	291,622	291,509	220,843	(70,779)	(24)
MINISTRY OF EDUCATION							
16	MIN. OF EDUCATION HQ	2,319	3,340	3,235	3,579	239	7
17	DEPT. OF EDUCATION	111,472	114,243	114,243	114,243	0	0
18	LIBRARIES & ARCHIVES	1,781	3,222	3,218	3,222	0	0
19	ARCHIVES	999	0	0	0	0	0
41	BERMUDA COLLEGE	15,481	15,906	15,906	15,906	0	0
		132,052	136,711	136,602	136,950	239	0

Table III

SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

- continued

HEAD	DESCRIPTION	2017/18 ACTUAL (\$000)	2018/19 ORIGINAL (\$000)	2018/19 REVISED (\$000)	2019/20 ESTIMATE (\$000)	DIFFERENCE 2018/19 vs 2019/20 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MINISTRY OF HEALTH							
21	MIN. OF HEALTH HQ	11,211	11,488	10,295	11,649	161	1
22	DEPT. OF HEALTH	25,165	28,912	24,895	28,817	(95)	(0)
24	HOSPITALS	120,200	145,674	155,374	145,674	0	0
55	FINANCIAL ASSISTANCE	51,915	51,684	51,684	51,484	(200)	(0)
91	HEALTH INSURANCE	3,959	3,995	4,293	3,930	(65)	(2)
		212,450	241,753	246,541	241,554	(199)	(0)
MINISTRY OF TOURISM & TRANSPORT							
48	MIN. OF TOURISM & TRANSPORT HQ	44,425	14,395	14,480	39,475	25,080	174
30	MARINE & PORTS	21,349	20,250	20,292	21,278	1,028	5
34	TRANSPORT CONTROL DEPARTMENT	5,465	5,375	5,375	5,375	0	0
35	PUBLIC TRANSPORTATION	21,764	21,615	21,530	22,368	753	3
		93,003	61,635	61,677	88,496	26,861	44
MINISTRY OF PUBLIC WORKS							
36	MIN. OF PUBLIC WORKS HQ	4,359	5,931	5,922	6,209	278	5
49	LAND VALUATION	715	787	813	1,027	240	30
53	BERMUDA HOUSING CORP	6,050	6,050	6,050	6,050	0	0
68	PARKS	8,540	9,808	8,472	9,644	(164)	(2)
81	PUBLIC LANDS & BUILDINGS	19,507	19,507	19,924	19,472	(35)	(0)
82	WORKS & ENGINEERING	32,527	30,588	30,414	29,647	(941)	(3)
97	LAND TITLE & REGISTRATION	879	1,297	1,144	1,398	101	8
		72,577	73,968	72,739	73,447	(521)	(1)
MINISTRY OF LABOUR, COMMUNITY AFFAIRS & SPORTS							
71	MIN. OF LABOUR, COMMUNITY AFFS. & SPORTS HQ	1,784	2,520	2,520	2,218	(302)	(12)
20	YOUTH, SPORT & RECREATION	9,172	9,654	9,654	10,109	455	5
52	COMMUNITY & CULTURAL AFFAIRS	2,694	2,242	2,242	2,242	0	0
60	WORKFORCE DEVELOPMENT	4,110	3,849	3,996	4,296	447	12
		17,760	18,265	18,412	18,865	600	3
MINISTRY OF NATIONAL SECURITY							
83	MIN. OF NATIONAL SECURITY HQ	1,723	1,466	1,559	2,060	594	41
06	DEFENCE	6,692	7,209	7,209	7,209	0	0
07	POLICE	62,182	65,802	65,802	65,802	0	0
12	CUSTOMS	17,132	16,939	16,945	16,945	6	0
25	DEPT. OF CORRECTIONS	26,324	25,082	24,981	25,082	0	0
27	IMMIGRATION	4,771	4,754	4,754	4,754	0	0
45	FIRE SERVICES	13,658	13,127	13,127	13,127	0	0
		132,482	134,379	134,377	134,979	600	0

Table III

SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE
- continued

HEAD	DESCRIPTION	2017/18 ACTUAL (\$000)	2018/19 ORIGINAL (\$000)	2018/19 REVISED (\$000)	2019/20 ESTIMATE (\$000)	DIFFERENCE 2018/19 vs 2019/20 (\$000) %	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MINISTRY OF HOME AFFAIRS							
93	MIN. OF HOME AFFAIRS HQ	1,772	4,467	4,448	3,723	(744)	(17)
29	REGISTRY GENERAL	1,606	1,953	1,960	1,832	(121)	(6)
32	DEPT. OF PLANNING	2,693	3,304	3,304	3,376	72	2
50	MIN. OF THE ENVIRONMENT HQ	1,109	0	0	0	0	0
79	ENVIRONMENT AND NATURAL RESOURCES	7,860	8,221	8,221	8,352	131	2
89	ENERGY	628	783	783	880	97	12
		15,668	18,728	18,716	18,163	(565)	(3)
MINISTRY OF ECONOMIC DEVELOPMENT & TOURISM							
95	MIN. OF ECONOMIC DEV. & TOURISM HQ	30,045	32,366	32,366	0	(32,366)	(100)
		30,045	32,366	32,366	0	(32,366)	(100)
		1,072,686	1,117,352	1,120,211	1,046,361	(70,991)	(6)

Table IV

ANALYSIS OF CURRENT ACCOUNT EXPENDITURE BY OBJECT ACCOUNT

EXPENDITURE					DIFFERENCE	
OBJECT CODE DESCRIPTION		2017/18 ACTUAL (\$000)	2018/19 ORIGINAL (\$000)	2018/19 REVISED (\$000)	2019/20 ESTIMATE (\$000)	2018/19 vs 2019/20 (\$000) %
(1)	(2)	(3)	(4)	(5)	(6)	(7) (8)
SALARIES		292,060	326,048	318,806	332,594	6,546 2
WAGES		77,644	68,165	66,187	69,374	1,209 2
EMPLOYER OVERHEAD		75,881	78,920	77,973	79,406	486 1
OTHER PERSONNEL COSTS		4,722	5,784	5,767	5,643	(141) (2)
TRAINING		2,492	3,462	3,202	3,594	132 4
TRANSPORT		2,390	4,397	2,392	4,348	(49) (1)
TRAVEL		2,043	3,045	2,895	3,408	363 12
COMMUNICATIONS		6,250	7,145	7,092	7,201	56 1
ADVERTISING & PROMOTION		1,631	2,490	2,363	2,395	(95) (4)
PROFESSIONAL SERVICES		41,184	49,554	49,177	44,006	(5,548) (11)
RENTALS		11,639	12,091	12,029	11,977	(114) (1)
REPAIR & MAINTENANCE		16,417	19,467	18,570	19,781	314 2
INSURANCE		8,003	9,008	10,293	8,907	(101) (1)
ENERGY		14,513	16,512	13,739	16,510	(2) (0)
CLOTHING & UNIFORMS		1,486	1,124	1,014	1,098	(26) (2)
MATERIALS & SUPPLIES		19,971	23,165	21,844	23,415	250 1
EQUIPMENT		778	552	508	605	53 10
OTHER EXPENSES		5,262	2,924	3,979	3,069	145 5
RECEIPTS CREDITED TO PROG		0	(21,339)	(12,193)	(21,955)	(616) 3
TRANSFER TO OTHER FUNDS		62,098	64,223	64,223	0	(64,223) (100)
GRANTS & CONTRIBUTIONS		308,311	316,565	326,301	314,435	(2,130) (1)
PUBLIC DEBT CHARGES		117,911	124,050	124,050	116,550	(7,500) (6)
		1,072,686	1,117,352	1,120,211	1,046,361	(70,991) (6)

Table V

**GOVERNMENT DEBT TRANSACTIONS & AMOUNTS
OUTSTANDING 2008/09 TO 2021/22**

YEAR	GROSS BORROWING	REPAYMENTS	NET BORROWING (REPAYMENTS)	GROSS DEBT OUTSTANDING	MEMORANDA INTEREST ON DEBT
(1)	(\$000) (2)	(\$000) (3)	(\$000) (4)	(\$000) (5)	(\$000) (6)
2008/09	217,250	0	217,250	562,250	18,186
2009/10	415,000	93,410	315,000	823,410	38,980
2010/11	264,080	0	0	1,087,490	56,300
2011/12	263,230	0	0	1,350,720	70,000
2012/13	223,280	0	0	1,574,000	(i) 81,576
2013/14	800,000	69,000	731,000	2,305,000	109,245
2014/15	0	120,000	(120,000)	2,185,000	113,223
2015/16	150,000	0	150,000	2,335,000	116,217
2016/17	212,169	63,234	148,935	2,483,935	121,500
2017/18	85,000	0	85,000	2,568,935	119,500
2018/19 (Rev)	620,000	508,935	111,065	2,680,000	124,000
2019/20 (Est)	(7,379)	180,000	(187,379)	2,492,621	116,500
2020/21 (Est)(ii)	(22,097)	0	(22,097)	2,470,524	116,500
2021/22 (Est)(ii)	(39,210)	0	(39,210)	2,431,314	116,500

(i) In 2013/14 - \$51M of Interest on Debt was funded from the Sinking Fund

(ii) Budget Surplus up to 75% towards Debt re-purchases and/or Sinking Fund Contributions

Table VI
**BERMUDA GOVERNMENT
DEBT AND LOAN GUARANTEES**

UTILISATION OF STATUTORY BORROWING POWERS

ACTUAL 2017/18 (\$000)	DETAILS	REVISED ESTIMATE 2018/19 (\$000)	ESTIMATE 2019/20 (\$000)
	DEBT & LOAN GUARANTEES OUTSTANDING AS OF MARCH 31		
2,568,935	BORROWINGS UNDER LOAN FACILITIES (GOVT)	2,680,000	2,492,621
2,568,935	TOTAL DEBT OUTSTANDING (GOVT)	2,680,000	2,492,621
150,178	Less: SINKING FUND CONTRIBUTIONS (i)	215,000	35,559
2,418,757	NET CUMULATIVE GOVERNMENT DEBT & GUARANTEES OUTSTANDING (ii)	2,465,000	2,457,062

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

In 2013 the Government Loans Act 1978 was amended to allow excess funds borrowed to be deposited and extracted from the Sinking Fund to fund future year deficits.

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

- (ii) The Government has the following guarantees: Bermuda Housing Corporation (\$29.3M); West End Development Corporation (\$71.8M); Bermuda Economic Development Corporation (\$1.2M); Bermuda Hospitals Board (\$276.8M) Morgan's Point (\$165M); Bermuda Tourism Authority (\$10M) and Bermuda Casino Gaming Commission (\$1.2M).
- With effect 1st April, 2011 these guarantees are no longer charged against the statutory debt ceiling unless the guarantee obligation becomes due and payable by the Government, pursuant to the amended Gov't Loans Act 1978. The total amount of utilized Loan Facilities are restricted by the Government Loans Act 1978, as amended.

Table VII

PROFESSIONAL SERVICES

ACCOUNT DESCRIPTION		ACTUAL 2017/18 (\$000) (3)	ORIGINAL ESTIMATE 2018/19 (\$000) (4)	REVISED ESTIMATE 2018/19 (\$000) (5)	ESTIMATE 2019/20 (\$000) (6)
(1)	(2)				
	5260 Local Consultants	7,731	9,998	10,494	10,035
	5265 Overseas Consultants	4,955	6,974	6,267	5,903
	5270 Contractors	14,357	16,710	16,701	13,799
	5275 Medical	4,706	4,892	5,226	5,009
	5280 Optical Services	17	21	26	34
	5285 Educational Services	68	131	83	162
	5290 Chiropodist Services	2	4	4	6
	5295 Psychological Services	16	20	20	20
	5300 Dental Services	52	66	66	71
	5305 War Pension Award	1,587	1,680	1,380	1,053
	5310 Counselling Services	267	296	294	278
	5315 Child Care Services	145	140	139	155
	5320 Recreational Services	202	245	295	278
	5325 Legal Services	3,865	4,002	3,832	2,821
	5330 Liquidation Fees	(161)	75	75	40
	5340 Membership Fees - Govt.	290	408	374	406
	5345 Forensic/Lab Services	399	688	608	688
	5350 Forensic/lab accounting	141	157	157	157
	5355 Security Services	1,179	1,322	1,315	1,301
	5360 Conservation Services	69	50	18	32
	5365 Animal Control Services	13	29	29	28
	5370 Board & Comm. Fees	644	960	1,002	972
	5375 ID Parade - Police	20	30	30	30
	5380 Jury & Witness Fees	116	115	115	115
	5385 Court Costs	5	4	106	108
	5390 Audit Fees	30	87	71	55
	5395 Examination Fees	469	450	450	450
		41,184	49,554	49,177	44,006

Table VIII

Estimated Expenditure 2019/20 in BD\$ Millions

■ Non-Ministry.....	18.0
■ Cabinet Office Departments.....	46.0
■ Legal Affairs.....	49.1
■ Finance.....	04.3
■ Education	137.0
■ Health	241.6
■ Tourism & Transport.....	88.5
■ Public Works	73.4
■ Labour, Community Affairs & Sports	18.9
■ National Security.....	135.0
■ Home Affairs	18.2
■ Interest.....	116.5
■ Capital Estimate.....	64.7



Categories of expenditure expressed as a percentage of total estimated expenditure for 2019/20 of \$1,111.0 million



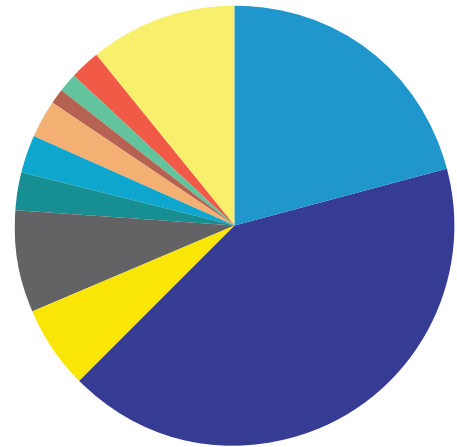
— Non-Ministry.....	1.6
— Cabinet Office Departments.....	4.1
— Legal Affairs.....	4.4
— Finance.....	9.4
— Education	12.3
— Health	21.7
— Tourism & Transport	8.0
— Public Works	6.6
— Labour, Community Affairs & Sports	1.7
— National Security.....	12.1
— Home Affairs	1.6
— Interest	10.5
— Capital Estimate.....	5.8

Table IX

Estimated Revenue 2019/20 in BD\$ Millions

Total Revenue \$1,118.5 million

Customs	235.0
Payroll Tax	466.1
Companies Fees	66.7
Land Tax	85.4
Passenger Tax	32.3
Vehicle Licences	31.0
Stamp Duties	29.0
Hotel Occupancy	12.0
Immigration	16.3
Foreign Currency	26.2
All Other	118.6



Categories of revenue expressed as a percentage of total estimated revenue for 2019/20 of \$1,118.5 million



Customs	21.0
Payroll Tax	41.7
Companies Fees	6.0
Land Tax	7.6
Passenger Tax	2.9
Vehicle Licences	2.8
Stamp Duties	2.6
Hotel Occupancy	1.1
Immigration	1.5
Foreign Currency	2.3
All Other	10.6

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Design and pre-press production:
Department of Communications
Printed in Bermuda by The Bermuda Press Ltd. February 2019