

Bermuda Budget Release 2006

“An age where our people realise and acknowledge that we can do for ourselves. A recognition that we can achieve in our housing and that we can succeed on our own terms given our abilities aptitude and attitude” as quoted by The Hon. Paula A. Cox, J.P. M.P.

The Honourable Finance Minister presented the Government Budget 2006/07 that was intended to address the key objectives:

1. Strengthening social cohesion in our community;
2. Developing and training Bermuda's youth;
3. Improving the quality of life of our senior citizens;
4. Putting good quality homes within the economic reach of more Bermudian families;
5. Stabilising, rejuvenating and encouraging business activity in all economic sectors.

In a good news budget the Finance Minister managed to minimise tax increases while expanding expenditures for the betterment of the welfare of all Bermudians.

While no significant tax changes were proposed, residents will be paying higher customs duties at the airport now rising to 25%. Also, vehicle registration fees will increase by 5%.

Good news for seniors with increases of pensions and prescription allowances, as well as fishermen that were targeted to receive financial incentives.

International and local business will be encouraged that there is no imposition of additional tax in any form.

Housing remains a high priority for government that has allocated \$25 million for additional homes for sale and rental.

Amidst the good news it is important to identify the reasons for the Minister's optimism:

- Actual 2005/06 revenues have unexpectedly increased by 6.4% for a windfall of \$47.9m. Offsetting the positive news was increased expenditure of \$13.5 million for an unplanned excess of \$34.4 million.
- Following record revenues, the Finance Minister has anticipated a further expansion of revenues increasing by \$37 million (4.6%). From revenue increases derived mostly from customs duties and payroll tax, the Minister has proposed an expenditure increase of \$79 million or 11.1%.

Kudos to the Honourable Minister for delivering the good news of expanding revenues, maintaining taxation levels and preserving a stable environment for business.

It should be noted that while expenditures focus to address the social agenda and public welfare, the public debt has risen to a record high level of \$236 million, an increase from \$152 million in the prior year. While striving to afford the high cost of living, all Bermudians will have the burden of a per capital public debt of \$3,800 per resident, an increase of \$1,350 from the previous year.

Economic Performance

The original estimated revenue for 2005/06 of \$750.5 million has been revised upwards to a figure of \$798.4 million (an increase of 6.4%). Similarly the projected revenue for 2006/07 has been estimated at approximately \$835.6 million (an increase of 4.7% on the Revised 2005/06 figures). The major revenue sources contributing to this favourable outcome were stamp duties (\$15m) and customs duty (\$14.3m).

In line with the increasing revenues current account expenditures are rising. However, the expenditure rates (excluding debt servicing costs and sinking fund contributions) are rising at a higher rate, with percentage increases of over 2% between 2004/05 and 2005/06 and a percentage increase of approximately 11% anticipated between 2005/06 and 2006/07. The scale of the increases reflects the additional resources that the Government has deployed to realise the goals and objectives of the 'Social Agenda'.

Preliminary estimates of GDP growth in 2005 indicate further expansion of 2.5 to 3 per cent following the 3 per cent increase in GDP in 2004.

The overall employment level has increased by 1.2% in 2005 compared with an increase of 1.8% in 2004. The increase represented an additional 452 jobs (net) bringing the total to 38,815. The international business sector continued to grow with a 3.3% increase compared with 8.3% in 2004.

The construction, hospitality and public sectors posted increase in employment levels. The only area to have a decline is the retail industry with the close of Trimminghams.

During 2005 consumer price inflation averaged 3.1% compared to 3.6% in the prior year. The economic outlook appears to be favourable. However a decline in the value of the US dollar could have an effect on Bermuda's current economic position.

Impact on Business

"We see a continuous ebb and flow of new entrants into the market place and of those who exit the market. There is a wave of excitement about economic empowerment and newly emerging entrepreneurs in our community today."

The ministry of Finance will take a more direct marketing role in the business development of Bermuda as a financial services jurisdiction. The Ministry has been given an additional \$1 million in funding for this initiative. The Bermuda International Business Association funding has not been increased, with additional funding "for this vitally important function" reserved for the Ministry of Finance.

The Ministry of Finance will work with Bermuda Small Business Development Corporation (BSBDC) and the local banking community to stimulate enterprise in business and to roll-out "Economic Empowerment Zones" in North Hamilton. The grant to the BSBDC has been doubled to \$1.5M.

A National Work Force Development Programme has been established to train Bermudians in all sectors and at all levels of the labour force. In addition, new

funding will be provided to the National Training Board totaling \$4.2 million.

Revised forecasts of GDP growth in 2005 by the Ministry of Finance indicate overall economic growth in the range of 2.75 to 3%.

There will be no increase in payroll tax, the highest rate of which remains at 13.5%.

The duty-free exemption on materials used in the construction of affordable housing will continue, and duty will be zero rated on the importation of rolls of sheet steel for use in the construction industry. There will be further incentives to small businesses through adjustments to Customs Duty on specific imported materials.

The Main Tax Effects

No Tax Increases For

- Payroll Tax
- Land Tax
- Bus / Ferry Fares
- Passenger Taxes

Customs Duty

- Streamlined Single rate of 25% for all non commercial accompanied goods brought in by returning residents and visitors.

Zero Rates of Duty

- GPS equipment for use in taxi industry.
- Rolls of sheet steel for construction industry.
- Incentive package for full-time commercial fishermen.

Seniors

- 4% Increase in government pensions effective August 2006.
- 15% Increase in prescription drug benefits for Seniors (to \$1,150pa).

Vehicles

- Increase of 5% in licence fees.

Social Agenda

“However budgets are not just about figures; budgets also speak to the needs of the people we serve. That is why the National Budget 2006/07 should be viewed through the prism of a Social Agenda focus.”

Housing

- Conversion of \$49 million debt that is owed to the Consolidated Fund by the Bermuda Housing Corporation into an investment.
- An allocation of \$25M to address a range of housing needs with an additional \$42 million planned in 2007/08. These projects include:
 1. The construction of 200 units at the Harbourside Village mixed housing development by the Bermuda Land Development Company.
 2. The replacement of the existing homeless shelter with a new 200-bed facility on North Street.
 3. The replacement of the emergency housing facility in Southside.

Seniors

- An increase in pensions by a further 4% with effect from August 2006.
- Increase in existing benefits for seniors on the HIP programme by 15% resulting in seniors now being able to receive up to \$1,150 of prescription drugs annually.
- Doubling of contributions from the Mutual Reinsurance Fund to the HIP plan.
- The St. George's Residential Care Facility for Seniors is scheduled for completion in June 2006 and will have an operational budget of \$2.9 million.

Healthcare

- The Bermuda Health Council, which is assuming the role of the former Health Insurance commission, has been provided with a budget of \$1.8 million.
- The introduction of a ParaTransit Service to cater to the transportation needs of Bermuda residents who are not able to access public transportation as a result of mobility impairment.
- An allocation of \$219,000 to revamp the Health Department's immunisation programme for children under the age of 17 years.
- The formation of a Pandemic Flu Committee to address the concern surrounding the potential spread of the avian flu.

Education

- An allocation of \$115 million related to the administration and delivery of school curricula.
- A \$1 million grant to complete the Sandy's Secondary Middle School Community Centre which will include a gym, health club, and a swimming pool.
- Increase in funding to the National Training Board and Bermuda Careers Centre of \$1.3 million to expand its complement of professional and support staff.

Transport

- No increase in bus or ferry fares.
- A 5% increase in vehicle licences.
- Introduction of a duty-free exemption on the import of GPS equipment for use in the taxi industry.
- The creation of a new limousine category of public service vehicles to provide a luxury transportation service. Taxi owners can apply for conversion of their existing permit.

Environment

- The Ministry of Environment has been provided with a budget of \$25 million.
- Ministry of the Environment has earmarked \$600,000 for acquisition or improvement of open spaces.

Other

- Creation of a single customs duty rate of 25% on non-commercial accompanied goods for returning residents and visitors.
- Provision created to increase the manning levels in the Customs Department, at the Bermuda International Airport and at other ports of entry.
- An allocation of \$1 million for a Cross Ministry Initiative Team to provide families with training such as budget counseling, parenting skills, life skills and vocational programmes.
- An allocation of \$3 million to support the Bermuda Cricket Board's campaign for the Cricket World Cup 2007.
- \$300,000 has been budgeted to explore the feasibility of a local, Bermuda-based offshore fishery.
- \$785,000 budgeted to establish a shore-side friendly fishery facility at Marginal Wharf in St. David's.

Tourism Outlook: “Favourable”

The quality and array of services that Bermuda is able to offer our leisure and business visitors is key for the long-term sustainability of our tourism sector and therefore \$40.2 million has been allocated for 2006/07. Actual revised expenditure for 2005/06 is \$2.2 million over budget at \$39 million.

Tourism on the move.

The Department of Tourism has undergone a major restructuring and is now positioned to deliver a greater number of visitors to Bermuda. There will be new focus on the development of new geographic markets in Europe and South America and in positioning Bermuda as a year-round destination. Further investment in tourism marketing and re-branding is expected to build on the 7.9% net increase in total visitors in 2005 and reverse the small but disappointing decline in air visitors in 2005.

A continued focus on decreasing airfares and diversification of Bermuda's tourism project should be expected. This includes the regeneration of Court Street as Bermuda's 'French Quarter' and the introduction of a limousine service to improve transport options for visitors of the Island.

Economic Figures

The economic figures in this table have been adjusted to reflect actual figures for the prior years. Percent changes relate to original estimate. Please note that the Government now uses current market prices for GDP calculations.

Highlights of the 2006/2007 budget:			
	05/06 Revised \$m	06/07 Estimate \$m	% Change
Revenues	798.4	835.6	4.7
Current Account Expenditures (Excluding Interest and Sinking Fund)	711.2	790.6	11.2
Capital Expenditures	138.3	126.2	(8.8)
Budget Surplus / (Deficit)	(64.6)	(96.7)	49.6
Debts and Guarantees	152.1	236.5	55.4
The economic figures in the table below have been adjusted to reflect actual figures for prior years			
	2004	2005	2006
Population (Estimate)	62,000	62,000	62,000
GDP (at constant market prices (1996), \$b) - ESTIMATED	4.1	4.2	4.3
GDP per Capital (\$)	65,892	67,704	69,566
% Change	3.0	2.5 – 3.0	2.5 – 3.0
	04/05	05/06	06/07
Current Account (\$m)			
Revenue	782.4	798.4	835.6
Expenditure (Excluding Interest and Sinking Fund)	710.6	711.2	790.6
Balance	71.8	87.2	45.0
Current Account Expenditure per Capita (\$)	11,461.9	11,470.5	12,752.0
% Change	14.2	0.1	11.2
Capital Expenditure (\$m)	86.8	138.3	126.2
Capital Expenditure per Capita (\$)	1,399.8	2,230.5	2,034.8
% Change	5.5	59.3	(8.8)

This briefing is intended as a general guide to the Budget 2006. It is not intended to be comprehensive and should not be used as a basis for decisions. For that purpose advice should be obtained which takes into account all the client's circumstances.

Every effort has been made to ensure the accuracy of the information contained herein. In view of its purpose the reader will appreciate that we, the Bermuda firm, are unable to accept liability for any errors or omissions which may arise.

% changes relate to revised estimate/actual as appropriate

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For any further information please contact any of our partners:

Peter C.B. Mitchell
Andrew J. Brook
N. Thomas Conyers
Ian H. Davidson
Werner deBruin
Caroline Foulger
George H. Holmes

Colm A. Homan
D. Geoffrey Hunter
Richard E. Irvine
Raymond C. Medieros
Tom E.C. Miller
Richard C. Patching