



Government of Bermuda

Budget Statement

In support of the
Estimates of Revenue and Expenditure
2002/03

Presented by The Hon. C. Eugene Cox, J.P., M.P.

Minister of Finance

15th February 2002

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

Mr. Speaker,

It is once again my privilege to present the country's annual Budget to this Honourable House.

The Budget for 2002/03 is the Progressive Labour Party Government's fourth budget since we came into office with the overwhelming mandate of the Bermudian people in November 1998.

Each of the three previous Budgets that I have presented has been anchored to the Progressive Labour Party's 1998 election platform.

The central thrust of that platform was the establishment of "a viable framework for the reconstruction that is required if all of Bermuda's sons and daughters, regardless of the circumstances of their birth, are to see our country as a land of opportunity for all."

That continues to be the critical framework for our Government's Budget policies,
Mr. Speaker.

Premier Smith's Administration's prudent, responsible and enterprising approach to fiscal management has seen the release of additional resources to the critical areas of education, training and development, health care, social assistance, housing and law enforcement.

Yet, in achieving this, we have also been successful in maintaining a low and sustainable level of public debt.

The 2002/03 Budget will consolidate the considerable progress that we have achieved in building that viable framework and provide a solid foundation for further advancement in all areas of life in Bermuda.

Mr. Speaker, this Government is resolved to continuing to move decisively to produce the circumstances and the means to enable all of the Bermudian people to realise their considerable potential.

To this end, we have set out in this budget to provide a cushion to ease the economic challenges that were triggered by the cataclysmic events of the attack on America on September 11th 2001.

It is now generally accepted that September 11th was a pivotal point in the global economy and in the history of the world.

The events and the aftermath of that dark day in history have dramatically impacted a world economy that had already been on the slippery slopes of recession and have redefined geo-political relationships for the foreseeable future.

September 11th accelerated the spread of the recession in the United States from the manufacturing sector to service industries and further depressed economic activity in Canada, Europe and Asia, and virtually everywhere else.

Nowhere was the impact of the Attack on America more evident than on the travel and tourism industry, globally and in the Americas, in the United States in particular, and certainly, here in Bermuda.

The most ominous index for the travel and tourism industry, a principal pillar of our country's economy, was the virtually global drop in consumer confidence following the events of last September.

Mr. Speaker, the challenge for Government's 2002/03 Budget is to ensure that Bermuda avoids any lasting setbacks from the extraordinary economic calculus defined by the terrorists' actions of September 2001.

Mr. Speaker, the picture for Bermuda is both positive and negative. On the one hand our tourism sector has been dealt a severe blow. Persons with low or fixed incomes are finding it more difficult to make ends meet and unemployment is estimated to have risen.

On the other hand, the insurance industry and related financial services are showing increased growth.

It is clear that the year ahead will be extremely challenging because of a number of medium term economic factors. But Bermuda's economy is resilient; moreover, Government has a clear vision of Bermuda's potential for further development.

Our task is to mobilise all of our country's human and natural resources in strategic programmes to move Bermuda forward and to put our economy on a sustainable upward curve.

In pursuing appropriate growth strategies, Government remains ever conscious of the need for true inclusion in the development process, particularly at this time of challenge.

We shall exclude no one; we shall leave no one behind.

Those who have contributed the labour and capital to bring our economy to this juncture must also be included.

Accordingly, Government's 2002/03 Budget will focus, in particular, on the needs of those economically vulnerable individuals and businesses in our community.

Mr. Speaker, this Budget has a twofold objective:

1. To help stabilize and rejuvenate businesses that have been hardest hit by the recession; and,
2. To strengthen social cohesion in our community.

Mr. Speaker, In order to achieve these two objectives, Government's budget strategy for 2002/03 includes a combination of tax relief, benefit increases, and an historic addition to Bermuda's social policy framework.

But, I turn first to the economic background.

Recent Developments and the Outlook for 2002

Mr. Speaker, let me take a few moments to summarize the recent economic trends and to sketch the outlook for 2002 and the forthcoming fiscal year.

Government's main economic objective is to maintain a stable and sustainable level of economic growth and development while bringing about rising prosperity through the creation of economic and employment opportunities for all members of our community.

During this administration's tenure, the economy has expanded. Gross Domestic Product (GDP) has increased by 2.7 per cent annually and more than 2,100 jobs have been created.

Preliminary data for 2001 suggest that GDP growth reflected the sharp decline in output from the tourism sector in the last quarter of the year, with a marginally negative result of -0.2 per cent.

Inflation in 2001 was 2.9 per cent. And, assuming no sharp increases in oil prices, consumer price inflation (CPI) is forecast to remain below 3 per cent this year.

Changes in employment levels were mixed across the various industry sectors with declines in manufacturing, utilities, retail, hospitality and public administration overshadowing an expansion in agriculture, construction, business services and international business. Taking the economy as a whole, total jobs declined by 1.5 per cent in 2001.

The outlook for 2002 remains mixed. Industry-specific performance and prospects range from projected declines, to no growth at all, to fairly robust levels of economic activity.

It is no secret that the tourism-related sector (hotels, restaurants, retail shops, and transport services) was severely affected by fewer visitors and reduced visitor spending in 2001. The difficulties already existing in this sector were further compounded by the events of September 11th. This negative impact is expected to dampen economic activity during the first six months of this year. The Bermuda Hotel Association has already forecast that occupancy levels for the first half of 2002 will be 15 per cent below those for the comparable period in 2001.

In the face of this unpromising outlook, the industry, through the Bermuda Alliance for Tourism (BAT) – a public-private partnership – has mapped out a vigorous strategy aimed at reducing air access costs from U.S. gateway cities to Bermuda, while maintaining the frequency of airlift.

The strategy includes increasing Bermuda' profile as a vacation destination in the top five markets of New York, Boston, Washington, D.C., Philadelphia and Atlanta. The need for this higher profile is supported by recent marketing data which indicate that Bermuda is not included in the decision when a selection of destination is made by households with the financial capacity to enjoy a Bermuda vacation.

Mr. Speaker, other sectors of Bermuda's economy including construction, utilities, and local manufacturing can expect low-to-moderate growth in 2002. The construction industry will be of particular importance as the sector has been operating at full capacity for the last several years. A moderately high level of activity is expected in 2002. Although, major projects like the world headquarters for the ACE group of companies and XL Capital Limited were substantially completed in 2001, there are a number of other large projects now in progress and indications are that smaller construction jobs that were previously on hold are now coming on line. Such construction activity will help to bolster domestic demand in the economy.

Mr. Speaker, The fastest growing sector of Bermuda's economy is financial services. The sector was buoyant in 2001, and moderate growth is expected to continue in 2002. In the wake of September 11th, there has been heightened interest in Bermuda as an insurance and reinsurance domicile. During the last few months, eight major insurance and reinsurance companies have been incorporated and more than \$10 billion of new capital has been injected into Bermuda's market.

It is expected that this development will spur the creation of new jobs as well as create demand for additional office space and residential accommodation, and give a boost to consumer spending.

The banking sector also remains strong, and employment levels in this arena are expected to be stable.

Taking the Bermuda economy as a whole, real GDP is forecast to contract by about 1.5 per cent in 2002.

Such an outcome depends upon the United States emerging from recession well before the end of this summer. The recent news of positive growth in the United States economy during the fourth quarter of 2001 is an encouraging sign.

If the recession in the United States lasts longer than projected, the adverse impact on Bermuda will be greater than currently anticipated. On the other hand, there is also a chance of a smaller contraction in the overall economy; if growth sectors, such as financial services, perform exceptionally well.

Review of Revenue and Expenditure

Mr. Speaker, Government's main fiscal policy objective is to ensure that expenditure and taxation impact the community in a positive and equitable manner. This outcome is made possible by strict adherence to the principles of transparency, accountability, fairness and efficiency that underlie both Government's revenue-raising measures and its spending decisions.

This Government's fiscal stance has always been that it will borrow to invest in the future of this country and not to pay for current programmes. In other words, we will only borrow to pay for infrastructure and other hard assets that will serve our citizens for many years to come.

To that end, Government has set a statutory ceiling on public debt at \$250 million, a very conservative level, roughly equivalent to 7 per cent of GDP. It

should be noted that in many other countries, including the G7 countries, debt to GDP ratios average in excess of 30 per cent.

Within the prudent limits of this fiscal stance, Government then strikes a spending balance between the short term delivery of key public services in education, health care, social security, housing, public transportation and law enforcement, on the one hand; and, investment in Bermuda's infrastructure for the long term, on the other hand.

Mr. Speaker, there is also sufficient flexibility within Government's fiscal policy to allow its use as a tool to help maintain macro-economic stability. This flexibility allows Government, through its management of fiscal balances, to boost aggregate demand when the economy is slowing and to dampen aggregate demand when the level of economic activity is overly brisk. The resultant stability sustains consumer and business confidence and provides the environment for continued economic growth and development during periods of flux in the business or economic cycle.

Mr. Speaker, as macro-economic stability is another primary Government objective, I am pleased to report that Moody's Investors Service recently confirmed Bermuda's foreign currency debt rating at Aa1. In its November 2001 report, Moody's stated that this rating reflected Bermuda's favourable macro-economic fundamentals, high per capita income, prudent fiscal management and low debt ratios.

The Moody's rating report is a positive endorsement of Government's policy response to the economic challenges arising from September 11th.

Revenue

Mr. Speaker, Government instituted a formal mid-year assessment of economic and financial conditions in Bermuda in the 2001/02 budget year, and by a quirk of fate, the timing of the assessment coincided with the September 11th attacks on the United States.

Following this mid-year assessment, Government announced a downward revision of the revenue target for fiscal 2001/02. The revised revenue estimate for the current financial year is \$609.1 million, representing a shortfall of 2.9 per cent on the original revenue target of \$627.3 million.

Major items contributing to the overall decline were decreases in Payroll Tax, Customs Duty and tourism-related revenue streams – such as Hotel Occupancy Tax, Departure Taxes and Timeshare Taxes. Decreases in Post Office receipts and bus fares were also contributing factors.

It is estimated that Payroll Tax receipts will be off by \$8.6 million, with the Payroll tax relief package accounting for approximately 56 per cent of the expected decline. The weaker economy caused by the impact of September 11th accounts for the balance of the expected shortfall in Payroll Tax receipts.

The combined shortfall on the tourism-related revenue streams, which were severely impacted by the economic fallout from September 11th, is \$7.8 million, a decrease of some 21 per cent.

The projected decline in Customs Duty is attributable to two primary causes: one, a reduced volume of imports in the second half of the fiscal year; and, two, the effect of the Hotels Concession Act 2000 which has provided duty relief on the import of materials and equipment for hotel development and refurbishment.

Mr. Speaker, the impact on Government's revenue was severe, but not fatal. Government's financial position at the beginning of the fiscal year 2001/02 was favourable and our financial reserves were sufficient to help absorb the impact of the economic fallout from September 11th.

Expenditure

Mr. Speaker, the additional resources allocated to key public services in Government's previous Budget were primarily directed to education, health care, public safety and housing.

Government's commitment to improving the standard of public education has been paramount in our public policy considerations. The additional resources devoted to education during our first term have contributed to a marked improvement in learning and attendance.

At the primary school level, student-teacher ratios in P1, P2 and P3 are now 15:1. These smaller class sizes have enhanced individualized instruction, accommodated different learning styles and resulted in higher test scores.

Last year, \$694,000 was allocated for the restructuring of the primary school curriculum in all core subject areas including Mathematics, English, Science, Arts and Physical Education.

The Ministry of Education and Development has completed the new curriculum and it is currently being piloted by primary school teachers in P1- P6 classrooms for feedback pending finalization.

Mr. Speaker, a sound primary school education provides the foundation on which to build a life of continuous learning. This Government can be proud of the

fact that it has raised the education standard while continuing to seek further progress for the life-long benefit of our young people.

Mr. Speaker, few things are more precious than one's good health. In keeping with our promise to improve the quality of health services and the access to care, Government has released additional resources to the Ministry of Health and Family Services. New funding provided in last year's Budget supported the recruitment of one additional Public Health Nurse, two Community Health Nurses and a Co-ordinator of Speech and Language Services.

In addition, the Ministry continued to make progress in redesigning the reimbursement system for hospital, physicians and other health care providers. It is anticipated that potential savings from the options under consideration could range from \$8.5 to \$15 million.

Mr. Speaker, in last year's Budget, an additional \$5.7 million was provided to improve conditions and programmes in a variety of areas concerning public safety. The sum of \$1 million was also invested in the newly equipped Police Station at Southside and some \$395,000 was provided to increase the number of Reserve Police Officers. The Prison Service received a net injection of \$730,000 to provide funding for additional staff and rehabilitation programmes. The most significant event in this area was the launch of Government's Alternatives to Incarceration Initiative at a cost of \$2.2 million.

Mr. Speaker, several unexpected developments created a necessity for supplementary estimates for 2001/02, totaling \$4.8 million, to be requested. Of this total, \$313,500 represents the reallocation of previous appropriations to another purpose, therefore these sums are budget-neutral.

Mr. Speaker, included in this category is \$224,500 for additional expenses related to the Smithsonian Folklife Festival that was held in Washington DC last

summer. I should note here that the Department of Cultural Affairs will be restaging Bermuda's Folklife exhibits here in Bermuda, in April 2002, at a cost of \$89,000.

The restaging of the exhibits is a celebration of Bermuda's culture for all to experience and most worthy of the additional expenditure involved.

On a more sombre note, government departments incurred unavoidable additional costs following the tragic events of September 11th. Most of these costs related to the heightened security involving the Regiment, Police, Customs, Airport Security and Seaport Security. Total costs for this security amounted to approximately \$255,000.

Other notable unexpected costs included \$1.7 million in the Ministry of Labour, Home Affairs and Public Safety, partly as a consequence of the immediate implementation of particular recommendations resulting from the Prisons Enquiry.

Mr. Speaker, the revised estimate of current expenditure for fiscal 2001/02 is \$566.6 million; even with the unexpected additional spending, this is \$4.2 million below the original appropriation of \$570.8 million and underscores Government's sound financial stewardship in these challenging times.

The projected net reduction in current expenditure for 2001/02 is partly as a result of Government's initiative to reduce non-essential spending following the downward revision of the revenue estimate.

Capital Borrowing

Mr. Speaker, while Government has total loan facilities of \$245 million including a U.S. \$150 million five-year revolving credit line, the total utilization of all loan facilities at 31st March 2002 will be \$160 million (\$40 million of which is on-lent to

the Bermuda Housing Corporation). This level of utilization represents 65 per cent of the available credit capacity. With the statutory ceiling on Government debt at \$250 million, this is well within the policy limit of 10 per cent of GDP.

The Ministry of Finance estimated Bermuda's GDP in 2001 at \$3.5 billion, thus the statutory debt ceiling of \$250 million is equivalent to 7 per cent of GDP.

Mr. Speaker, Government will continue to review the statutory debt ceiling, but there are no plans to raise the limit in the 2002/03 fiscal year.

Estimates of Revenue and Expenditure 2002/03

Mr. Speaker, at the beginning of my address I stated that Government is committed to building a viable framework for the economic and social progress of the entire community.

Part of this framework must include capital investment in our aging physical infrastructure to ensure the efficient delivery of essential public services – including education, health, housing and transportation.

Mr. Speaker, the projects included in Government's Capital Expenditure Plan for 2002/03 have been carefully scrutinized. Only those capital projects that address government policy priorities such as education, housing and transport or health and safety considerations, or international security standards (e.g. Airport Operations) have been included.

Mr. Speaker, earlier I also stated that Government would only borrow to invest in real assets to secure our community's future. Implementation of our 2002/03 Capital Expenditure Plan will require approximately \$75 million in additional borrowing. Funds will be drawn from existing loan facilities and will remain within the prudent limits of both policy and law.

Capital Expenditure Projections

Mr. Speaker, I will now highlight a few key components of Government's Capital Expenditure Plan. The sum of \$109 million will be invested in social infrastructure, educational plant, transport infrastructure and office accommodation.

Approximately \$104 million of the 2002/03 Capital Expenditure Plan represents the continuation of work in progress. Continuing development of the second senior school will absorb an estimated \$28 million. Upgrade work on the Middle Schools (Spice Valley Middle School, Dellwood Middle School and Clearwater Middle School) will continue in 2002/03 with an investment of \$5.3 million.

Government also plans to complete school safety upgrades in primary schools, with an investment of \$563,000 in the 2002/03 fiscal year.

Mr. Speaker, further investment in educational plant in the forthcoming fiscal year accounts for 40 per cent of the capital development budget. Government regards this investment as essential to the continuing delivery of the school curriculum in an effective and efficient manner within a modern and safe school environment.

The 2002/03 Budget provides \$11 million in the Ministry of Labour, Home Affairs and Public Safety for the new Hamilton Police Station and Magistrates Court. This project comprises five new courts, including a dedicated Family Court, as well as space for court administration and support services. The complex also includes a new Hamilton Police Station with improved prisoner holding facilities and an additional floor for general Government offices, in order to reduce office rental expenses. It is anticipated that the project will go to tender in the first quarter of the 2002/03 fiscal year.

Mr. Speaker, in the Ministry of Health and Family Services, \$500,000 has been allocated for capital works in 2002/03. The amount of \$250,000 has been provided for design work on the new St. George's Parish Rest Home. The St. George's Parish Council is currently considering sites for the new facility planned to offer a range of services for senior citizens including daycare.

The amount of \$250,000 is allocated for a planned 32,000 square foot Residential Care Unit to provide assessment and treatment facilities for troubled youth. It has been designed to accommodate up to 40 residents. The project is at an advanced design stage and a submission for planning approval has been made.

Mr. Speaker, in the Ministry of Works & Engineering, \$23.7 million has been allocated in support of a number of projects. The refurbishment of ferry docks and public landings will absorb \$5.9 million. Refurbishment of the Swing Bridge will be completed with a further investment of \$4.4 million. The Causeway structural refurbishment is also to be completed in 2002/03 with a capital outlay of \$1.4 million. And \$250,000 has been allocated for work on the Flatts Bridge.

The mobile seawater desalination plants represent a new project in the Capital Expenditure Plan; \$1.8 million is provided for this project in fiscal 2002/03. These mobile plants offer protection against any severe drought that may arise.

The amount of \$900,000 has been budgeted for the realignment of Marsh Folly Road and \$1.5 million is allocated for continuing work on the Pembroke Marsh Development Plan. I might note, **Mr. Speaker**, that the road realignment is required to stabilize the substructure on the southern side adjoining Pembroke Marsh. The public may have noticed a sink in the road near to Dutton Avenue.

Mr. Speaker, with regard to the Ministry of Transport, approximately \$7.6 million has been earmarked for development work at the Department of Airport

Operations. Projects include further work on the runway upgrade, (\$1.3 million); a baggage hold for the x-ray equipment that will be used to scan all checked luggage, (\$1.9 million); and fire safety upgrades and air-conditioning improvements to the Air Terminal Building, (\$1.2 million).

The Ministry of Transport has also agreed to assist the Corporation of Hamilton in making improvements to the Central Bus Terminal on Washington Street.

Mr. Speaker, you will recall that that facility was originally erected in 1974 and it has lasted well beyond the design age of 10-15 years. In September 2001, an inspection of the concrete tops and piping was conducted due to concerns about the structural integrity of the concrete canopies because of their age. Planned improvements include increased seating capacity, better lighting and enhanced security.

In order to accommodate the Corporation's request for assistance with this important project, the Transport Ministry reduced its planned acquisition of new buses by \$1.5 million in 2002/03. This project will reduce existing risks to public safety as well as improve traffic flow.

\$3.2 million has been provided to the Ministry of Environment for further improvements to parks, for acquisition of open spaces and for development work at the Bermuda Aquarium, Museum and Zoo.

Mr. Speaker, capital grants in the forthcoming year of 2002/03 come to \$6.1 million. Of this amount, \$5 million is for the National Sports Centre, \$1 million for the Bermuda Land Development Company and \$100,000 for Commissioner's House in Dockyard.

Mr. Speaker, in addressing Government's Capital Expenditure Plan, I wish to mention one aspect of the Bermuda Housing Corporation's (BHC) plans for

2002/03. BHC's capital expenditure in 2002/03 will address the increasing need to provide adequate and affordable housing for the growing number of single men with low incomes. This provision is particularly important in view of the condition of the current Canadian Hotel (which houses 72 single men) and the Salvation Army property on North Street. The Bermuda Housing Corporation plans to build two multi-storey boarding houses in the City of Hamilton which will provide rooms for up to 75 single men.

Mr. Speaker, returning to Government's Capital Expenditure Plan, a number of major capital acquisitions have been provided for in 2002/03.

In the Ministry of Labour, Home Affairs and Public Safety, some \$3.7 million is allocated to purchase telecommunication equipment, computers and new vehicles for the Bermuda Police Service and the Bermuda Fire Service.

The Ministry of Telecommunications and E-Commerce is provided with \$5.7 million for additional computers and systems development work. Within this allocation, just over \$1 million is provided for e-commerce initiatives, including a project to accept e-signatures, a Government Portal/Website and a Government Intranet/Internet network.

\$3.6 million is provided for upgrades to computers, furniture and school equipment in the Ministry of Education and Development, while the Ministry of Transport will receive approximately \$4.5 million in 2002/03 for the acquisition of replacement buses, navigation aids and radio equipment; \$1.2 million is also included in this allocation for the new ferries.

Finally **Mr. Speaker**, \$2.8 million is allocated to the Ministry of Works & Engineering for replacement equipment for the Tynes Bay Waste Management Facility, golf course equipment, and for vehicles and equipment.

Mr. Speaker, I turn now to the current Estimates of Revenue and Expenditure for the year 2002/03.

Current Expenditure Projections

Mr. Speaker, Government's total planned current account expenditure for fiscal 2002/03 is \$585.5 million. This sum includes Sinking Fund contributions of \$3 million and debt service charges of \$10.7 million. Budget 2002/03 also incorporates an increase of \$14.7 million or 2.6 per cent over the Original Estimates for 2001/02.

Given the flat to slightly negative growth outlook for the economy in 2002, **Mr. Speaker**, Government has carefully crafted this Budget so that it does not place any further stress on the weakened economy.

Mr. Speaker, I can inform the House that the inflation-adjusted year-over-year change in expenditure is down by approximately 1.4 per cent in real terms, which is consistent with the overall forecast for GDP growth in 2002.

In the most recent revision of Bermuda's national accounts by the Department of Statistics, the price deflator used to adjust current values of public administration spending showed a trend increase of 4 per cent per annum between the years 1996 and 2000. This trend value of 4 per cent was used to adjust the nominal increase in Budget 2002/03 of 2.6 per cent. The result was a reduction of expenditure in real terms of about minus 1.4 per cent compared to the previous fiscal year.

Mr. Speaker, the distribution of current programme expenditure in fiscal 2002/03, by Ministries, is shown below.

The expenditure shown against the Cabinet Office also includes expenditures of the following departments: Personnel Services, Management Services, Statistics, Archives and Information Services.

	<u>2002/03</u>
1. Ministry of Health and Family Services	\$131.7 million
2. Ministry of Education & Development	\$94.0 million
3. Ministry of Finance	\$80.2 million
4. Ministry of Labour, Home Affairs & Public Safety	\$78.7 million
5. Ministry of Transport	\$51.0 million
6. Ministry of Works & Engineering	\$46.4 million
7. Ministry of Tourism	\$35.6 million
8. Ministry of Environment	\$18.3 million
9. Cabinet Office	\$14.5 million
10. Ministry of Legislative Affairs	\$13.6 million
11. Ministry of Community Affairs & Sport	\$11.1 million
12. Ministry of Telecommunications & E-Commerce	\$6.7 million

Mr. Speaker, I will mention just a few programmes: such as Government's social policy priorities in education, training and development, health care, housing, transport and law enforcement, all of which remain at the forefront of Government's spending decisions in 2002/03.

Approximately \$22.8 million of additional funding is included in Budget 2002/03 for programme expansion or new initiatives in these policy areas.

The Ministry of Health and Family Services' budget for 2002/03 is \$131.7 million, reflecting an increase of 6 per cent over Budget 2001. A large share of the increase, some \$4.2 million, represents higher subsidies to King Edward VII Memorial Hospital for patient care of the youth, seniors and the indigent.

Government's commitment to facilitating access to health and medical services by all persons in our community is underscored by the increase in grant aid to the Lady Cubitt Compassionate Association, taking its total grant in 2002/03 to \$1.7 million.

The rollout of the Alternatives to Incarceration Initiative (ATI) will be funded by \$1.8 million in new money, of which \$850,000 is earmarked for the National Drug Commission's role in ATI. The remaining funds will provide for programmes to treat sex offenders and substance abusers; and to support services such as court administration, parole services and community service.

The Department of Financial Assistance will receive an additional \$1.2 million to cover increases in benefit rates and allowances. The main beneficiaries of this increase will be senior citizens and persons who are temporarily unemployed.

Mr. Speaker, there is even a provision in the Financial Assistance budget for an Investigation Officer, to ensure that abuse of the system is minimized. We want to ensure that the benefits and assistance are provided for those with a genuine need, not for able-bodied persons who can obtain employment.

Mr. Speaker, the Ministry of Education and Development is allocated \$94 million in 2002/03. The Ministry applied zero-based budgeting methods to high-level programme support areas in the Ministry Headquarters. This approach will be comprehensively applied next year, to yield a more efficient result. In addition to the new money for the Ministry, savings identified in the Ministry's 2001/02 base budget will be allocated to expand (or continue) Ministry programmes such as the 'School Improvement Programme' and the 'Teachers as Scholars' course.

The School Improvement Programme has now completed its first year. The programme focuses on five primary schools identified as needing additional

support. The schools are already improving and all five showed progress in the Terra Nova tests taken in June 2001! Help for these five schools is focused on the areas of Reading, Language and Mathematics. Progress continues to be tracked in quarterly reports to the Ministry.

In September 2001, 32 aspiring teachers joined the 'Teachers as Scholars' course run by Wheelock College. The course, set up by the Ministry of Education and Development, allows aspiring teachers to gain a teaching certificate without leaving Bermuda. Participants have now completed the initial course requirements and recently commenced the practicum component, of 300 hours of teaching experience, under the supervision of an experienced teacher.

Mr. Speaker, in 2002/03, the Ministry will continue its work on the project to introduce licensing for teachers. This represents an enormous step forward and will serve to elevate the status of teachers in the community. Government's goals are threefold: (1) to continually invest in the development of a most important resource, our teachers; (2) to ensure that all those entrusted with the education of our children are suitably qualified; and (3) to recognize the professionalism of teachers.

Mr. Speaker, the Ministry of Education and Development will provide additional grant funding of \$2.2 million to the Bermuda College in 2002/03. This grant is a one-time appropriation to offset a deficit in the College's financial position due to losses incurred by the Stonington Beach Hotel.

Although the Bermuda College has operated within its own budget, it has been funding cumulative losses for the training hotel. The one-off grant is intended to stabilize the College's financial position.

The public may be assured that strict controls have now been placed on the hotel's operating costs, and efforts are underway to assign a management contract for the running of the facility.

In addition, the Ministry of Education and Development will provide the College with a grant of \$75,000 in 2002/03 for the Bermuda Careers Centre. The Careers Centre is a public-private partnership initiative that provides career counseling and guidance for young Bermudians.

Mr. Speaker, the Ministry of Transport's budget for 2002/03 is \$51 million, which reflects a 9 per cent increase over the past year. The 2002/03 allocation includes \$3.8 million of new money. Approximately 60 per cent of the new money is directed to the launch of the new ferries.

Mr. Speaker, the Ministry of Transport is committed to enhancing transportation services for both residents and visitors, by providing first class transportation and facilities in order to meet its policy goal of reducing the number of private vehicles on our roads.

My Cabinet colleague in the Transport Ministry recently unveiled the comprehensive National Transportation Management Report. You will be pleased to know, **Mr. Speaker**, that the Transport Minister plans to table that document in this House for Members' information. The report includes over 100 proposals aimed at improving public and privately-operated services, transportation for the physically challenged and the elderly, as well as proposals to improve environmental quality and management of traffic congestion.

Mr. Speaker, insurance rates for aviation property and third party liability cover have hardened considerably in the wake of the terrorist attacks in the United States last September. As a consequence, the Department of Airport Operations

requires an additional sum of \$470,000 in 2002/03 to meet the expected increases in insurance premiums.

The premiums for terrorism coverage – where such coverage is available – have increased ten-fold and the amount of cover has been capped at only \$50 million by the world insurance market. This represents a significant reduction in the amount of terrorist insurance coverage that was previously available.

Mr. Speaker, airlift to Bermuda is vital to our country's continued progress and prosperity and in order to safeguard Bermuda's interests, the Ministry of Transport, together with the Ministry of Tourism, will be holding meetings with all air carriers currently serving Bermuda.

These meetings will help to reinforce Bermuda's commitment to the partnership and certainly show support to these airlines. Government will seek to retain, or in some cases, increase existing services to the Island to satisfy our tourist, business and local travel needs.

Further meetings are also planned with new carriers to ensure they are aware of Bermuda's increasing business and tourist activities; and to invite them to initiate new services in the future.

Mr. Speaker, reform of the country's correctional facilities is one of Government's policy priorities. Since coming into office, Government has worked to find a way of re-integrating less serious offenders into the community as useful citizens.

To that end, Government has established a Transitional Living Centre, for newly released inmates. Government has also separated civil offenders from criminal offenders with the temporary establishment of the Southside Civil Detention Centre.

To continue the progress made in this policy area, the Ministry of Labour, Home Affairs and Public Safety will receive an additional \$4.4 million in 2002/03, an increase of 5.9 per cent. These additional funds are provided to meet the needs of an expanded programme, operational costs at the Transitional Living Centre, the operational budget for the newly established Parole Board, additional staffing in the correctional facilities and the Southside Detention Centre.

As a result of Government's acceptance of the recommendation on staffing made by the Prisons Board of Enquiry, provision for 30 additional staff is included in this Budget. The staff increase includes 25 additional Prison Officers and 5 additional teachers for an expanded inmate educational programme.

Mr. Speaker, the Statistics Department continues to be involved in the National Literacy Project in 2002/03. The project is an OECD initiative to determine literacy standards worldwide. Budget 2002/03 provides funding of \$1.2 million for this effort.

In the Ministry of Telecommunications and E-Commerce, \$1 million in additional funding, an increase of 17.5 per cent, is provided for development work in IT and e-business infrastructure as part of Government's e-Government initiative.

The Bermuda Omnibus Survey continues to show that personal computers and use of the Internet are prevalent among Bermuda's residents: two-thirds of all respondents in the 4th Quarter 2001 Survey reported having Internet access through a home computer.

The Ministry of Telecommunications and E-Commerce is also finalizing a National Plan for E-Business. The plan includes a strategy for marketing Bermuda as an e-business centre as well as promoting greater Internet access for Bermuda residents.

Mr. Speaker, the Ministry of the Environment will receive an additional \$297,000 in order to launch the Land Title Registration project in fiscal 2002/03; a further \$125,000 is included in the Capital Expenditure Plan. The Land Title Registration project has been planned as a 5-year project and, when completed, will generate an estimated \$2.3 million per year in revenue. The project objective is to effectively manage land in Bermuda by registering and recording all title rights to real estate.

The project is complex and will require legislative amendments to be effective. The first year of the project will consist of research, consultation and the identification of legislative needs.

The Ministry of Tourism has been allocated \$35.6 million in 2002/03. The re-sized budget for the Tourism Ministry is down by 5.3 per cent from the previous year as a result of the zero-based budget approach. Resources have been allocated on the basis of agreed levels of service delivery in line with performance targets.

Mr. Speaker, one exciting by-product of the zero-based budgeting initiative, is the introduction of departmental output measures in the 2002/03 Estimates Book.

For the first time ever, the performance and output measures of departments are clearly stated against each department's funding allocation.

In the interest of greater transparency, the outcomes for departments will be compiled and reported upon each year in the annual Budget.

Within the Ministry of Finance, HM Customs is to receive an additional \$899,000 linked to the transfer of Airport Immigration Officers to Customs. The transfer

took effect in January 2002 and the increase in the Customs budget for 2002/03 is offset by a comparable reduction in the Immigration Department's budget. The transfer will help to streamline passenger processing at the Bermuda International Airport and lead to greater efficiencies in staff deployment, as the key screening functions have been placed under one directorate, namely, HM Customs.

Mr. Speaker, there is a reduction in the budget for the Registrar of Companies in 2002/03. This reflects the transfer of the insurance regulatory division – comprising the Supervisor of Insurance and 11 staff members – to the Bermuda Monetary Authority, an independent regulatory body. This transfer satisfies one of the key recommendations in the KPMG Review of Financial Regulation.

Mr. Speaker, earlier I spoke of Government's drive to build a viable framework for the further advancement of our community. I spoke also of strengthening the social cohesion in our community through this Budget.

Mr. Speaker, Bermuda is a sophisticated and well-developed business jurisdiction that provides jobs for some 37,000 persons. However, a small portion of those jobs is put at risk when the economy contracts.

Government believes that in the same way that sophisticated citizens make insurance arrangements to protect themselves against the everyday risks and hazards of illness, fire, vehicle accidents, theft, storm damage and so on, there should also be provision against the risk of unemployment – that is insurance protection.

Mr. Speaker, this long-standing omission in Bermuda's social policy framework must be addressed as a priority. A labour government could not fail to address such a glaring gap in Bermuda's social safety net.

Thus, **Mr. Speaker**, just as Bermudians have health insurance – and pensions – so to will Bermudians soon have unemployment insurance.

In this fiscal year, Government proposes to take steps to establish an Unemployment Insurance Fund. This Fund will be seeded with a \$1 million transfer from the Consolidated Fund in 2002/03. As no payments will be made from the Unemployment Insurance Fund in its first year, persons who are laid off, or who lose their jobs in the current recession, may seek assistance from the Department of Financial Assistance.

Government will engage in an extensive consultation process with labour unions and employers during the next twelve months to discuss and establish the operating principles of the proposed Unemployment Insurance Fund.

Issues to be discussed include participation, benefits, conditions for benefit entitlement, financing and administration.

By this summer, Government anticipates issuing a discussion paper that will provide the basis for dialogue and feedback on the operational principles of the proposed Unemployment Insurance Fund.

At the conclusion of the consultation and discussion process, Government will incorporate the broad principles agreed upon in a White Paper. It is hoped that this process can be concluded within the stated twelve-month timeframe.

Mr. Speaker, in last year's Throne Speech, Government announced its intention to continue with the programme of public sector reform in order to modernize Bermuda's civil service. A new *Conditions of Employment and Code of Conduct* is now in effect and provides the foundation for a rejuvenated and empowered Civil Service.

Government is very much aware of the keen competition for talent in Bermuda's employment market and while the public sector will never be able to match the salary and benefit packages available in the private sector, reasonable levels of comparability must be achieved in order to attract and retain talented, motivated and innovative staff at all levels to ensure efficient and effective delivery of public services.

The next step in the modernization process is a review of the civil service pay and grading system and accountability framework. The objective is to establish new benchmarks for remuneration using market-based research and to link pay progression to performance. This review has commenced and key changes will be phased in as the work progresses in 2002/03.

In striving to become the employer of choice, Government will provide terms and conditions of service that fairly remunerate applied talent and performance, and encourages innovative thinking and proactive leadership.

Mr. Speaker, I turn now to the revenue measures proposed for 2002/03.

Revenue Projections

Mr. Speaker, for the coming year, Government proposes to generate revenues of \$609.2 million, 2.9 per cent less than was proposed for Budget 2001/02. As GDP growth in 2002 is expected to be flat at best, Government does not propose to put through any significant increases in taxation with Budget 2002/03. The adjustments to the tax base that were put through last year will bear fruit when the economy is stronger again.

Mr. Speaker, given the revenue projection of \$609.2 million and a combined current and capital budget of \$694.6 million, Government projects a borrowing

requirement of \$74.8 million in fiscal 2002/03 after taking account of cash in hand at the beginning of the new financial year.

The borrowed funds will be used to help finance the development and acquisition of hard assets as outlined in the Capital Expenditure Plan; not for the delivery of current programmes and public services.

Mr. Speaker, the Payroll Tax whose standard rate will remain unchanged at 12.75 per cent is projected to yield \$168 million in 2002/03.

In light of the unpromising economic outlook for 2002, Government proposes to extend the Payroll Tax Rates (Special Provisions) Act 2001 for an additional six-month period concluding on September 30, 2002.

Retail shops, restaurants, small businesses and taxi operators will thus have the benefit of the relief for one full year as a result of the proposed extension. With the extension of the relief measure, Government is confident that most of the businesses will be able to successfully steer a safe course through the recession.

The Payroll Tax cap of \$225,000 on individual remuneration will remain at that threshold in 2002/03. Top professional and executive staff who are remunerated at these levels are in expanding sectors of the economy and therefore able to contribute their fair share of taxes without risk to profitability, shareholder value or partnership distributions.

Mr. Speaker, Government estimates that receipts from Land Tax will amount to \$37.1 million in 2002/03. As promised in the Throne Speech, Government will bring amendments to the Land Tax Act 1967 to reduce the amount of Land Tax payable by those senior citizens who own and occupy a residential unit with an Annual Rental Value in excess of \$90,000.

Last year, Government announced its intention to restructure the cruise passenger's tax; however, after consultation with principals of the two main cruise lines that service Bermuda, we have agreed not to implement an increase in 2002/03. In exchange, the principals have given an undertaking to use their best endeavors to achieve high occupancy levels on those ships calling at Bermuda's three ports.

Cruise passenger's tax is therefore forecast to generate \$10.5 million in 2002/03, in line with the revised estimate for 2001/02.

Air travel is making a slow recovery and receipts from this source are expected to hold steady in 2002/03 in comparison with the revised estimate of \$9 million in 2001/02.

Mr. Speaker, revenue from Customs Duty for fiscal 2002/03 is projected to be \$179.8 million.

A number of minor amendments will be made to the Customs Tariff Act to restore the traditional rates of duty on certain products whose rates were altered by the adoption of the Harmonized System.

Lower rates of duty are being restored in the First Schedule on such items as: drinks with natural flavour that are not 100 per cent juice, horse-drawn carriages, and a number of other products designed to compensate for a physical challenge or disability. It is hoped that these adjustments will serve to finalize the transition to the Harmonized System of classification for imported goods.

Mr. Speaker, minor amendments are also being made to the Customs Tariff Act's Fifth Schedule to provide duty relief for end-use purposes. Bait will be added to the list of products that fishermen can import duty free. Churches will now be allowed to import envelopes for tithes duty free. More substantive

changes to the End-Use Schedule will be forthcoming following a thorough review of the Customs Tariff Act and consultation with the affected parties.

Mr. Speaker, restaurant operators have approached Government requesting concessions similar in nature to those given to hotels through the Hotels Refurbishment (Temporary Customs Duty Relief) Act 1991. Restaurateurs argue that because restaurants in hotels qualify for relief under the Act, they thereby receive an unfair competitive advantage.

Government found their argument persuasive. Accordingly, we plan to table new legislation to provide temporary Customs Duty relief for restaurant operators who renovate and refurbish their premises.

This measure will help to raise the standard of physical amenities in the hospitality sector. As many restaurant operators use the seasonally slow first quarter of the calendar year to carry out their renovation works, the legislation is being designed to take retroactive effect from January 1, 2002 so that those restaurateurs who started renovations during last month may benefit from the measure.

Mr. Speaker, user fees for Government services are reviewed every two years and adjusted to reflect the effects of inflation. Government proposes to adjust these fees upward by 5 per cent in Budget 2002/03. This adjustment is projected to yield an additional \$2 million in receipts from diverse sources, including: planning application fees, drivers' licences, work permits, professional registration fees, blasting permits, boat registration fees and other items far too numerous to specify individually in this Statement.

Mr. Speaker, there will be no increase in motor vehicle license fees nor will bus or ferry fares be increased in 2002/03. Government believes that with the planned introduction of the new ferries in 2002/03, this will be an incentive, and

excellent value for money, for commuters who will have the benefit of new and improved service at the old ticket price.

Mr. Speaker, in summarizing Government's revenue budget for 2002/03, I emphasize the fact that major tax rates have not been increased, while some helpful tax concessions have been introduced or extended.

Mr. Speaker, turning briefly once more to senior citizens before concluding, Government announced its intent to raise the contributory and non-contributory pension benefits in the 2001 Throne Speech. Accordingly, amendments to the Contributory Pensions Act 1970 to give effect to the promised increases will be brought before the House. Benefits will be raised by 3 per cent with effect from August 2002. The contribution rate, which is actuarially determined on the basis of the rate of benefit increase, will rise by 4.25 per cent.

In closing, **Mr. Speaker**, I wish to repeat my statement that these are extraordinary times that we live in today. The events of September 11th have disrupted and irrevocably changed life, as we knew it.

Economies have been weakened, financial markets have been unnerved and consumer confidence has been shaken.

Governments around the world are struggling to find the correct policy response to a very complex set of psychological, social, economic and political circumstances.

We in Bermuda face a similar set of challenging conditions.

Mr. Speaker, in crafting Budget 2002/03, Government has been sensitive to the weak points in our economy while taking note of its strengths.

Government has also taken steps to complete the safety net that characterizes an enlightened and compassionate community. If the current recession lasts longer than is generally expected, Bermuda's workers will be able to call upon the cover of our new unemployment insurance.

Government has taken the necessary steps in Budget 2002/03 to continue to invest in real assets for Bermuda's future. We are investing in education; investing in technology; investing in public safety; investing in housing for the homeless; and investing in our transport infrastructure.

Mr. Speaker, Government has also given careful attention to the needs of our senior citizens – those elders to whom this community owes both respect and gratitude for their efforts in laying the foundation for Bermuda's success.

Mr. Speaker, I commend this Budget to the House.