

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

**Mr. Speaker,**

Once again it is my honour and distinct privilege to present the Government's Annual Budget to this Honourable House.

In my statement today I will take note of the prevailing economic trends in the global economy and in Bermuda. I will report on our on-going programmes, and highlight some of the new initiatives that will be introduced. In addition, I will offer Government's view of the year ahead and address the hard facts and figures that a Finance Minister is expected to lay out when he presents his Government's Budget.

**Mr. Speaker,** we live in an era of unprecedented peace and prosperity; however, just as that peace is threatened by talk of war, so too is prosperity threatened by the increasing pressures on infrastructure and on society, by crime and by drug abuse.

Within this context, Bermuda is indeed an economic miracle and while our economic position and outlook is positive, much remains still to be addressed, especially in the areas of: greater social cohesion; more income parity between the races; and fostering a greater sense of community.

**Mr. Speaker,** the inescapable reality is that Bermuda's economic success counts for little, unless we include in our business and economic considerations attention to the community values and ties that bind us as a society. We cannot ignore the

critical role that community values play in shaping our sense of who we are, and of who we will become.

Greater social cohesion and a better understanding of the importance of personal responsibility and a genuine sense of community is mandatory if we are truly to launch to greater heights where equality of opportunity, fairness and justice for all reigns.

**Mr. Speaker**, as a responsive Government acting in the best interests of all the people, we understand that our focus must be on the young. On the eve of our coming into office, the Progressive Labour Party stated: “It is one thing to recognize and speak of the potential of youth, but it is another, more challenging proposition to nurture and develop it. Most parents, and countries, wish the best for their young.”

**Mr. Speaker**, that is why we have focused on programmes to provide increased opportunities for Bermuda’s youth. We must do everything that we can to ensure that our young people no longer feel that they are priced out of living in their own country, or that they must go abroad – and stay abroad – because Bermuda does not welcome them.

We need our young people. They are vital to our future. Our goal as a Government is to ensure that all of our young people know that Bermuda belongs to them.

**Mr. Speaker**, the need for young people to have a sense of belonging and to have faith in Bermuda’s future is critically important. More so in the climate that has been created as a result of the tumultuous events that have occurred internationally and domestically.

Specifically, **Mr. Speaker**, I refer to the very real prospect of war in an increasingly borderless world, the increasing focus on financial jurisdictions like Bermuda, and the irreparable damage that uninformed foreign policies can have on our domestic economy. As Government our focus is to continue to seek ways to enhance our quality of life, to address outstanding issues, to protect our people and to offer a buffer against potential downturns in the economy.

**Mr. Speaker**, we seek to build a Bermuda that is not just an economic miracle providing the good life for some, but a Bermuda whose benefits extend so that all of Bermuda's people are included. We have had some notable successes in our quest so far, however Government simply cannot, in one term, deal with all the outstanding and longstanding issues in one fell swoop.

**Mr. Speaker**, it is clear – given the disparities that have been highlighted in the report of the 2000 Census – that Government's policies to eliminate barriers between those who have and those who do not through investment in education and training, through family-friendly policies, and through a refocused emphasis on the original mandate of the Bermuda Housing Corporation could not have come any later if we were to avoid the creation of two Bermudas. **Mr. Speaker**, for the avoidance of any doubt, let me say here that addressing the disparities in Bermuda does not mean that any one group will be overlooked nor does it include introducing income tax.

**Mr. Speaker**, with this our fifth Budget, Government has included funding to continue our vital reform and development work in all areas, but most particularly in education, training, health care, senior care, housing and public safety.

**Mr. Speaker,** Government's pursuit of these social policy objectives will result in improved student performance, a better trained workforce, more accessible and affordable health care, adequate housing for those who need it and improved public safety.

**Mr. Speaker,** the disconcerting economic, political and psychological effects of September 11, 2001 have had a lingering influence. The major economies of the world have all experienced slower GDP growth in 2002 than forecast, thereby slowing the pace of the anticipated economic recovery. The overall effect has been higher levels of unemployment, a flat volume of consumer spending and marked reductions in spending on leisure and travel. This makes for a tough and challenging environment for us to seek to secure and improve the well being of our citizens.

**Mr. Speaker,** in all of this, the Progressive Labour Party Government's policy responses have remained focused on the root causes of the issues that confront us.

As a consequence of the Payroll Tax Rates (Special Provisions Act) 2001 which was extended to September 30, 2002 at the time of the last Budget, retail shops, restaurants, small businesses and taxi operators have had the benefit of twelve months of relief.

**Mr. Speaker,** that policy decision – along with the fact that Government did not increase the rate of taxation in any other area – was at the core of Government's ability to maintain economic stability in difficult conditions. Employment levels were maintained and some businesses recorded unanticipated profit levels. Government

successfully steered the Bermuda economy through the turbulent economic waters of 2002.

Independent proof of this is given by Moody's Investors Service. In its year-end ratings report for 2002, Moody's confirmed Bermuda's foreign currency debt rating at Aa1 with a stable outlook, stating that the rating reflected Bermuda's favourable macro-economic fundamentals, higher per capita income, prudent fiscal management and low debt ratios.

**Mr. Speaker**, the year ahead is likely to be as challenging as the year past and our Budget for 2003/04 is designed to achieve Government's key social and economic policy objectives within that context.

**Mr. Speaker**, the 2003/04 Budget has been designed with two primary considerations in mind: -

1. To strengthen social cohesion in our community; and
2. To stabilize and rejuvenate business activity in all economic sectors.

**Mr. Speaker**, with these considerations in mind, Government proposes to hold the line on tax rates, therefore, **no tax increases are proposed for 2003/04.**

In addition, Government will review the policy on holiday trading to give retail shops more flexibility. We will amend the Customs Tariff so that Bermuda's best athletes can temporarily import those items required for their training while at home in Bermuda.

Finally, Government will increase benefits for seniors and finish its development work on the Unemployment Insurance Scheme.

**Mr. Speaker**, let me say a little more about recent economic developments and the outlook for 2003, before I get to the details of this 2003/04 Budget.

### **Recent Developments and the Outlook for 2003**

As I mentioned earlier, we are committed to maintaining a stable and sustainable level of expansion and development while also increasing prosperity for all members of our community.

**Mr. Speaker**, during our tenure, Gross Domestic Product (GDP) has increased by more than 7 per cent in real terms, and more than 2,400 jobs have been created.

Preliminary estimates of GDP growth last year suggest a modest economic expansion of 1.0 per cent following the 1.2 per cent increase in economic output the year before.

**Mr. Speaker**, inflation in 2002 was 2.3 per cent and although the outlook for oil prices in the year ahead is uncertain at this juncture, consensus forecasts for consumer price inflation (CPI) in G7 countries for 2003 is in the range of 2.2 to 2.5 per cent. Government expects that this outlook will also hold true for Bermuda, given our close economic links with these economies.

Changes in employment levels for the year 2002 varied across industry sectors, with the increases in international business activity, construction, real estate services

and wholesale trade outpacing the declines in the hospitality sector, restaurants, transport and utilities. Overall, there was a 0.5 per cent increase in employment in 2002.

**Mr. Speaker,** while concerns about underlying strength of the hospitality sector remains, there were some very positive signs of recovery in 2002. Visitor arrivals increased year-over-year, visitor expenditure also increased and for the first time since 1994, there was a year-over-year increase in the number of bed nights sold. Although the outlook for tourism in 2003 is clouded by concerns about what may happen in Iraq, our efforts will remain focused on improving on the 2002 performance.

**Mr. Speaker,** the international business sector performed so well in 2002 that some industry insiders have remarked that we would have to look back to 1985 to find a year as vibrant as last year. Within the insurance and reinsurance sector, property lines of business have reached new plateaus and may have peaked, but casualty, D&O and other specialty lines are still very robust.

Trust business was also good in 2002 and is still being stimulated by the wealth creation that occurred throughout the 1990s.

**Mr. Speaker,** the future outlook for the US and other major economies in 2003 is moderately optimistic. Real GDP in 2003 is projected to increase by 2.7 per cent in the United States, while forecasts for the UK, Canada and Western Europe are 2.3 per cent, 3.2 per cent and 1.7 per cent respectively.

**Mr. Speaker**, the close relationship between the Bermuda and US economies, means that our economic prospects for 2003 will also be somewhat moderate. Real GDP is forecast to increase in the range of 1.0 to 1.5 per cent in 2003.

### **Review of Revenue and Expenditure**

**Mr. Speaker**, the Progressive Labour Party Government's main fiscal policy goal is to ensure that both government expenditure and government taxation impact the community in a positive and equitable manner.

Accordingly, the principles of accountability, fairness, efficiency and transparency have framed our revenue-raising and spending decisions.

**Mr. Speaker**, we believe that it makes sense to borrow long term for investment in hard assets that help to assure the effective and efficient flow of key public services in education, housing, waste management, transport and public safety. To that end, Government has set a statutory public debt ceiling of \$250 million, a conservative level roughly equivalent to 7 per cent of Bermuda's GDP.

**Mr. Speaker**, I should highlight a little-known fact about this Government's public debt management performance. Our administration has been judicious and prudent. During our tenure, not only has the public debt not increased, but the net debt position at March 31, 2003 is projected to be \$123.5 million. This projected level is below the debt position of \$146.7 million that we faced on March 31, 1999, soon after coming into office.



**Mr. Speaker**, this administration has indeed managed the public purse in a prudent manner!

### **Revenue**

**Mr. Speaker**, there is even more good news! We expect our revenue target of \$609.2 million for 2002/03, will be exceeded by some \$31.9 million.

The major items contributing to this favourable outcome are Customs Duty (+\$5.2 million), Payroll Tax (+\$12 million), Stamp Duty (+\$5 million), Land Tax (+\$2.4 million) and Passenger Tax (+\$2.5 million).

Higher than budgeted receipts are also expected from Hotel Occupancy Tax (+\$1 million), Telecommunications Licence Fees (+\$900,000) and the Aircraft Registry (+\$600,000). However, Post Office receipts, land acquisition fees and ferry receipts are all expected to be below budget.

## Expenditure

**Mr. Speaker**, the revised estimate of current account expenditure for the year 2002/03 is \$585.9 million, \$400,000 above the \$585.5 million appropriated at the beginning of this fiscal year.

**Mr. Speaker**, you will recall that Government has placed a high priority on education, training and development, health care, housing, transport and law enforcement.

These key areas are at the forefront of Government's spending decisions and approximately \$22.8 million in additional funding was allocated in 2002/03 for the launch of new initiatives in these areas, or for programme expansion.

In the Ministry of Education and Development, work continued on improving student skills and performances in Reading, Language and Mathematics at the primary school level under the School Improvement Programme.

The Bermuda College received additional grant funding of \$2.2 million, as a one-time allocation to offset the College's financial position following its absorption of losses incurred by the Stonington Beach Hotel. You will note **Mr. Speaker**, that this hotel is soon to be officially transferred to the Ministry of Tourism, Telecommunications and E-Commerce and will be operated by a hotel management company.

The Bermuda College also received a grant of \$75,000 in 2002/03 for the Bermuda Careers Centre, a joint public-private venture that provides career counseling and guidance for our young people.

**Mr. Speaker**, some \$4.2 million of additional funding was given to the Ministry of Health and Family Services for subsidized health care at King Edward VII Memorial Hospital for young people, senior citizens and those without the means to pay. Also in the Ministry of Health and Family Services, the Department of Financial Assistance received an additional \$1.2 million to fund increases in benefit rates and allowances for senior citizens.

**Mr. Speaker**, in the Ministry of Transport just over \$2 million of additional funding was provided to fund increased operational costs for the new ferries serving Southampton, Dockyard and St. George's. I am sure my colleague, the Minister of Transport, will say more about the impressive impact and public acceptance of the new ferries in his remarks during the course of the Budget Debate.

**Mr. Speaker**, you will recall that Government established an Unemployment Insurance Fund to close a glaring gap in Bermuda's social safety net and seeded it with \$1 million. I am pleased to report that Government is in dialogue with stakeholders to establish what the main operational principles of the Unemployment Insurance Fund will be. Topics being discussed include the proposed scope of participation, possible benefits, the conditions to be met for benefit entitlement, and how the financing and administration should best be set up.

**Mr. Speaker**, supplementary estimates for 2002/03 amount to \$2.2 million and this figure is included in the revised estimate of current expenditure.

The major items included in the supplementary estimates are funding for the Senior Four Year (\$1.25 million), the Alternative Education Programme (\$260,000), and the temporary extension of the West End minibus service to Dockyard during the cessation of the scheduled bus service (\$235,000).

**Mr. Speaker**, supplementary estimates for capital projects amounted to \$790,000 and included costs for the portable classrooms used to accommodate the Senior Four students at The Berkeley Institute and CedarBridge Academy (\$700,000).

### **Capital Borrowing**

**Mr. Speaker**, Government's loan facilities of \$245 million include a \$150 million U.S. dollar five-year revolving credit line. The total utilization of all loan facilities to March 31, 2003 will be \$160 million, before taking account of the offsetting Sinking Fund balance of \$36.5 million. This is well under the statutory debt limit of \$250 million, and well within the debt policy limit of 10 per cent of GDP.

**Mr. Speaker**, the existing capacity is clearly satisfactory and therefore Government has no plans to raise the statutory debt limit in 2003/04.

## **Current Expenditure Estimates**

**Mr. Speaker,** in these uncertain times those who think clearly, set positive goals, and remain focused will ultimately prevail. When our Progressive Labour Party Government launched its programme of reform and development with our first budget in 1999, we committed then to staying the course. We knew that the social problems plaguing our community were deep rooted and would need time and consistent effort for any impact to be made.

**Mr. Speaker,** each of our annual budgets has targeted the issues of education, affordable housing, the drug problem, traffic congestion and the criminal justice system. We have made inroads and achieved some early successes. We intend to make further progress in the forthcoming year by devoting the resources, time and effort to impact on these critical and vital social areas.

**Mr. Speaker,** Government's total planned current account expenditure for the year 2003/04 is \$624.9 million. This reflects an increase of \$39.4 million over the original estimates for the last financial year.

The scale of the increase (up by 6.7 per cent year-over-year) is partly explained by the absence of provision in the 2002/03 Budget for salary increases. This approach in the 2002/03 Budget was taken because of the risks posed to our economy and revenue base in the wake of September 11, 2001.

While risks are still a factor, Government considers that the existing revenue base is sufficiently sound for us to once again build in a provision for moderate public sector salary increases in the 2003/04 fiscal year.

**Mr. Speaker**, the remaining increase in total current expenditure is due to the expansion of existing programmes and services and new initiatives.

**Mr. Speaker**, the distribution of current programme expenditure by Ministry is as follows:

	<u>2003/04</u>
1. Ministry of Health and Family Services	\$132.3 mn
2. Ministry of Education and Development	\$104.4 mn
3. Ministry of Labour, Home Affairs & Public Safety	\$ 85.4 mn
4. Ministry of Finance	\$ 82.4 mn
5. Ministry of Transport	\$ 54.2 mn
6. Ministry of Works & Engineering	\$ 51.9 mn
7. Ministry, of Tourism, Telecommunications & E-Commerce	\$ 43.7 mn
8. Ministry of the Environment	\$ 19.7 mn
9. Cabinet Office	\$ 15.2 mn
10. Ministry of Legislative Affairs	\$ 14.4 mn
11. Ministry of Community Affairs & Sport	\$ 13.0 mn
12. Ministry of Housing	\$ 3.6 mn

**Mr. Speaker**, you will have noted that the total current account budget for the Ministry of Health and Family Services will increase by \$4.1 million to \$132.3 million in 2003/04. This Ministry continues to rank as Government's largest provider of public goods and services to our community.

**Mr. Speaker**, part of this funding is for the establishment of the new Department of Court Services. This new department amalgamates Probation Services and the

Bermuda Assessment and Referral Centre as part of the continued development of Government's Alternatives to Incarceration initiative.

Also accounting for the additional funding in this Ministry is the newly established post of Co-ordinator for the Comprehensive School Health Programme, increased costs for the Foster Care programme, the Brangman Home, and \$2.6 million in subsidized health services to assure that hospital care is provided to all persons who require such services.

**Mr. Speaker**, the Ministry of Education and Development has an overall budget of \$104.4 million in 2003/04, reflecting an increase of \$10.4 million.

Government is passionately committed to raising the standard of public education in our Island home because we believe that a sound and progressive education provides one of the most basic and essential ingredients for individual success and fulfillment; and for the enlightened development of a community.

The additional resources devoted to education in our first term of office have already borne fruit. Mandated smaller class sizes in primary schools, have allowed for more opportunity for individualized instruction and the accommodation of different learning styles. In addition, improved physical plants and the provision of more specialized support staff have resulted in higher student performances.

Government is encouraged by these early positive results and we look forward to even brighter long term improvements.

**Mr. Speaker,** some \$2.2 million of the \$10.4 million of the new money in education is provided towards increased staffing costs associated with the Senior Four (S4) year in the senior schools. A further \$2.4 million is provided in additional grant funding to The Berkeley Institute and CedarBridge Academy for other costs associated with the S4 year. The S4 year began in September 2002, so that the Bermuda public education system now comprises six years of primary education, three years of middle school education and four years of senior school education. Bermuda students are now on the same general footing as North American students in terms of the total number of years devoted to pre-tertiary level (college/university) schooling.

**Mr. Speaker,** the Special School for students with physical and/or medical challenges receives \$1.3 million in funding. The school will be staffed with professionally trained instructors, caregivers and support personnel.

**Mr. Speaker,** the Education Ministry budget also includes provision for additional staff to nurture gifted students in the public education system and funding for additional Information Technology Support staff to assist with the complete rollout of the Bermuda Technology Education Collaborative (BTEC) initiative.

**Mr. Speaker,** every essential element of education has been bolstered by this year's Budget, including staff development (+\$484,000), students with behavioural challenges (+\$473,000), enhanced summer school initiative (+\$100,000), support for principals and an increased allowance for teachers' materials (+\$175,000).



**Mr. Speaker,** public safety and the continued reform of the criminal justice system ranks high on this Government's list of priorities, and accordingly, the budget for the Ministry of Labour, Home Affairs and Public Safety has been increased by \$6.8 million, to \$85.4 million in 2003/04.

The increased funding includes provision for more officers in the Financial Investigation Unit as Bermuda increases its capacity to combat financial crime.

**Mr. Speaker,** Government is honoured that Bermuda has been selected as the host country for the Annual Conference of the Association of Caribbean Commissioners of Police (ACCP) in May 2003. The ACCP is the lead Caribbean regional police body and some funding has been earmarked in the 2003/04 Budget for this event. In the spirit of public-private partnership, corporate sponsorship for the conference is also being sought.

**Mr. Speaker,** there has been tremendous student interest in Government's Summer Employment Programme and an additional \$100,000 is provided so that the Labour Department can accommodate the interest of Bermuda's young people.

The National Training Board is also provided with an additional \$650,000 to launch the National Certification Programme for technical occupations. With this programme, Bermuda's technical service workers will be on par with their counterparts in major industrial countries.

**Mr. Speaker,** the Department of Corrections also receives additional funding in this year's Budget. The Department will devote increased attention to training and development in the forthcoming year with special emphasis on case planning, non-

violent control and restraint techniques, multi-faceted awareness of modern correctional administration and team building. Renewed attention will be given to drug treatment for inmates who are substance abusers and inmates who have mental illnesses.

**Mr. Speaker**, an additional \$578,000 is provided to the Bermuda Fire Service for the hiring of Emergency Dispatchers to answer all nine-one-one emergency medical and fire calls. This funding will allow the Fire Service personnel currently manning the Control Room to return to emergency operational duties.

**Mr. Speaker**, the Ministry of Finance's overall budget will increase by \$2.2 million to a total of \$82.4 million in 2003/04.

**Mr. Speaker**, you will note that core aspects of the Ministry of Finance's mandate include providing strategic direction and overall financial management and control of government activities and safeguarding Bermuda's economic interests in the face of challenges and threats in the global economy.

Earlier in my statement, I referred to foreign policy actions that have targeted companies incorporated in Bermuda. These actions could potentially pose a serious long-term threat to our international business sector and accordingly, an additional \$107,000 is provided within the Ministry to address these challenges.

**Mr. Speaker**, through the Accountant General's Department, the Ministry has plans to further enhance the accounting expertise throughout Government by placing consultant accountants in key ministries. \$225,000 is allocated for this purpose.

**Mr. Speaker,** the combined 2003/04 Budget for the Ministry of Tourism, Telecommunications and E-Commerce is \$43.7 million. During the past year, the Department of Tourism has led the way with a new strategy to re-position and re-brand Bermuda's tourism product. The Department of Tourism worked closely with industry partners in the Bermuda Alliance for Tourism and drew upon extensive research in creating and shaping the new marketing strategy. The new uniquely Bermudian logo and marketing campaign, namely, "Bermuda Shorts" is tasteful, delightful, thoughtful and full of Bermuda's charms. It has been designed as a global strategy to attract both new and frequent visitors to Bermuda.

To bolster this effort, an on-Island component has also been designed to encourage pride and educate Bermudians on the importance of the tourism industry.

**Mr. Speaker,** clearly one of the keys to success in tourism is the level and calibre of service, to this end the Ministry is working in conjunction with the National Training Board and the Bermuda Hotel Association to introduce recognised industry standards for all persons employed in the hospitality industry.

**Mr. Speaker,** the sight of abandoned vehicles on Bermuda's tracks, by-ways and other secluded places annoys most Bermudians, and I dare say visitors as well. Currently, the Transport Control Department, in conjunction with Works & Engineering, remove about 50 vehicles a year. Additional resources have been provided in the 2003/04 Budget, so that 50 per cent more of these abandoned vehicles may be removed.

**Mr. Speaker,** the Ministry of the Environment's 2003/04 Budget of \$19.7 million includes increased funding for parks maintenance and \$50,000 in grant aid to the Bermuda Zoological Society for the amphibian research project, to determine the cause of malformations of Bermuda frogs and whether or not there are any implications for the human population.

**Mr. Speaker,** I am most pleased to advise this Honourable House that the Department of Statistics will conclude its work on the National Literacy Project in this forthcoming fiscal year. A further \$1.1 million is provided for this purpose under the Cabinet Office budget.

**Mr. Speaker,** you may recall that this project is an initiative of the Organization for Economic Cooperation and Development (OECD). Its purpose is to determine literacy standards worldwide. The data collection from Bermuda's population is scheduled to begin in March and conclude in October. The OECD plans to release comparative country data from the survey in the fall of 2004.

**Mr. Speaker,** within the Ministry of Community Affairs and Sport's overall budget of \$13 million in 2003/04, additional funding (an increase of \$1.8 million) is provided for the operation of Community Centres (+\$213,000), the accommodation of special needs children in summer day camps (+\$60,000) and in the Afterschool Care programme (+\$261,000).

Turning briefly to sports development, Government will increase funding in the Elite Athlete Fund by \$85,000 in 2003/04. In addition, Government will amend the Customs Tariff to eliminate duty on the temporary importation of equipment required by our athletes and sportpersons while they are based in Bermuda.

**Mr. Speaker,** there is also some provision in the 2003/04 Budget for preparatory organizational work in support of the 2004 Carifta Games that Bermuda will host.

**Mr. Speaker,** all Bermudians should rightly be proud of our World Heritage Site and I would like to take this opportunity to acknowledge and, on behalf of Government, to support the excellent work that the St. George's Foundation has done in conjunction with the Town's Corporation in maintaining the Town of St. George and its surrounding fortifications as a World Heritage Site. Government has pledged long term support to the work of the Foundation. Therefore the 2003/04 Budget includes a grant of \$100,000 to the St. George's Foundation and Government pledges further such support over the next few years.

In addition, Government has commissioned a report on the status of the structures that form the "surrounding fortifications" part of the world heritage site.

### **Capital Expenditure Estimates**

**Mr. Speaker,** I turn now to Government's Capital Expenditure Plan. A total of \$104 million will be invested in educational plant and equipment, airport runway works, rest home development, public transportation and office accommodation for government workers.

**Mr. Speaker,** the further investment in educational plant in the forthcoming fiscal year represents 43 per cent of the capital development budget. This investment is

essential to the ongoing delivery of the school curriculum in an effective and efficient manner within a modern and safe school environment.

Planned expenditure includes \$28 million for the continuing development of the second senior school, \$3.5 million to complete work on three middle schools (Clearwater Middle School, Dellwood Middle School and Spice Valley Middle School), and \$5.3 million for furniture and IT equipment.

Within the Ministry of Transport, the Department of Airport Operations is provided with a capital budget of \$6 million for runway upgrades and new approach lighting (\$2.1 million), an S-Band Doppler Radar System (\$2 million), improvements to the air-conditioning system (\$579,000) and other minor works (\$454,000).

**Mr. Speaker**, funding has also been provided in the Department of Airport Operations' capital budget for the purchase of a specialized passenger transporter. This device is designed to lift passengers in wheel chairs to the aircraft; \$100,000 is provided for this purpose.

**Mr. Speaker**, the new ferries have proven very popular with both residents and visitors. Government proposes to move forward with this aspect of the National Transportation Plan. Accordingly, \$2.6 million is provided for phase 2 of the Ferry Project that will see the replacement of the aging Somerset ferries.

Members of this Honourable House and the general public will be pleased to learn that queues and waiting time at the Transport Control Department will be further reduced with the introduction of internet-based on-line services. \$400,000 is provided for this project in 2003/04.

**Mr. Speaker,** \$9.3 million is provided in the Ministry of Health and Family Services, for key projects including rest home renovations and new development (\$6.6 million); capital works at St. Brendan's Hospital, including a new fire alarm and lightening protection system (\$770,000) and renovations to Teucer House (\$1.6 million).

In the Ministry of works and Engineering, \$13.2 million is provided in support of a number of capital development projects and acquisitions. One such vital project is the work planned to stop the coastal erosion occurring along a stretch of South Road in Smith's parish. \$1.8 million is provided for this work.

Other projects include the relocation of the Recycling Centre (\$1.5 million) and the structural refurbishment of bridges (\$1 million).

**Mr. Speaker,** capital grants in the forthcoming year amount to \$9.9 million. Of this amount, \$6.2 million is provided to the National Sports Centre, \$3.5 million to the Bermuda Land Development Company and \$100,000 for the final installment of a \$500,000 grant to the Bermuda Maritime Museum's Commissioner's House in Dockyard.

**Mr. Speaker,** every project in Government's Capital Expenditure Plan has been carefully scrutinized. Only those projects that address government policy priorities, health and safety, or international security standards have been included.

Government does not want to overheat the construction industry, which is presently running at near full capacity, hence the delay in going out to tender for the new

buildings designed to house the Hamilton Police Station, Magistrates Court and the Residential Care Facility.

**Mr. Speaker,** I now turn to the revenue measures proposed for 2003/04 and the residual borrowing requirement.

### **Revenue Estimates**

**Mr. Speaker,** Government proposes to collect total revenues of \$650.1 million in 2003/04 based on the existing rate structure of Customs Duty, Payroll Tax, Land Tax, Passenger Taxes, Company Fees and Stamp Duties.

As I announced at the beginning of my statement, Government does not propose to raise any of the existing rates, nor does Government propose to introduce any new taxes. Our economy is on a recovery curve and we have no intention of slowing its acceleration away from the economic abyss of 2001.

**Mr. Speaker,** Government considers that the moderate, but steady, growth anticipated in our economy over the course of the next fiscal year will be sufficient to generate an additional \$9 million of revenue.

With projected revenue of \$650.1 million, and a combined current programme and capital project budget of \$728.3 million, Government projects a borrowing requirement of \$78 million in fiscal 2003/04, after taking account of cash in hand at the beginning of the new financial year.



This planned borrowing will be used to help finance the development and purchase of hard capital assets as detailed in the *Estimates of Revenue and Expenditure For The Year 2003/04*. **Mr. Speaker**, such borrowing at the prevailing low rates of interest is affordable, sensible and reasonable.

**Mr. Speaker**, it is also important to note that the proposed borrowing in 2003/04 will mark **the first time that this administration has added to Bermuda's public debt**.

**Mr. Speaker**, the details of the revenue estimates are shown in the annexes to this statement and in the *Estimates of Revenue and Expenditure For The Year 2003/04*. Therefore, I shall not burden you, or the Honourable Members of this House, with a recounting of the details.

However, for the avoidance of doubt, I will state that the standard rate of Payroll Tax will remain unchanged at 12.75 per cent.

The Payroll Tax cap of \$225,000 on individual remuneration will also remain the same. We recognize that top professional and executive staff who are remunerated at these levels (or indeed, above these levels) are in expanding sectors of our economy and therefore they are comfortably able to contribute their fair share of taxes without risk to profitability, shareholder value, or partnership distributions.

**Mr. Speaker**, a number of minor amendments will be made to the Customs Tariff Act to reverse increases unintentionally included with the introduction of the Harmonized System in November 2001.

In addition, the Act's Fifth Schedule will be amended to remove the preferential treatment afforded to a few select charitable organizations, but not to others who are equally worthy.

**Mr. Speaker,** Government is proposing that all charitable organizations that serve our community in any significant way apply for a government grant to help support their philanthropic activities. This approach is much more transparent and the community is therefore better able to gauge the value of their contribution to community development. Provision for the grants have been made in the Ministry of Health and Family Services' budget and Government has advised all affected organizations.

**Mr. Speaker,** motor vehicle licence fees, and bus and ferry fares remain unchanged this year. Passenger taxes also remain unchanged in 2003/04.

However, Government does propose to increase senior citizens pension benefits. Accordingly, amendments to the Contributory Pension Act 1970 will be brought to this House to raise contributory, and non-contributory, benefits by 3 per cent with effect from August 2003. Government is fully committed to ensuring that senior citizens enjoy their golden years.

**Mr. Speaker,** the proposed pension benefit increase will naturally give rise to a contribution rate increase of 4.25 per cent from August 2003.

In closing **Mr. Speaker,** this budget provides resources to continue the reform and development work begun by the Progressive Labour Party Government in

November 1998. I am proud that we have made a resolute start in spite of many formidable, and sometimes daunting, challenges.

**Mr. Speaker**, our mission is sure. We are neither faint-hearted, nor lacking in resolve. We are prepared to stand on principles and commit to a steady course oriented to addressing the social inequities that remain and to work collectively to re-establish a sense of community and shared societal values that will serve Bermuda and her people in this millennium and beyond.

Ours is a Government **Mr. Speaker**, that devotes all of its energies to make 'Hope' real.

**Mr. Speaker**, Bermudians have an extraordinary resilience and we are blessed. Yet, for the first time, we are finding our voices, we are speaking our minds. We hold our leaders to a searching microscopic scrutiny and are not shy to criticize Government when we disagree with any action or policy.

**Mr. Speaker**, we, as Government, appreciate such candor and we are not unduly sensitive to constructive criticism, for it hardens our resolve to do better to live up to all that is expected of us.

We understand that a thinking and educated electorate voted us in on November 9, 1998 and we trust the common sense and considered judgement of that same electorate to maintain their faith in us to continue to serve this community well into the future.

Thank you **Mr. Speaker**.