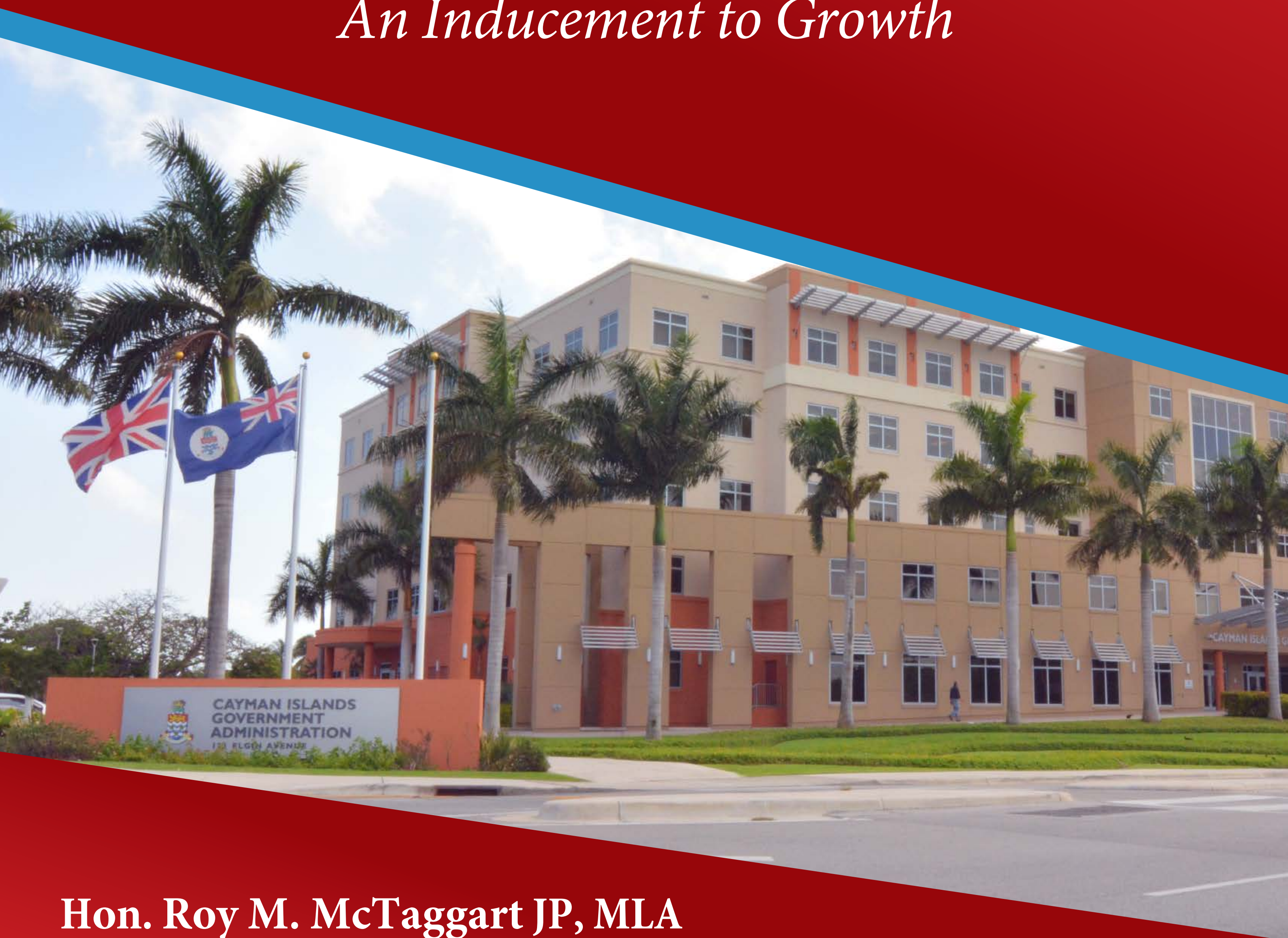
CAYMAN ISLANDS
GOVERNMENT

2018 - 2019 BUDGETS

Maintaining Fiscal Prudence:
An Inducement to Growth



Hon. Roy M. McTaggart JP, MLA
Minister for Finance and Economic Development
27 October 2017

Introduction

Mister Speaker, it is my honor and privilege to rise today and speak to **The Appropriation (Financial Years 2018 and 2019) Bill, 2017**.

The Budgets supported by this Bill cover a number of important firsts:

- it is the first for this Government of National Unity;
- the first ever two-year Budgets for these Islands; and
- my first Budget as Minister for Finance and Economic Development.

Mister Speaker, the 2018 and 2019 Budgets are built on a solid foundation of sound fiscal principles which will deliver the resources necessary to ensure long-term financial sustainability, stable economic growth and provide improved outcomes for all of the people of the Cayman Islands.

These Budgets represent months of collaboration, planning and analysis which has resulted in a set of budgetary allocations that will enable Ministries and Portfolios to deliver enhanced public services along with critical Capital Projects in a fiscally prudent and responsible manner, positioning the Cayman Islands well for future economic growth and stability.

Following the 2015 and 2017 amendments to the Public Management and Finance Law (PMFL), this is the first time that the budgets for two financial years are being presented within a single Appropriation Bill and, therefore, it is the first time that the Legislative Assembly will be asked to approve, during a single Meeting, Government's budgets for two financial years.

Government's financial year is now defined as a 12-month period from 1st January to 31st December. The budgets now being considered by the Legislative Assembly are in respect of the 2018 and 2019 financial years that end, respectively, 31st December 2018 and 31st December 2019.

Mister Speaker, the adoption of a two-year budget cycle allows Honourable Ministers of Government to devote more time during a four-year term to develop national policies that benefit the entire Country and, also enable Members of the Legislative Assembly to spend more time addressing the needs of constituents.

As Honourable Members review the various Budget Documents please bear in mind that the 2018 and 2019 Budgets cover two financial years. The Appropriations being sought and the detailed financial statements are presented for the individual financial years 2018 and 2019 which now follow the calendar year.

Moving to a two-year Budget will allow policy makers and public sector managers to devote more time and effort in the execution and delivery of policies and services and less time "budgeting".

We strongly believe that this change will yield significant dividends in terms of the efficiency and productivity of both the Legislative and Executive Branches of our Public Service. For years legislators have complained that the Budget process was too arduous and that the supporting documentation provided was overwhelming.

The move to two year budgeting and the switch of the financial years back to a calendar year are the initial phases of the budget process reform. When the 2020 and 2021 Budgets are presented we expect there will be a significant difference in the format and type of information presented, as we seek to establish a clear framework for tracking, reporting and evaluating Agency performance using key indicators.

A strong emphasis will be placed on what is being delivered rather than just what we plan to do! We as legislators and indeed the wider public will get more robust information on the actual performance of public sector agencies.

Mister Speaker, the presentation of these budgets comes just five months after the 2017 General Elections and has involved many hours of consultation and deliberation by elected officials and civil servants.

Summary — 2018 and 2019 Budgets

Mister Speaker, I am happy to report that the 2018 and 2019 Budgets are compliant with the Public Management and Finance Law (PMFL) and the Framework for Fiscal Responsibility (FFR).

The 2018 and 2019 Budgets deliver:

- stable, annual Operating Revenues of **$730.7 million** in 2018 and **$722.8 million** in 2019 – without increasing the tax burden;

- Annual Operating and Financing Expenses of **$644.1 million** in 2018 and **$657.7 million** in 2019 to fund expanded and enhanced services. There are no blanket “across the board” increases;

- Cash Balances of **$373.5 million** at 31st December 2018 and **$234.8 million** at 31st December 2019 – maintaining stable cash reserves above the minimum required by the FFR while also funding significant Capital Investments and paying down debt;

- Capital Investments of **$93.8 million** in 2018 and **$99.1 million** in 2019 to fund crucial upgrades to our infrastructure; and

- Reductions in Core Government Debt of **$30.3 million** in 2018 and a further **$134.1 million** in 2019 – as we pay down debt.

2018 and 2019 Fiscal Policy

Mister Speaker, on 23 August 2017 the Government presented its 2018 Strategic Policy Statement (SPS) which set out, in macro terms, the Government's medium-term fiscal policies and financial forecasts for the next three financial years.

The 2018 and 2019 Budgets are consistent with these policies and forecasts.

Our overriding fiscal strategy is to manage Government's finances in such a manner that there are:

1. **Substantial operating surpluses each year;**
2. **No new fees or taxes levied on the public; and**
3. **No new borrowings apart from refinancing an element of the 2019 Bond.**

Mister Speaker, by abiding by these guiding principles we are working to secure our long-term financial position and maintain compliance with the FFR as set out in the PMFL.

Substantial Operating Surpluses

Some people ask – Why must the Government generate operating surpluses?

Simply put, Mister Speaker, it is always wise to spend less than you earn and to manage your finances so as to always end each financial period with a surplus – it is the wise and prudent thing to do as it ensures that you will have the financial wherewithal to deal with unexpected circumstances.

Maintaining an Operating Surplus is a key component of ensuring compliance with the Principles of Responsible Financial Management and the FFR to which this Government is committed to maintaining over the long-term.

The Government believes that public sector agencies must continually seek to control expenditure and improve their performance. This is by no means a trivial undertaking and we recognize the challenges facing all public servants to make this happen.

Mister Speaker, we all have a role to play in this endeavor, whether as policy makers, legislators, or as users of public services.

By aggressively managing our expenditure we will continue to generate cash from operating activities enabling us to build and maintain our cash reserves while simultaneously generating cash to fund our capital investment programme – and minimize the need to borrow.

Mister Speaker, fiscal prudence is expected to be the norm, all public sector agencies are expected to implement and adhere to business processes and internal controls which promote these values.

No new fees or taxes levied on the public

Mister Speaker, this component of our fiscal strategy is one of the key ways that we are working to control the cost of living and doing business in the Cayman Islands. This is critically important for the management of our economy and the quality of life for our people.

The last time that the Cayman Islands Government introduced significant revenue measures was in the 2012/13 financial year. It is truly phenomenal that for the last four budget cycles we have not sought to implement increased revenue measures.

In fact, we have done what many would say is truly impossible and actually reduced the fees charged by Government – a truly remarkable achievement!

For the 2018 and 2019 financial years the Government is not seeking to introduce any new revenue measures!

No new borrowings apart from refinancing an element of the 2019 Bond

Turning now to borrowings, Mister Speaker, over the next two years there will be no new borrowings apart from the refinancing of an element of the US$312 million Bullet Bond which matures in November 2019.

Mister Speaker, this is in line with our overall intent to practice fiscal prudence and apply this to all aspects of our financial management: revenue; expenditure; and financing.

The planned 2019 refinancing will be the first time since 2011 that the Government has had to go to the market for financing and even then, we will only be going to refinance a portion of that Bond.

Mister Speaker, this is yet another significant achievement for these Islands as it means that since 2011, we have been able to fund all operating and capital investments from our **own** cash resources.

Our fiscal strategy regarding borrowings is grounded in our desire to avoid burdening future generations of Caymanians with the costs of the decisions made by this generation. Ideally, we want to minimize borrowings as much as possible so that when it is necessary to borrow for capital investments, we can match the repayment period over the expected lifespan of the investment.

Government's guiding principles with respect to its borrowings strategy are:

1) minimize the amount – by seeking to obtain financing from lenders only to the extent that it is necessary to do so;

2) seek external financing only with respect to Capital Investments, because these will have long-term beneficial effects on the quality of life for Caymanians and residents of the Islands;

3) avoid incurring debt to pay for operating expenditures – these must be paid from Government's annual recurring revenue streams;

4) on an exceptional basis, incur borrowings to assist in the repayment of an existing debt obligation that cannot be repaid fully using Government's own cash resources because to do so would expose the Government to undue risk of having resulting cash balances that are too low; and

5) use an amortizing structure in which the debt principal is repaid over its life, to leave a nil balance owed at the end of its tenure.

2016/17 Financial Forecasts

Mister Speaker, before going into further detail on the 2018 and 2019 Budgets, I think it is important that I provide an update on our financial performance and forecast financial outturn for the current financial period which covers the 18 month period spanning 1st July 2016 to 31st December 2017. The current year's financial performance is the base from which the 2018 and 2019 Budgets are prepared.

Forecast Operating Revenues

The Government is forecast to earn **$934.8 million** in total revenue for 2016/17. This is **$26.3 million** higher than the **$908.5 million** forecast in the original budget.

The improved revenues are mainly as a result of **$13.1 million** higher than expected revenues from stamp duty on land transfers; and **$12.7 million** more from import duty on motor vehicles, gasoline and diesel imports.

Forecast Operating Expenses

Forecast operating and financing expenses for the Core Government are expected to be **$879.8 million** for the 2016/17 fiscal period, some **$17.4 million** higher than the original budget of **$862.4 million**.

This forecast outturn is the result of increases and decreases to planned expenditure, most notably:

- Personnel Costs are on track to be **$7.7 million** ***less*** than originally budgeted;
- **$10.3 million** increased expenditure to fund a higher than expected number of uninsured, underinsured and indigent persons requiring specialist tertiary level medical care outside of the Cayman Islands;
- **$3.1 million** additional to fund services for the care, custody, and repatriation of illegal migrants landing in the Cayman Islands;
- **$4.8 million** more to fund the settlement of various legal cases; and
- **$7.6 million** additional other operating expenditures and depreciation.

Performance of Statutory Authorities and Government Companies

For the fiscal period ending 31st December 2017, Statutory Authorities and Government Companies (also referred to as SAGCs) are forecast to have a net operating loss of **$8.9 million**, which is a deterioration of **$9.4 million** from the $0.5 million profit forecast in the original 2016/17 Budget. The deterioration is primarily related to Cayman Airways which has seen a significant reduction in its passenger loads on its Cuba and Miami routes and will thus experience a larger loss than initially forecast.

Forecast Surplus from Operating Activities

The 2016/17 Operating Surplus for Core Government is forecast to be **$55.0 million**, which is **$8.9 million** higher than what was estimated in the 2016/17 approved budget.

Forecast Cash Position

Mister Speaker, our Cash Balances are a key indicator of the Government's overall financial performance and a critical component in ensuring compliance with the FFR.

Bank account balances for the Core Government are forecast to be **$379.7 million** as at 31 December 2017, which is **$38.5 million** more than the **$341.2 million** forecast in the 2016/17 Budget.

The improved bank balances are primarily due to the better than expected operating performance. The forecast closing cash position consists of an anticipated **$209.3 million** in operating bank accounts and **$170.4 million** in Restricted and Reserves accounts.

2016/17 Compliance with Principles of Responsible Financial Management

Mister Speaker, for the 2016/17 fiscal period the Government has maintained full compliance with the Principles of Responsible Financial Management and the FFR.

Economic Forecasts

The 2018 and 2019 Budgets take into consideration both the current state and medium term forecasts for the local and global economy.

Mister Speaker, the Cayman Islands is blessed to have a strong, stable and moderately expanding economy. This Government is focused on ensuring that our economy remains on the path of long-term sustainability in a way that brings maximum prosperity and opportunities for our people.

As I reported in my presentation on the 2018 Strategic Policy Statement, the key economic indicators for the Cayman Islands are all pointing to improved economic health.

Real Gross Domestic Product the primary indicator for economic growth is projected to increase by 2.1% in 2017 and then by 2.4% in 2018 and 2.3% in 2019.

Consumer Price Index the key measure of inflation is expected to record an increase of 1.8% in 2017; 2.3% in 2018 and 2.6% in 2019.

While this indicates an inflationary trend, this is in line with increases projected within the primary source markets for imports to the Cayman Islands. The Cayman Islands imports virtually all of its consumables and manufactured goods, as a result, local prices are particularly vulnerable to price changes in the country of origin, principally the United States.

The Unemployment Rate for 2017 is estimated to be 4.3% and is forecast to improve to 3.6% in 2018 and 3.4% in 2019. These forecasts indicate that as our economy grows it will generate jobs, creating enhanced opportunities for our people.

The recent catastrophic damage caused by Hurricanes Irma and Maria just last month on our Caribbean neighbours serve as an important reminder to us of just how disruptive natural catastrophes can be on our economies.

We experienced this in 2004 and 2008 with Hurricanes Ivan and Paloma and we cannot afford to be complacent. As a Government we must continue to do everything in our power to build redundancy and resilience into our infrastructure and business processes while at the same time supporting the same amongst our general population and business sector to build their own resilience.

The ability to recover from such catastrophic events is becoming increasingly important if we wish to remain globally competitive. The Government is doing its part by maintaining healthy Reserves and having in place robust disaster recovery plans.

In our effort to support sustainable economic growth, for the 2018 and 2019 Budgets, the Government will continue with the following economic stimulus measures implemented by the last Administration that are designed to support economic growth by keeping both the cost of doing business and the cost of living in the Cayman Islands as low as possible. These are:

1. **reduced import duty on diesel fuel used by CUC to generate electricity;**
2. **reduced import duty for licensed traders;**
3. **reduced import duty on building materials;**
4. **reduced trade and business license fees for new licensees; and**
5. **the continuation of current incentives for Cayman Brac and Little Cayman.**

The Cayman Islands economy operates an open services based economy whose success is highly dependent on the easy flow of capital and human resources.

The Government has the task of regulating economic activity in a manner that is beneficial to the Caymanian people – Mister Speaker, we are committed to doing just that!!

Utilizing the suite of incentives that I just mentioned, are some of the ways that the Government can encourage sustainable economic activity while empowering our people and, to the best extent possible, managing the cost of living and doing business.

Mister Speaker, it is a bit of a balancing act for any Government to find the appropriate mix of incentives that will stimulate and encourage the right forms or types of economic development for our Islands.

We have to ensure that any proposed development is scale appropriate, sustainable and generates employment opportunities for our people. This has to be balanced with the fact that a growing economy will place additional burdens on our public services and the Government will have to meet that demand.

As a result, particular attention has to be given to preserving the income earning ability of the Government whenever concessions are decided upon.

The 2018 and 2019 Budgets

Mister Speaker, now turning to the details of the 2018 and 2019 Budgets.

Operating Surplus

For 2018, the Government is forecast to earn Operating Revenue of **$730.7 million**, incur Operating and Financing Expenses of **$644.1 million**. This results in a forecast Core Government surplus of **$86.6 million**. When factoring in the forecast **$5.6 million** Operating Loss of Statutory Authorities and Government Companies, the Entire Public Sector is forecast to have an overall Net Surplus of **$81.0 million** for 2018.

In 2019, the Government is forecast to earn Operating Revenue of **$722.8 million**, incur Operating and Financing Expenses of **$657.7 million**. This results in a forecast Core Government surplus of **$65.1 million.** When factoring in the forecast **$5.8 million** Operating Loss of Statutory Authorities and Government Companies, the Entire Public Sector is forecast to have an overall Net Surplus of **$59.3 million** for 2019.

Operating Revenue

The 2018 and 2019 revenue forecasts do not include any new revenue measures or any material changes to the Government's revenue earning structure.

Total Operating Revenue for 2018 is forecast to be **$730.7 million**, with **$691.4 million** being coercive revenue and **$39.3 million** in sales of goods and services and other operating revenue.

In 2019, Operating Revenue is forecast to be **$722.8 million**; **$683.4 million** in coercive revenue and **$39.4 million** in sales of goods and services and other operating revenue.

The Government will be realising and transferring approximately **$19.0 million** and **$3.1 million** into General Revenue from various trust accounts whose holding period is scheduled to mature in 2018 and 2019, respectively.

These are one-off transfers that relate to bona-vacantia assets which by law become the property of the Government after being held in trust by the Government with no claims after a period of four years.

Operating Expenditure

Operating Expenditure in 2018 is forecast to be **$620.1 million** and **$632.9 million** in 2019. These amounts represent an increase over the 2016/17 levels and are directly related to the provision of enhanced and expanded services and programmes.

The major drivers for the increased Operating Expenditure in 2018 and 2019 by Ministry/Portfolio are as follows:-

Ministry of Human Resources, Immigration & Community Affairs

- Enhanced Policing capacity by the hiring of an additional 25 Police Officers per year for the next three years;
- the implementation of an enhanced Work Permit system which improves transparency on available jobs, increases accountability for employers and maximises employment opportunities for Caymanians;
- improved Border Control services;
- enhanced services for the elderly and disabled;
- increased monthly Ex-Gratia payments made to seamen, veterans, and persons receiving poor relief payments;

Ministry of District Administration, Tourism and Transport

- enhanced tourism marketing to high value source markets;
- launch of new air service routes by Cayman Airways to strategic tourism markets;
- development and implementation of a National Tourism Plan;

Ministry of Finance and Economic Development

- Increased funding to the Cayman Islands National Insurance Company (CINICO) for the continued provision of health insurance services to its clients;
- Improved border control, enforcement and inspection services by H.M. Customs;

Ministry of Financial Services and Home Affairs

- enhanced Financial Services policy functions of the Ministry of Financial Services and regulatory services provided by the Cayman Islands Monetary Authority in order to keep pace with evolving international regulatory requirements;
- strengthened capacity at the Cayman Islands Fire Services;
- implementation of an expanded conditional release programme to better enable prisoners to successfully reintegrate into society as productive citizens following release from incarceration;

Ministry of Commerce, Planning and Infrastructure

- improved project management capacity to enhance the successful execution of Government funded capital projects;
- enhanced Information Technology services including improved cyber-security and E-Government initiatives;
- creation of an Urban Development Commission to lead the George Town revitalisation project;

Ministry of Education, Youth, Sports, Agriculture and Lands

- Continued enhancement of teaching and learning in schools with increased focus on: addressing students with special needs; strengthening core curriculum across primary and secondary schools for science, technology, mathematics and literacy;
- increased funding for scholarships for advanced, specialized tertiary education;

Ministry of Health, Environment, Culture and Housing

- implementation of the Integrated Solid Waste Management System;
- an expanded mosquito control programme to reduce the risk of mosquito borne illnesses;
- implementation of a new culling programme for the invasive green iguana; and commencement of operations of the new Long Term Residential Mental Health Facility;

Portfolio of the Civil Service

- Implementation of the "Second Chances" pilot programme which is aimed at providing employment opportunities to assist former prisoners with their reintegration to the workforce; and

- provision of an Ex-Gratia pension uplift to qualified low income Caymanian civil service pensioners with more than 10 years of qualifying service.

The major components of Operating Expenses in the 2018 and 2019 Budgets, as shown in the financial statements are:

Personnel Costs – are budgeted to be **$299.7 million** in 2018 and **$310.1 million** in 2019 to fund additional staff to deliver the initiatives included in this budget that I just spoke to.

Supplies and Consumables are budgeted to be **$106.9 million** in 2018 and **$107.7 million** in 2019.

Depreciation costs are budgeted at **$30.0 million** for 2018 and **$30.2 million** for 2019 and reflect the increase in the value of the Government's assets as a result of a revaluation exercise completed in June 2016.

Mister Speaker, it is important to remind Honourable Members and the general public that depreciation is a non-cash expenditure item which is generally meant to recognize the cost of assets through the operating statement, in a systematic way, over the expected useful life of the asset.

Outputs from Statutory Authorities and Government Companies are forecast to be **$110.5 million** in 2018 and **$111.2 million** in 2019, annualised increase over 2016/17 levels of **$8.1 million** in 2018, and a further **$0.8 million** in 2019. The budget in this category will be used to fund the following:

- **$32.3 million** in 2018 and **$33.5 million** in 2019 to CINICO for the provision of health insurance benefits to civil servants, civil service pensioners, and qualified seafarers and veterans;
- **$29.8 million** per year in 2018 and 2019 to the Health Services Authority for the provision of various medical services to the community;
- **$18 million** per year in 2018 and 2019 to Cayman Airways Limited for the provision of airlift to the Cayman Islands from strategic tourism markets;
- **$16.3 million** per year in 2018 and 2019 to the Cayman Islands Monetary Authority for enhanced regulatory services to keep pace with changing international best practice.

<u>Outputs from Non-Government Output Suppliers</u> are expected to remain stable over the budget period and are forecast to be **$24.9 million** in 2018 and **$23.8 million** in 2019. The major items in this category are:

- **$11.0 million** in 2018 and **$9.9 million** in 2019 for tertiary medical care at various local and overseas providers for uninsured, underinsured and indigent persons;
- **$2.6 million** in 2018 and **$2.5 million** in 2019 for Legal Aid Services;
- **$2.3 million** per year in 2018 and 2019 for care, custody, and processing of irregular migrants;
- **$1.9 million** per year in 2018 and 2019 for rental accommodation for persons in need; and
- **$1.7 million** per year in 2018 and 2019 for the care of indigent, elderly, and disabled persons.

<u>Transfer Payments</u> are forecast to be **$36.5 million** in 2018 and **$38.9 million** in 2019. These amounts are incremental increases of $2.4 million per year over the 2016/17 levels and are directly linked to increased funding for poor relief and other social benefit programmes. The major Transfer Payments budgeted for 2018 and 2019 are:

- **$14.4 million** in 2018 and **$14.5 million** in 2019 for Local and Overseas Scholarships;
- **$9.0 million** in 2018 and **$10.1 million** in 2019 for Poor Relief Payments and Vouchers; and
- **$8.0 million** in 2018 and **$9.3 million** in 2019 for Ex-Gratia payments to Seamen and Veterans.

<u>Financing Expenses</u> are budgeted to be **$24.0 million** in 2018 and **$24.8 million** in 2019. These expenses cover the interest payments and other financing costs associated with the Core Government's portfolio of Debt, which will decline by **$30.3 million** in 2018 and by a further **$134.1 million** in 2019.

<u>Net Operating Performance of Statutory Authorities and Government Companies</u> is forecast to be a net loss of $5.6 million in 2018 and $5.8 million in 2019. These losses are driven primarily by the performance of the Cayman Islands National Insurance Company ("CINICO") which is forecast to have a net loss of **$5.0 million** in 2018 and **$8.1 million** in 2019.

<u>Capital Investments</u>

Turning now to Capital Investments, Mister Speaker, the Government is committed to making sound capital investments which will enhance the country's infrastructure and strengthen opportunities for long term economic growth.

These investments are being made only after thorough analysis to determine their appropriateness, cost effectiveness and sustainability while also following best practice procurement processes as set out in the PMFL.

The Government intends to make investments totalling **$93.8 million** in 2018 and a further **$99.1 million** in 2019. These planned Capital Investments will be entirely funded from existing resources – that is – cash generated from operating activities and surplus cash reserves.

Planned investments in Core Government assets for 2018 are **$74.2 million** and **$70.4 million** in 2019. The major investments in this category being:

- **$6.0 million** in 2018 and a further **$14.1 million** in 2019 for the continued development of the new John Gray High School and upgrades to other school infrastructure;
- **$5.9 million** in 2018 and a further **$8.7 million** in 2019 for implementation of the Integrated Solid Waste Management Facility and decommissioning of the existing George Town, Cayman Brac and Little Cayman landfills;
- **$4.4 million** in 2018 for a new Public Safety Communications system for use by all emergency first responder agencies;
- **$1.5 million** in 2018 for upgrades to the CCTV systems and other Public Safety Infrastructure;
- **$1.2 million** in 2018 and **$1.2 million** in 2019 for the development of a new West Bay Police Station;
- **$2.8 million** in 2018 and **$3.0 million** in 2019 for new vehicles and safety equipment for the Cayman Islands Fire Service;
- **$1.7 million** in 2018 and **$1.6 million** in 2019 for enhanced cyber security for the Government's information technology infrastructure and enhanced E-Government Initiatives;
- **$10.2 million** in 2018 and **$9.3 million** in 2019 for upgrades to the road network infrastructure throughout all three Cayman Islands;
- **$5.0 million** in 2018 and **$8.0 million** in 2019 for the construction of the Islands' first long-term residential mental health facility;
- **$1.8 million** in 2018 and **$1.2 million** in 2019 for the redevelopment of the cargo and cruise berthing port in George Town, Grand Cayman.

Capital Investments into SAGC's will be **$19.6 million** in 2018 and a further **$28.7 million** in 2019. These investments will fund debt service obligations; operational losses and various capital projects. The major investments in this category are:

- **$8.5 million** in 2018 and **$9.5 million** in 2019 to the Cayman Turtle Conservation & Education Centre Ltd., to fund debt servicing and operational losses;
- **$5.1 million** per year in 2018 and 2019 to Cayman Airways Limited to fund debt servicing obligations;
- **$2.9 million** in 2018 and **$9.3 million** in 2019 to the National Housing Development Trust to fund debt servicing obligations; and
- **$2.3 million** in 2018 and **$4.5 million** in 2019 to the Cayman Islands Development Bank to fund debt servicing obligations.

Cash and Debt Management

Mister Speaker, the matter of Cash and Debt Management was highlighted during the preparation of the 2018 – 2019 Budgets. During the 2018 and 2019 financial years the Government has to manage the November 2019 repayment of the 2009 Bond of **US$312 million** coupled with the statutory need to maintain a minimum operating cash balance equivalent to 90 days of Operating Expenditure, and continue the delivery of services and capital investment projects.

In November 2019, when the 2009 Bond becomes due, our forecasts suggest that the Government may need to borrow up to some **$153.0 million** or 58% of the amount of that Bond to refinance it into an amortising debt instrument. Core Government's Debt is then forecast to be **$286.7 million** at 31 December 2019. Cash Balances are forecast to be **$234.9 million** of which **$70.4 million** will be in operating cash and some **$164.5 million** will be in Reserve Accounts.

Mister Speaker, the Government concluded that it was not prudent to substantially deplete its entire cash balances in order to avoid external borrowing altogether in 2019.
However, as we approach November 2019, the Government will reassess its required level of borrowing after a robust review of cash balances and forecast results to 31st December 2019.

Compliance with FFR Targets

With respect to compliance with the Principles of Responsible Financial Management set out in the PMFL and the Framework For Fiscal Responsibility, the 2018 -2019 Budget forecasts the following levels of compliance with the principles:

1. **Net Operating Results: should be positive –** Core Government's Revenues should be greater than its Expenses. For 2018 and 2019, compliance is achieved as the Government is forecasted to record a Net Operating Surplus of **$86.6 million in 2018** and **$65.1 million in 2019**;

2. **Net Worth: should be positive –** Core Government's Assets less its Liabilities should be positive: the Government's Assets are forecast to exceed its Liabilities by approximately $1.3 billion at 31 December 2018 and $1.4 billion at 31 December 2019;

3. **Debt Service: that is, the annual payments of interest and principal related to all public sector borrowing commitments should be no more than 10% of Core Government Revenue –** the Government is forecasting a Debt Service Ratio of 8.6% in 2018 and 46.7% in 2019. The jump in 2019 is as a direct result of the scheduled repayment of the Bullet Bond in November 2019. This is a one-off event and is not indicative of any increase in borrowing activity. The Government will also be seeking to bring legislative amendments on how this ratio is calculated so that large one-time debt retirements do not negatively count against our level of compliance;

4. **Net Debt: The total debt of Core Government, plus the weighted average debt balance of Public Authorities less Core Government's liquid assets, should be no more than 80% of Core Government's revenue for the fiscal year –** the Net Debt ratio is forecast to be 22.3% in 2018 and will shrink to 17.4% in 2019;

5. **Cash Reserves: The unrestricted cash reserves (Operating Bank Account + General Reserve Fund) of the Core Government – measured at the lowest point in the fiscal period – should be sufficient to cover 90 days of Core Government's estimated operating expenditures –** for 2018, the Government is forecasted to have sufficient cash reserves to cover approximately 168 days of operating expenditures at the lowest point during that fiscal year. In 2019 this will drop to 92 days as we utilise accumulated cash balances to pay off a portion of the Bullet Bond in November 2019.

Conclusion

Mister Speaker, the 2018 – 2019 Budgets provide a blueprint for the management of Government's resources necessary to deliver expanded services to the public in a way that is consistent with the stated Broad Outcomes of this Administration and in compliance with the PMFL and FFR and grounded in the Government's fiscal strategy.

Our 2018 – 2019 Budgets will deliver, whilst maintaining fiscal prudence:

- Enhanced social programmes for the most vulnerable members of our society;
- Strengthened global competitive positioning in our core Financial Services and Tourism industries;
- Bolstered public safety resources aimed at reducing crime and instances of repeat offenders;
- A transformed public education system to allow our children to achieve their full academic potential and their success in life;
- Sustainable solutions that address threats to our environment and longstanding issues with landfills; and
- Improved Management of our Public Healthcare system.

Mister Speaker, the preparation of the Government's Budget is a massive undertaking and is only possible with the commitment and dedication of the Civil Service.

I also wish to express my thanks to Her Excellency the Governor; the Honourable Premier; Cabinet Ministers; Official Members of Cabinet; Councillors; Chief Officers and their staff. I especially wish to thank the team within the Ministry of Finance for their excellent work and commitment to produce the 2018 – 2019 Budgets.

I now humbly commend the **Appropriation (Financial Years 2018 and 2019) Bill, 2017** to this Honourable House and ask all Members for their support of the Bill.

Thank you, Mister Speaker.