

# “The status quo is the enemy”

## 2014 Bermuda Budget Highlights

“The status quo is the enemy! If we don’t change, there will be no improvement. If we don’t change, we will only get more of the same...” **The Minister of Finance The Hon. Bob Richards, JP, MP**

### Points of interest:

#### Summary

- Deficit of \$267m, down from \$332m
- Net debt \$2.185b, up from \$1.988b
- \$70m (7%) reduction in current account expenditure excluding interest, sinking fund contributing

#### Revenue

“We are being conservative with our revenue estimates”

The revenue forecast for 2014/15 of \$901.7m reflects very little change over the 2013/14 revised estimate of \$892.6m. This minimal growth is concentrated in tax on sale of land to non-Bermudians, customs duty, stamp duty and payroll tax.

Other specifics:

- No changes in tax rates apart from a 5% biennial adjustment of most Government fees
- Subsidies currently in place for the hospitality, restaurant and retail sectors will remain in place for the next fiscal year
- Tax initiatives started last fiscal year will also continue into the next fiscal year: the reduction of taxes on the purchase of Bermuda property by non-Bermudians and tax breaks for employers who hire unemployed Bermudians

#### Debt

- Gross public debt as at March 31, 2015 will stand at \$2.185bn and debt, net of the Sinking Fund, will stand at \$1.988bn
- In 2014/15 Government will draw from the Sinking Fund to pay off \$120m in private placement notes, reducing debt costs by \$7m

#### Growth

- The declining population in Bermuda is inhibiting economic growth. In order to grow GDP the Minister highlighted the need to increase the resident population through liberalisation of immigration policy to allow easier entry of persons with financial or intellectual capital
- In order to obtain sufficient capital to recover, we need to look outside Bermuda through reconsideration of 60/40 rule

“The Minister outlined the serious position that Bermuda is facing and the need to make changes. He outlines an expected 15% cost reduction plan over 3 years and is counting on SAGE Commission initiatives plus future revenue growth to bring the budget back in balance.”

- Tom Miller, Managing Director, PwC Bermuda and PCS Leader

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### Budget highlights:

	Actual 2012/13	Original estimate 2013/14	Revised estimate 2013/14	Estimate 2014/15
		\$'000	\$'000	\$'000
Revenue	866,578	871,199	892,569	901,709
Current account expenditure	(967,812)	(983,883)	(1,016,081)	(945,838)
Interest on debt	(30,441)	(96,675)	(109,400)	(113,500)
Sinking fund contribution	(30,750)	(37,625)	(37,625)	(47,693)
Capital expenditure	(63,474)	(84,609)	(62,458)	(61,945)
Budget deficit	(225,889)	(331,593)	(332,995)	(267,267)

### Financial position summary:

	2011/12	2012/13	Revised Estimate 2013/14	Estimate 2014/15
	\$'000	\$'000	\$'000	\$'000
Consolidated fund deficit	(1,491,528)	(1,830,157)	(2,163,152)	(2,430,419)
Government debt outstanding	(1,350,720)	(1,574,000)	(2,305,000)	(2,185,000)
Guarantees outstanding	(200,357)	(200,357)	(521,069)	(521,069)
Sinking fund	114,747	97,142	532,700	197,879
Statutory debt limit	1,250,000	1,250,000	2,500,000	2,500,000

### Expenditure

- Decrease in total current account expenditure by 7% or \$70m (excluding interest on debt and sinking fund contributions)
- Spending cuts across the board for all Ministries. A notable exception is an increase in spending of \$7m in financial assistance spending by the Ministry of Community, Culture & Sports
- Forecast reductions of \$10m for Advertising & Promotion and \$20m for Professional Services. \$26m reduction in salaries offset by \$25m increase in grants and contributions primarily caused by the establishment of the new Tourism Authority
- Capital expenditures stay in-line with 2013/14 estimates
- A budget deficit \$267m is projected for 2014/15, reduced from \$332m for 2013/14
- Interest on debt to increase to \$114m for 2014/15 from a revised estimate of \$110m in the prior year
- Public-Private Partnerships will be examined to finance airport and other capital projects

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