



GOVERNMENT OF THE VIRGIN ISLANDS BUDGET ADDRESS 2013

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THE PATH TOWARDS ECONOMIC GROWTH

Presented by
The Minister of Finance
Dr. the Honourable D. Orlando Smith

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2013 BUDGET ADDRESS

“THE PATH TOWARDS ECONOMIC GROWTH”



INTRODUCTION

1. Madam Speaker, I move that the bill entitled, Appropriation Act 2013, be read a second time and that in so doing invite this Honorable House to extend its customary indulgence, in permitting me to read the Budget Address.

2. Madam Speaker I would like to first thank God for the good fortune of these islands during the past eight months and more as we have been spared the wrath of natural disasters that affected many of our neighbors in the Caribbean and the North Eastern United States. Allow me to also express my sincerest appreciation to the people of the BVI for being patient through this period of significant challenge.

3. I am today happy to say that in keeping with our strong maritime traditions, we have weathered the storm of the global economic down turn, and righted the ship; it is now time to adjust our course onwards on “the path towards economic growth”. Madam Speaker on this course we will need all hands on deck.

4. Just over a week ago the US reelected President Barack Obama. Many of us experienced a great sense of euphoria at this outcome, but we noted that the very next day the stock market plunged, driven by concerns about a slowing economy in Germany and other parts of Europe; and of course the debate relating to averting the 'fiscal cliff' began in earnest. It is no secret that our economy is hitched to that of the United States. We use their currency as our only tender, the greater part of our tourism comes to us from or through that country, we import most of our goods and services from there, and many of the investors among us hail from that nation as well. We therefore know and must bear in mind, that a

sneeze in the US economy inevitably results in our catching the flu, and so we must maintain focus on the outcome of developments in the US over the next several weeks.

MEDIUM TERM OUTLOOK

1. Madam Speaker, our recent economic pattern here in the Virgin Islands tells a story of slowing GDP growth resulting from the economic crisis, followed by a gradual, but slow recovery in 2010 and 2011 (2.01 percent and 2.4 percent respectively). The pattern is most apparent in the fortunes of the twin pillars of this territory's economy: financial services and tourism.

2. Within our Financial Services sector, 2010 marked the resurgence of company incorporations after a marked slowdown in the previous year, resulting in the total number of new company incorporations increasing in that year by a very respectable 26 percent. Since then, growth in new incorporations has slowed but remained positive, with the number of incorporations increasing a little over eight percent (8%) in 2011.

3. Due to a number of factors - some beyond our control - the tourism industry has continued to face major challenges. Overall, arrival figures decreased following the economic crisis and as of 2011 had not recovered to pre-crisis levels. From 2007 to 2011 tourism arrival figures decreased by approximately twelve point four percent (12.4%), driven mainly by reductions in cruise passenger visitors. Overnight visitors have increased since 2009, largely by way of the charter boat industry, but this has not been sufficient to increase the overall tourist arrival figures.

4. Growth in our economy was fueled primarily by the recovery of the Territory's financial services sector, increased government spending and moderate increases in overnight visitor arrivals to the Virgin Islands.

5. With respect to inflation, the Territory has maintained a relatively low and stable level of inflation over the last ten years and we were especially fortunate in 2010 and 2011 to have experienced the low inflation levels of 2.4 and 2.3 percent

6. Madam Speaker, worldwide GDP growth was expected to decrease in 2012 as a result of volatile crude oil prices, financial and economic turmoil in the Euro Zone, increasing unemployment levels and instability in the Middle East. A slight though sluggish improvement in GDP growth is expected in 2013. We note as well that a slowdown in global economic growth in the major economies has implications for the expansion of the Virgin Island's economy.

7. Madam Speaker, the closing of Hovensa on St. Croix raised awareness of a growing, uncomfortable trend of an increase in the price of fossil fuels to the average household and business in the greater Virgin Islands, and to a corresponding decrease in the level of disposable income. Madam Speaker, my government believes that now is a good time to look more closely at green initiatives. Our environmental attributes illustrate the one that suits us best to pursue is solar. I have asked my Minister with responsibility for the Territory's energy policy, to pursue this initiative vigorously with a view to initiating a comprehensive approach to influence the upward spiral of energy cost and to report on his efforts by the end of the 1st Quarter of 2013.

8. Madam Speaker, the British Virgin Islands is expected to realize growth of some four percent (4%) in GDP at the end of this year 2012, which if achieved would be a significant improvement over last year's growth of two point four percent (2.4%).

9. The reduction in cruise passengers to the BVI by a twenty two point five percent (22.5%) drop in the first half of 2012. accounted for a thirteen point three percent (13.3%) drop in tourists to the BVI in the first half of this year when compared to the same period last year. Madam Speaker, the reality is that most popular cruise line ships today can no

longer be accommodated at our port facilities and unless we build new ones we will continue to see shrinkage in our cruise arrivals. The trend in the cruise industry is to building larger ships which our current port facilities are not designed to accommodate.

10. Overnight arrivals however, showed growth over that in 2011 by some two point six percent (2.6%). This growth mostly driven by strong activity in the charter boat subsector, is quite encouraging. We were also encouraged by increased activity in the super yacht sector and that for the second (2nd) time in as many years, the BVI will be the ending venue for a trans Atlantic race to conclude at YCCS Virgin Gorda in early December; one (1) of five (5) events on that facility's calendar for this season.

11. Generally however our outlook for the tourist sector remains conservative for the remainder of 2012, though the latest indications of advance bookings for the upcoming winter suggest that we may have some strong performance in overnight arrivals by the end of this year and into the first quarter of 2013.

12. Madam Speaker, in the financial services sector the BVI product continues to be robust. Although new incorporation figures were down by six (6) percent as of end of July 2012, re-registrations remained quite strong, resulting in financial services revenue increasing by one point four (1.4) percent when compared with cumulative revenue up to July 2011. Projections to the end of the year indicate that this one point four percent (1.4%) growth rate will remain intact. However we expect a challenging year for 2013, due to increased incorporation activity from other jurisdictions such as Hong Kong combined with the slow pace of global economic growth in Europe, Asia and the United States. As a result we expect slower growth in this sector in 2013.

13. Another vital GDP component, construction, exhibited positive growth in 2011 and this has continued into 2012 as well. Not only are the people of this territory continuing to build homes, there has been increased activity in the building of commercial property as

well. Furthermore major capital projects such as the Road Town and East End Sewerage Projects, together with the Manse Road are ongoing, The Crafts Alive Renovation is nearly completed and the New Peebles hospital is now moving ahead swiftly towards completion. We expect that major projects such as the Terrnce B. Lettsome Airport Expansion and the Cruise Pier Development, though not making any impact in 2012 will contribute in a noticeable way to GDP growth in 2013.

14. Madam Speaker, the BVI simply cannot afford to lose market share in its tourism sector. A majority of our people are directly or indirectly employed in this sector and we must do all that lies in our power to keep it vibrant. My government believes that the extension of the T. B. Lettsome airport runway and extension of the cruise ship pier will help us to maintain our competitive edge in tourism, going forward.

15. Madam Speaker, it is our view that to achieve the goal of positive economic growth in this territory, we must realize a combined increase in revenue from tourism, increased market share in the financial services industry, and renewed activity in the other components of the economy. Though our two main sectors continue to hold their own despite the temporary dip in cruise arrivals,, the quest to diversify continues as we seek to reduce our economic vulnerably and increase its depth. In doing so we recognize that central governmnt must provide support to boost the economy, but we see it as self evident that in doing so we must be fiscally responsible.

THE YEAR IN REVIEW

1. Madam Speaker, in my first budget address, I drew your attention to the platform on which my government came to office, “Putting our Country first” and stated at the time that that would be the terms of reference for every budget that will be presented in this House for the next four years. I further stated that 'in detailing our vision for the Territory for the next

four years we have but one goal; “*to improve the quality of life and the standard of living for the people of the British Virgin Islands*”. The components of the plan to achieve this are centered on building a vibrant, growing and sustainable economy, developing our social services programme to meet the needs of our people, improving public safety and jurisprudence, and responsibly investing in the public sector.

2. I am pleased to say in presenting my second Budget Address to this house that, the foundation has been laid, and that we now we begin the work of growing an economy that will stand our territory in good stead for the future.

3. Madam Speaker, our projections and fiscal performance thus far indicate that our total revenue for 2012 will be in excess of our initial projections in the 2012 budget of two hundred and eighty eight point eight million dollars (\$288.8M) due to higher revenue intakes in some areas. Though we remain cautious and view this as a modest windfall, it suggests an increase in revenue over and above the one point three five percent (1.35%) increase that we had projected for 2012.

4. Another encouraging sign relates to expenditure: Madam Speaker, based on our year to date patterns, expenditure is expected to be in the region of two hundred and eighty nine point one seven million (\$289.17 MM) down by some one point six percent (1.6%) from that of last year. This decrease in expenditure is not a sign necessarily of decreased activity, but results from more efficient use of our fiscal resources, pursuant to the policy we laid out on January 17th of this year.

5. Madam Speaker, we expect to use this increase in fiscal headroom to complete several pressing capital projects by year’s end. Expenditure on these projects will give a welcome boost to the construction sector of our economy as we end 2012 and head into 2013.

6. In addition Madam Speaker I am very pleased to report that we have also made the budgeted contribution to our reserve fund of fifteen million dollars (\$15MM) and that this is projected to increase to eighteen million dollars (\$18MM) by year's end.

7. The expected fiscal deficit, that is, total revenue collected versus total expenditure is expected to be in the region of twelve point three seven million dollars (\$12.37MM). This deficit resulted from capital expenditure on the New Peebles Hospital Project and the National Sewerage project and has been funded by loan funds approved in 2009 and which were to be used for these specific purposes.

8. Madam Speaker as a matter of comparison, as of August 2012 we realized a six point six percent (6.6%) increase in total recurrent revenue over that of last year of one hundred and eighty five point zero four million dollars (\$185.04MM) as compared to one hundred and seventy three point seven million dollars (\$173.7 MM) in 2011. We also realized a zero point two percent (0.2%) reduction in recurrent expenditure with expenditure of one hundred and seventy seven million, eight hundred and ten thousand dollars (\$177.81 MM) as compared to one hundred and seventy eight point two million (\$178.2 MM) in 2011. The net result was a seven point two million dollars (\$7.2 MM) recurrent surplus as of the first half of 2012 when compared to a four point six million dollar (4.580MM) deficit in 2011.

9. Capital expenditure fell by some twenty seven percent (27%) in this period with expenditure in the region of seventeen point zero three six million dollars (\$17.036MM) in 2012 and twenty three point three four nine million dollars (\$23.349MM) in 2011, as a result of my government consolidating its position of making more efficient and targeted high value expenditures.

10. Madam Speaker, this fiscal performance yielded an overall fiscal deficit in the first eight months of 2012 of nine point eight million dollars (\$9.8 MM)¹; a sixty four point nine percent (64.9%) reduction when compared to a fiscal deficit of twenty seven point nine million dollars (\$27.929MM) in the same period in the previous year 2011; true testament to our rapid track towards the stated goal of this administration which is to restore the fiscal health of the Government of the British Virgin Islands.

11. Madam Speaker, as a very small Territory in a globalized world, the British Virgin Islands and its people must never lose sight of the fact that we are at the mercy of the 'economic and political' storms that rage beyond our shores, and that in order to thrive in such an environment we must be resilient, innovative, proactive and responsible in the management of our affairs whether in government itself or at the individual level.

12. In the past year we have had to deal with increasingly competitive financial services and tourism industries that have constrained the fiscal space in which the government itself can operate, as well as a national economy that has begun to rely increasingly on central government for answers. These circumstances have resulted in my government having to make decisions that, while not popular, were necessary for our medium term success. Further afield, the looming Foreign Account Tax Compliance Act (FATCA) promises to introduce more complexity into the lives of individuals and businesses alike. As indicated in statements I have made to this Honorable House earlier, we are working intently to guarantee that this initiative has minimal impact on our citizens and residents.

¹ If the 15 million dollar reserve contribution is recorded as an expenditure, it would bring this deficit to 24.8 million dollars. This still translates to noticeable 11.2% deficit reduction when compared to the deficit of 2011

THE 2012 BUDGET ADDRESS - REVIEWED

1. Madam Speaker, on 17th January 2012, less than two months after assuming the office of Minister of Finance, I made several commitments to the people of this territory, beginning with the premise that “austerity today secures economic recovery tomorrow”. We are happy with the progress that we have made in this regard, but allow me to recap briefly :

2. Madam Speaker, we saw the need to establish a National Business Bureau, to assist small entrepreneurs and promote small business development in the territory. Much has been accomplished including as recently as last month the Caribbean Development Bank and the Trade Department partnering to equip more than forty small business owners with the tools to improve their enterprises. The Business Bureau has been effective and we hope to have a formal naming ceremony by the end of the first quarter of 2013.

3. The Tourist Board has been working tirelessly to market the BVI in various regions of the world, and thus far this has begun to yield significant results with hotels across the territory reporting strong projections for occupancy during this winter season. Just last Friday evening Madam Speaker, I attended the Annual Boat Show organized by the Charter Yacht Society at Nanny Cay and was pleased to learn that it was their largest show ever with 74 boats with over one hundred brokers who reported strong bookings for the winter season.

4. Earlier this week I also had the chance to meet with a delegation led by the primary owner of Cape Air who also shared the same expectation for a strong winter season. Madam Speaker, I am particularly pleased to report that much work has been done by the BVI Tourist Board and the BVI Airport Authority on the matter of ensuring that we will have increased airline coverage into the territory from San Juan this winter. This will include much needed additional flights into the Valley, Virgin Gorda at the seaplane facility in Gun Creek.

5. Madam Speaker, I am also pleased to report that we have not seen any significant fallout on winter bookings as a result of Hurricane Sandy coming ashore in the Northeast United States.

6. Madam Speaker, yesterday I joined with others in welcoming representatives of the Caribbean Financial Action Task Force to our shores. The presence of at least one hundred and fifty members of this body, along with other supporting staff reminds us that in order to continue to have a viable tourism industry, a five star hotel with conference facilities capable of accommodating at least 250 persons on Tortola is a must. Several options currently exist including finding an investor to take over the Government owned Prospect Reef Resort which is centrally located and presents several advantages. As BVI Islanders however, responding to the challenge and seizing the opportunities in this sector, I would like to applaud the owners of Marias by the Sea for the efforts that they have made in moving in the direction of fulfilling this need. But there is much more to be done.

7. Madam Speaker the CFATF meeting illustrates the opportunities that regularly knock at our door but which we have to deny because we do not have the facilities to accommodate such a gathering. The potential economic impact is significant as these events keep our hotels filled and our taxi operators with fares.

8. Investor confidence is critical to economic recovery Madam Speaker. We are already seeing a restoration of this as evidenced by the slight increase in revenue referred to earlier. Governments are elected to manage the economy but a strong economy is one where both Government and investors enter into a partnership if you will, with the investor making significant injections into the economy by way of projects, be they in tourism, real estate development, information technology, or other related sectors.

9. We committed to improve the appearance of Wickham's Cay and Main Street for visitors and citizens alike. The refurbished and expanded Crafts Alive project opens in the

next two weeks bringing an end to the unsightly 'Tent City' and improving the overall appearance of lower Road Town.

10. As part of the larger development, the cruise pier and some associated land side development have been delayed. however, Madam Speaker I can report that we are now moving to select a tender for this development within a matter of weeks. It is therefore my expectation that the full improvements to Wickham's Cay and Main Street will continue in earnest in 2013.

11. Madam Speaker, the critical matter of airlift capacity is being actively addressed through both the renewal of feeder links between Puerto Rico, and this territory, improving the ferry service between here and St Thomas along with the expansion of the T.B. Lettsome Airport. This latter project Madam Speaker remains pivotal to not only our economic recovery, but also to our sustained growth in the future.

12. My meeting with stakeholders in the financial services industry early in the year has resulted in a standing Financial Services Business Development Committee, that meets regularly and addresses many of the concerns in respect to this industry. I can report that already this committee has begun to positively affect the policies of the government of the British Virgin Islands with respect to financial services, as the Government, the Regulator and the industry are collaborating on ways and means to make the BVI financial services offerings more competitive and in compliance with relevant standards. Madam Speaker, examples of this new partnership is illustrated in the manner in which the territory's response to FATCA is being fashioned and in the development of the recently launched Approved Fund Managers regime.

13. Relatedly Madam Speaker, we decided to embark on a rebranding exercise of our Tourism and financial Services products to realize important synergies in promotion. I am

pleased to report that this exercise is well advanced and will be rolled out by the end of February, 2013.

14. Madam Speaker, the Peebles Hospital project is progressing, and as promised this project is expected to be completed in 2013. In addition the National Health Insurance Scheme is slated to commence in earnest in 2013 and indications are, that as the synergies between this new enhanced health facility and the tailor made NHI system come to bear, the people of the British Virgin Islands will be able to access in a cost effective way, the level of health care they so justly deserve. I must also acknowledge Madam Speaker the work that the former government did with respect to this matter which was started under my first administration; this is true testament that on fundamental issues we cannot afford partisanship.

15. Madam Speaker our pursuit of the Technical and Vocational Educational School continues, and though extenuating circumstances prevented us from having a facility dedicated especially for this purpose before the end of the year, I am confident that with God's grace, that standing before you a year from now I will be able to report that this specialized institution is in operation.

16. Madam Speaker, in my last budget address I expressed some dissatisfaction about the state of our public infrastructure. I regret that although work is ongoing in East End and Road Town on the Sewerage project that my government has not yet been able to realize the level of rehabilitative measures that we determined to be necessary to restore our infrastructure to a level that is befitting of a territory of our business, income and development levels. I am specifically addressing the state of our roads and our water and sewerage distribution infrastructure.

17. We have however, as the people of this territory are aware, secured the requisite approvals to utilize the National Disaster Management Infrastructure Rehabilitation Loan

from the Caribbean Development bank to not only restore damaged infrastructure from Hurricane Otto, but more importantly to use these funds as the springboard for territory wide improved designs and rebuilding of our road and civil works infrastructure. Madam Speaker, we are determined to install facilities that are built to last and that are in keeping with our unique features, with no district being left behind.

18. Madam Speaker, in the past year the British Virgin Islands has made significant strides with respect to the management of its natural resources and is now recognized as a regional leader on environmental issues. We are being equally vigilant on behalf of our most valuable resource, our people. Through policies and law, we are seeking to ensure that they are always treated fairly, both as employers and employees.

19. Madam Speaker, though an apparent controversial topic in this House, it would be remiss of me if I did not mention the aggressive stance my government has taken in respect to financial management. We make no apology Madam Speaker, for assuming this position, since it is indeed true, that a properly run government institution is a prerequisite for a well managed and robust economy. It is also the reason Madam Speaker why proper and in-depth analysis must be done on major contractual agreements before the BVI Government commits itself to such agreements.

20. A prime example of the importance of this point is the contractual agreement between the BVIG and the company BiWater. Madam Speaker based on international public sector accounting standards this public private partnership agreement must be recorded by BVIG not merely as a contingent liability, but as a direct debt obligation on the balance sheet of the BVIG, in the very much the same way as if a loan was taken out by the BVI Government. This debt obligation Madam Speaker which is in excess of forty million dollars reduces by this amount the borrowing that we can incur in order to provide for the needs of our people here in the Virgin Islands.

21. In full recognition of these potential pitfalls, the Cruise pier project has been subjected to strict guidelines whether financial or procedural such that all potential partners will be aware of the limitations of what this government will accept in order to ensure that not only are the principles of good governance followed, but that the interests of the people of this territory are protected and promoted.

GOVERNMENTS PLANS FOR 2013-2015)

NEW INITIATIVES IN FINANCIAL SERVICES

1. Madam Speaker, the use of BVI Business companies in the Asia Pacific Region as vehicles for investment and trading purposes as well as holding companies is very well known. BVI companies have become so ubiquitous that investments using these entities have caused the BVI to be rated at number three among the top 10 countries used by the Chinese for investments. Furthermore the British Virgin Islands (BVI) is ranked as the most important offshore financial services jurisdiction by *Offshore 2020*, a research-based report produced by OIL Offshore Incorporations. The 2012 report, *Offshore 2020 Opportunities and Challenges Facing the Offshore Industry* ranks the BVI as the most important centre among 26 other offshore jurisdictions.

2. As a result Madam Speaker, we have long viewed the establishment of a Far East BVI Representative Office as a major component of the strategy to expand and deepen the commercial footprint of the Territory's financial services sector in this important market. In this regard, this government has decided to establish a modest office in Hong Kong to service that region. Its functions will include diplomatic representation in the Asia Pacific Region, strengthening BVI's voice with Government authorities in the region, and promoting BVI business including tourism and new international investment opportunities.

3. Madam Speaker, it is hoped that this office will be up and running by early March 2013.

4. Madam Speaker, we have been observing the Latin American market for some time now and have arrived at the decision that one of our next great thrusts must be made into the Latin and South American economies. The Brazilian super economy is an untapped market for the Virgin Islands and the products we offer can bring about significant benefits there. In the coming months we will be having discussions with the stakeholders of the major financial centres in the entire South and Latin American region to see how best we would be able to provide them with the high quality service for which we have become renowned the world over.

5. We will also continue to ensure that our legislative regime is robust and meets the demands of the market which we facilitate, while simultaneously ensuring that we remain at the forefront in respect to international standards.

TOURISM

1. Madam Speaker, in a statement I made in this Honorable House on July 29, 2012 I said that “Marketing the destination (BVI) in what is a fiercely competitive global marketplace is a high priority.”

2. Madam Speaker, over the last several years the BVI as a destination has lost significant market share in our primary markets in the United States and United Kingdom in particular. As a government, led by the Premier’s Office and the BVI Tourist Board, we have been diligently working towards revitalizing the tourism sector here at home and most importantly in our primary markets in the United States and Europe.

3. Madam Speaker, this Fall the BVI Tourist Board embarked on an aggressive marketing strategy to reposition and increase the destination share in our primary markets. The Board will be proactive and innovative and will be “Thinking Out of the Box” in devising strategies to strengthen the destination marketing; reenergize its sales team; and seek out emerging and untapped markets. To realize this objective the BVITB has aggressively taken and continues to take action to rebuild its reputation in our key markets, rebuilding our relationships with tour operators, travel agents, marketing professionals, airlines, and other key strategic players in the industry.

4. Madam Speaker, in our “Back to Basics” strategy we are focusing on the destination’s strengths in the areas of land based tourism, water based and nautical tourism, growing the super and mega yachts sector, expanding the destination’s calendar of annual events, developing the destination’s potential in the lucrative wedding and honeymoon market and expanding the destination’s advertising programme in North America, our primary market. The strategy will be underpinned by a laser like focus on having a “call to action” in all our marketing initiatives. Long gone are the days of just fabulous pictures; they must result in heads in beds for the destination.

5. Earlier this year, the BVI Tourist Board made a policy decision that its annual marketing calendar would run from September 1st to August 31st. In this way the Board will be far more effective in its marketing by clearly focusing on enhancing the Winter Season and strengthening the Summer Season.

6. Madam Speaker, repositioning the destination in the marketplace is not a small undertaking nor is it an overnight fix. It will take dedication, diligence, persistence, vision, planning, time, and money. The BVI Tourist Board has therefore submitted a three year - 2013-2015 budget detailing its financial requirements and plans to achieve a ten percent

(10%) growth in overnight arrivals annually for the next three years. As Minister of Finance, I will work with the Board to ensure that their funding will be commensurate with the mission I have asked them to undertake.

7. Madam Speaker, I am privileged to work with a fine group of Ministers who will apprise you and the wider public of the initiatives that they will be rolling out in the coming year. I will therefore refrain from going into too much detail on these initiatives and will make only brief mention of the major ones planned for the coming year.

PROVIDING FOR HEALTH AND SOCIAL SERVICES

1. Madam Speaker, our most important resource is our people, and health is among the most critical factors in human development. For this reason, my Administration remains committed to strengthening the health system to become ever more responsive to the needs of the population. We have embarked on a comprehensive health reform agenda, the vehicle by which we aim to empower communities, families and individuals to take control of their health, while ensuring that everyone has access to affordable, high quality treatment and care when they need it.

2. A critical component of our health reform strategy Madam Speaker is the restructuring of our health financing system to provide equitable coverage for all the people of the Virgin Islands. We have now completed the preliminary policy, financial and legislative framework for the viable operation of a National Health Insurance (NHI) System, being keenly aware that achieving an appropriate balance in the funding of NHI is necessary for its long-term sustainability and growth. This new system will be funded through a

combination of government budgetary allocations, employer and beneficiary contributions, co-payments, surcharges, and interest earned on the NHI Fund reserves.

3. Madam Speaker, we have heard the call for better health services on the Sister Islands, and I am pleased to report that among the infrastructural projects being undertaken in the coming year is the new Nurse Iris O’Neal Clinic in Virgin Gorda, and the construction of a heliport on Jost Van Dyke.

4. Madam Speaker, social spending accounts for a significant portion of Government’s expenditure for 2013. The budget provides for a social housing programme and public assistance grants for qualifying low income families and individuals; subsidized healthcare and other social programmes for children, seniors, and wards of the State; legal aid; and the operation of the recently established Autism Centre among other programmes to assist and support the differently-abled to lead fulfilling lives. Madam Speaker this represents a substantial investment in improving the living conditions of our people.

5. Madam Speaker as the cornerstones of our society we must look after our seniors. Our infrastructural programme therefore includes the phased construction of a new facility to house the Adina Donovan Home for the Elderly in Spooners Estate to provide assisted living, adult day care, and long-term nursing care services in an environment that would also be conducive to their social and recreational needs.

BUILDING A WORLD CLASS PUBLIC INFRASTRUCTURE SYSTEM

1. Madam Speaker, the Ministry of Communications and works recently developed a rolling 3-4 year plan that will address capital projects development in key areas such as transportation sector development, ports development, government buildings, city

development, water and sewerage management, sustainable energy initiatives, ferry service initiatives and flood risk mitigation. In addition they have also developed a project management framework that will ensure that its major capital projects are provided with the proper oversight, in order to ensure successful planning, management and execution. This framework is expected to yield significant results in providing value for money in the infrastructural development of this territory.

EDUCATION TO ENABLE ACTIVE AND MEANINGFUL PARTICIPATION IN THE GLOBAL VILLAGE

1. Madam Speaker, in continuing our quest towards a culture of excellence in our society the Ministry of Education and Culture has a number of initiatives in place some of which started over the last year and others yet to come on stream. We have implemented initiatives such as the Youth Unemployment Register, training and job fair; rehabilitation of the library at the Elmore Stoutt High School into a more modern Resource Centre with the installation of 20 computers compliments of LIME; the introduction of Financial Services, Tourism and Virgin Islands History as subjects in our schools; the establishment of a Territorial Song and Dress; the continued renovation of several schools; the establishment of the Emerging Fellows Award; the completion and reopening of the Greenland Field; start of work towards a Technical High School, Assisting the differently abled among other things Madam Speaker.

2. Our work, Madam Speaker with the differently-abled will continue. In the Budget, Madam Speaker we have allocated a specific subhead to the Student Services Unit to address initiatives such as early diagnosis/assessment and intervention as well as training for teachers in the field of Special Education among others. We will continue on this trend Madam Speaker as well as ensure that the necessary steps are taken towards a policy of inclusion.

3. We must Madam Speaker ensure that our Sister Islands are receiving their fair share of the investment to bring about development for those living there. Therefore Madam Speaker, along with the planned improvement in our schools which include those on the Sister Islands, special emphasis will be placed on developments in the areas of youth affairs and sports. Madam Speaker it is our intention to begin work towards the establishment of a Department of Youth Affairs and Sports on Virgin Gorda.

PROTECTING AND MANAGING OUR HUMAN AND NATURAL RESOURCES

1. Madam Speaker, the protection of our environment is now more critical than ever. According to the experts in the field, by the year 2050 there are ten (10) countries that will cease to exist because of sea level rise. Madam Speaker, in May of this year the Cabinet approved a Climate Change Policy which is designed to address the various issues as they relate to the Territory's readiness to deal with the change in climate.

2. Madam Speaker, I mentioned before the importance of finding a third economic pillar to diversify our economy and to make us less vulnerable. This could well be the development of our fishing industry. We have already begun to explore the development of the fishing industry as this holds much promise by way of job creation in all aspects of its operation from fishing to export.

FISCAL STRATEGY 2013 – 2015

1. Madam Speaker, before I begin to describe our fiscal strategy going forward, I would like to spend a few moments contextualizing the environment in which the British Virgin Islands finds itself today.

2. Madam Speaker the global economic crisis has had a profound impact on the territory. The cost of even the bare necessities of life often account for a major part of the hard earned income of many of our citizens. Each day the cost of living is rising and hard working people in our small society are finding it increasingly difficult to provide for their families. In response to this and aided by the phenomenal growth that this territory experienced since the 1980's in the Financial Services sector and to a lesser extent Tourism, the Government of the Virgin Islands was able to use this windfall to fill the developing gap and invest in the lives of its people, whether it be through the provision of scholarships to further their education beyond our shores, or by indirect or direct investments in their businesses. As a result of this success as well, we were able to provide previously non-existent government funded social networks and assistance programs that promoted high standards of living for our people.

3. Unfortunately however the growth of the needs of our people has not been matched by the growth in the government's resources. This has resulted in incurring fiscal deficits, reducing cash reserves or delaying much needed investments in our territory's infrastructure. Successive governments have thus been unable to provide all the services required by the people.

4. Madam Speaker, it is a well established fact that to have the resources available to fulfill its obligations to its citizens, any government has but one fundamental way to do this, and that is to raise taxes or fees paid to the Government, whether directly on to its citizens or through other avenues facilitated through economic growth and development. In the past the BVI have been able to avert the tax burden on its citizens due to the economic success of its Financial Services industry, but the flattening of growth in this sector and the ever expanding needs of a growing population demands that an alternative be found.

5. Madam Speaker, the solution is either to increase existing taxes, fees and levies or find new sources of revenue.

6. Madam Speaker, the most attractive way to garner the fiscal resources required by the government of the Virgin Islands to meet its obligations to its citizens or to allow for its citizens to provide for themselves, is through economic development. This requires a strong and vibrant private sector that engenders and facilitates domestic and foreign investment in the territory. This budget Madam Speaker, seeks to achieve that.

7. Madam Speaker it demands that we use our resources more efficiently and cost effectively. This is true Madam Speaker not merely in the private sector where efficiency defines the difference between the success or failure of a business, but in the public sector as well where the average citizen should be assured that his hard earned tax dollars are being put to the best use, in the most efficient manner possible.

8. Madam Speaker, the citizens of this country would prefer more efficient use of the fiscal resources and economic growth in this territory rather than incurring an increased tax burden. This is our goal, but significant economic growth in this global landscape is unlikely in the short term. This means that providing for our citizens in the manner in which they are accustomed presents a greater challenge.

9. The issues we face today and those we met when we assumed office in November of 2011 Madam Speaker are significant and will not be resolved in one year or even two. Addressing these issues require the vision my government articulated in its manifesto; and the resolve to stick to the task at hand.

10. As the other Overseas Territories have realized Madam Speaker, so too must we realize that the landscape before us has changed, and it is no longer possible to pretend that it is business as it was ten (10) or even five (5) years ago. On this increasingly complex and challenging landscape it is no longer sufficient for us to plan on a year to year basis, nor is it any longer wise for us to make decisions in the absence of in-depth analysis.

11. In this regard, Honorable Members will note that the draft Budget is for the first time in the history of this territory being done over a rolling three year period, unlike the year to year budgets we had previously. A fundamental part of our fiscal strategy then lies in planning not just in the short term but in the medium term as well. It is this principle that underpins the draft 2013-2015 Virgin Islands budget.

12. The new budget format, is now a more informative and transparent document, allowing for better management by the Government as a whole, while at the same time allowing the people of this territory to hold us accountable in a manner that was not possible under the previous format. It illustrates our intended revenue and expenditure patterns over a wider time period, states the objectives of each funded entity or programme within the governments structure and provides performance indicators against which they can be measured. It is built upon a new chart of accounts that is based on the International Monetary Fund's Government Finance Statistics (GFS) format.

13. All this we are doing Madam Speaker in order “*to improve the quality of life and the standard of living for the people of the British Virgin Islands*”

14. Madam Speaker, we take our responsibility to maintain a healthy and sustainable economy and government very seriously and thus deem it as a must to develop a general approach to ensuring that this responsibility is met. As a result we have settled on some fundamental principles that constitute our fiscal strategy going forward. These can be summarized briefly as follows:

1. To increase the recurrent budget surplus over the medium term through the enhancement of our revenue stream and a reduction in our recurrent revenue growth
2. To reduce the fiscal deficit by 2015
3. To meet the borrowing limit ratios stated in the Protocols for Effective Financial Management; limits Madam Speaker which we have had since 2005.

4. To enhance the financial management structure and practices within the Government of the British Virgin Islands.

15. Madam Speaker we are doing this because we believe it is the only way that a prudent, transparent and responsible government should operate.

16. The challenge for us all Madam Speaker is crafting the right initiatives that support this strategy without imposing a burden on the people of this territory; the very people who placed their confidence in us to manage their affairs.

17. Madam Speaker, in order to meet the objectives I just outlined, and after much careful consideration we have decided to institute the following revenue generation measures in the coming years 2013 to 2015²:

1. Change the current work permit structure where fees will be based on occupation type with consideration given to average income by occupation type;
2. Increasing trade license fees to ensure that they at least cover the cost of administration. We intend to do this with a simultaneous exercise that revamps and enhances the capability of the Trade and Consumer Affairs department to provide better service to the public;
3. Increasing court fees to be more in line with the cost of the services being solicited ;
4. Introducing a general Environmental Levy also used to fund environmental protection and preservation programmes. The levy will be collected at the ports of departure (air and sea) from every person leaving the Territory;
Collecting a fixed percentage of the revenue of the Telecommunications Regulatory Commission annually;
5. Undertake a comprehensive review of central government fee structure with the objective of raising additional revenue;

² This list is not exclusive

6. Adopt a more aggressive approach to the collection of current taxes and fees and arrears by reviewing current legislation to give revenue collecting agencies greater authority to enforce compliance.

18. Madam Speaker, the collective projected increase in revenues based on these plans hover in the region of seven point four million (\$7,400,000) in 2013, and fifteen point nine million (\$15,900,000) in 2014 and 2015 respectively. Madam Speaker, on the flip side of our strategy of increasing revenue is the reduction in expenditure or at the very least a reduction in its growth. The biggest component of our operational costs rests in our wage bill. It accounted for some forty three percent (43%) of operational costs in 2011 and is expected to be in this region at the of 2012.

19. Madam Speaker, a greater effort needs to be made to curb the growth rate of the wage bill and we believe that this is achievable with better management and through increased effectiveness and efficiency. I am happy to report that we have realized some improvements in the past year, but there is plenty yet to be done. I therefore urge the leaders of the civil service to recommit themselves to ensuring that the civil service continues to develop as a professional institution that will engender the admiration trust and respect of the general public.

20. Madam Speaker on the flip side we have held the funding for personal emoluments constant, with an accompanying hiring freeze. Yet let me state clearly and unequivocally Madam Speaker, that we expect that performance will be duly recognized, and we have provided for that. Madam Speaker the next major component of operational expenditure is Goods and Services, accounting for some twenty one percent (21%) of its expenditure. We have therefore targeted this to grow at a rate of only one point eight percent (1.8%) in the medium term. When inflation is factored into this increase, and viewed in real as opposed to nominal terms it effectively results in no increases for this component of operational spend between 2013 and 2015.

21. Coupled with this is an aggressive strategy to ensure that the Government of the British Virgin Islands eliminates its accounts payables and only incurs as a matter of course, bills for which it is able to settle immediately. It is unacceptable that central government should owe anyone who has readily provided goods and services to the accepted standard.

22. Madam Speaker another area where expenditure is being addressed in this budget is transfers and subsidies to statutory bodies. Madam Speaker when central government divested itself of these institutions it was done on the premise that these entities would not be a drain on the public purse but should instead whether through , royalties, disbursements or dividends or some other transfer contribute to the public purse. In my previous budget address I mentioned the requirement for parastatals to move towards self sufficiency.

23. Unfortunately Madam Speaker, adherence to this principle has not been the norm, and the public fund continues to fund the operations of most of these bodies. As a result we have made a cut of some six percent (6%) in this category of expenditure, with some subsidies being curtailed at higher amounts than others as circumstances allow. Madam Speaker, the result of the fiscal strategy outlined above is the fulfillment of a commitment to the hard working people of this territory to restore the Government of the Virgin Islands back onto a sound fiscal footing.

24. Madam Speaker the challenges addressed by this strategy are great, but the opportunities it presents for improving the quality of life in these islands is far greater.

25. Madam Speaker Honorable Members would have all heard their constituents lament on the burden posed by the high electricity bill and especially on the fuel variation charge component of the bills themselves. In the prevailing economic conditions Madam Speaker these cries have become greater. Bearing this and other factors in mind, my government has been examining ways by which we can bring relief to our people especially at this time when their disposable income is at its lowest

26. In response to this I am pleased to announce that the Government of the Virgin Islands will exceptionally exempt all residential homes from the fuel variation surcharge on their electricity bills for the months of December of this year and January of 2013, effectively reducing the fuel variation charge by over eight (8%) percent to each home for 2012 and 2013.

INSIDE THE BUDGET DOCUMENT

1. Madam Speaker, pursuant to the strategies to be implemented above, as presented the budget anticipates operating revenue in the region of two hundred and ninety eight million, seven hundred and twenty nine thousand dollars (\$298,729,000) and net operating expenditure of two hundred and fifty two million, three hundred and ninety seven thousand, six hundred dollars (\$252,397,600).

2. In addition, we expect outflows of sixty eight million, three hundred and twenty six thousand, four hundred dollars (\$68,326,400) for investment activities which include capital acquisitions for Ministries and Departments, and development activities such as the road works, the National Sewerage project, and the completion of the New Peebles hospital.

3. Financing for these activities is anticipated to be thirty three million, nine hundred and ninety five thousand dollars (\$33,995,000) and will be funded from loans to the amount of thirty three million dollars (\$33MM), the Transportation and Network Improvement Fund to the amount of three million dollars (\$3MM) and the Consolidated fund to the amount of nine point three five million dollars (\$9.35MM). As a result we anticipate a transfer of twelve million dollars (\$12,000,000) to the Reserve Fund. By the end of 2013, we anticipate a balance in the reserve fund in excess of thirty seven million dollars (37MM).

4. Madam Speaker, of the two hundred and ninety eight million, seven hundred and twenty nine thousand (\$298,729,000) appropriated in the budget, two point seven nine percent (2.79%) or the amount of eight million, three hundred and forty thousand, five

hundred dollars (\$8,340,500) has been appropriated to the constitutionally established entities such as the House of Assembly, Cabinet and the office of the Director of Public Prosecutions..

5. Twelve point three seven percent (12.37%) equivalent to thirty six million, nine hundred and fifty eight thousand, five hundred dollars (\$36,958,500) has been appropriated to the Governors Group, and eight point eight six percent (8.86%) or twenty six million, four hundred and seventy one thousand four hundred dollars (\$26,471,400) appropriated to the Premiers Office.

6. The Ministry of Finance was appropriated twenty million, thirty one thousand nine hundred dollars (\$20,031,900) or six point seven one percent (6.71%) while the Ministry of Natural Resources and Labor and the Ministry of Education and Culture, were appropriated seventeen million, one hundred and seventy one thousand, two hundred dollars (\$17,171,200) and fifty five million, eight hundred and eighty one thousand, four hundred dollars (\$55,881,400) or five point seven five percent (5.75%) and eighteen point seven one percent (18.71%) of the budget respectively.

7. The Ministry of Health and Social development received forty five million, two hundred and twenty eight thousand, one hundred dollars (\$45,228,100) or fifteen point one four percent (15.14%) while the Ministry of Communications and Works received thirty two million, nine hundred and eleven thousand dollars (\$32,911,000) or eleven point zero two percent (11.02%).

8. Madam Speaker, pensions account for twelve million, one hundred and eighteen thousand and five hundred dollars of the appropriations (\$12,118,500) which is four point zero six percent (4.06%) of the revenue budget.

9. Finally Madam Speaker, thirty four million, nine hundred and eleven thousand, five hundred dollars (\$34,911,500.00) or eleven point six nine percent (11.69%) of the budget is

being appropriated for Public debt, Development and Reserve funds while eight million, seven hundred and four thousand, two hundred dollars (\$8,704,200) or two point nine one percent (2.91%) is set aside for various other ancillary items that include among other things, our obligations as a shareholder of the Caribbean Development Bank and provisions for various goods and services.

10. Madam Speaker, as a government it is our sacred duty to look after the collective best interest of our people in the current generations and those yet to come. We must develop our infrastructure, educate our children and provide opportunities for our people. The people of this territory can rest assured that my government takes this responsibility seriously and will always pursue it vigorously. Yet Madam Speaker the secret to the success of the British Virgin Islands is not rooted in our ability to attract inward investment or run high per capita fiscal balances or even to provide jobs or fiscal resources to our citizens even as critically vital and important as those things are.

11. The success story of the BVI rests on a more fundamental principle of high standards of integrity, hard work, camaraderie and compassion for our fellow man, resourcefulness and ingenuity. These principles allowed those who stood before us to survive in the most trying of times and to thrive whenever opportunity presented itself. Success was shared and as a result we all prospered, and societal disparity and strife was minimized. The future for the sustainable success of the British Virgin Islands therefore lies in the ability of us today to instill these very same fundamental building block principles in the generations that follow us. If we succeed at this task, we can be assured that whatever the squall that crosses our shores the BVI will be able to weather them and continue forward.

12. In our quest to provide for the well being of the people of this territory, and “*improve the quality of life and standard of living for the people of the British Virgin Islands*”, it is the solemn promise of my colleagues and I to pursue this goal vigorously, yet at the same time it is a requirement that each citizen in this territory does their part to promote the success of

our beloved territory today and into the future. Economic recovery is imminent; as a people we need only to believe in ourselves and work hard and cooperatively to move together towards this goal.

CLOSING THOUGHTS

1. In closing Madam Speaker I would first like to acknowledge the hard working citizens of the country who struggle each day to, not only make a better life for themselves, but do their part to make this territory a better place for their children, family and friends. They do this without complaint Madam Speaker and many take an active part in voicing their concerns and contributing to the policies that guide this territory forward. I am particularly grateful to those who in the first year of this administration have given their time and offered views on how we might restore our competitive advantage and continue to grow our economy.

2. I would also like to give special mention to those who guard our borders and provide security for our citizens and visitors alike. Each and every one of us in this territory owe a debt of gratitude to our Customs and Immigration Officers for their tireless and sometimes very unpleasant work in keeping us safe. The Police are also deserving of special mention. In today's BVI, the police manage law and order in a population of about thirty thousand (30,000) people having at least 110 nationalities which ranks BVI among some of the most cosmopolitan countries in the world. The hard work of the police, is, of course, backed up by an independent judiciary which is well respected within and outside of the sub region and which assists in making the jurisdiction attractive for foreign investments and family life.

3. If, as some have put it, 'Government is a trust,' then it is the Officers of the Government, the members of the civil service who are the trustees, the gate keepers and the service providers. No great society has ever been built without a strong and dedicated civil

service and so I wish to publicly commend civil servants and public servants generally for the very important role you play and your hard work. Your goal must be to “be better today than you were yesterday, every day.”

4. I take this opportunity to express my gratitude to the Financial Secretary and his team for their hard work, energy and creativity in putting this historic budget together. As good stewards of the Ministry of Finance I thank them all for their support in ensuring that we present a budget that shows a much improved picture over last year and great hope for the future.

5. To my colleagues here in the House of Assembly I thank you for your vigilance and healthy debate as we collectively, as servants of the people, lead the BVI from strength to strength.

6. The challenges ahead are many, and the twists, turns and valleys to get to the mountain top of success are numerous, but I know that together as a people we can get there. Let us move boldly forward then, with resilience, determination and a will to do better each day to achieve it.

7. But my greatest commendation Madam Speaker is for ‘The Family.’ That most important unit of the society where our hopes and dreams are nurtured and where our future is conceived and embodied. Strong, proud, independent families whose members are taught to value life, the rule of law, success and achievement. My Government recognizes and applauds the pivotal role of the family in producing citizens that can take up the mantle to provide the services needed at all levels of the society to make it a success.

8. Madam Speaker, I have a special place in my heart for our youth. They represent our future; our survival as a people. That is why governments ensure that they are provided with the necessities of life like public health and medical services, competitive education at the primary, secondary and tertiary levels and that they have access to sporting opportunities

and exposure to technical and vocational subjects. It is because of the youth, because of future generations of BVI Islanders yet unborn that my government works tirelessly to ensure that BVI remains competitive and productive; a place that we are all proud to call 'home.'

9. Madam Speaker, in such a BVI, we have many examples of great achievement including that of a little girl from a place as remote as North Sound who could strive for excellence and today be the Chief Justice of the OECS Supreme Court. This is a testament of her ability to dream and work hard, to her family, her community and her government. Madam Speaker, I pledge that my government will always make it possible for our youth to have the opportunity to compete, to achieve, and hence to succeed, provided they are willing to work hard. Madam Speaker, make no mistake, some of the decisions we are called upon to make would be difficult but the end result will place our people and our beloved BVI on firmer economic, social and political ground going forward.

10. Thank You Madam Speaker. May God bless you and may he continue to bless these beautiful British Virgin Islands.

