

OPERATION RECOVERY- OVERCOMING OUR CHALLENGES

Madam Speaker, my AUM Government has only been elected on the 15th of February 2010. In this short space of time, this is the third Budget address I as Minister of Finance am obliged to deliver in this Honourable House. This is unusual in any country, especially in a British Territory.

We should all learn much from this strange incidence. Anguilla is a fairly new country with the Ministerial system of Government having been first introduced in 1975. All those Anguillians who have shown a keen interest in the annual budget presentations would know, that the Minister of Finance with very rare exception, issues his budget address in the month of December, as I am now doing. In Anguilla, our budgetary year actually begins on the 1st of January.

Madam Speaker, it is usual for a private business involved in merchandising to arrange an overdraft facility. So too I have known Governments including Anguilla to have an overdraft facility. Such a facility however should never be considered or be used as a long term loan. It has always been a short term financial device to provide short term liquidity. It is also well known for our Minister of Finance to introduce a motion in the Anguilla House of Assembly during the financial year to approve a renewal of an overdraft facility. We must note for the record that the Front Government converted that overdraft facility into a regular long term loan. I have been scoffed and laughed at whenever I have had occasion to warn Anguillian Governments not to credit or borrow beyond the islands credit worthiness Madam Speaker. We only need to read from past records in the minutes of debates in the House of Assembly the many statements warning against excessive spending of borrowed money.

Madam Speaker, at the end of the Front Government's last term in office that they were quarrelling with the FCO for restricting their borrowing habits; so frustrated were the Ministers in the Front Government that their friends in London could not tolerate any more borrowing that they began to talk boldly of being independent, or at the very least, full internal self Government.

Madam Speaker, two weeks after my AUM got in Government, the officials in the Ministry of Finance reported to me that they would not be able to pay

the civil servants their wages unless money was borrowed from either the Social Security fund or a bank. Although I resisted, I was forced to agree because I realized that civil servants too had their bills to pay – including their installments on their bank loans.

What was most puzzling to me, Madam Speaker, was the fact that the 2009 budget fell short by over 66 million dollars. I am still wondering how the FCO staff agreed to sign a budget that could be short by 66.2 million dollars in twelve months? And again, how could finance advisors in the FCO have allowed increases in pay for two successive years for the public service of 15% one year and 25% the next year and even when the economy had started to plummet, allowed for another 25% increase so that retiring politicians could go home with such large gratuities and big pensions?

So, Madam Speaker, a month after I took over the Government and Ministry of Finance, I arranged to take to London a report on Anguilla's dismal financial situation which the technical staff in the Ministry had put together for me. In that report I outlined that Anguilla's financial failure was due to three main causes;

- (a) Poor fiscal management
- (b) Alleged corruption; and
- (c) The lack of good governance

To that end, Madam Speaker, I knew, being a new Government I had a good case that HMG ought to feel morally obliged to assist the financial restoration process by repairing the damage. After all, Madam Speaker, as Chief Minister of Anguilla from 1994 to 1999, the British Minister for Anguilla congratulated me for developing and maintaining good fiscal management. Additionally, the CDB in its annual report during the same period said that Anguilla had the fastest growing economy in the region and that the future for Anguilla looked good.

Madam Speaker, apart from a record deficit of 66.2 million in 2009, a growing debt approaching 200 million, I was still receiving letters to pay off other loans of tens of millions of dollars. There were also unpaid bills in the Treasury of over 16 million dollars. Added to that fiscal dilemma, my Government is asked to pay off enormous debts due to many failed court cases the former Government had caused.

Rather than the FCO admitting that they were complicit in the destruction of Anguilla's economy and agreeing to truly partner with us to put things right, they have instead issued a mandate which we had to comply with to balance Anguilla's budget within three years. What we find incredibly disturbing is that notwithstanding our commitment on certain tax measures which we have already imposed and which we project will reduce our deficit from 66.2 million including unpaid invoices to less than 40 million dollars. That is a 50% cut in the deficit in one year and that is indeed commendable by all accounts. The FCO is still adamant that that reduction is insufficient and that we have to reduce until there is a zero balance. Up to the time of the presentation of this budget message, there have been no assurances that they will accede to having this budget assented to by His Excellency.

Madam Speaker, the sticking points on which the FCO do not wish to deviate from are on three things:

1. They are insisting that there be a 30% reduction in the size of the civil service;
2. That there be further salary cuts in the civil service; and
3. That there be a commitment on further tax measures for 2012.

Our financial technocrats have stood in the vanguard in protection in the survival of Anguilla by demonstrating to the FCO that those three issues to which they are asking Anguilla to commit, will have the effect of plunging Anguilla into social and economic collapse and will render Anguilla a failed state. My Government is taking the position that it wholly accepts the views of our financial technocrats and therefore presents this budget on the basis that it strikes the balance between efficiently reducing our deficit in a significant way as well as taking into account the social circumstances of the people of this country. We are therefore pushing ahead with this commitment despite the fact that the FCO is threatening to refuse assenting of this budget.

Maybe Madam Speaker, I should prepare for the worst case scenario. After all the financial mess my AUM Government inherited, and despite the laborious hours by my financial technical staff to reduce the enormous deficit left by the Front Government, the Governor did not sign our first

budget for April. This is despite the fact that the Front Government should not have been allowed to enter 2010 without passing its budget by December 2009.

Despite it all Madam Speaker, my Government has labeled our effort **OPERATION RECOVERY - OVERCOMING OUR CHALLENGES** and without reparations for the damages or financial assistance from the United Kingdom Government, we will press on in seeking to bring financial prosperity back to our beloved island. We are confident that with God's help, we will do so.

Madam Speaker, it is time for some reflection and this time of reflection is about the facts. As you know, my Government inherited a bankrupt treasury that had incurred significant debt and an economy that was in shambles. The Government's fiscal account had an **overall deficit of 66.2 million dollars** at the end of 2009 and such an adverse balance was unprecedented in the history of Anguilla. At worst, the overall deficit for 2010 will be less than 40 million EC dollars. Those numbers indicate that this Government responded in a big way to the immediate fiscal challenge that it inherited. Such a response does not happen by accident and I am submitting here this afternoon that there was no luck and chance involved. It was as a result of a sustained effort on the part of my Ministers, my Parliamentary Secretary, Honourable Jerome Roberts, my Technical Staff, my Permanent Secretaries and I as Minister of Finance and undoubtedly, the understanding and support of the people of Anguilla.

We cannot underestimate, the contribution of the people of Anguilla because during these testing times with widespread financial hardships, the people of Anguilla in general have not strayed from their moral obligation and love of country and as a result, have fulfilled their financial obligations to the Government of Anguilla in the best way that they could at this time. Madam Speaker, I was always aware that recovery does not begin and end with the Government, and I stand before you all this afternoon as a committed Anguillian with the knowledge that my people have answered the call to be integrally involved in this recovery process.

This Government will never attempt to move forward on issues of significant national importance without the input of all the stakeholders. I will emphasize right now that budget related sessions such as that which my Government held with the business community at the Blue Ridge

Conference centre in South Hill and again the Public forum held at the Church of God of Holiness are here to stay. They will be institutionalized in the appropriate manner and will definitely be on the short list of this Government's stakeholder discussions calendar.

Madam Speaker, those sessions have allowed this Government to hear more voices, more opinions and more diverse points of view. They have highlighted the commonness of purpose that exists among well-meaning Anguillians where we sometimes disagree on details but not on the overall goals for the country. Madam Speaker, politics as usual was not the order of the day in interacting with the Anguillian public and while I may be frustrated in other dealings concerning Anguilla, I am truly encouraged by the response of my people to the challenges ahead.

We have a beneficial dialogue going on and we will cherish it and learn from our experiences so far to make this dialogue even wider and more meaningful. Indeed Madam Speaker, a diverse Economic Planning Unit is coming very soon. This Economic Planning Unit will consist of a number of local businessmen who have promised to volunteer their time and service to this recovery effort and it will be chosen without political favour or affiliation. Anguilla is bigger than all of us, and together, we will come out of this stronger than ever before.

I have to return to the message that this Government has already answered the call and will continue to answer the call to get Anguilla's finances out of the mess we found it in. Madam Speaker, the British Government had imposed conditions on us in order to get the 2010 budget passed and a zero balance or better by the end of 2012 was one of those conditions. We can be very fancy at times and use complicated technical terms in addresses such as these but there are times when simplicity says a lot and I will be very simple here for a moment. Let us say that in one's personal life, one wants to balance his or her budget with a salary of EC800.00 dollars per month. Maybe this can be done but at what cost? If there is an absence of electricity, running water, no personal transport, no children to support, bare consumption of basic food items – in short, no luxuries, then this can be done. The 800 dollars might be able to provide food and the occasional piece of clothing. So such a person would have a balanced budget but the quality of life is very poor and dreadful.

Madam Speaker, with all due respect to the FCO, this approach which is being promoted for Anguilla; and I suggest that this approach has reached its saturation point, is unreasonable. Yes there is need for sacrifice in Government operations and we have done that by very significant decreases in recurrent expenditure including reduction in civil service salaries of 5%, goods and services of 29% and current transfers of 11%. Yes there was a need to seek out new revenue sources and we have done that including the implementation of a Communications Levy of 7%, increases in customs duty on specified items, increase in the Customs surcharge to 3% and the impending Petroleum Levy of 7%. But Madam Speaker, we have done those things from the backdrop of a floundering economy and if there is no income generation, our revenue measures will become meaningless and the result can have social consequences unless the economy grows and expands. Our private sector had always driven this economy as well as being the source of Government revenue, and the last thing this Government wants to do is to be pulling revenue from an economy which is in need of an injection of capital.

Madam Speaker, this Government does not have the luxury of producing a balanced budget by the end of 2012 at the expense of zero economic growth. Economic growth is not synonymous with a Government fiscal balance and they can pull in opposite directions to the detriment of the everyday man and woman if we use measures that amount to being draconian. We can look at the balancing of the budget as a totally separate issue from growth in the economy and I submit that the British Government's approach to the matter is wrong. It is wrong, because while the balanced budget may be achieved for example by cutting the civil service, the effects of making those cuts may far outweigh the benefits. That is to say, at the present time, personal income of civil servants is the main pillar when it comes to aggregate consumption in the Anguillian economy, and if a major part of that is removed then growth in the economy is further hampered.

Madam Speaker, let us refresh our minds with macro-economics 101 with the following equation. $\text{Gross Domestic Product} = \text{Aggregate Consumption} + \text{Government Spending} + \text{Private Sector Investment} + \text{Net Exports}$. A quick examination reveals the following. Net exports are not a contributor for the Anguillian economy because we import more than we export. Private Sector Investment has been struggling and this Government has been working feverishly to facilitate private sector investment. Government spending on projects in 2010 has been minimal, amounting to approximately 2.5 million dollars to date and therefore is predominantly of a recurrent nature. We are

left with aggregate consumption which at the present time is dominated by civil servants. Gross Domestic Product is the measure of how the economy is performing and growing and it should be obvious that aggregate Consumption is a key element at this time and to hurt that will be to the further detriment of the Anguillian economy.

Madam Speaker, I sincerely do not want to be misunderstood. The need for fiscal prudence, accountability and restraint are not optional at this time. They are a must, and as a result expenditure must be carefully prioritized and revenue collections must be a vigilant process encompassing viable alternatives where financial resources are not readily available for payment. However, there must be a limit beyond which additional taxation becomes counterproductive in that it curtails the generation of income in the economy which in turn curtails the ability to raise revenue so that in the end neither the objective of a balanced budget nor the objective of growth in the economy is realized. To all who are listening; in times of recessions, taxation is the last initiative that is considered, if considered at all, but Anguilla still is answerable to a higher administrative power and while the higher administrative power would want us to implement even more measures, we must be mindful of the reality of the economic situation and the plight of our people. It is a balancing act that at times can become very adversarial but we were elected not only to ensure fiscal balance but also, to protect our people, the people of Anguilla and both we will do.

Madam Speaker, I relaxed this approach which I adhere to in order to ensure that my Government tried to fill revenue gaps where possible, but enough is enough! My technical staff has told me that my body language when they approached me on several revenue measures was not very encouraging but that was more because of my concern about hardship for people than opposition to reasonable revenue measures.

ECONOMIC ACTIVITY

Madame Speaker, projections from the Eastern Caribbean Central Bank suggest that Real Gross Domestic Product (GDP) for 2010 will be **269.74 million dollars**. This represents negative real growth of **7.12 percent** over the 2009 GDP Estimate of **290.41 million dollars**.

The top contributor to GDP in 2010 is projected to be the Banks and Insurance Sector representing **32.14 percent**. This sector would have grown by **1.50 percent**.

The Hotel and Restaurant Sector is anticipated to be the second major contributor to GDP with a contribution of **28.27 percent**. This sector is projected to record marginal growth of **4.0 percent** over the 2009 estimates. Arrival statistics have shown that visitor and tourists' arrival for 2010 have been higher than 2009, which would partially explain the increase.

The Communications sector will account for **15.75 percent** of GDP in 2010. This sector is expected to decline by **5.0 percent** in 2010. Government Services and Construction will round out the top five contributors to GDP. Government Services' contribution will be **13.86 percent** and Construction will account for **8.04 percent**. Construction for the second consecutive year is projected to decline by as much as **45.0 percent**. This can be expected as the level of construction and construction related activities have declined since the onset of the global recession.

Recurrent Revenue

Madame Speaker, revenue collections for 2010 are anticipated to total **EC 136.88 million dollars** by year end. This represents an under collection of **EC 14.92 million dollars** from the **EC 151.80 million dollars** that was budgeted. The short fall in revenue can be attributed to a sluggish economy that has impacted the major revenue heads.

Madam Speaker, the major contributors to Recurrent Revenue are Import Duty –Other, Stamp Duty, Accommodation Tax, Import Duty- Fuel and Gas, and Work Permit Fees.

Import Duty- Other continues to be the top Recurrent Revenue earner in 2010. Collections are projected to total **EC 36.30 million dollars**. This represents an under collection of **EC 9.33 million dollars** from the estimated budget of **EC 45.53 million dollars**.

Madame Speaker, **Stamp Duty** is expected to be the second largest revenue collecting head for 2010, totaling **EC 18.50 million dollars**. This head surpassed the budgeted estimate of **EC 12.02 million dollars**. The over

performance can be attributed an unexpected payment relating to the sale of the Viceroy debt.

Accommodation Tax is anticipated to be the third largest contributor to Recurrent Revenue for 2010. Collections are projected to total **EC 11.73 million dollars**, compared to the estimate of **EC 13.24 million dollars**. This represents an under collection of **EC 1.51 million dollars**.

Import Duty- Fuel and Gas and **Work permit Fees** will round out the top five revenue collection heads. Year end collections are anticipated to total **EC 7.90 million dollars** and **EC 5.30 million dollars** respectively, though both fell short of the budgeted estimate of **EC 8.75 million dollars** and **EC 6.30 million dollars**.

RECURRENT EXPENDITURE

Madame Speaker, the 2010 Recurrent Expenditure budget estimate was **EC 196.66 million dollars**. The year end projection is expected to total **EC 179.40 million dollars**, representing a difference of **EC 17.26 million dollars**. The reduction in expenditure is a direct consequence of the measures that were implemented beginning in 2009 and continued in 2010. The 2010 measures included a further reduction in civil servants salaries of 5 percent and 2.5 percent. It must also be noted that the Departments made a conscious effort to curb expenditure wherever possible.

Recurrent Balance

The difference between recurrent revenue and recurrent expenditure, the recurrent balance, is anticipated to be **EC 42.53 million dollars** in 2010.

CONTRIBUTION TO FISCAL RESERVES

In 2010, though recognising the significance of reserves, Government is unable to set aside reserves due to the current financial situation.

CAPITAL EXPENDITURE

Madam Speaker, capital expenditure for 2010 is expected to top out at approximately 2.5 million. Again, this is far less than the 8.5 million estimated, but hardly surprising given the ongoing financial pressures.

In summary, the main areas of expenditure were the continued support of social development with the completion of the works at the Valley Primary School, the Orealia Kelly Primary School, the Allwyn Allison Primary School and the Votech Educational Facility at the Albena Lake Hodge Comprehensive High School. There was also support to Health Services Development with financing to support the replacement of hospital beds.

There was completion of consultancies for the designs phase of the Master Plan for Blowing Point Port Facility and the planning and design for Corito Port Cargo Facility. This initiative Government is pursuing through private public partnerships in order to make the development of these ports a reality and we are making progress.

Madam Speaker, a key achievement was the launching of the ASYCUDA WORLD Pilot Project. This project involved the installation of the Automated System for Customs Data in the respective Customs Administrations of Anguilla, Montserrat and TCI. Although we have experienced a few teething problems, the ultimate aim of this initiative is to improve the revenue collection and transparency of Customs operations and to reduce the operating costs incurred by the private sector. The brokers of Anguilla have formed a brokers association that will bring structure to the trade and we will pass legislation that will protect said brokers.

Other areas of expenditure included planning for two key initiatives that will take place next year – the Sustainable Tourism Master Plan, which will form the basis for diversifying and improving the quality of our tourism product; and, the Anguilla Population and Housing Census which will enable us to formulate relevant policies and properly plan for the development of our country.

Madam Speaker, after the somewhat dismal review of the limited areas of capital investment we were able to undertake in 2010, I close out this review by stating that the Government of Anguilla has critical capital investments that it NEEDS to make in areas of physical and social infrastructure. Such

investments may also have the additional impact of stimulating activity in the local economy.

At present it appears unlikely that the UK Government will support the necessary borrowing to realise these developments but we remain hopeful and trust that the negotiation of the long awaited and much needed update to the Borrowing Guidelines in the form of what is being termed a "General Framework for Fiscal Sustainability and Development" will include elements that both recognizes our development imperatives and facilitates the provision of the means for attaining such goals.

2011 CAPITAL PROGRAMME AND FINANCING

So, Madam Speaker, when it comes to talking about the capital plans for 2011, rather than giving a listing of the various projects I thought it best to convey it in terms of the sources of funding open to us – a more meaningful, informative approach and an opportunity to explain to our people the scope, albeit limited, of our options.

As always, there is the European Union, our only significant source of grant financing. Under EDF 10 Anguilla has been allocated (11.75 million EURO) approximately 45 million dollars that will be disbursed annually over the next 3 years. These funds are not connected to or designed to finance any specific projects but rather to support a national policy or strategy. This General Budget Support is received following the fulfillment of indicators or conditions for payment aimed at maintaining macroeconomic stability and improving overall public financial management. It improves the budgetary framework to address national policy and strategy objectives.

It was within this framework that we prepared a Medium Term Economic Strategy for EU support that incorporated the basis for assistance from the CDB with the Policy Based Loan and other initiatives being undertaken under the Eight Point Stabilisation and Growth Programme of the ECCU. The focus is on the four goals of Restoring our Macroeconomic Stability, Stimulating Sustainable and Diversified Economic Growth, Providing

Supporting Social Development and Social Protection and Reducing Environmental Vulnerability.

Our other source of funds is the Caribbean Catastrophic Risk Insurance Facility, the CCRIF. This is an insurance facility that operates as a regional catastrophe fund for our Caribbean governments and is designed to limit the financial impact of natural disasters by quickly providing a payout when a policy is triggered.

Anguilla has been a member of CCRIF since 2007 and pays the annual premium of US\$225,000 for its hurricane coverage.

There is no ignoring our vulnerability to hurricanes. On August 30, 2010, Hurricane Earl impacted Anguilla as a category 2 hurricane. No lives were lost or injuries reported, however, there was significant infrastructural damage and Anguilla experienced impacts, island wide, to its utilities, Government buildings and assets, private homes, critical infrastructure, agriculture, natural resources and tourism properties. By the 16 September 2010, the CCRIF had made a release detailing a payout to the Government of Anguilla in the amount of US\$4,282,733 (11.5 million EC dollars).

It is important to note that the objective of the CRRIF is not to cover the entire losses faced, but to provide short term liquidity to fund both disaster response and the maintenance of basic and essential government functions.

These CCRIF funds will allow the Government of Anguilla to undertake the necessary urgent repairs to Government of Anguilla's facilities and assets, especially those whose operation provides a key service to the people of Anguilla; to undertake mitigation measures that will avoid further disaster or avoid much higher costs in the future; and, the funds will facilitate initiatives aimed at enhancing Anguilla's ability to respond to natural hazards efficiently and effectively.

Finally, special mention must be made of the Windsong Trust, The Warren Foundation and the Social Security Board, who are all key contributors in the areas of education and sports development in Anguilla.

The Capital Budget for 2011 has made provision for limited but targeted capital investments to the tune of 23.4 million dollars and, as always, this remains contingent upon the realization of financial resources. These projects, when combined with the complementary, ongoing and planned initiatives by our regional and international development partners, will aim to address the need to stabilize the Anguilla economy, support and enhance economic growth while providing the necessary supporting social development and protection. Key projects include Hurricane Earl Mitigation and Recovery, National Health Fund Development, Inland Revenue Development and Public Financial Management Reform.

Since coming to office I have made it a priority to re-establish and foster this Government's relationship with our supportive development partners because it is only with continued commitment, cooperation and coordination that we will come out on the other side.

The UK Government continues to provide assistance in the performance of their annual economic review and more recently with the technical teams that have visited our shores providing sage advice and recommendations.

I have committed to the continued implementation of the Eight Point Stabilisation and Growth Programme alongside my brothers and sisters of the ECCU. I look forward to the realization of the General Budget Support Programme with the European Union and negotiations with our colleagues at UNDP for support in planning for Poverty Reduction and National Development as a whole. I express gratitude to the CDB for their timely support through the Policy Based Loan and to CARTAC for their crucial technical assistance.

To all our development partners, we thank you.

OVERALL BALANCE

Madame Speaker, Government's overall fiscal position is determined by the sum of the recurrent balance and the capital balance. The recurrent balance for 2010 is projected to be a deficit of **42.53 million dollars**. Capital expenditure is expected to total **EC 2.5 million dollars**. Capital Grants from the final tranches of **EDF 9** totaled **EC 22.33 million dollars**. Additionally, **EC 14.20 million dollars** of unpaid invoices were brought over from 2009 and will be paid this year. Therefore, the overall balance is a deficit of **36.90 million dollars**.

PROVISIONS OF RECURRENT REVENUE

The past year has been one of the most challenging periods for revenue collection since 2003. As a result, we now expect to raise \$9,569,891 million dollars less for 2010 than was anticipated. We will continue to be challenged during 2011 in terms of fiscal stability, because tax revenue growth is likely to lag if the economy remains sluggish. Given the gap between revenue and expenditure, it is likely that government will still have to make critical revenue related decisions.

Madam Speaker, the revenue budgeted for 2011 is **\$177,685,041 million dollars**. This is an increase over the 2010 Budget by **\$25,885,150 million dollars**. This moderate increase is based on new tax measures to be implemented during the fiscal year.

In accordance with basic economics, increases in taxes during a downturn could be counterproductive. Madam Speaker, it must be reiterated that the new tax measures being implemented for 2011, though necessary to lessen the financial gap, is also a step towards ensuring that our revenues are derived from more sustainable sources and towards a future of fiscal stability. Indeed the intention is to review the revenue base as early as possible in 2011, so that there will be more certainty in terms of revenue collection and the repeal of nuisance revenue measures.

Currently, a significant portion of our revenues comes from sources such as, Stamp Duties and Work Permits. We can no longer continue to be reliant on these sources as these are unpredictable revenue streams, which are driven mainly by a vibrant economy. During an economic downturn the revenue flows from these sources tend to shrink. Madam Speaker, broadening the tax

base will result in generating more revenue and in the long run will give us the financial stability needed to provide better service and development for the people of Anguilla. There will no longer be the need to have to react to times like these in a hurried manner with the result that citizens are virtually blindsided by a wave of new tax measures. The new status quo would be one where the tax base is on a solid foundation with the ability to collect revenue not only for current consumption but also for the building up of reserves. These reserves serve as a mitigating measure in difficult financial times and Madam Speaker, this government is very aware of the consequences of having no reserves.

Madam Speaker, fellow Anguillians let us all face the reality. The reality and I say this with no joy, is that unfortunately new taxes will be introduced in 2011. These new revenue streams are expected to generate **\$21,307,700 million**. The new tax revenues will be derived mainly from our domestic sources and are in the areas of Property Taxes, Levies, Licences, and Surcharges.

Madam Speaker, the details on these new taxes are as follows:

- **an increase in the tax rate of Property Tax from .0015 to .00375**

Madam Speaker, whereas this is the second tax rate hike on Property Tax within the last two years, it is important to note that this was done to make the revenue streams more sustainable.

- **the implementation of a 7 per cent levy on the sale of petroleum products, such as gasoline and diesel at the retail level**

This new levy is not intended to cause undue burden on our people, but rather to promote our policy for the use of alternative energy and a “greener” Anguilla. We must ensure that the environment we all enjoy now is preserved for our future generations.

- **the introduction of an Interim Stabilization Levy**

This new levy will, in the short term, raise the revenue needed to help stabilize our economy but Madam Speaker, it goes beyond that. It is also a stepping stone to the National Health Fund. Madam Speaker, its

implementation has been delayed to facilitate further consultations and crucial preparatory work. The Interim Stabilization Levy will be levied on employees at a rate of 3 percent of gross income and matched by employers. Self-employed persons will be levied at a rate of 6 percent.

- **marginal increases on various licences**

These increases Madam Speaker, are on Drivers' Licences, Liquor Licences, Food Premises Licences, and Villa Rental Licences.

- **an increase from 1 per cent to 3 per cent in the Customs Administrative Surcharge**

Madam Speaker, we know that generally such increases may add to business costs but after careful analysis, it was decided that these increases are necessary.

Madam Speaker, the Inland Revenue and Customs Departments account for the collection of more than 85 per cent of Government's revenue. While tax collection has increased, the manpower has not done so proportionately and is unlikely to do so in the near future. The intention is to increase manpower in these departments by re-deploying staff from other departments to assist in the tax collection process. We must be creative when the situation demands and this is one way of getting more done with less.

We recognize that the timing of the introduction of these new tax measures is not the most opportune, Madam Speaker. However, with the severe deterioration of our fiscal balance there is an urgent need to improve our overall balance and decrease the deficit. Madam Speaker, our approach is a gradual one and in this way is inconsistent with the more draconian one being demanded by the FCO. As such, we ask the indulgence of our people as we strive to bring financial stability back to our country. Madam Speaker, I am confident that our people will respond in a manner which shows that we have not lost our sense of country which has always been a hallmark of the Anguillian people.

PROVISION OF 2011 RECURRENT EXPENDITURE

The anticipated deficit of 2010 compared to 2009 was mentioned earlier. The much smaller deficit of 2010 will be due in large part to cuts in

expenditure over 2009 budget. Madam Speaker, as much as it hampers the delivery of service to the people of Anguilla, we have budgeted further cuts in the 2011 estimates.

I will subsequently give further details but at this time I would like to summarise the expenditure decreases of the various Ministries as well as the Governor's Office and Departments in the 2011 budget.

HE The Governor's Office and Departments 0.1%; Ministry of Home Affairs 6.7%; Ministry of Finance, Economic Development, Investment, Commerce and Tourism 6.9%; Ministry of Infrastructure, Communication, Utilities, Housing Agriculture and Fisheries 20%.

Madam Speaker, while the aforementioned decreases are of a general nature, the decrease in Personal Emoluments is particularly significant. It is clear then that the delivery of services has been largely curtailed and while there must be concern about the percentage of Personal Emoluments to total recurrent expenditure this must also be viewed in terms of the significant decreases in other areas. What I am saying Madam Speaker, is that it may be easy in some quarters to say that there is now no need for the civil service to be the size that it is, but I have already gone through the reasons why the civil service is extremely important at this time. As much as I am tempted to go through it again for emphasis, I will refrain from doing so. I want the world to be reminded that the Government of Anguilla is operating under tight fiscal constraints and its service delivery is hampered by financial reasons.

Madam Speaker, even when economic and financial statistics from the most developed and industrialised nations often indicate that there is tremendous economic and financial progress in a country, a closer look at the real life situations of many of the inhabitants often find those inhabitants living in deplorable conditions. Is this what we want for our people?

Madam Speaker whether or not there is a booming economy, a recession or even a depression, this Government will never and I repeat, never find a reason to neglect the social aspects in relation to nation building. I said that to say this. The Ministry of Social Development has an increased budgeted recurrent expenditure of 1.5% over the 2010 estimate. In these difficult financial times all increases must be carefully examined in order to justify them.

Her Majesty's Prison, Madam Speaker, is home to many of our young men and to a lesser extent, young women as part of the Prison population. Our prisoners are part of us and we must never neglect our duty to them which includes both punishment and rehabilitation. Bearing this in mind, we will not wait for criticisms from international humanitarians organisations such as Amnesty International to be critical of our prison conditions. In that regard Madam Speaker, we take it on ourselves to ensure that our Prison is adequately staffed and operated to meet not only international standards but also indicative of the importance that we attach to giving second chances. The increase in Goods and Services in that area is a reflection of that approach.

Madam Speaker, all public officers need to be thorough in their work and have a good working knowledge of the procedures necessary to carry out their functions efficiently. In so doing this may help to reduce the amount of litigation brought against the Government of Anguilla Anguillians have always respected the rule of law and this Government will always respect the rule of law even when it poses a financial burden on Government finances. This government has to incur significant expenses with an increase of 76% in recurrent expenditure by the **Attorney General's Chambers** as a result of litigation against the Government of Anguilla.

Madam Speaker in a similar vein, custodian sentences and fines must never be the only option for regulating human behaviour in the court system. The Department of Probation continues to play an important role in that regard and while that role is not quite where we want it to be, an increase in expenditure was necessary to move along the desired path.

Madam Speaker, we must protect and maintain our infrastructure. Maintenance of buildings has shown a marginal increase but this Government is prepared to make that sacrifice now to mitigate substantial expenditure in the future.

In the same way that I am apprehensive about revenue measures in our stagnant economy, I am very concerned about the reduction in services due to expenditure constraints. However, Ministries and Departments are still committed to fulfilling their mandates as best they can. For that we commend them.

Public Administration is still committed to the development and modernisation of the Anguilla Public Service and is championing the cause of achieving more with less. Regrettably, the Government of Anguilla has been unable to offer the usual assistance for tertiary level training. However, Public Administration is still promoting local-based initiatives including the Commonwealth Secretariat/Government of Anguilla Administrative Law Course as well as Leadership and Management Skills Training and Customer Skills Training.

In terms of education, the **Anguilla Community College** witnessed another milestone on its journey by appointing a President. A partnership has also been developed with the Anguilla Chamber of Commerce and Industry to seek opportunities for collaboration of on education, training, capacity building and infrastructure strengthening. These difficult times have not stifled both institutions' commitments to increasing educational and training opportunities for the Anguillian public.

Madame Speaker, the **Department of Youth and Culture** continues to make its impact on the community and youth in particular through its programming. The Department's mission dictates that it will facilitate the empowerment of young people and promote the Arts and Anguilla's cultural heritage as critical components of sustainable social and economic development. Although hampered by financial constraints, these goals remain at the forefront of the Department.

PUBLIC DEBT

Madam Speaker, total public sector debt stock at the end of 2010 is projected at **227.76 million dollars** (42.51% of GDP) which would represent an increase of **18.95 per cent** over the 2009 debt stock of **191.48 million dollars** (32.95% of GDP). The increase is due to the expansion in Central Government debt which is estimated to rise to **210.35 million dollars** from the 2009 figure of **172.21 million dollars**. Government Guaranteed debt is expected to contract by **9.65 per cent** at the end of the period from the 2009 figure of **19.27** to **17.41 million dollars**.

During the financial year 2010, the only **new borrowing** recorded was attributable to Central Government to the tune of **65 million dollars** to finance recurrent expenditure. **15 million dollars** of the new debt was of a

short term nature and the remaining **50 million dollars** for a longer duration of 10 years.

Over the last two years, debt servicing cost has risen appreciably as a result of the increase in new debt, mainly at the short end of the maturity spectrum. The hike was also due to debt restructuring that took place over the period. Madam Speaker, I am therefore pleased to report that the Policy Based Loan (PBL) from the Caribbean Development Bank for debt refinancing was approved and fully disbursed at the end of August this year. The proceeds of the loan in the amount of **55 million US dollars** were used to pay off the more expensive loans in the debt portfolio including the overdraft facility.

Acquisition of this PBL has a significant impact in Government's management of debt, particularly in terms of debt servicing. It has facilitated the realignment of the debt profile back to longer term maturities and reduced interest costs. Additionally, the five year moratorium on principal repayments will help to ease cash flow difficulties. It will also provide the necessary fiscal space for the implementation of social and economic development programmes. As a result, a broader set of reforms can be implemented as the government strengthens its fiscal framework to achieve fiscal stability within the medium term.

Madam Speaker, prudent management of public debt for achieving sustainable debt ratios by minimizing borrowing costs, ensuring timely debt servicing payments and keeping risks at acceptable levels is one of the major priorities of the GoA. To this end, the focus is on the establishment of a policy framework and on institutional arrangements to strengthen debt management capabilities.

The Canada-Eastern Caribbean Debt Management Advisory Service (CAN-DMAS) programme is one initiative which I would like to highlight at this time that would assist in government's drive for capacity building in debt management. The DMAS project is of 6 years duration and is funded by the Canadian International Development Agency (CIDA) and managed by the Eastern Caribbean Central Bank. Other regional and international organizations such as CARTAC, IMF and the World Bank also work closely with the project. The purpose of the project is to improve the capacities of the member countries of the Eastern Caribbean Currency Union (ECCU) to effectively manage their debt portfolios to sustained levels through a series of training activities. It is also intended to develop the capacity of the

DMAS Project Unit to provide some technical assistance to Debt Management Units in the region on an on-going basis. At the end of the project, it is expected that the work would facilitate the development of standardized approaches to debt management in the region.

Anguilla has benefitted thus far under the project through a number of training workshops in areas such as sustainability analysis and risk management. In addition, as part of the project a Debt Management Performance Assessment (DeMPA) mission was conducted in Anguilla during the first quarter 2010. The objective of the mission was to undertake an assessment of debt management functions using the World Bank's DeMPA tool. This tool assesses the performance of debt through a comprehensive set of indicators, spanning the full range of government debt management functions. The report showed the areas where the minimum requirement for effective debt management were met and also identified a number of areas in debt management where the minimum criteria were not achieved.

The DMAS programme has the full commitment of Government and recommendations coming out of the programme will be implemented once considered appropriate. One such recommendation is that Anguilla should develop a medium term debt management strategy having not met the minimum requirement in term of this indicator. Cognizant of the importance of a debt strategy, Government will ensure that one is developed during 2011.

Madam Speaker, I would like to take this opportunity to place on record my Government's appreciation and gratitude to the regional and international agencies such as the ECCB, CIDA and the other partners of the DMAS project. Recognition must also be given to the Commonwealth Secretariat. They have all rendered and are rendering much assistance in the area of debt management.

Madam Speaker, It would be remiss of me to conclude this section on public debt, without addressing the issue of debt financing. As most of you would be aware, my administration since coming to office in February of this year has been placed in a position where it has been borrowing for recurrent purposes. I would like to state that the GoA considers this to be an unsustainable position which must not continue. Based on Government's Economic and Medium Term Strategy and other reform measures to promote fiscal stability, the policy of my Government is to source funds only

for development projects. These projects should be self-sustaining with Government playing a catalyst role for the initial development of the projects. A significant share of developmental funding in the past has been from non-concessional, domestic commercial resources. As part of its strategy Government will vigorously pursue other non-traditional avenues of accessing funds, within its limitations as a British Overseas Territory.

Madam Speaker, my Government therefore looks forward to continued dialogue with the United Kingdom Government in the development of the new framework for fiscal responsibility to replace the Borrowing Guidelines which is anticipated to provide greater latitude in terms of borrowing.

In a related matter, I would like to touch on Government's sourcing of funds from the Anguilla Social Security Board (ASSB) which has been extensively debated. During the course of this year Government borrowed funds to the tune of **99.12 million dollars** from the Board which included re-financing of **49.12 million dollars** of existing debt. To date **49.12 million dollars** has been repaid. Government's current obligation to the ASSB now stands at **50 million dollars**, which is due to mature in 10 years. Government has the flexibility of prepayment of this loan without penalty. This option can therefore be exercised as warranted by the fiscal position.

Madam Speaker, let me allay the fears of the citizens and belongers of Anguilla that Government's use of social security funds will jeopardize the scheme. Based on the advice provided by the Board's Actuarial Advisor, *"investment of a suitable proportion of social security funds to Government would not violate prudent principles provided the investment stipulates adequate security measures"*. The funds were secured against Government's consolidated fund and as such are a first charge on the financial resources of Government.

Madam Speaker, Anguilla has an unblemished record of never defaulting on its debt obligations and under my Government's watch we are determined to maintain this record. This debt of 50 million dollars can also be serviced from EDF10 grant funds which Government expects to receive over the next three years. Madam Speaker, I would also like to point out that the Government borrowing has provided better returns than past investments made by the Board. Government is convinced that through sound debt management practices and the other fiscal reform measures that this administration has embarked on Government would be in a position to repay this debt as it becomes due.

Madam Speaker, going forward in 2011, Government will continue to engage in careful debt management to curb the escalating debt which threatens to breach the Eastern Caribbean Currency Union recommended prudential debt to GDP ratio of 60 per cent. Through Government fiscal reform programmes we are endeavouring to arrest the situation to ensure that debt levels are consistent with fiscal sustainability.

Madam Speaker, before moving into the conclusion of this budget address, I would like to say a few words about our **Statutory Boards**.

Some important aspects about economic growth, the welfare of the Anguillian people and in general the prosperity of Anguilla are in the hands of our Statutory Boards. As a result, these Boards form an important partnership with the Government of Anguilla and we can all agree that this partnership does not only carry financial obligations but also a moral duty to the government and people of this country.

Madam Speaker, the **Anguilla Development Board (ADB)** was established to stimulate and facilitate national development with particular emphasis on productive sector development. Over the past thirty-one years of operations, the ADB has been an active partner in developing the fishing, agriculture, tourism, housing, education and industry sectors in Anguilla by providing financial and technical assistance.

The **Anguilla Development Board** continues to be a viable entity with a record of being profitable despite its limited access to concessionary funds. Madam Speaker, I must admit that the previous administration did not provide the ADB with counterpart financing and my Government is not in position to do so at this time. This is an area of development which will be given high priority in our development strategy going forward. Despite the drawbacks, Madam Speaker, the ADB recorded a profit of EC366,000 dollars with an asset base of 38.2 million dollars as at December 31, 2009. It is our intention to facilitate the transition of the ADB to the Anguilla Development Bank as soon as possible.

Madame Speaker the Government of Anguilla is the largest shareholder in the **Anguilla Electricity Company (ANGLEC)**. Therefore, the Government of Anguilla has a vested interest not only in the financial

viability of Anglec but also in the affordability of the electricity of the every-day Anguillian.

As in any relationship, issues arise which are in need of resolution and the Government/ANGLEC relationship falls into that category. Those among us who felt that I would use this forum as a platform to air my views on ANGLEC/Government of Anguilla-related issues are very mistaken. Anglec is and will continue to be a viable institution in Anguilla and we will continue to hold them responsible to providing electricity at an affordable rate for the People of Anguilla.

Madam Speaker, Social Security is indeed a partner with Government and has played its role in the implementation of community oriented projects. Social Security is strong and will continue to be strengthened until this AUM administration.

Madam Speaker, I would just like to reiterate at this time that the **Anguilla Tourist Board** continues to be at the forefront of the development of the tourism sector, the life-blood of our economy. I will address some recent developments in the conclusion section.

Now Madam Speaker, we turn to the issue of the **National Health Fund (NHF)** and its impending implementation. Up to a few weeks ago, the intention was to implement the NHF by January 1, 2011. Consistent with this Government's approach of openness, transparency and public consultation many issues about the operation of the Fund came to light as a result of the Budget Public Consultation.

The whole process is now under review as the Government is determined that this critical initiative is implemented in the most effective and efficient manner. Madam Speaker, The Anguillian Public will be informed of all the developments in this area as they occur in 2011.

This Government is committed to the growth and development of the financial industry. We are working with the Financial Services Commission and other financial partners to ensure that legislation is current, while at the same time facilitating the expansion and growth of the off-shore financial sector. With the appointment of the Hon. Jerome Roberts as the Chairman of the Financial Task Force, this Government has shown its commitment to this long neglected industry. It is time that Anguilla receives its full share of all

what this industry has to offer and we will work harmoniously as partners with all parties involved.

OTHER INITIATIVES BY THE GOVERNMENT OF ANGUILLA

There is no question that Anguilla is at a cross roads and 2011 will be a pivotal year. We entered with lots of hope and zeal. What we thought was an impossible situation is not. My Government has been working hard and as a result, is actively working on a number of projects. As you know Madam Speaker, we have been able to assist in bringing closure to the long standing feud between Charles Hickox and Dion Friedland of Cap Juluca. Cap Juluca is now stabilized and is poised for further growth. We have also stabilized the Viceroy by facilitating the sale of the loan note and property to Starwood Capital, one of the worlds leading Hospitality investment groups and has brought that establishment from the brink of collapse by so doing. Today, many of our people are being employed there when that was previously not the case.

Madam Speaker, contrary to what is whispered around the island by those who would want to see this Government fail, investment confidence is at an all time high. We are speaking to developers for a mega yacht Marina for Anguilla and we will not stop until we have one in to compliment our Tourism amenities. We have just entered into a MOU with Solaire, a green ‘Villatel’. We call it a Villatel as it has the appearance of a series of villas but operates entirely as a hotel. When final buildout is completed, it will comprise of some 75 rentable rooms. We are in the middle of negotiations and are drawing close to coming to an understanding for a Condominium hotel in Shoal Bay. Madam Speaker, if I must say; for all my life, I have heard of the Fountain Cave and I am pleased to say, we are very close to attaining World Heritage recognition. We will also be developing the Fountain National park for the enjoyment of locals and visitors alike. This National Park will remain under the control and management of the Anguilla National Trust. My Parliamentary Secretary Tourism and Hon Jerome

Roberts, has been spearheading this initiative and has ensured that every one sits at the table of negotiations. Representation from the Anguilla National Trust, the Department of Environment, and the Tourism Investment Committee are all involved in this venture and I am pleased to say that it is fast becoming a reality. Madam Speaker, this practice ensures accountability, transparency and participation.

Madam Speaker, as you know, the Temenos/Flag has given the island a black eye, but this Government promised that we will revitalize it and I am happy to say, that we are actively negotiating a MOU at the moment with the developer that was chosen by the receivers and banking syndicate. This will bring welcome relief to our construction sector and this along with the other projects will undoubtedly help Operation Recovery along. It has been a tough year for all of us Madam Speaker but 2011 although we project to be difficult, will be a much better year.

We have increased airlift into Anguilla via San Juan with Cape Air which is a part of the Continental Airlines Reservations system and the tourism numbers are already much higher than those of 2009. I must give credit to my Tourism team and the new strategies of marketing directly to the consumers and pursuing new and emerging markets. We will continue to support our local airline operators who are an integral part of the tourism industry.

In 2011 Madam Speaker, we will for the first time in our history, have a public's accounts committee and that committee will be inclusive of those in the Opposition benches. We are in the process of putting together a Constitutional and Electoral Reform Committee that will be bi-partisan and we will push forward with a Constitution that will reflect the goals and aspirations of the Anguillian people Madam Speaker. This is long overdue and the time to have this democratic deficit rectified is now!

Madam Speaker, this Government and indeed my Minister of Home Affairs have taken the bold step to put together a minimum wage committee, with the view to go to public consultation very early in 2011.

This Government is working with nonprofit organizations and my Parliamentary Secretary is working with Mr Thomas Kelly and the Ruben Brown foundation to create a major celebrity golf tournament on island in order to raise funds for a world class indoor multipurpose sporting facility and athletic track and field that the Caribbean will be proud of. We are working to diversify the tourism industry and sports tourism can only be created if the facilities are up to world class standards.

Madam Speaker, with all the challenges we have encountered we are confident that in 2011, the people of Anguilla will be happy that they made the choice to elect us to office. We would not have been here if it was not for the vision of the people who came out in record numbers to vote on February 15th 2010 to support change a better way of life.

We are working hard to produce the jobs that are required to move this economy along and those jobs will happen very soon. The time is but short now and the wheels of the economy will soon start churning and we know, we are convinced, that we can restore Anguilla's fiscal position to better than the one that I left it in 2000. In a few short months Madam Speaker, the call to work will occur and our construction sector will again be vibrant with activity. Those heavy equipment owners who for lack of business, did not license their trucks and other equipment in 2010 will again be happy to license the same in 2011. Those contractors and construction workers who laid idle for the past two years will once again be activated as we move the economy along.

CONCLUSION

Madam Speaker, I would like to thank those hard working staff in the Ministry of Finance and other departments who, worked so hard over the past ten months to ensure that Anguilla's fiscal position continues on the path to recovery. I would also like to extend appreciation to the business community and the general public for their input during the budget preparation. We look forward to this sort of cooperation between the business sector and the general public as we continue to build our nation barring all political divides. It is not time for politics, it is time for nation building.

I would like to place on record my sincere gratitude to my elected colleagues for their hard work and dedication to the people of Anguilla.

Even now as the final touches on this budget speech were being made, my office received a letter of today's date from Governor Harrison of Anguilla, addressed to the Speaker of the House and on which I as Chief Minister was copied, notifying that

“I should make clear to you and to members of the House of Assembly that I am not yet in a position to assent to the draft budget as presented to the House, as I have not yet had confirmation of whether any instructions will be forthcoming from the Secretary of State. The letter continues to say I expect to receive confirmation in due course, and in the meantime officials from the FCO are in contact with their counterparts in the Ministry of Finance. I should further make it clear that my assent, should be in a position to give it should not be taken to imply that the FCO will agree to any borrowing implicit in the budget that may arise in 2011. The position on future borrowing remains as set out in the Ministers for the Overseas Territories letter to the Chief Minister of 25th November 2010. This is that he is not prepared to allow any further borrowing by Anguilla until the conditions in this letter of 24th June are met.”

I continue to hope that even in the face of this letter that the Minister of the Overseas Territories and the FCO technocrats will realize that the measures they are asking for us to impose on our People will plunge Anguilla into an irreparable financial and social position and create social unrest.

On behalf of the Government of Anguilla, I would like to extend seasons greetings to everyone despite the challenges of 2010 and pray for more prosperous 2011 with the knowledge that we are working hard for you.

We look forward to the passage of this Budget by the FCO and hope that they will truly Partner with Anguilla towards restoration of our Prosperity.

May God bless Anguilla