

BUDGET ADDRESS 2003

“BEING EFFECTIVE STEWARDS TODAY”

INTRODUCTION

Mr Speaker, it is that time of the year again. It is time for the presentation of the Government's fiscal plan to this Honourable House and indeed, through this House, to the people of Anguilla. Once again it is my signal duty and responsibility to present Government's budgetary proposals for the fiscal year, this time for the year 2003. I am pleased to see such a large turnout here today. It is testament to the importance that the general public places on the information provided in the Budget Speech as an indication of the plans and prospects for the coming year. Anguilla must continue to feel blessed that the lord has spared us from both human and natural disasters so far for this year. We have indeed been extremely fortunate.

Mr Speaker, in keeping with the approach I have adopted for the eight years during which I have served as Minister of Finance, I propose to organize this year's presentation around a central theme. My choice for the 2003 address is “**Being Effective Stewards Today**”. It is not coincidental that the acronym for this theme spells BEST.doing the BEST; being the BEST; becoming the BEST; or simply the BEST for Anguilla. Mr Speaker, 2002 has been a difficult year and it brought home the responsibilities that we must bear as politicians and servants of the people. We are entrusted with the responsibility for the well-being of the nation and the decisions that we take have important implications for current and future generations. So being good stewards means that at times we have to make some very tough choices, which may be unpopular in the short run but the value of which are borne out in the long run.

Mr Speaker, I often feel that the general public is unaware of the tough task it is to manage small island economies such as Anguilla. Indeed the issue was recently highlighted in an article in the widely respected Economist Magazine, entitled “Trouble in Paradise”. Mr Speaker, it made for grim reading. According to the Economist Magazine most Caribbean economies are today characterized by large public sector deficits, massive public debt and large external account deficits. Mr Speaker we need not look too far in our region to see where this leads.

It leads to financial and economic meltdown with all the attendant social problems. So when I have stated in the past that we have to “pay our own way,” that we have to “face our challenges with solutions from within”, it is to ensure that we are “being effective stewards today” to ensure a better tomorrow. Ultimately, it will be our children who will pay for the choices that we make or refuse to take today, as the case may be. This Government will not shrink from the tough choices which are necessary to ensure that our legacy to future generations is not one of indebtedness, poverty and powerlessness but one of hope, one of opportunity, one of prosperity.

Mr Speaker, good leadership demands good “stewardship”. It requires that we as politicians must be honest with the public about the situation we face and the options at our disposal. Indeed, the very foundation of parliamentary democracy is the notion of a contract between us as leaders and those under our stewardship. The voting public entrusts government with the power to levy taxes and raise revenue and in turn expects government to make the best use of those resources by providing efficient public services.

This is an issue which both developing countries like Anguilla and the developed countries face. In fact the management principles which the Canadian Public Service has adopted sum up the challenge quite adequately, namely that:

- we need to be more focused on citizen’s needs;
- we need to be more results-oriented;
- we need to embrace a clear set of Public Service values; and
- we must commit ourselves to spending responsibly.

Mr Speaker, Canada is a good example to follow because it is consistently ranked by the United Nations as one of the top five countries in the world within which to live, primarily because of its achievements in health, education and the provision of other social services. In short, its Government fulfills its part of the contract which exists between government and people. It is also noteworthy that Canada is among the highest level tax jurisdictions in the world.

Mr Speaker, I have mentioned that 2002 has been a tough year. While the prospects for 2003 are favourable, we must continue to be vigilant when it comes to financial control and management. As I now outline our fiscal plans for 2003, I invite all to keep in mind the theme of this budget address – “being effective stewards today”. We as a Government will stand by the choices we have made and

we are confident that history will view us favourably, as being good stewards on our watch.

Putting together the annual budget is a very significant undertaking and I would like to thank the Permanent Secretary for Finance, Mr Carl Harrigan, and the Permanent Secretary for Economic Development, Mr Marcel Fahie, for coordinating the preparation of the budget. They were of course assisted by a very capable and committed cadre of staff, whose efforts I must commend. Finally, I would also like to acknowledge the support of my Ministerial colleagues and colleagues in EXCO including His Excellency the Governor who feel as strongly as I do that we have to be effective stewards today to ensure that the future is one of hope, one of opportunity, one of prosperity for all Anguillians.

STRUCTURE OF THE ADDRESS

Mr Speaker, let me now outline how I propose to proceed with the remainder of my presentation. I will undertake a brief review of the current economic and fiscal situation in Anguilla. This will be followed by a discussion of the policies, programmes and projects that will be facilitated by the 2003 Budget. Many of the initiatives will constitute the continuing pursuit of the objectives of the United Front set out in its manifesto which provides the framework for the Government's programmes. The highlights of the Government's recurrent services provision will be addressed in looking at the Recurrent Expenditure Estimates for 2003. This will be followed by consideration of the Recurrent Revenue to be raised to finance the services. The Capital Expenditure Estimates and Capital Revenue Estimates will be addressed next. General remarks by way of conclusion will follow discussion of the 2003 Estimates.

SITUATIONAL ANALYSIS

Mr Speaker, in order to fully appreciate what Government plans to do in 2003, it is essential to map out the situation going into 2002 and what we have done to address the situation.

Mr Speaker, at the end of 2001 the "accumulated" deficit on the central government accounts was \$15.5m. I would be failing in my duty to this Honourable House, Mr Speaker, if I did not account for how this situation arose. So please indulge me as I attempt to give an explanation.

Mr Speaker, economic management is a function of the structural characteristics of any economy. As a small open economy Anguilla is particularly vulnerable to external economic shocks. This is compounded by environmental vulnerability, in the sense that the island lies in a tropical hurricane belt which has seen it struck by several large storms in the past 5 -7 years. This combination of economic and environmental vulnerability has in fact heavily influenced fiscal performance in recent years. From 1995 to 1999 Anguilla was struck on a yearly basis by several destructive hurricanes. The impact of these systems were two-fold: (a) disruption of tourism activity, which since it accounts for around 60% of GDP, severely affected revenue performance; and, (b) necessitated unforeseen expenditure in the reconstruction of roads, utilities and other infrastructure. Even in 1998 and 1999 when there were some windfalls, in terms of income from transshipment revenue, this had to be diverted to meet pressing needs with little opportunity to create reserves. The reality is that in a climate of declining development aid flows, countries like Anguilla have had little recourse but to fund reconstruction activity associated with natural disasters, as well as the normal requirements of a developing nation, from their own resources. Those are some of the challenges which Anguilla faced in the late 1990's.

The situation has been compounded since 2000 by the downturn in global economic activity as the long run of economic expansion in the US came to an end. As the main source of visitor arrivals, tourism activity in Anguilla is inextricably linked to demand conditions in the US. The cyclical and seasonal variations in tourism demand in 2001 were exacerbated by the events of September 11.

Other causes of the trend towards budget deficits over the past few years include: (a) unplanned expenditures to meet international standards in areas such as civil aviation and the provision of fire services; (b) litigation; (c) regional commitments not billed previously, such as contributions to the Eastern Caribbean Supreme Court; (d) land acquisitions for road construction not reflected in the budget; and (e) major increases in the deficits of the Water Department.

Mr Speaker, this is the chain of events which gave rise to the accumulated deficit of \$15.5m at the end of 2001. What has been the response of Government? Mr Speaker, if you may recall, the theme of last year's budget was **“Facing our Challenges with Solutions from Within”**. The essence of that pronouncement is that we as Anguillians should never devolve to outsiders the responsibility for designing solutions to the challenges we face. In this spirit, Mr Speaker, in March of this year the Ministry of FEDIC submitted a 40 page document to Her Majesty's Government entitled **“Measures to Restore Fiscal Stability in Anguilla over the**

Period 2002 to 2004” which outlined in detailed fashion how we intended to address the Government’s fiscal situation.

Mr Speaker, I beg your indulgence again, to highlight some of the measures which we outlined in our fiscal stabilization plan. In terms of expenditure, the central element of the plan was to reduce overall expenditure in 2002 by 7% from the amount budgeted. This was to be accomplished by: (a) implementing a partial freeze on hiring new public servants; (b) tightening controls on Government’s purchase of goods and services; (c) implementing cost saving measures to reduce Government’s operating costs; (d) restricting capital expenditure to when capital revenue became available to fund projects; and, (e) converting the accumulated overdraft to a long-term loan to reduce debt service costs.

While the adjustment plan emphasized the need for exercising fiscal discipline, Mr Speaker, Government underlined its commitment to maintaining the existing level of essential services. Consequently, it was also necessary to address the whole question of revenue yield if fiscal balance was to be achieved. As such, Mr Speaker, the fiscal adjustment plan contained the following measures aimed at improving revenue performance:

- improving property tax collections through efforts of the Revenue Task Force to ensure a higher level of compliance and in the medium term to increase property tax rates to regional levels;
- improving accommodation tax collections through better collaboration between the Ministry of FEDIC, the Treasury Department, the Revenue Task Force, the Tourist Board and the Immigration Department;
- increasing the rate of embarkation tax at all ports;
- implementing an airline ticket tax, an airport security tax, and a tourism marketing tax;
- implementing a structured and vigorous direct marketing strategy for the expansion of company registrations aimed at increasing revenue from the Offshore Finance sector;
- expanding the revenue intake from general business and professional licenses; and

- stimulating economic activity by concluding agreements with private developers for multi-million dollar investments in golf tourism projects for the western and eastern parts of the island, a mega yacht marina, and an offshore medical school/health tourism project.

Mr Speaker, our fiscal adjustment plan was endorsed by Her Majesty's Government which granted permission to the Government to convert the accumulated overdraft to a long-term loan.

2002 PERFORMANCE (PROVISIONAL)

Mr Speaker I will now proceed by outlining the provisional performance for 2002. 2002 has been another tough year for Anguilla and other OECS countries as global economic activity remained sluggish. Economic output is projected to remain at the 2001 level influenced by weak performance in the tourism and construction sectors. For example, tourist arrivals for the period January to October 2002 have declined by 12.3% relative to the same period in 2001. This is reflective of weak economic conditions in the US, which is the source of most visitor arrivals to Anguilla, as well as on-going fears about safety and security, post "September 11", which has resulted in a contraction in global travel.

The austerity measures implemented by the Ministry of Finance are projected to improve the fiscal operations of the government relative to 2001. Figures available to date indicate recurrent expenditure of \$82m for 2002. This would represent an increase of 2.8% from recurrent expenditure of \$79.6m in 2001. Mr Speaker, taking into account increases for inflation, this means that we have kept expenditure levels constant at the 2001 level, in real terms. So I am happy to report that we have been successful in imposing the discipline required by our fiscal adjustment plan. Mr Speaker, as I mentioned earlier, this adjustment plan targeted a 7.0% reduction in recurrent expenditure from the amount budgeted. With recurrent expenditure projected at \$82m, this would represent a decrease of 15.4% from the amount of \$96.2m budgeted for the year. So, we have exceeded our expectations in this area and it shows that with commitment and determination we can meet our established objectives. The Government intends to continue to impose a similar sense of fiscal discipline in 2003.

In terms of revenue collections, Mr Speaker, while the performance has not been as buoyant as we had hoped, some gains were made. Recurrent revenue collections are projected to amount to \$79 m for the year which would represent an increase of

8.7% from the 2001 total. Our strategy of targeting better tax compliance has been successful and there have been significant improvements in collections from property and accommodation tax, as well as a reduction in arrears to government in terms of monies owed to the Medical and Health and Water Departments. However, Mr Speaker, Government's revenue performance is still largely driven by the collection of import duties. Collections from this source continued to be sluggish because of the weak performance in the tourism and construction sectors.

Capital expenditure was constrained by the lack of capital revenue and the slow start to a number of projects requiring counterpart financing. Capital revenue raised during the year amounted to approximately \$2.0 million. This would include the proceeds from the lease of land to Anglec paid by a one off settlement in advance. This was placed into recurrent revenue but earmarked for local capital expenditure. Part of the local capital revenue also came from the draw down of the portion of a loan approved in 2001 that was awaiting the start of the CDB and EDF Roads projects. Local capital expenditure is expected to reach about \$1.7 million by December 31, 2002. This would result in a small surplus of \$300,000.

The overall deficit combining balances on the recurrent and capital accounts is expected to be \$3.5 million at the end of 2002. Mr Speaker, one of the fundamental axioms of public sector management is that the degree of control that one can exert over revenue performance is less compared to expenditure control. Our target for 2002 was to end the year with a zero balance on the central government accounts. Had revenue performance been better we would have achieved our objective. To the extent that a balanced budget could have been achieved this year, it would have only been possible by imposing even greater expenditure controls. However, this Government has adopted the policy that although fiscal adjustment is necessary, the human consequences of the process cannot be ignored. The need to continue to invest in critical areas of health, education and physical infrastructure to establish the conditions for sustained and long-term economic growth and development is also paramount. Consequently, there are limits to which expenditure cuts can be imposed.

FISCAL POLICY AND STRATEGY DEVELOPMENT

The Ministry of FEDIC is perhaps the most high profile of Government Ministries in the sense that since it deals with the issues of taxation and controls the purse strings, it often engenders the wrath of the public. I must therefore commend the MFEDIC staff who have had to operate under very trying circumstances this past year. However, they have been resolute in their application to the task at hand,

which is to stabilize the fiscal situation and to pursue a programme of adjustment to ensure the future growth and development of Anguilla.

The whole process of financial management will be given added emphasis in 2003 and will be overseen by a “Fiscal Review Team” which will report to a high level “Fiscal Evaluation Group” comprising myself as the Minister of FEDIC, the Permanent Secretary for Finance, the Permanent Secretary for Economic Development and the Deputy Governor. The Fiscal Review Team will monitor financial performance on a monthly basis and make recommendations to the Fiscal Evaluation Group on what course of action to take.

The general thrust of Government policies in the area of fiscal policy and strategy development will be to increase reliance on domestic revenue sources and at the same time retain Anguilla’s low (no income tax) status by:

- i) improving the administration and collection of tax and other revenue from current sources to maximize the percentage collected out of estimated potential revenue;
- ii) revising and rationalizing where appropriate existing rates of charge to ensure that they are consistent with the modal rates charged in comparable jurisdictions in the region and the net revenue returns from the tax effort are consistent with established efficiency ratios;
- iii) establishing economic rates of charge to achieve cost recovery for public services accessed directly by individual consumers;
- iv) making adequate provision for relief for those financially unable to meet the costs;
- v) introducing new revenue measures to replace revenue from temporary sources;
- vi) implementing revenue saving measures such as the operation of a US Dollar account to save as much as \$400,000 lost on foreign currency purchases to pay for imports, monitoring of telephone usage, control of use of Government vehicles, and the implementation of water and electricity conservation measures;

- vii) reviewing the Customs Duty Exemption Policy and Duty Free Shopping Policy and procedures and improving administration and monitoring; and
- viii) studying the options available to Anguilla to replace customs duty revenue in the event that there is international movement towards the standardization of customs taxes at rates below the rates charged by Anguilla and towards the free trade and duty free entry of an increasing number of internationally and regionally traded commodities.

The immediate objectives for 2003 are to end the year without a deficit and to generate surplus to create reserves in the amount of \$4m. The reserves will be allocated among the following funds:

- Maintenance Fund;
- Development Fund
- General Reserve Fund
- Fiscal Reserve Fund.

Prudential fiscal management demands making provision for future maintenance and development expenditures as well for negative shocks which may arise such as hurricane related damages.

PROVISION OF RECURRENT SERVICES IN 2003

Mr. Speaker, permit me now to address Government's proposals for the provision of the recurrent services of the Government for 2003. Recurrent Expenditure will be addressed first. In setting the 2003 Recurrent Expenditure targets the Government has been guided by the following general objectives:

- i) maintenance of 2003 services at not less than the 2002 levels;
- ii) maintenance of the total number of public service employees at or below the 2002 total and their compensation as a percentage of the budget at or below the 2002 ratio;

- iii) implementation of improvements required and agreed to by the Government to maintain or achieve internationally required standards in areas such as the operations of airport and fire services;
- iv) continued implementation of critical programmes for the improvement, reform, development and transformation of ministries and departments to achieve greater output, effectiveness and value for money;
- v) achievement of a surplus of recurrent revenue over recurrent expenditure.

These objectives Mr. Speaker are fully consistent with my BEST theme “Being Effective Stewards Today” and reflect the Government’s commitment to fulfilling its fiscal stabilization objectives agreed with the British Government earlier this year.

Mr. Speaker after a difficult and painful process and dare I say sometimes marked by emotional and passionate interventions, we were able to achieve reasonable and realistic reductions in the bids submitted by the various ministries and departments. I propose therefore that total 2003 Recurrent Expenditure be capped at **\$89.0** million. Eight out of 33 departments or 24 % of the number of departments would between them account for **67.84 % amounting to \$60.37 million** of the total Recurrent Expenditure budget of **\$89.0** million. The allocations to these departments would be as follows:

	Department	Allocation	% of Budget
i)	Treasury	<u>14.37 million</u>	16.15 %
ii)	Education	<u>13.28 million</u>	14.92 %
iii)	Secondary Health Care - Hospital	<u>8.31 million</u>	9.34 %
iv)	Water	<u>7.34 million</u>	8.25 %
v)	Primary Health Care	<u>4.98 million</u>	5.60 %
vi)	Police	<u>4.33 million</u>	4.86 %
vii)	Public Administration	<u>4.06 million</u>	4.56 %

vii) Airport and Seaports	3.70 million	4.16 %
Total	<u>60.37 million</u>	67.84 %

It must be emphasized that 24.24 % of the number of departments (eight departments) will account for over two thirds (67.84%) of the 2003 Recurrent Expenditure allocations.

I wish to draw your attention Mr. Speaker to the fact that for the first time in presenting budgetary proposals to this House the biggest allocation is proposed for the Treasury Department. While this trend can readily be explained it is one with which all of us must become concerned and to which we must pay particular attention.

16.15 % of expenditure in the amount of \$14.37 million is to be spent by the Treasury in 2003. \$5.31 million or 37 % of this is to meet public debt payments. This is \$1.4 million more than the 2002 allocation to public debt of \$3.91 million. This increase is directly attributable to the increase in government debt to finance the deficit at the end of 2001. The other area showing a significant increase is Goods and Services, the allocation for 2003 being \$2.77 million up \$0.31 million or 12.6 % from the 2002 approved estimate. The increase is accounted for by increased allocations to Utilities and Insurance. The allocations to the other expenditure categories, Personal Emoluments, Transfers and Subsidies and Other Expenditure will be reduced in 2003 compared to 2002.

The growth in public debt will be carefully managed as part of the Government's overall borrowing and debt management policy and strategy. This is currently being addressed with advice and assistance from the British Government and the Eastern Caribbean Central Bank (ECCB). It is expected that agreement will be reached with Her Majesty's Government on borrowing guidelines and a borrowing programme in the first quarter of 2003. A debt monitoring mechanism being established with assistance from the ECCB will be fully implemented in 2003.

Mr. Speaker, the allocation to the non-contributory civil service pensions for 2003 at \$2.27 million is significantly less than the \$3.19 million budgeted for 2002. However, we need to be mindful of the fact that our Civil Service has begun to age and that over the next decade the size of the allocation to pensions, which the Government is obliged to pay by law will increase rapidly. The increased life expectancy of retirees will result in the Government on an increasing basis having

to pay these pensions for up to 30 years and beyond. The Government will therefore shortly address pension reform to ensure that it will be in a position in the future, to meet its increasing pension obligations. Additionally, the present system of a non funded civil service pension and the contributory Social Security Pension means that civil service retirees could receive in combined pension payments greater than 100 % of the salary they would earn if employed. Mr. Speaker, this is inconsistent with the principles of social insurance. It must be and will be addressed by the Government as part of its fiscal stabilization and rebalancing programme within the next two years.

Mr. Speaker the 2003 Recurrent Expenditure Estimates cater for the continuation of the Government's emphasis on giving priority in the delivery of current services to addressing the social development needs of the Anguillian community. 29.85 % of budget or \$26.57 million has been allocated to the three largest departments in the Ministry of Social Development and Lands. \$13.28 million to Education, \$8.31 million to Secondary Health Care and \$4.98 million to Primary Health Care. In addition \$1.53 million has been allocated to the Social Development Department. Together with the \$1.93 million allocated to the Ministry Secretariat (which also includes the policy coordination of Lands and Physical Planning) fully one third of the budget is to be allocated to social development services, that is 33.74 % amounting to \$30.03 million.

Education with its allocation of \$13.28 million will account for the largest share of the social development budget at 42.22 %. This is 14.2 % of proposed total Recurrent Expenditures. This is as it should be Mr. Speaker. We have invested heavily in capital and human resource improvements in Education over the years. It is imperative that we allocate sufficient resources even in difficult times to sustain these improvements. The publicity which often times accompanies incidents of deviant behaviour among a small percentage of the student population at the Comprehensive School, distracts attention from the solid progress being made in the school system as a whole. Both in the public and private schools significant professional and management improvements will be reflected in enhanced student performance over the next few years. I am pleased to note that that the strategic partnership between the Isle of Wight Education Authority and the Ministry and Department of Education in Anguilla will be continued and broadened to include initiatives involving the Social Development Department. These initiatives will more effectively address some of the causes of the unsatisfactory performance of some students, which have their roots in the home and the wider community outside of the school environment.

\$10.84 million or 81.62 % of the Education budget will cover personnel costs leaving a mere 18.38 % or \$2.44 million to meet the costs of Goods and Services and Transfers and Subsidies. The Government would have liked to have allocated a higher amount to finance the non-personnel costs, but mindful of the need to rebalance the budget and achieve fiscal stabilization cannot afford more than the amount proposed. At the same time Mr. Speaker, Education requires the firm and tangible support of all the other stakeholders to supplement the resources provided from the public purse. It is my hope and expectation therefore that our private sector and civil society partners both here and abroad will continue their strong support for education in 2003 and if they have the wherewithal increase that support for the benefit of our children.

The combined budget for the Primary and Secondary Health Care Departments totals \$13.29 million or 14.93 % of total Recurrent Expenditure, \$8.31 million or 9.34 % allocated to Secondary Health Care and \$4.98 million to Primary Health Care, 5.6 % of total Expenditure. Mr. Speaker 2003 will be a watershed year for the national health system in Anguilla. It will be the year in which the Government will begin to establish the Anguilla Health Authority after two years of planning undertaken by the Health Authority Project Board appointed by the Minister of Social Development within months of his assuming office.

The front page of the Anguillian for December 6th 2002 featured the delivery of the Interim Report on the creation of the Health Authority to the Minister by the Chairman and other members of the Project Board on Monday December 2nd. There is significant planning remaining to be completed in the immediate future. The overall planning phase is close to completion and substantial progress is expected to be achieved next year in the implementation of the project. The support of all key stakeholders and of the entire community of Anguilla will be needed to ensure the success of this major transformation in our health sector. It will go a long way in improving public health care delivery in Anguilla and will enable the Ministry of Social Development to achieve its objective of being an effective steward in looking after the national health care needs of Anguilla.

The improvement of our public health care system through the creation of the Health Authority of necessity will require major changes, including the revision of charges for health care to bring them closer to the economic costs of providing these services. At the same time, the Project Board will recommend alternative options for the funding of the public health care system through some form of national health insurance. The Minister and especially the Health Authority Project Board need to be congratulated for the excellent work accomplished to

date. I encourage them to continue the work they have undertaken and not to rest until we have the Health Authority in place of which all of us can be proud.

Although the Social Security Board is not part of the Central Public Service and operates autonomously the benefits it provides play a vital role in creating a strong social safety net for our people. It is appropriate therefore that I make reference to the role of the Board in discussing the social development objectives of the Government. The Board is on a new wave of extending social insurance and coverage to a greater percentage of the community.

The non-contributor age pension for persons 68 years old and over has been implemented and in 2003 total payment is expected to reach between \$400,000 and \$500,000. The Board of Directors recently took a decision to increase the contributory age pension paid to pensioners qualifying before January 1, 2001 by 10% from January 1, 2003. The Board also decided to implement the coverage of the self-employed from January 1, 2003. Other areas of coverage to be studied during the year include unemployment cover and further development of employment injury coverage.

It is also expected that the Social Security Board will be involved in the examination of alternative proposals for the introduction of a national health insurance system to provide a firm means of funding the Health authority.

The 4th largest spending department will be Water with a proposed allocation of \$7.34 million, a reduction of \$1.0 million from the 2002 estimate. Government has undertaken a number of cost reduction measures in the Water Department the most significant of which are:

- i) a negotiated reduction in the price paid to Ionics-Aqua Design for water;
- ii) commissioning of a new and improved water billing system;
- iii) improved procedures for meter reading, billing, collection, disconnection and reconnection of customers and for customer care services; and
- iv) implementation of loss reduction measures.

The resulting improvements will achieve a 12 % reduction in the Department's costs, a higher ratio of collection of amounts billed to customers, reduced system losses and improved customer relations. The most important goal overall will be

to significantly reduce the large deficit of Water Department revenue to Water Department expenditure.

The projected deficit to the end of 2002 for the Water Department is \$5.0 million. In 2003 the reduction in costs coupled with a projected increase in revenue from Water Charges will cut the operating deficit by \$1.66 million or by one third. This will be a major contribution to the Government's efforts to restore budgetary stability and generate a small surplus of Recurrent Revenue over Recurrent Expenditure. I want to congratulate the Ministry of Infrastructure and the Water Department in particular for committing to this goal and to encourage them to strive not only to achieve this target but make an even greater effort to reduce the gap further during the year. This is critical as the Department prepares for transformation into an autonomous entity as a government corporation or government company.

The security of the Anguillian Community and the strengthening of Police capabilities to prevent and detect crime has become an increasing priority for the Government. This need has been graphically demonstrated in recent times, when several serious crimes have been perpetrated by persons choosing to go down criminal pathways. \$4.33 million is proposed for the Royal Anguilla Police Force for 2003, \$4.87 % of the Recurrent total expenditure. Mr. Speaker, I wish that we could have provided more for our hardworking and loyal Police Force. And believe me it has been painful to cut the bids submitted by the Royal Anguilla Police Force. I can say Mr. Speaker that one of the smallest cuts made was in the estimates submitted by the Police amounting to \$285,000 or 6.17 % under its 2002 approved estimate.

Mr. Speaker, while human resource development is a key area of focus for the Government, it has been necessary to cut back on the allocations made to the Public Administration Department to finance civil service training and general tertiary level education for 2003, continuing the trend started in 2002. In 2001 Mr. Speaker, \$5.18 million was spent by the Public Administration Department of which \$3.64 million or 70 % was spent on training. Because of the fiscal imbalance Government reduced the 2002 allocation to Public Administration from \$5.42 million to \$4.74 million. For 2003 it is proposed to reduce the budget further to \$4.05 million, a reduction of \$1.37 million or 25.25 %. The allocation to training for 2003 would still be significant at \$2.4 million.

The allocations proposed for the Chief Minister's Office and the Airports and Seaports Department are \$3.48 and \$3.70 million respectively accounting for

3.91% and 4.16% of total Expenditure. Both play critical roles in the Tourism Industry the Chief Minister's Office responsible for the policy direction of the industry and providing the funding for the Anguilla Tourist Board as well as for policy in Labour and Immigration, which directly impact the industry. And of course Mr Speaker the Airport and Seaports Development manage our air and sea gateways to and from Anguilla.

20 other departments Mr. Speaker share the remaining \$25.15 million or 28.26 % of the total Recurrent Expenditure of \$89.0 million. The major departments and ministries in this group are the Ministry of Finance Economic Development investment and Commerce - \$2.79 million; Department of Infrastructure, Communications and Utilities - \$2.40 million; Customs Department - \$2.16 million and Ministry of Social Development and Lands - \$1.93 million. These four departments and Ministries account for a further \$9.28 million or 10.43 % of total expenditure. The remaining 20 departments share 17.83 % of total expenditure amounting to \$15.87 million.

Mr. Speaker, the size of the expenditure allocations to the remaining departments is no reflection on the significance of the low spending departments for among the 20 are, the Ministry of Infrastructure, Communications, Utilities and Housing, the Governor's Office, the Financial Services Department, the Attorney General's Chambers, Judicial, Prison, Immigration, Labour, Physical Planning, Lands and Surveys, Internal Audit, Information Technology and E-government Services, Post Office, House of Assembly, Information and Broadcasting, Agriculture, Fisheries and Marine Resources, Statistics and Library Services. They deliver important and essential services to the Anguillian community and all of them have been significantly affected by the need to implement modest austerity measures. All of them have therefore contributed significantly to the effort to restore fiscal stability and balance, within the scope of the resources allocated to them.

RECURRENT REVENUE

Mr. Speaker, difficult as it is, the easier part is to decide on expenditure. The real challenge is to raise the revenue to finance the expenditures and to take the tough decisions in this regard in a community in which anti-tax sentiments are among the highest in the world. It has been a great challenge to decide from among the various proposals and options on those measures that should be implemented in 2003 to increase the efficiency of collection from existing taxes, licenses, fees and charges as well as to adjust existing levels and introduce new measures to raise additional revenue.

Mr Speaker, I have spent some time on the services provided, by the Government since the provision of these is the primary function of a government. Unfortunately, services can only be provided with funding raised through taxes, fees and charges. Unpopular as it may be, tax revenue is needed to maintain health, education, social and economic infrastructure. Punished for our own success, Anguilla has graduated from grant and even concessionary financing from regional and international donor organizations. We have little choice but to pay our own way. We cannot abdicate our responsibility. We have to meet the challenges with our own solutions and weather the storm. We have been placed here by the people to be effective stewards and make the tough choices for them.

In the wake of declining imports, taxes on international trade decreased from 52% on total revenue in 2001 to 37% in this year's budget. This is a decline from \$37.7 million in 2000 to an estimated 30 million in 2002. In order to maintain the same level of service, it has become necessary to implement new revenue measures to bridge the gap. These are outlined as follows:

Environmental Levy

Effective 1st January 2003 an Environmental Levy will be introduced and will be collected by Anglec on behalf of the Government with the payment of electricity bills. Legislation will be introduced in January to give effect to this. The tax will be at the rate of 5% of the electricity bill of each household or business. The minimum amount collectable will be \$5.00. This levy is expected to raise \$1.5 million in 2003. This is a fraction of the amount expected to be expended on maintaining a sustainable environment. It should be noted that the cost of maintaining an adequate garbage collection and disposal system alone for 2003 is expected to be over \$2.0 million.

Customs Surcharge

An additional 1-% duty will be charged on the CIF value of all imported items carrying an ad valorem rate. This will not affect developments that have specific duty exemption agreements. This is a temporary measure that will be reviewed when fiscal stability is restored. The impact of this on any one item will not be very significant. The revenue yield from this measure is estimated at \$2.3 million. This measure is to be used to build reserves and together with other measures should yield reserves of over \$4.0 million.

Increases in Fees, Charges and Licences

A number of fees that have not been increased in over 40 years will be brought up to their economic cost. In addition other fees will be adjusted approximately in line with inflation and other economic conditions. Among the areas affected are Pier Dues, Tonnage Dues and Port Dues, Telecommunications Fees and Court Fees.

Property Tax

Consideration has been given to increasing the yield from Property Tax. The Task Force has been working with the Lands and Surveys Department to ensure that all properties are on the register and has been sensitizing the public on the need to pay Property Tax. This is already bearing fruit with an increased yield from existing properties. During the course of 2003, Property Tax values and rates will be reviewed with a view to substantially improving the yield from this tax as of January 1, 2004. Accordingly the necessary amendments to the property tax legislation and regulations will be made during the year.

Mr Speaker, taken together, the recurrent revenue budget has been established at \$92.1 m. This means that a recurrent revenue surplus of \$3.1 million is targeted given expenditure of \$89.0 million. We will do our very best to collect the amounts budgeted and I am confident that barring any negative international developments such as war in the Gulf, we will hit our target.

CAPITAL EXPENDITURE ESTIMATES

Mr. Speaker, in the last two years the Government has let it be known that we in Anguilla are open for business. We are following through on the goals and objectives set out in the Manifesto of the United Front adopted by the Government, which took over the running of this country two years and nine months ago. We are doing our best to attract reputable and capable investors from outside to expand and diversify tourism and financial services, develop e-commerce, offshore fishing and offshore medical schools and provide competition in telecommunications in a liberalized market in joint ventures with Anguillian investors.

We have made considerable progress in stimulating the interest of external investors. Apart from the major golf tourism project for the Rendezvous-Merrywing area we are in the preliminary stages of considering other major tourism projects for the eastern districts of the Island. Additionally, we are

actively considering three proposals for offshore medical schools. From these the Government will choose the developers with whom it will do business and negotiate an agreement or agreements within the first quarter of 2003. We are continuing to explore the options for developing a mega-yacht marina and at least one other marina to add to the diversity of our plant. And in this regard all of us in Anguilla need to be aware that development often requires that there be trade offs between conflicting and competing objectives. In the matter of a mega-yacht marina for Sandy Ground it is incumbent on the Government that we are transparent in dealing with this matter. Equally it is incumbent on the people of Anguilla and in particular the people of Sandy Ground to exercise openness. We must be prepared to consider calmly and rationally the various options and the ingredients necessary to achieve a financially viable investment in a mega yacht marina, which everyone agrees will be a highly desirable addition to our upscale tourism plant.

Lest it be felt by some that the Government is only interested in attracting investors from overseas, I hasten to state Mr. Speaker that we are fully committed to promoting and facilitating Anguillian investors in all sectors of the economy. In fulfilling that commitment Mr. Speaker, it is easy for us to fall into the trap of not applying equivalent or similar standards to local investors as we apply to those from overseas. The folly of this attitude, perhaps even encouraged by local investors themselves is that it could lead to the thinking that local investment is some how inferior to foreign investment and the expectation that the quality of the facilities and products would be second rate. Such thinking acts as self fulfilling prophesy and local investors indeed sometimes end up producing facilities of lower quality and standards. Let it be known Mr. Speaker that this Government does not believe in this and that we want our local investors to strive at all times for excellence. Spend that extra dollar to produce a quality product or facility and you will be more likely to reap the rewards than if you cut corners and produce less than the best. That is also being Effective Stewards Today and Effective Stewards Tomorrow, being the BEST.

We will do all we can to promote, facilitate and assist domestic investors. However, this does not mean abusing the procedures that have to be followed to ensure that matters are handled in an orderly and proper manner in accordance with the regulations and guidelines governing the particular activity. We will seek to strengthen the Development Board to provide more loan and technical assistance resources to support the development of the Anguillian owned business sector.

Mr. Speaker, the continued expansion and improvement of the national physical infrastructure of Anguilla, as well as of social and economic infrastructure are vital to enhancing and maintaining a favourable business environment and a favourable social and political environment for the recovery and expansion of the economy led by private sector investment in the productive sectors. You will bear with me therefore for making this rather lengthy preface to my discussion of the proposals for Capital Expenditure and Capital Revenue for 2003.

The 2002 Capital Expenditure programme Mr. Speaker was the hapless victim of our austerity programme for the containment of Government's total expenditure during the year. So whereas \$6.0 million was budgeted for local capital expenditure, the actual expenditure for the year projected to 31st December will be approximately \$1.7 million. The normal procedure followed in making capital expenditures is to first ensure that the revenue is realized and available before making the expenditures. This approach served us well in 2002. We were primarily able to hold back local capital expenditure to this level however, only because several major projects projected to commence in 2002 suffered a number of unavoidable delays during the year, particularly the externally funded road projects to which the Government has to make significant contributions of counterpart financing. Additionally, decisions had to be deliberately taken in a number of cases to delay expenditures in an effort to stabilize the fiscal situation in 2002. Several of these projects were also postponed from 2001 and even before that year. Further postponement cannot therefore be accommodated without substantial impairment of the standards and quality of service to be provided to the public by the various departments requiring the investments.

The physical infrastructure improvements especially of roads and most crucially the extension of the Wallblake Airport runway are critical to improving the environment for business investment especially in the growth of tourism and at the same time to improving the infrastructure for the use and benefit of the population of Anguilla.

The impact of this confluence of circumstances, Mr. Speaker on the Capital Expenditure requirements for 2003 has been profound. We have to invest heavily to ensure that Anguilla is able to return to and continue on a path of positive and sustained growth. We must improve our ability to better withstand the inevitable external manmade shocks as well as the shocks of nature to which our island is all too vulnerable. So in 2003, local capital expenditure should reach a new record.

I am proposing that \$14.05 million is allocated to local Capital Expenditures. Of this amount \$10.14 million will be to fund infrastructure projects in the Ministry of Infrastructure, Communications, Utilities and Housing. \$6.29 million is for counterpart financing for the construction of the development road from Blowing Point to Little Harbour, the Hurricane Lenny Road Rehabilitation Project, fire services development and the liberalization of the telecommunications market. \$1.18 million has been allocated to maintain international standards of operations at Wallblake Airport and to improve the safety and extend the life of the Road Bay Jetty until new port facilities are developed at Corito within the next few years. \$2.4 million is for road diversion and improvement. This will fund the development of the golf tourism project and the upgrade of residential and development roads to a new middle income housing area and an upscale mixed commercial and residential area. I am referring to the Cedar Village Road in North Side and the Island Harbour Shoal Bay Link Road.

Perhaps the most critical allocation included in the proposed 2003 Capital Expenditure is \$2.4 million for the payment of compensation to land owners for the acquisition of their land and buildings, be they homes and places of business for the extension of the Wallblake Airport runway. I am aware Mr. Speaker that this sum is likely to be insufficient to meet all of the costs of compensation for the first phase of the runway extension, which will lengthen the runway to 1,400 metres or approximately 4,600 feet. It will however go a long way in enabling the Government to meet its obligations to the residents and landowners whose properties will need to be acquired within the coming months. We will provide adequate compensation including relocation based on the mutual agreement and satisfaction of those affected and the Government.

Mr. Speaker, there will be rapid progress on this project over the next twelve months. Time is running out. American Eagle has stated that they will be phasing out their ATR 42's in the medium term at most. There is no time for further delay. The engineering consultants have been chosen to prepare the construction documents, cost estimates and contract documents and to supervise the construction. The Government recently appointed Mr. Fritz Smith to succeed Mr. Franklin Connor as Project Manager and he is already on the ball.

We must get the airport runway extension started in 2003. Mr. Speaker we will get the airport runway extension started in 2003. Mr. Speaker we have no choice but to get construction of this project started before the end of 2003. With God's help and the support of all the stakeholders we will break ground in 2003.

Permit me Mr. Speaker the opportunity at this time to record my profound gratitude and thanks to the people of Ray Hill and the Forest whose properties will to be acquired for their patience, their cooperation, their support of the project and above all their patriotism in willingly agreeing to be displaced from their homes and businesses in the interest of the greater good of all of Anguilla. Unlike others who strongly support development so long as no project is located in their back yards, you have demonstrated sensitivity to the fact that development can only be accommodated if all of us are willing to make reasonable sacrifices.

The allocation for Local Capital Expenditure by the remaining ministries and departments is \$3.91 million or 27.83 % of the total. Of this \$1.55 million is allocated to the Ministry of Social Development and Lands (11 % of the total), \$1.24 million to Finance and Economic Development (8.82 %), with \$495,000 to the Chief Minister's Office and \$620,000 to the Public Administration Department. These allocations are designed to address needs that cannot be postponed further Mr. Speaker without the threat of serious impairment of the current standards of service. They include improvements in the Primary and Secondary Health Care Departments including the financing of equipment to be able to open the Welches Polyclinic during the year; continuing critical improvements to the educational plant; counterpart finance for the mental health project being financed by her Majesty's Government; development of an information system for immigration and repair of the police launch Dolphin. It should be noted however, that careful consideration will be given to the merits of the option of replacing the Dolphin with another vessel to be purchased with funds earmarked for the repair and refurbishment of the Dolphin.

The overall Capital expenditure programme will also include spending during the year of \$23.37 million funded from external sources. \$1.35 million will be provided from the good Government fund of the Foreign and Commonwealth office to support the repair of the Dolphin and development of our Fire Services through the provision of a new domestic fire engine. The Departments for international Development will provide \$6.68 million to support projects in Finance, Education, Health and infrastructure. \$5.43 million will be provided by the European Development fund for the construction of the blowing Point to Little Harbour development road. Together these total \$13.47 million in grants. In addition a soft loan of \$9.90 million is being provided by the CDB to fund the hurricane Lenny Road Rehabilitation project.

Mr Speaker the total spend on locally funded and externally financed capital projects have been set at \$37.42 million. This will be an overall record for Anguilla for capital expenditure.

Mr. Speaker I am sure that there are many more worthy projects that could be pursued in 2003 if the resources were available. Unfortunately it is a standard condition of economic life that whereas wants are unlimited resources available to satisfy those wants are scarce and often extremely scarce. And so we have to make choices, the crux of economic decision-making. This is essentially what the government has to do in setting its annual budgets both recurrent and capital. But of course the task is that much harder in determining the capital expenditure programme, because capital revenue is usually much scarcer and more difficult to come by than recurrent revenue.

CAPITAL REVENUE

The key question, which must be answered, therefore is: "From whence cometh the funds to finance this proposed record local capital expenditure budget?" I am able to report that the Government has committed irrevocably to the divestment of some of its shares in Anglec to finance these essential capital expenditures. This Company has performed sufficiently well that today it provides the means for the Government to fund these critical expenditures.

I am proposing Mr. Speaker that \$15.0 million is raised through the divestment of 6.0 million shares in Anglec to Anguillians and residents of Anguilla at \$2.50 per share and that every effort is made to ensure that the offering is launched by the end of March 2003. In addition to the revenue from the sale of shares in Anglec, the Capital Revenue Estimates also cater for \$200,000 to be realized from an insurance settlement for damage sustained by the Dolphin, when that vessel broke its moorings and ran aground nigh two years now. A total of \$15.2 million is therefore estimated in Capital Revenue.

I indicated previously, Mr Speaker that \$23.37 million has been allocated by external donors for capital revenue to fund approved projects. Together with the \$15.2 million in local capital revenue will be \$38.59 million.

A deliberate decision has been taken Mr. Speaker not to include any revenue from transshipment operations in the 2003 Estimates, which I am presenting today. This is not to be construed negatively as indeed is likely to be the case seeing that we have a penchant here in this country to look for the negative where it is not to be

found and to make propaganda out of false and incorrect information and rumours. No revenue has been included for a very simple reason. Government has decided against including a figure until approval has been granted by the European Commission for Anguilla to resume aluminium transshipment operations in accordance with the terms of the Overseas Association Decision of 2001.

Our Transshipment Agent and Adviser Corbis Trading, over the past 8 months (feels more like 16 months Mr. Speaker), represented by its principal, Mr. Paul Sjiem Fat, along with my Permanent Secretary for Economic Development, Investment and Commerce, Mr. Marcel Fahie, have been working diligently to make sure that Anguilla's proposal on transshipment moves through the decision making process of the European Commission as quickly as possible. They have received excellent support and cooperation from the Foreign and Commonwealth Office and the Governor's Office and several private sector firms in Europe involved in the international aluminium trade. I am happy to report that even though progress has not been as rapid as we in Government would have liked it has been steady and solid. The Commission has now assured Government in a correspondence addressed to me from the Directorate General for Trade that will at the least provide Anguilla with a clear outline of its position on the proposal and related residual issues in the first quarter of 2003 and quite possibly produce a draft recommendation for a decision by the Commission.

The Government of Anguilla Mr. Speaker understands that revenue from transshipment is not likely to be permanent and therefore must be treated as non-recurrent revenue. Such revenue will therefore be allocated firstly to financing capital expenditure and secondly to the building of reserves. Any allocations to recurrent revenue will be made after satisfying capital expenditure requirements and reserves and would be considered only in cases where there is a shortfall of recurrent revenue.

I am confident Mr. Speaker that we will be successful in gaining the approval of the European Commission. However it could be June 2003 before approval is given or even longer. I am quite optimistic that a positive decision would be made early enough in 2003 so that the trade can resume in the second half of the year. We just have to wait and while we wait must continue to have dialogue with the officials in the Commission on the issues they must take into account in advising the Commissioners on the proposal. We must continue to cooperate with the various stakeholders having an interest in the successful outcome of this matter. We must ensure their continued support and assistance in lobbying for the Commission to make an early and positive decision for the benefit of Anguilla.

Such is the intent of the Transshipment clause in the Overseas Association Decision that the OCTs should benefit from transshipment.

CAPITAL REVENUE SURPLUS

Mr. Speaker as we mature in our fiscal management we will to an increasing extent make changes in the fiscal objectives that we set from year to year and in the form of presentation of the budget as can be seen in the budget documents presented to this House for the 2002 Budget and again for the 2003 at this time. Similarly, for the first time we can speak of a capital revenue surplus. With Capital Revenue at \$15.2 million and Capital Expenditure at \$14.05 million a surplus of \$1.15 million would be realized. This amount I am pleased to report Mr. Speaker would be contributed to the re-establishment of government reserve funds, all of which were used up between 1995 and 2000 in the recovery efforts following the impacts of hurricanes especially Luis in 1995 and Lenny in 1999.

CONCLUSION

Mr. Speaker, I have been talking for a long time here today. It is not to impress the gallery in this Honourable House, the listeners over the broadcast media or my colleagues on the other side of the House that we can produce a long and boring budget address. In fact in all that I have said ----- much has been left unsaid. So while this presentation has been exhausting it is not exhaustive of all the issues which attend us at this juncture in our development. It is merely suggestive and hopefully illustrative of our plight. This is our bold plan of action to forge the way ahead.

Being Effective Stewards Today is the challenge the Government of Anguilla wants to extend to all Anguillian residents and stakeholders in this economy. It bespeaks the importance of responsible leadership that is not afraid to take decisions which may be painful in the short term but beneficial in the long term ---- or decisions which can become the political fodder of opposition groups in their efforts to enhance their waning popularity through unsubstantiated and irresponsible criticism.

Mr. Speaker, Anguilla is in the midst of a world community where talk about taxation and tax regimes is the order of the day. From OECD initiatives; to EU directives; the IMF; the FATF; the ECCB; the UK; the USA and a myriad of other technical organizations that realize that the only way to ensure their national or organizational security is through the protection and sustainability of their taxable

resources. A world community where the concept of customs duty is almost becoming illegal in the global trade context ----- a world community where powerful nations in Europe, Asia and North America continue to view the world as a single economic space.

Mr. Speaker 12,000 people on 35 square miles with ambitions of increased autonomy and talk of independence must face the stark reality of these issues. Our people must be educated into the responsibilities of nationhood and good citizenship ----- the need to contribute so as to maintain the universal access to services which everyone in their communities require as a basic human right ----- the importance of productivity in the context of development ----- the importance of shared responsibility in taking care of our environment ----- the importance of honesty and integrity both in word and deed.

Mr. Speaker, the revenue measures affect us all, not just the man on the street, the professional in his office, the businessman or the housewife, but we as legislators, leaders and public servants as well. The expenditure controls speak to responsibility and accountability ----- buzz words in an age of Enrons, MCI Worldcoms, Arthur Anderson ----- they speak to good governance, sound stewardship, efficiency and productivity. We are all in this together.

Mr. Speaker, I do not claim authorship for the call for us to give our BEST, to Be Effective Stewards Today. Indeed, these are biblical themes which encourage us in our individual lives to do our best and to effectively use the time, talents and treasures we have been entrusted with to the building up of God's kingdom. So it is that we in Anguilla, both those entrusted with the tasks of Government, and the population in general, must be effective stewards today, for the greater good of us all. It is effective stewardship to strive towards sustainable development, towards paying our own way, towards meeting the challenges with solutions from within. Indeed, in a small, fragile environment and economy such as ours, we have no alternative but to be effective stewards. Mr. Speaker. I therefore can do no more than to ask each Anguillian and resident to be conscientious citizens and to pledge that with God's help, we will be wise and effective stewards in the 2003 budgetary year and the years ahead. Mr Speaker, I beg to move