

## BUDGET ADDRESS 2007

### “BUILDING ON OUR SUCCESSSES”

#### 1. INTRODUCTION

Mr Speaker, fellow Ministers of Government, Honourable Parliamentary Secretary, Members of the Opposition, other Members of the House, invited guests, those listening via radio, television or over the internet – good afternoon. It is my duty this afternoon to present Government’s budgetary proposals for the fiscal year January to December 2007.

As is the custom in the years that I have served as Minister of Finance I will once again present the Budget Address around a central theme. This year after mulling over the various suggestions put forward by colleagues and the staff within the Ministry of Finance, Economic Development, Investment, Commerce and Tourism (FEDICT) I settled on the theme “**Building on Our Successes**”. It is a progression from last year’s theme which was “**Managing the Challenges of Success**”. It is not sufficient to simply “manage” our successes but to “build” on them as well – to actively determine and shape the way forward for Anguilla. This is something that the general public has made clear and like any good government the Anguilla United Front government endeavours to be in tune with the will of the people.

Mr Speaker, so what do I mean when I say “Building on our Successes”? Perhaps this quotation from a renowned Caribbean literary light, George Lamming, will assist. He said, and I quote: “**the architecture of our future is not only unfinished, the scaffolding hasn’t really gone up**”. I use Lamming’s words to say that as much as Anguilla has achieved since that seminal moment in 1967 when we separated from the Associated State of St. Kitts-Nevis-Anguilla and set out to “**build a new Anguilla**”, there is so much more to be done. So as we look to celebrate 40 years of the Anguilla Revolution next year, it is incumbent on us to critically reflect and to bring our collective mind and will to bear to that task of continuing to build a new Anguilla as was the clarion call of the Revolution.

Mr Speaker, no one will argue with the assertion that the well-being of Anguillians has improved many-fold since 1967. Equally, no one will argue

with the assertion that we are paying a price in some respects for that material success. Certainly the people of Anguilla made it clear during the campaign leading up to General Elections in March 2005 that they were concerned by the erosion of our families, our communities and our society as a whole which has manifested itself in the rise of juvenile delinquency, crime and other social deviancy. We heard them and pledged that if re-elected the Anguilla United Front government would dedicate its time in office from 2005 to 2010 as **“The Period of Social Reconstruction”**.

Mr Speaker you and others may ask what do we mean by “social reconstruction” and what are the means and mechanisms through which it will be achieved. In my 2005 Budget Address I began to shed some light on this when I maintained that the practical manifestation of a **“social capital oriented path to development”** can be seen in the work of the United Nations which for a decade now has charted the path of countries according to its Human Development Index and in more recent times through success with achieving the **“Millennium Development Goals”** or **MDGs** initiative. Mr Speaker, with your indulgence I will restate some of what I said then and seek to further articulate what is meant by social development and how this is germane to our period of social reconstruction here in Anguilla.

As I stated in the 2005 Budget Address, the MDGs speak to 8 goals, which all UN members have pledged, by way of a General Assembly Resolution, to attain by 2015 in the following areas: (1) eradication of extreme poverty and hunger; (2) achievement of universal primary education; (3) promotion of gender equality and the empowerment of women; (4) reduction of child mortality; (5) improvement of maternal health (6) combating of HIV/AIDS, malaria and other diseases (7) ensuring environmental sustainability; (8) development of a global partnership for development. Since they are expected to be implemented globally, and given the disparity in development globally, the specific MDGs targets are set as minimum targets and countries are required to customize them according to their own realities.

Therefore, Mr Speaker, it all starts with articulating a “Vision”. You may recall that I stated in the 2005 Budget Address that we in the **Anguilla United Front** have a vision of where we would like Anguilla to be by **2015**, the year set by the UN for achieving the Millennium Development Goals, if given the opportunity to do so. We stated this Vision to be that:

**“we envisage for the people of Anguilla a future in which they maintain their culture; preserve their heritage; achieve their full human potential in peace and freedom; and participate in the economic and social progress of the regional and international community”.**

But a Vision would be hollow and meaningless if there were no concrete goals, targets and indicators for attaining that Vision. In other words, Mr Speaker, we have to **“build the architecture of our future”**. So what should be the principles of this architecture, this superstructure? We in the Anguilla United Front as a whole believe it should be grounded in a social capital oriented path to development. Mr Speaker, I draw upon the work of renowned Caribbean economist and scholar, Clive Thomas of Guyana, to suggest some principles for consideration as regards social capital and social development. Professor Thomas in a paper presented at the 1995 Caribbean Conference of the Regional Programme in Monetary Studies, outlined a concept of **“social capital”** as follows:

- it is non-coercive – voluntary action rather than external rewards/punishment drives it;
- it is humane - it elevates social concerns over individual gains/losses;
- it is sustainable - its time horizon is oriented to future generations;
- it is empowering - it is not based on exploitation;
- it is synergistic – it affects and is affected by all areas of social life;
- it is catalytic – it is an agent of change;
- it is mobilising – it helps to develop the energies of society;
- it is accountable and responsible – it emphasises sharing and trust;
- it is concerned with both development and the distribution of the benefits of development;
- its accumulation is driven from below – because of its social character.

Mr Speaker, key terms like sustainability, empowerment, accountability, voluntary action, mobilization, in one way or another have been upper most in peoples minds in recent times, whether as regards the current pace of development and the need to import significant amounts of labour with the attendant consequences for housing and other social infrastructure, thereby speaking to the issue of sustainability.

Mr Speaker the question also arises whether tourism entities such as Cap Juluca should not in fact involve significant Anguillian ownership going forward if empowerment is indeed seen to be key. Related to this is the role that Anguillians are playing in the current development process and the distribution of the benefits from this development.

Another principle Mr Speaker, the need for voluntary mobilization and action to save our youth who are better off materially relative to those from previous generations but nonetheless shows signs of alienation and disenchantment with their lot. In this vein it is heartening to see the Anguilla Tennis Academy, the Anguilla Football Association, the Optimists, the Stingray Music Programme (to name a few organizations), teaming up with Government and the private sector to mobilise resources and expertise to save Anguilla's youth, and so on.

So Mr Speaker, we do have a set of guiding principles, an architecture for achieving social reconstruction, an architecture for **building on our successes** for the future. It is however, Mr Speaker, incumbent on us the Anguilla United Front Government to further articulate and communicate this message to individual Anguillians, the private sector and civil society so that there would be the "mind-renewal" and "re-education" of Anguillians to meet the challenges of the present and future and ensure that the Vision which I enunciated above is attained.

As I have indicated, achieving the Vision which I have outlined would be impossible without a Plan of Action which is articulated and given effect in the Annual Budget, among other instruments. Mr Speaker, putting together the annual budget is a very significant undertaking requiring efforts by many individuals. Certainly, people in the Ministry of FEDICT play an important coordinating role. But it does not stop there. The Budget formulation process involves the entire Public Service running from the Department of Public Administration and the other Departments and Ministries in between.

Mr Speaker, I would be remiss, if at this juncture I did not mention some of the changes in personnel which have occurred at the top of the Public Service during 2006. As you know, Government has at long last succeeded in getting an Anguillian appointed to the Deputy Governor post, in the person of Mr Stanley Reid, who previously served as Permanent Secretary, Public Administration. 2006 also saw the retirement of Mr Fabian Marcel Fahie who for so many years served as a Permanent Secretary, most latterly for Economic Development, Investment, Commerce and Tourism. He has been succeeded by Dr Aidan Harrigan who was promoted from Director of Economic Planning. Mr Kenneth Banks another long serving Permanent Secretary with responsibility for Infrastructure, Communications, Utilities and Housing also retired this year. He has been succeeded by Mr Larry Franklin who was promoted from Director of Information Technology and E-Government Services.

There were also two other Permanent Secretary appointments during 2006. Ms Aurjul Wilson was promoted from Crown Counsel/Legal Draughtsperson to Permanent Secretary Public Administration and Dr Bonnie Richardson-Lake was promoted from Social Development Planner to Permanent Secretary for Social Development. Dr Richardson-Lake succeeded another long-serving Public Servant, Mr Orris Proctor, who has retired. Mr Speaker, the last two Permanent Secretary appointments referred to take us “back to the future”, in that we have not had a female Permanent Secretary since Mrs Countess Rey some years ago. I am sure these two new ladies will make their presence felt because neither of them is a shrinking violet and both are very capable.

**Mr Speaker while I am on my feet I will also take this opportunity to thank the outgoing Attorney General Mr Ronald Scipio for his contribution to the Government of Anguilla over the past 9 years which he served in that position. We wish him all the best for the future. We also welcome the new Attorney General Mr Wilhelm Bourne on board in what will be a very trying period for Anguilla. He is eminently qualified for the position of Attorney General and we are confident he will do an excellent job**

Mr Speaker, the challenge for the local Deputy Governor, the new Attorney General and the cadre of new Permanent Secretaries aligned with the other experienced Permanent Secretaries (Mr Carl Harrigan, Mr Rodney Rey and Mr Foster Rogers) going forward is formidable. Anguilla is a place of change, of rapid change I may add. The Public Service must keep pace and in many ways lead the way in terms of executing the Programmes and Plans

formulated towards realising the Vision for Anguilla as articulated by the Anguilla United Front and which was endorsed by the general public by way of returning us to power in early 2005.

Mr Speaker, I round out these introductory remarks of the Budget Address by acknowledging the support of my Ministerial colleagues in the endeavour of formulating and preparing the 2007 Budget, in particular the Chief Minister, a former Minister of Finance. We all know of the challenges he has faced during this past year, challenges which he has overcome with the help and grace of God. The other senior Minister, Minister Harrigan during this past year has been his usual indefatigable self as he sought in particular to advance the airport, seaport and road development programmes. As for Minister Rogers, a lot rests on his young shoulders as it is his Ministerial portfolio – Social Development – which is the area of emphasis for this Anguilla United Front government to 2010. We are a **Team** and there is little that Mr Roger's Ministry can do if it is not provided with the funds necessary to move forward with our initiatives. The Honourable Albert Hughes a former minister now serving as Parliamentary Secretary in the Ministry of Infrastructure, Communications and Utilities. We are making progress with formulating policies and programmes to address the social ills at hand and with Government's financial situation steadily improving will be able to address them in a systematic fashion.

Mr Speaker, we feel that this 2007 Budget facilitates the realization of the pledge we made to the people of Anguilla during the General Elections campaign of 2005, to focus on social reconstruction and social development built on a foundation of gradual and sustained fiscal and economic expansion. It is said that a people without vision shall perish. Equally a country without the necessary foundation and superstructure to meet the challenges of the time and the imminent future shall perish. We in the Anguilla United Front have been and remain committed to building the architecture of Anguilla's future, committed to **building on our successes** for the betterment of Anguilla and Anguillians.

## **2. 2006 ECONOMIC AND FISCAL REVIEW**

Permit me now Mr Speaker to undertake a review of Anguilla's economic and fiscal situation.

## **2.1 Economic Activity**

Mr Speaker, according to Government's official statistics, Anguilla's gross domestic product (GDP), in real terms grew by 10.9% in 2005. This represents a deceleration in the rate of growth of the economy when compared to 2004 when it grew by 16.4 per cent. It is however close to the target annual rate of growth of 10% which we established in our 2005 Manifesto. However we have monitored inflation closely. According to the most recent figures available, September 2006 year to date inflation was 13.1 per cent.

Mr Speaker while we must be mindful of this we must also realise that Anguilla as a small open economy is subject to various external economic price shocks. In 2006 the whole world has been on the rollercoaster ride of oil prices which have averaged in the region of US\$65 per barrel compared with \$55 per barrel in 2005, an 18% increase. There is a direct "pass-through" of oil price increases to Anguilla's fuel prices. Indeed fuel prices, according to the Anguilla CPI, increased by 20.1% in Sept 2006 compared to the corresponding period last year. Prices in the housing accommodation sector was also a significant mover in the September 2006 year to date figures, increasing by 12 per cent. It all speaks to the point Mr Speaker, that while external commodity prices such as oil prices which give rise to inflation are outside our control, in the policies which we adopt internally we have to strive to ameliorate such effects.

Mr Speaker in terms of the composition of GDP in 2005, Hotel and Restaurants was the largest sector accounting for **31.9%** of economic activity. Banking and Insurance was the next largest sector (18.5%), followed by Construction (14.3%) and Government Services (12.7%). These sectors grew by 15%, 3.4%, 12.4% and 1%, respectively. The strong growth in construction is linked to robust activity in all spheres: resort, villa, residential and commercial construction.

Mr Speaker Nominal GDP was estimated at **\$354.94 million** in 2005.

## **2.2 Fiscal**

Mr Speaker, fiscal performance is measured in terms of recurrent revenue relative to recurrent expenditure, and combining this with capital revenue and expenditure to give a picture of Government's overall fiscal balance.

### **2.2.1 Recurrent Revenue**

Mr Speaker the recurrent revenue estimates for the whole of 2006 of **\$139.8 million** was fully achieved by August, and is an unprecedented achievement in Anguilla's history. The revised recurrent revenue target for 2006 is now at **\$181.3 million**. The top 5 performers by revenue head have been Import Duty (Other), Stamp Duty, Accommodation Tax, Motor Vehicle Licences and Bank Deposit Levy.

Looking at the top 3 earning heads in some detail, collections from the Import Duty (Other) revenue head in 2006 are projected to amount to **\$51.5 million**. This would represent a **35.5%** improvement from the budget estimate of **\$38 million**. The surging Import Duty (Other) collections are reflective of the growth in economic activity which as I indicated earlier is being driven by the tourism and construction sectors in particular. Mr Speaker, the Customs Department continues to perform well under trying circumstances, including working for most of this year from the Treasury Department owing to extensive renovation work at the Customs Main Office. I am happy to say that the work is now complete and the officers should have a great working environment in 2007, which should lead to even greater productivity. In 2007 Government will be exploring avenues to attain European Union funding for the implementation of the upgraded version of ASYCUDA so as to improve the ease and efficiency with which goods are cleared and to further improve the collection of Import Duty.

Mr Speaker, Stamp Duty revenue has surpassed expectations for the fourth year running. Collections amounted to: \$8.3 million in 2003; \$21.9 million in 2004; \$18.5 million in 2005; and are projected to be **\$44.2 million** for 2006. I think therefore Mr Speaker that we are justified in saying that the level of Stamp Duty collections being achieved is not "**windfall revenue**" but are sustainable and due to the investment strategy which the Anguilla United Front government has employed since coming to office in 2000. This has resulted in Anguilla becoming the home of several world class



resort residential tourism projects, which I will talk about a bit more in detail a little later.

And rounding out the top 3 revenue performers, Accommodation Tax collections are projected to amount to **\$14.7 million** for 2006. This would represent an increase of **20.5%** from 2005 collections of **\$12.2 million**. The increase in accommodation tax collections is directly attributable to strong visitor arrivals in 2006, particularly of the all important stay-over visitor category, which is expected to increase by 12.7% from the 2005 figure of 62,084 to 70,000 in 2006.

Mr Speaker while the Anguilla United Front government is pleased with the increased revenue performance every year since 2003, we will be **building on our successes** and ploughing ahead with the revenue objectives established in our 2005 Manifesto in order to raise the revenue required to deliver on the social development and other objectives of this government.

#### 2.2.2 Recurrent Expenditure

Mr Speaker, recurrent expenditure is projected to amount to **\$146.3 million** in 2006 compared to the budget estimate of **\$125.1 million**. Increased subventions to the Health Authority of Anguilla, the Anguilla Tourist Board, the acceleration of other programmes in the face of stronger than expected revenue performance and the payment of increased salaries and pensions, accounted for the over-expenditure.

#### 2.2.3 Recurrent Balance

Mr Speaker, Government's recurrent surplus for 2006 is projected to be **\$35 million**. This would be the third year running that Government would have recorded recurrent surpluses in excess of **\$10 million**, **\$22.7 million** and **\$17.0 million** were recorded in 2004 and 2005, respectively.

#### 2.2.4 Contribution to Fiscal Reserves

Mr Speaker in 2006 Government continued to aggressively put money aside into fiscal reserves as a safeguard against the future. Some **\$18.64 million** were put into reserves this year. Reserves are some **\$34.73 million** in total, well ahead the **\$24.05 million** required to meet the target of 60 days of recurrent expenditure for 2006. Mr Speaker, it is the goal of the Anguilla

United Front Government to **build on our successes** in this area and to have **\$40 million** in reserves by Anguilla Day 2007. We thought that this would be quite fitting given that on May 30, 2007 Anguilla as a nation celebrates 40 Years of the Anguilla Revolution. Economic and financial independence is what all nations aspire to and certainly to have \$40 million in reserves would signal that Anguilla is indeed on its way to greater financial autonomy and sustainability. But, Mr Speaker, putting money into reserves also serves to take some of the liquidity out of the system thus curbing aggregate demand, something which is necessary given the significant rise in inflation this past year.

### 2.2.5 Capital Expenditure

Mr Speaker, capital expenditure for 2006 is expected to top out at around **\$45.6 million**. Expenditure on air transport sector development has again led the way with \$10 million anticipated by year end, as Government continues with the implementation of its Medium Term Air Transport Sector Plan (MTATSP), covering the period 2004 to 2008. The MTATSP has been endorsed by the European Union which has pledged **Euro 9.09 million** (approx **US\$11.7 million**) in support under the EDF 9 programme. These proceeds will be used to partly repay the US\$15 million which Government borrowed to undertake the runway, terminal and associated expansion in 2004. And, Mr Speaker, I am indeed happy to report that on November 28, we received the first tranche of these funds – some US\$4.5 million. It has taken a long, long, long time – some three and a half years - but we extend our gratitude to the European Union nonetheless.

Other major areas of expenditure have been: seaport development (**\$9 million**); road development (**\$8 million**); ALHCS Campus B Auditorium (**\$965 thousand**); and Health Services Development (**\$851 thousand**). Mr Speaker we as a Government are especially proud that we are on the verge of completing the Campus B Auditorium. It was a project which languished in the lean years between 2001 and 2003. With the improved financial situation over the past three years Government has been able to devote funds towards its completion. As a multi-purpose facility it will provide a venue for the hosting of the Performing Arts section of the secondary education curriculum and community events in general. Mr Speaker, this is just one example attesting to the fact that the Anguilla United Front Government is indeed serious about its pledge to focus on social reconstruction and social development, particularly in the area of youth development.

### **2.2.6 Overall Balance**

Mr Speaker, the “overall balance” is simply the recurrent balance, less contribution to expenditure on capital. The recurrent balance for 2006 is expected to be about \$35 million. Reserves of some \$18.6 million were added during the year and the principal repayment on loans during 2006 amounted to \$8.9 million. As a result, there were some \$8.1 million available for capital expenditure from the surplus generated. Capital expenditure is projected at \$45.6 million and this means that there was a financing gap of \$37.5 million. This was financed through loans as follows: \$21 million in new borrowing in 2006 plus \$16.5 million from a combination of under-expenditure on existing loans and the positive overall balance brought forward from 2005.

### **2.2.7 Public Debt**

Mr Speaker, the Public Debt of the Government of Anguilla at the end of November 2006 stood at **\$91.18 million**. Of that amount **\$22.40 million** remains to be repaid from the \$40.5 million borrowed from Scotia Bank International to finance the runway, terminal and associated expansion in 2004. The UK Government, with whom the Anguilla Government, like other UK Overseas Territories, has agreed Borrowing Guidelines, does not count this bridging loan in Anguilla’s Public Debt since as I indicated earlier it is being repaid using European Union grant funds.

Government Guaranteed debt held by ANGLEC, the Anguilla Development Board and the Anguilla Tourism Board, stood at **\$15.79 million** as at the end of November 2006. Of ANGLEC’s and Development Board’s debt, only 20% is counted in government’s total public debt and in the case of Anguilla Tourist Board, 50%.

Mr Speaker, using Anguilla’s 2005 nominal GDP of \$354.94 million, Government’s Debt to GDP ratio, excluding the Scotia Bank bridging loan is approximately **19.38 per cent**. If the guaranteed loans are included the ratio is **23.83 per cent**. This is well inside the prudential guideline established by the Eastern Caribbean Central Bank, which advises the ECCB member countries not to allow their Debt to GDP ratio to exceed 60 per cent.

Given its existing level of debt the UK Government in its recently concluded 2006 Economic Review of Anguilla concluded that the Government of Anguilla had room to borrow at least **\$20 million** in 2007.

### **2.3 Private Investment**

Mr Speaker, as you may recall on October 27 of last year Government imposed a moratorium on major new foreign tourism resort/resort residential projects the specifics of which are as follows:

a. No announcement of new foreign direct investment (FDI) tourism projects for a period of 20 months from November 1, 2005 – i.e., until July 1, 2007.

b. No sale or pre-sale of real estate components associated with new FDI tourism projects for a period of 20 months from November 1, 2005 – i.e., until July 1, 2007.

c. No construction associated with new FDI tourism projects for a period of 30 months from November 1, 2005 – i.e., until May 1, 2008.

Mr Speaker, as I indicated in the 2006 Budget Address, there were two primary reasons behind Government's decision to impose the moratorium:

- i. to carefully manage the development of the economy to achieve long-term sustainability and to prevent over-development;
- ii. to provide local Anguillian investors the time and space to undertake developments themselves.

Mr Speaker, despite the scepticism which followed the announcement I can state that no new major FDI tourism projects have started since the imposition of the Moratorium last year. At the present time the only new major FDI tourism projects that are underway are the St. Regis-Temenos project at Merrwyng and the Viceroy project at Barnes Bay. Both projects were underway before the imposition of the moratorium. Government has allowed the resale of two existing properties – Frangipani and La Sirena.

Mr Speaker, Anguillians have responded to the favourable market circumstances and are attempting to get projects going. The Gumbs family

of Rendezvous Bay Resort have been in discussion with Government for sometime now about an expanded project. Government will shortly reach agreement with them on their project. Such a project will set the example for other Anguillians. We will be setting the bar quite high in terms of best practice.

Other local projects which are underway, somewhat below the radar, include the Royale Caribbean project being spear-headed by Mr Quincy Gumbs and family and the Sheraton Estate Villas being undertaken at Maunday's Bay by Mr Sheridan Hodge. Given the importance which this Government places on ownership and empowerment of Anguillians in the tourism industry it is vital that such local projects succeed.

Finally, Mr Speaker, the Moratorium serves as a tool of macroeconomic management. The United States Government through the Federal Reserve system has at its disposal monetary instruments with which it can accelerate or decelerate the economy, as required. In Anguilla with its less developed monetary system, we have to resort to more direct tools in this case to slow down the economy. Annual inflation of 13.1% is not acceptable even if some of the causes are beyond our control. We must take this into consideration when applying the means at our disposal to ensure that growth is sustainable or in the words I used last year, is not "immiserating". For these reasons Mr Speaker, Government is giving serious consideration to extending the Moratorium.

## **2.4 Social Security**

Mr Speaker I now switch focus to an institution which plays a tremendous role in Anguilla, but which perhaps does not get as much mention as it should in the annual budget presentation. I am referring to the Social Security Board. Mr Speaker, as we move into 2007 the Social Security Board will be celebrating its 25<sup>th</sup> year of operations. This is indeed an important milestone. Mr Speaker, the Actuarial Review of its performance for 2005 and 2006 was recently submitted. The latest monthly financial reports indicate that the consolidated reserves of the Social Security Fund stand at **\$154 million**. Furthermore, given the growth that Anguilla is currently experiencing the reserves should reach \$200 million in 2008.

Mr. Speaker, these funds are to meet the System's future liabilities - the retirement benefits of the working people of Anguilla. To ensure that those

benefits remain relevant and retain their purchasing power, the Actuary has recommended, and Government has agreed that as of January 1st 2007 all pensions in payment be increased by 10%, and the ceiling on which contributions are paid be increased to \$6,000 per month, with a further increase to \$7,000 per month in 2008. The accumulation of reserve funds strengthens Anguilla's Social Security System and augurs well for its sustained ability to pay promised benefits to the individuals who contribute to it. But these funds also make the Social Security Board the island's largest institutional investor with a need to invest them strategically based on sound diversification principles until such time as they are required to pay benefits.

Mr. Speaker, the Social Security Board is therefore both a guardian and mobilizer of national savings and has the potential to have a huge impact on Anguilla's development going forward. But in order to do so we have to put the necessary mechanisms and structures in place; we have to provide the architecture, the superstructure **to build on our successes** with the Social Security system. One such mechanism is an investment and development company, as a subsidiary of the Social Security Board. This would allow the Board to invest in social development infrastructure, housing, economically targeted investments (ETI's) and other areas of need while providing acceptable rates of return on such investments. This idea has been mooted before. We intend to advance it from concept to reality during 2007.

Mr Speaker, overall, the Social Security Board and Fund is in great shape. This is thanks to the great job that the Director, Mr Timothy Hodge, and his staff have been doing, ably directed by the various Boards of Directors over the years. As the Board goes into 2007 I believe the slogan which has been chosen for its 25<sup>th</sup> Anniversary Celebrations says it all, and I quote, "Social Security: 25 Years of Achievement, A Lifetime Commitment". Social Security is indeed one of those institutions which is providing the architecture of our future.

## **2.5 Overall Outlook**

So, Mr Speaker, we need to monitor inflation. With high commodity prices being imported we are required to slow down the economy to contain the inflationary pressures. This can be done by further extending the moratorium on major new FDI tourism projects and carefully staggering the implementation of the local projects. Above all else we must be cognisant

that the seeds of the future are being sown now and we have to take decisions which are in the best long-term interests, irrespective of the fact that they might not sit well with certain interest groups.

That, Mr Speaker, completes my review of the economic and fiscal situation in Anguilla in 2006.

### **3. PROGRESS WITH IMPLEMENTATION OF ECONOMIC, FISCAL AND OTHER STRATEGIC POLICY OBJECTIVES FOR 2005 – 2010**

#### **3.1 PROGRESS OF ECONOMIC POLICY OBJECTIVES**

Mr. Speaker, the overall strategy guiding the Government's development thrust simply stated in my 2005 Budget Address is to:

**“increase investments in the social sector, while maintaining robust economic growth and transformation”.**

Economic growth since 2004 not only has been robust, it has threatened to deteriorate into uncontrolled growth, fuelled by massive foreign direct investment in luxury tourism. Uncontrolled growth would spell the end of the strategy of **low volume, high value** luxury tourism. It would greatly multiply our social development challenges and cause resources to be redirected from social re-construction to satisfy the infrastructure requirements of the foreign tourism investment “gold rush” fuelling the growth.

Mr. Speaker, this would shut out Anguillian investors from investing in the luxury tourism sector, defeating a pivotal objective of the Government to encourage and facilitate substantially increased Anguillian investment in the sector. Foreign investors would acquire the coastal and other lands having the highest tourism potential, effectively surrounding Anguillians in the interior of the Island. It would cause inflation, additional to that generated by increases in import prices. Inevitably the social challenges would balloon, and social conflict, dislocation and crime would multiply.

Key economic policy responses considered to stem this dangerous trend towards runaway growth and increased inflation, with ensuing social costs, include:

- 1) the investment moratorium referred to earlier;
- 2) gradual implementation of large projects approved since 2004 over extended periods from 10 years and upwards;
- 3) discouragement of large foreign tourism direct investment proposals for new sites;
- 4) preferential consideration of projects by Anguillian investors going forward over projects by foreign investors;
- 5) facilitation as a priority of proposals for the redevelopment of defunct and underperforming hotel projects;
- 6) restriction on the number of alien landholding licenses issued for stand alone villas and small villa projects for rent and for vacation and retirement homes;
- 7) expansion of the Labour Department's role and the Ministry of Labour's in regulating and managing the labour shortage;
- 8) research on the labour needs of the economy over the medium term, and making appropriate recommendations;
- 9) careful scrutiny, by following established due diligence procedures, of investors in luxury tourism and vacation residential real estate, hotel operators and hotel brands to ensure that the principals, their strategic partners and their proposals are consistent with the applicable Government policies and laws and to avoid developers whose business models, strategies and philosophies are inconsistent with the aspirations, policies, laws and regulations of the Government and people of Anguilla; and
- 10) development of an investment policy statement and drafting of legislation and regulations to give effect to the policy statement.

Mr. Speaker progress on our economic policy objectives has been mixed. Government's has targeted for 2005-2010 an average annual growth rate of 10%. In 2004 GDP growth was 16.4% and in 2005 10.9%. The reduction in



the growth rate in 2005 is a positive sign. However, the economy in 2006 has experienced severe labour shortages, necessitating an unprecedented increase in the number of work permits issued. Reluctantly, Government has permitted the Temenos-St. Regis and the Viceroy projects to set up labour camps of imported construction workers to assist them in addressing their current labour needs. The rest of the construction sector and the economy in general also face severe shortages and have little recourse but to seek workers from overseas.

Temenos-St. Regis and Viceroy will require a large increase in the tourism workforce to service them. Where will these employees come from? Inevitably, labour will have to be imported to fill a significant number of the jobs that will be created. The natural increase in the Anguillian labour force cannot supply all of the personnel required to operate these two large properties. At the same time, the construction sector will continue to experience growth as other projects already approved are built.

It appears, Mr. Speaker, that the volume of investment already approved over the next five years is more than we can comfortably absorb. As a result, most of the benefit of the excess expansion in the economy would additionally flow abroad to foreign capital and labour. The social costs of this excess expansion would be significant and would be borne by the Anguillian society. Additional new investment could potentially worsen the situation, unless appropriate policies are employed to strike a balance between tourism, construction and the other sectors.

The question facing the Government, in light of this scenario, is whether an average growth rate lower than 10% should be targeted. The Ministry of FEDICT will continue to assess this issue and report on it during 2007.

The reduction of the average growth rate to a more manageable level would also allow us to slow down the rising rate of inflation that has appeared in the past two years, especially in 2006. It would help us to avoid an oversupply of Anguillian luxury vacation residential real estate products. It would also reduce employment pressures, slow down the rate of increase in the importation of labour, improve the implementation of immigration policy and enable more resources to be allocated to the improvement of the social sector.

### **3.2 FISCAL POLICY OBJECTIVES**

Mr. Speaker, this Government has made exceptional progress in 2006 in pursuit of its fiscal policy objectives for 2005 – 2010. I am extremely pleased to report that:

- Recurrent revenue will substantially exceed the Estimates as it did in 2005;
- A large Recurrent Surplus is again projected for 2006 – some \$35-million;
- The contribution from Recurrent Surplus to Capital Expenditure in 2006 is well over the target of 20 %;
- Government Reserves stand at \$34.7 million, achieving the minimum target of 90 days of Recurrent Expenditure two years ahead of plan;
- Government's fiscal management is steadily improving with the development of the Inland Revenue Department and strengthening of the Ministry of FEDICT and the Treasury Department;
- Financial programming has been improved especially with the appointment of a Debt Officer and implementation of the debt management system and with the appointment of a Budget Officer and the move towards Programme Budgeting with the 2007 Budget.

Mr. Speaker we will build on our success in advancing our fiscal objectives in the period 2002 to 2006. We will further strengthen the increasing fiscal sustainability, self-reliance and autonomy of the Government in 2007 by:

- 1) continuing to aggressively implement existing revenue measures and maximizing the collection of revenues;
- 2) enacting the enabling legislation to give effect to the new tax measures incorporated in the various Memoranda of Agreement between the Government and developers;
- 3) amending the legislation to extend the Tourism Marketing and Development Levy to the tourism allied services and the broad spectrum of businesses that directly benefit from tourism;
- 4) completing the planning for a Property Tax Reform Project to be approved in 2007 for implementation in 2008;

- 5) increasing fiscal reserves to at least \$40.0 million in 2007;
- 6) enacting legislation to enable the Anguilla Government to raise treasury bills and bonds on the ECSE and other markets;
- 7) implementing a National Health Insurance Fund and Social Development Fund;
- 8) implementing a Disaster Emergency Reserve Fund;
- 9) implementing the provisions of the Insurance Act on to posting deposits with the Government;
- 10) developing the policy on taxation to mitigate the impacts of major projects and preparing the enabling legislation; and
- 11) preparing and implementing a new three year fiscal plan 2007-2010 for stable and sustainable fiscal expansion to replace the stabilization plan of 2002-2004.

### **3.3 DIVERSIFICATION AND BALANCED GROWTH**

Economists, Mr. Speaker, characterize the Anguillian economy with its dominant tourism sector as a one sector model. In **“building on our successes”** we must commit in 2007 and over the long term to reducing our dependence on tourism. Mr. Speaker, ample opportunities exist to diversify within tourism itself and at the same time foster the growth of commerce and support cultural and social development. The Anguilla Tennis Academy, the Anguilla Football Association and the Anguilla Basketball Association have projects for major sports facilities straddling sports tourism and sports in the Anguillian community especially among youth. The Anguilla Sailing Association also shows promise in the area of sports and tourism. All of these are and will continue to be supported by the Government.

Unique ventures have been conceived by enterprising individuals including the Anguilla Music Production and Publishing project in alliance with Kamique Villas, the Shoal Bay (Villa and astronomical) Observatory, the St. James School of Medicine (offshore medical school), and the Almenara

Project at the Searocks combining luxury villas and an integrative healing centre for cancer survivors.

The financial services sector has begun to take off. Government is committed to significantly increasing its allocation for the marketing and promotion of the financial services sector. It requires that a satisfactory mechanism, is put in place. Government will decide on the mechanism to achieve significant and sustained growth as a result of collaboration between the Financial Services Association (AFSA), the Ministry of FEDICT, the Financial Services Commission and the Companies Registry.

Opportunities have also increased in the other sectors of the economy and the Government will continue its policy as far as possible of reserving opportunities in these sectors principally for investment by Anguillians. The Anguilla Development Board (ADB) has received a significant injection of loanable funds from the Caribbean Development Bank to support small and medium scale ventures among other projects. Government will continue in 2007 to strengthen the ADB and to undertake the necessary reforms to convert it into a full fledged development bank. The commercial banks will also be encouraged to increase funding support for innovative ventures.

### **3.4 ECONOMIC EMPOWERMENT**

Mr. Speaker, the awareness of the Anguillian community, has been significantly raised recently to the centrality of Anguillians becoming more economically empowered in their own country. I wish to remind us all, that the economic, social, political and cultural empowerment, in short the total empowerment of the people of Anguilla, is the historic mandate of the Anguilla Revolution. In the face of the massive inflow of direct foreign investment that we are witnessing at this time, it should not be surprising that we should be constantly reminded that the ultimate goal of human development is to empower our people. This United Front Government remains true to the Revolution e-mpowerment mandate. The people will decide whether or not we would have lived up to this mandate, in the process of bringing a renewed period of economic growth to our beloved country. Economic empowerment should be seen as a universal theme of our development process.

Anguillian governments over the years have advanced the cause of the economic empowerment of Anguillians. Empowerment as it relates to the

sale of Cap Juluca is essentially no different from the sale of the Bank of America Branch in 1985 that resulted in Anguillians purchasing the branch and growing it into the National Bank of Anguilla we know today. It is no different from the Government's facilitation of the founders of the Caribbean Commercial Bank in establishing that venerable Anguillian banking institution, when the Caribbean Mortgage Bank collapsed in 1976 leaving its branch in Anguilla stranded creating a vacuum in the budding Anguillian banking market, filled by the CCB. Enterprising Anguillians have created Anguilla National Tourism Investment Limited (ANTIL) on behalf of Anguillians and have agreed with a senior joint venture partner, to seek to acquire Cap Juluca with a 34% ownership for Anguillians through ANTIL. I must also make reference Mr Speaker to the Anguilla National Development Company (ANDCO) comprising some 45 Anguillian shareholders mainly living abroad who came together in 1989 to acquire the property at Shaol Bay on which Shoal Bay Villas is located. This is another example not well known of the enterprising spirit of our people, which Government must encourage and support.

Mr. Speaker in 2003 this Government resisted pressure from the Eastern Caribbean Securities Exchange (ECSE) to open up the Government's sale of its ANGLEC shares to unrestricted purchase by nationals of the OECS and instead limited purchases by OECS nationals to 10%. This was motivated by our commitment to ensuring ownership by Anguillians of critical and strategic industries.

Mr. Speaker, in 2005 the Government reached agreement with the KOR Group and its strategic partners in the Savannah Bay Development Project for not less than 20% of the shares in the venture to be made available to Anguillian investors. Furthermore, Mr. Speaker, the KOR Group agreed that Anguillians would have the first opportunity to purchase the Sile Bay Hotel section of the project after ten years.

The people of Anguilla directly and through their institutions possess the wherewithal to purchase significant ownership stakes in some of the luxury tourism ventures, which are expected be quite profitable as real estate ventures. The growth we are now experiencing will put our people in even stronger positions to acquire part ownership without starving those other projects earmarked for 100% or majority investment by Anguillians of domestic investment capital.

### 3.5 SOCIAL DEVELOPMENT

Economic development is inseparable from social development. As stated at the beginning of the section, our commitment in part is to “**increase investments in the social sector**”. The impacts on society of the economic growth now in full swing will be enormous and greatly increased resources will be required to combat the negative impacts.

Major social policy responses in health going forward include:

- 1) continuation of the programme of institutional strengthening and quality improvement of the Health Authority of Anguilla;
- 2) continuation of the institutional strengthening of the Ministry of Health in policy development, regulation and monitoring of the health care system;
- 3) expanding the HIV/AIDS education, prevention and intervention programmes;
- 4) establishment of the National Health Fund to create universal access to health care; and
- 5) improving and expanding facilities and programmes to achieve effective coverage of the mentally ill.

Priorities in Education include:

- 1) establish of the Community College already started in 2006;
- 2) expansion of individual financial assistance for tertiary education and training through the Government’s Training Vote;
- 3) improvement of the learning environments in the primary and secondary schools through major enhancements to the physical facilities including refurbishment of existing facilities, a major addition to West End School and development of new school premises for the Island Harbour Primary and the Albena Lake-Hodge Comprehensive School and replacement of the Education Department’s offices; and

- 4) ongoing strengthening of the management and administration of the school system.

The area of social and community services, youth, sports and culture has been least provisioned with resources over the years. In partnership with the private sector and civil society, major strides are beginning to take shape in the area of sports development. Much more needs to be done and more resources need to be allocated to sporting development to make a difference among all of our youth. Government is fully committed and this is reflected in the 2007 budget.

The Ministry of Social Development was expanded significantly in the past two years in the area of social and community services with the establishment of the Department of Youth, Sports and Culture and the Probation Department. It has now been disaggregated into two separate departments to improve efficiency. However, these agencies have yet to make an impact on the social development challenges. Government will ensure that there is inspired and visionary leadership in these departments and at the Ministry of Social Development and that they are on the front line of the battle against social dislocation and decay, delinquency, crime and violence.

Mr. Speaker, we have to shift more of our inspired, skilled and competent human resources, wherever they are found in the public service to planning, supporting and implementing the initiatives in the social sector. This does not mean that they would displace personnel in the Social Development Ministry. It means that they would be available to put their skills and capabilities at the disposal of their colleagues in that Ministry, especially in areas such as project planning and implementation. That trend has already been started with the appointment of the Comptroller of Inland Revenue, Mrs. Gecheal Richardson-Gumbs as Project Manager for the National Health Fund project.

A poverty assessment project has been agreed by the Caribbean Development Bank to be carried out in Anguilla and several other member countries in 2007-08. This will assist in gauging the impacts of the economic growth now being experienced.

The need for a general levy to fund major additional social development interventions in education, social and community services, youth, sports and culture is under consideration concurrently with the Health Insurance Fund project. The views of the public will be obtained on this as on the Health Fund before a final decision is taken on the direction to take.

### **3.5 LAW AND ORDER**

Law and order has been neglected as a component of the social sector. Traditionally, it has been regarded as part of the legal and security infrastructure. With the increasing significance of criminal conduct in the society and the need for increased prevention as well as investigation and prosecution of crimes, the emphasis on increased investments in the social sector must also include increased investments in the law and order apparatus of the Government, including the police, probation services, prison service and the courts with an emphasis on prevention and interdiction of crime and rehabilitation of offenders.

## **4. PROVISION OF RECURRENT EXPENDITURE 2007**

Mr Speaker, in our personal lives our expenditure is constrained by our wealth, income and ability to secure additional financing from the appropriate institutions that now exist in our country. We strive to prioritize our spending so that given our budget constraint, we can maximize satisfaction. That was a little Economics 101, Mr Speaker, and the approach of government is no different to a certain extent. The difference is that the government has a role to play in the satisfaction of all who are domiciled in Anguilla and that is a challenge that this government will not shy away from.

We have a demanding public service which has grown over the years both in numbers and productivity and though our service still has a long way to go, I can say Mr Speaker that it is on the right track. As I mentioned earlier a number of our senior civil servants have retired over the last year and I will again take this opportunity to thank them and say that our expenditure on you was well spent. We have a new generation of leadership emerging in the public service who now have the responsibility of overseeing the adherence to prudence, accountability and transparency in our expenditure as a whole and I am confident that they will be up to the challenge.



Then, we also have a sophisticated public to serve and they accept nothing less than service which is out of the top drawer. Mr Speaker, over the last few years, the government has been dedicated to improving the quality of service that is offered to the people and these improvements have a cost. However, there are no regrets because although there will be hiccups here and there, the quality of service offered since the turn of the twenty first century is leaps and bounds ahead of what was offered previously.

You see Mr Speaker, the Government of Anguilla is transforming the way we approach expenditure and revenue. Our experiences in this regard provide us with meaningful lessons which are going to serve our public officers in a manner that will be professionally and personally enhancing. We began the process of program budgeting in 2004 and at first the consensus was that progress was extremely slow. However, my senior officers associated with the project have indicated that because of the transition process involved in moving from line to program budgeting, the progress while not great is at least satisfactory. The budgeting process has become more inclusive and the discussions on recurrent expenditure have changed from “The Ministry of Finance will cut us anyway” to “What can we do together to produce a balanced budget.” Mr Speaker about half of our departments were able to produce business plans for fiscal year 2007 and that in itself is a significant achievement. 2007 will be a critical year in the transition process from line to program budgeting and the Project Steering Committee for the implementation of program budgeting is confident that come 2008, the transition will be complete.

However, Mr Speaker, I must touch on an issue which is on the minds of all present here today and indeed all well meaning people in this country. We are concerned with the upsurge in crime and what amounts to disrespect for the rule of law by some who reside among us. Criminal acts are dramatic and get the headlines, but be reminded Mr Speaker that the vast majority of us are law abiding citizens who must have confidence in law enforcement. I will give more details about our plans for law enforcement but for now it will suffice to say that law enforcement is one of our top priorities at this time.

I will not address every nuance of government’s planned recurrent expenditure for 2007. Apart from being a small revenue source, we print Budget Estimates of Recurrent Revenue, Expenditure and Capital as a source of information for the public to take a detailed look at what our plans

are for the coming year. Through this medium I will highlight the most significant areas of recurrent expenditure as planned for 2007 and encourage you to peruse the document mentioned previously to gain the full perspective on how the Government of Anguilla approaches its recurrent expenditure.

I must reiterate what I have said over the years that the Government of Anguilla does not spend frivolously. Expenditure, recurrent and capital, ultimately is geared towards enhancing the lives of the people. Bearing that in mind, we plan to spend 25.5% more in 2007 on the recurrent expenditure side of the budget than we planned in 2006 moving from **\$125.126 million** to **\$157.101 million**.

Mr Speaker as I mentioned earlier, this year saw the appointment of the Honorable Stanley Reid to the post of Deputy Governor. This is the first time that one of our own has been appointed to that distinguished position on a permanent basis. Mr Speaker, ladies and gentlemen, this does not constitute a major expenditure item as such but it does contribute to our history and is a reflection of our development as a people in this emerging nation. The establishment of the office has financial implications for the Government of Anguilla but we are confident that it will be money well spent.

I spoke briefly before about the criminal element that is present in Anguilla and I will use this forum again to reiterate that the Government of Anguilla has zero tolerance for criminal activity. We are not saying that we are creating a situation where our only intention is to lay down the heavy hand of the law. We have already looked at areas such as alternative sentencing in order to give our young men and women a chance to get back on board ... a second chance so to speak.

However, the time has come for us to upgrade all aspects of the Royal Anguilla Police Force and this must be done because we are serious about zero tolerance of crime. Mr Speaker, we want to make policing an attractive career option for our young men and women with appropriate promotion opportunities and pension plans. That for the most part explains the **38% increase** in the recurrent expenditure plans of the Force moving from **\$6.305 million** in 2006 to **\$8.713 million** in 2007.

Mr Speaker, I thought that those two preceding items warranted special mention and I will now proceed to look at the various ministries which are responsible for the delivery of government sponsored programs and services.

### **HE the Governor**

The increased expenditure under the Governor's Office is dominated by increases in Public Administration, Disaster Management and as discussed before Police.

Mr Speaker, we have no choice but to assist in training of our young and if the truth be told not so young people in order for them to be able to compete on a personal and professional level in the work market. Most importantly we want our people to be productive and have the ability to deliver under pressure which certain situations will demand. The Training account of Public Administration dominates the **53.3%** increase in planned expenditure moving from **\$6.377 million** in 2006 to **\$9.781 million** in 2007.

The natural disasters in our region are mainly hurricanes and it is now common knowledge that our luck ran out in 1995 when after 35 years we were hit by a major hurricane, the infamous Hurricane Luis. We cannot forget Hurricane Lenny in 1999 and the floods which that brought. We came out of those situations with flying colours is and as we improve our planning processes, we do not want to leave disaster management up to chance. Hence there is a **49%** increase in the planned recurrent expenditure moving from **\$582 thousand** in 2006 to **\$871 thousand** in 2007. In the case of disaster management, it is not so much the amount of expenditure that is earmarked for it but the importance of the outcomes that it can produce in times of need.

### **Ministry of Home Affairs**

Mr Speaker, this Ministry indicates that there is a **37%** increase in the planned allocation for Immigration moving from **\$1.850 million** in 2006 to **\$2.535 million** in 2007. Mr Speaker, the Immigration Department is important to us. We welcome many people to our shores in a variety of capacities ranging from visitors to those seeking Anguillian citizenship and we need to ensure that we have the staffing and the environment that would facilitate the provision of these services.

## **Ministry of Finance, Economic Development, Investment, Commerce and Tourism**

Mr Speaker it is not often that either the Finance or Development sections of my Ministry will take second place to another unit within the Ministry but in this case I will lead off with Tourism. (Nominated member - Tourism will certainly not object)

The planned subvention for the Tourist Board has increased by **11.5%** moving from **\$7.856 million** in 2006 to **\$8.758 million** in 2007. It is important that we keep the image of Anguilla alive and well and the intention of the Tourist Board is to leave no stone unturned and seek to build on the successful promotional efforts of the recent past and strategize for the future.

The Customs Department also has its role to play in upholding the laws of Anguilla as they pertain to the import and export of goods and the transfer of illegal substances. Mr Speaker such functions are crucial to our survival and it was decided that a **39%** increase in the planned expenditure for the Customs Department moving from **\$2.810 million** in 2006 to **\$3.912 million** in 2007 was in order.

The Ministry of Finance as a result of internal discussions has decided to regularize the management of national debt and remove it from the Treasury Department to the Ministry of Finance where the Debt Unit resides. This partially explains the **79%** increase in planned expenditure for the Ministry moving from **\$10.298 million** in 2006 to **\$18.443 million** in 2007.

## **Ministry of Social Services**

Mr Speaker we are trying to move the provision of health services into the modern era both in terms of the number of services offered and the quality of service. The Health Authority which was charged with that responsibility is still in its growing stages and the government is willing to continue to fund this statutory body probably not to the extent that it would like, but still at a level which will promote growth of the institution. As result the subvention to the Health Authority has increased **12%** moving from **\$15.164 million** in 2006 to **\$17 million** in 2007.

I spoke briefly before, Mr Speaker, about alternative sentencing and the biggest strides in that direction is in probation sentencing. We recognize that the majority of first time offenders have no intention of living a life of crime but may need to be given a chance to correct their initial mistakes and head down a path of prosperity. We are trying to further advance probation sentencing by increasing the allocation to this one year old department by **142%** from **\$440 thousand** in 2006 to **\$1.066 million** in 2007.

### **Ministry of Infrastructure**

The Department of Information, Technology, and E-government Services (DITES) is moving from the Ministry of Finance to the Ministry of Infrastructure. I wish the Ministry good luck in coming up with another acronym to replace MICUHAF now that DITES is a part of the Ministry. The Ministry of Finance wishes DITES all the success in the world and though it is somewhat saddening to lose one of the units which originated with us, DITES is going to the right place.

Mr Speaker, the budget Section of my Ministry wishes me to convey through this medium its sincere appreciation for the approach and the tone which the recurrent expenditure side of the budget now experiences in the budget preparation process. It augurs well for the future.

### **5. PROVISION OF RECURRENT REVENUE IN 2007**

Mr Speaker, the revenue budgeted for 2007 is \$174 million. This is 25% more than the revenue budgeted for 2006. The revenue budget is cast against realistic projections in revenue with some revisions in tax rates including one reduction and some small increases in a few of the revenue subheads.

Mr Speaker in my 2005 Budget Address I noted the strong performance in Customs Duties Other and predicted that it would continue in 2006. I am happy to report that this was the case and many of the budgetary projections were surpassed by the end of November 2006. The 2007 Budget continues to reflect this strong performance of Import Duties Other. This is expected to continue as a result of the rapid economic growth we are experiencing with the increase in foreign and domestic direct investment. The major hotel projects are fuelling the economy, resulting in local investment in services,

trade and commerce as well as private home construction further contributing to the robust performance of Customs duty.

Property Tax will be reformed in 2007 and new rates will be in place for the 2008 Budget. The Resort Residential Asset Levy (RRAL) will also be in place for 2008, when the Temenos St Regis Hotel and residences will open, construction of which is slated to be completed at the end of 2007. Mr Speaker, this is will be an example of Government adapting to the new dispensation as regards the development of tourism projects and ensuring that Anguilla can compete in this new environment.

Based on known and anticipated projects, we have increased the estimate on Stamp Duties from \$20 million in 2006 to \$30 million for 2007. It should be noted that Stamp Duties has yielded over \$40 million thus far for 2006. As Anguilla develops, the yield from this tax will become more predictable and better estimation will result.

Mr Speaker, the Environmental Levy is now yielding significant revenue for the Government of Anguilla. In addition to the amount collected from ANGLEC, an amount representing the yield from US\$3.00 per round of golf played will be collected during this first full year of the operation of the new Temenos Golf Club. Mr Speaker, **building on our successes** means that Government has to always ensure that development occurs in a sustainable manner. Fees from the environmental levies will be used to re-invest in the protection of Anguilla's environmental assets – its beaches, its coastline, its reefs – as these are the very basis of Anguilla's development.

Keeping on the environmental sphere, we will be increasing the Noise Pollution Charge introduced in last year's budget from \$100 to \$268 per aircraft operating with jet propulsion.

Mr Speaker, the Tourism Marketing Levy was implemented earlier this year. This tax was implemented to raise US\$1.00 per day from each room occupied by visitors with a matching contribution from the hotelier. If no visitors came, then no tax was expected. This tax was to partly offset the significant investment in tourism promotion that is benefiting all hotel owners, workers and the economy as a whole. It was implemented from April 1, 2006 and will take full effect from this new tourist season. The Tourism Marketing Levy is expected to yield of \$1.6 million in 2007.

Mr Speaker, the annual licence fees paid by restaurants were lower than that paid by a bakery as an example. Consequently, an amendment to the Trades, Business and Professional Licences Schedule will be implemented to provide for new licence fees under this act. Under the new arrangements, a mobile restaurant will pay \$1,000.00 per annum under the Business Licences Act. A restaurant located at a Hotel, Villa or Guest House will pay \$3,600.00 per annum. Other hotels are divided into those that offer local/Caribbean cuisine and others offering international cuisine. They will pay \$1,200.00 and \$2,400.00 per annum respectively. Restaurants will still be required to pay their licences under the Liquor Licences Act.

Mr Speaker you will note that significant investments were made in sea port improvements in the last few years. Much of this was financed from loans that have to be repaid. An increase in departure tax by sea from EC\$8.00 to EC\$13.50 will be implemented to facilitate the repayment of the loans. This is a US\$2.00 increase for passengers departing from any of Anguilla's sea ports.

Sticking to transport, Mr Speaker, we can all appreciate the improvements to our road networks. We are scheduled to spend close to \$10 million this year alone on road development and improvements. We all appreciate that the most damage that can be inflicted is by the use of loaded containers on the road. To this end, a Container Road Fee was implemented in 2002 to assist in providing funding to repair the roads as they become damaged. Some exemptions were granted to "less than Container Load (LCL)" containers that were based primarily in Road Bay. The Government of Anguilla has now decided to remove this differentiation with effect from December 31, 2006. This means that with effect from January 1, 2007, all containers including the LCL's will pay this fee.

And now Mr Speaker, some good news. It is often said that governments hardly ever reduce or eliminate taxes. Well today I am declaring that persons purchasing foreign currency from the Banks will no longer have to pay the 2% foreign Exchange Transactions Tax effective from January 1, 2007 or such later period as may be necessary to allow the Banks to make the necessary adjustments to their systems. We feel the case for the elimination of this tax is good. For example, importers presenting proof that the purchase of foreign currency was to pay for goods for resale in Anguilla were always exempted from the tax. This change will remove the

disincentive for persons to hoard US dollars and conduct their business transactions in EC Dollars.

Mr Speaker on that note I wish to state that these were the extent of the revenue measures proposed for 2007. Increased revenue is expected from better performance of all the revenue subheads in the budget due to improved collection processes, improved knowledge of our citizens who now realize the importance of paying their taxes on time and the improved performance of the economy. I wish to thank all those who engage in the process of collecting and securing the revenue of the Government of Anguilla. This includes all tax collectors, valuation officers, customs officers, cashiers their supervisors and Heads of Department.

Finally, Mr Speaker, even though no figure has been budgeted, National Health Insurance will be introduced from July 1, 2007. This is approximately one year behind schedule. As a result employers and employees have had some additional time to prepare for this. The Minister of Social Development made a public broadcast on this last month. It is a programme that should benefit all Anguillians and others employed and contributing to the NHF.

With its introduction, all workers will be expected to contribute a small percentage of their salaries or wages into the National Health Insurance Fund. With the National Health Insurance Fund, all Anguillians will be entitled to an acceptable package of medical services at low cost. As from early in January 2007, the Ministry of Social Development will begin public consultations on this matter. The NHF will not form part of the revenue of the Government of Anguilla and will be managed by a Board. The collections are expected to be made by the Social Security Board on behalf of the NHF.

So in short Mr Speaker, in 2007 we will continue to **build on our successes** in revenue collection to fund Government's social development and other objectives, to build the architecture of Anguilla's future,

## **6. 2007 CAPITAL PROGRAMME AND FINANCING**

Mr Speaker, we have made provision for **\$33.18** million in capital expenditure for 2007. This represents a reduction from the projected capital expenditure for 2006 of \$45.6 million. Mr Speaker, this is explained in part



by our desire to allocate more money towards Land Acquisition in an effort to move ahead with three very important social development initiatives, namely: National Community College Development, Juvenile Centre Development, and Prison Relocation and Development. Mr Speaker, the funds for Land Acquisition is to come from borrowing to the tune of some **\$8 million**. With a cap on borrowing for 2007 of **\$20 million**, we have allocated the remaining amount as follows: \$7 million for road development – to fund the completion of the redevelopment of the main arterial road through the eastern end of the island and the North Hill to Sachasses road; and, **\$5 million** for seaport development – to fund the completion of the construction of the new piers at Blowing Point and a Master Plan Study of the utilisation of the lands at Corito from the ANGLEC Generation Plant south to the lands for the proposed modern, deep water container port and including the current landfill. This Master Plan study is absolutely crucial to providing some direction as how to address a multi-dimensional situation involving the rehabilitation of the quarry site, rehabilitation of the solid waste site and the construction of the modern container port.

Mr Speaker, in keeping with our pledge to focus on Social Reconstruction in the period 2005 to 2010 we have provided for several crucial interventions in social development. For example, we have allocated **\$0.3 million** towards the completion of the Campus B Auditorium. This would bring total expenditure on this project to approximately **\$1.5 million** over the period 2005 to 2007. We have also allocated \$0.7 million towards the West End Primary School Renovation and Extension. Like the Campus B project, this project was a joint UK Government – Anguilla initiative begun in 2000. However, because of the lean years between 2001 – 2003 Government was unable to meet its obligations. In the interim much has changed and I am happy to indicate Mr Speaker that the funds to undertake the completion of West End Primary School will be provided by the KOR Group – the main developers behind the Barnes Bay Development Project currently underway. The KOR Group has pledged approximately **\$5.38 million** towards primary school infrastructure development, with a new Primary School for Island Harbour also planned.

Mr Speaker, you may recall that at various fora over the past two years Government has signalled its intention to implement a “**development impact levy**” in the form of a levy on the sales of the real estate components included in these new extensive resort residential tourism projects, or any existing resort projects which might go that route. We are projecting that

this levy will be in the region between 1% to 4% on all real estate sales. The KOR Group quite admirably is leading the way in this respect. We will be expecting them to provide more funds as well as requiring Flag Luxury Properties, Altamer and other such projects to ante up, because fair is fair.

Mr Speaker, if we as a Government are serious about addressing the social development and other needs of Anguilla, we have to find new sources of revenue. I mentioned earlier that projected capital expenditure for 2007 is \$33.18 million. What I did not indicate was the total submissions made by the various Ministries. This came to **\$117.05 million**. Mr Speaker, this wasn't "a pie in the sky wish list" but justifiable requests for projects which have been deferred over the years and new demands brought on by the major tourism projects now under construction. So we must seek to ensure that the large developments coming on stream make their fair contribution to the provision of social and other development infrastructure because they are having massive development impacts in terms of creating demand for such infrastructure.

Mr Speaker, though I would like to say more, time only permits me to highlight two other interventions of note in the capital programme for the social development sector in 2007. This involves Government's pledge of **\$0.54 million** each to the National Football Stadium and National Indoor Sports Auditorium initiatives.

Mr Speaker it has become clear that multi-disciplinary and multi-agency approaches need to be implemented in promoting youth and community development. In particular it has become abundantly clear that participation in organized sports can play a vital role in instilling in youth the norms and values to enable them to become responsible and productive citizens. Moreover, in a social dispensation where the traditional family structure is increasingly absent, membership in a sports or recreation club can serve as a surrogate family and provide the sense of belonging which is so important to young people.

The Anguilla United Front government has recognised the importance of the link between sports development and youth development and has sought to provide financial support for such initiatives in partnership with the private sector and civil society. Witness Government's contributions to the Anguilla Tennis Academy by leasing land for facilities at a nominal rate as well as providing cash contributions and concessions such as exemptions

from customs duty where applicable. Government is rolling out this type of support to the Anguilla Football Association and National Indoor Auditorium initiatives as well. Mr Speaker, I hasten to add that the amounts mentioned above are just the beginning.

Mr Speaker I round out this section by indicating that of the **\$33.18** million in capital expenditure projected for 2007, **\$20 million** is to be financed through borrowing and the remaining **\$13.18** million through recurrent surpluses and capital grants/contributions.

## **7. CONCLUSION**

Mr. Speaker, I began this address with a quotation from Caribbean Scholar, George Lamming and I believe that for emphasis it should be repeated: “the architecture of our future is not only unfinished, the scaffolding has not really gone up”.

Over these --- fleeting moments, I have attempted to illustrate how Government intends to erect the scaffolding requisite for building on our successes. To ensure that the outcome is a robust architecture --- the design process must of necessity be dynamic since we subsist in a steadily changing world environment. These and other changes affect the choices we must take and the decisions we must make on an almost daily basis.

I believe that it is especially important on this the eve of the fortieth anniversary of the Anguillian Revolution that we return to the theme of building --- not only physical infrastructure but social and human infrastructure as well. There is an oft quoted adage that “a house is not a home”. It is for the very same reasons that “an island is not a nation”, namely, those who live in it or on it must feel a sense of belonging. That sense of belonging is enhanced by the comfort, safety, security and status which the occupants enjoy or experience. These must all be concerns of the building process.

Caribbean Scholar, Peter Adrien, Senior Economist at ECCB in his book “Cricket Development”, defines development “as a process of the empowerment of the human resources of a country”

But he further goes on to imply that it is not a “one-size fits all” when he points out that “development is user-friendly, not having any precise

definition but being informed by the specific needs of the target population”.

And in an even more elaborate explanation describes the level of harmony which must exist to allow for positive development. He suggests that in “the absence of this harmony, development could become uneven; perpetuating inequality in society and the process could be subject to periodic discontinuities caused by the underdevelopment of the sources of production. The harmonious development of the social and economic resources ensures social integration in society and is essential for the creation and maintenance of social, emotional and political stability of competing interests ----- increasing integration allows for harmony among interest groups and across cultural and racial groups and in the process, regulates the expression of dissatisfaction and dissent.”

All of the foregoing points to the need for us as a government to create an environment for harmony in our nation --- to ensure that our island is a nation “proud, strong and free” ---- to quote that powerful line in our national song. But it would be remiss of me if I did not express some, hopefully, rumours which we have heard as leaders on both side of this house which can affect our ability to build on our successes.

It is being said that Anguillians no longer possess that traditional character which serve us so well during the hard times of yesteryear. Those positive qualities and cornerstone principles which made us strong; the willingness to work together to achieve; the vision of an empowered Anguilla as outlined so eloquently by the early patriots; and a readiness to contribute to and participate in our own development with that strong pride which has distinguished us as a unique people over the years.

While Government has a facilitating role in the development process, the main resource in achieving that objective will always be the quality of the people we represent. While we declare that empowerment is a right not an option --- it is also a privilege not to be abused, not to be exercised with complacency and mediocrity nor exploited without due regard for succeeding generations. We must show that we deserve that right; that we are honest in the manner in which we deal with it; demonstrate integrity in the manner in which we employ it; show fairness in the manner in which we share it; and exhibit excellence in the manner in which we express it.

In other words, as individual citizens we too must be involved in maintaining the quality of our heritage for future generations and not go into a “feeding frenzy” in this time of plenty and destroy it through greed, gluttony and a disregard for the values which we as Anguillians have upheld for so long.

None of these positive attributes which I have outlined are a line item in the budget. They must be a part of the Anguillian psyche as Bishop Brooks so eloquently described in his comments during the church service for the opening of Tourism week. These qualities must be within us. And we as leaders must create the environment and initiate the strategies to enhance them. We sincerely hope that the rumours I alluded to have no foundation or place in the Anguilla we are trying to build.

But this is Christmas time, the time for giving and sharing. It is especially satisfying to share with those who have helped to make our success possible. Not only workers in the public service, but the private sector in fact the Anguillian citizenry as a whole. It is our responsibility to reward our public servants directly and the good news is that we will be granting a fifty percent salary bonus to all workers in the service and other government agencies. We also believe that we have been able to provide the profitable environment to enable private sector employers to be also generous.

But none of this could have been possible but for the grace and providence of the Almighty. For yet another year we have been spared the ravages of hurricanes as well as other natural and man made disasters. His all-seeing eyes are in all of this. We indeed have a lot to be thankful for and to be mindful of --- and we must pray for his continued grace and mercy as we seek to forge ahead.

And I must in all humility thank you all for your enduring patience in allowing me to articulate, at some length, our plans for “building on our successes” in 2007 and beyond.