



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement
To the House of Assembly
By

The Hon. E.T. Richards, JP, MP.
Minister of Finance

Consolidated Fund Financial Statements 2014

Date: 15 May, 2015

Mr. Speaker, I am pleased to table audited financial statements relating to the Consolidated Fund for the year-ended March 31, 2014.

As Honourable Members are aware the Consolidated Fund is the general operating fund of the Bermuda Government and is the Fund through which Government conducts the majority of its transactions. The Consolidated Fund financial statements report the financial position, operations, change in net debt and cash flows resulting from the activities of the Government. This includes the accounts of the Senate, the House of Assembly, all Government departments and offices and all courts.

Mr. Speaker, I am pleased to note that the annual accounts of the Consolidated Fund of the Government of Bermuda were given an unqualified audit opinion for the second consecutive year following six years of qualified opinions. Despite the clean audit opinion, the Auditor General has, for the fourth consecutive year, included explanatory paragraphs as 'other matters' which she deems appropriate. These "other matters" relate to the following:

- The increased level of the net debt and the need for the Government of Bermuda to take concerted action to address it;
- Ongoing incidents of non-compliance with the Government of Bermuda's Financial Instructions; and
- The preparation of Summary Financial Statements for the Bermuda Government.

It is important to note that these explanatory paragraphs do not alter the Auditor General's unqualified opinion, but are highlighted matters. However, the Government shares the Auditor's concerns in these areas and has already started to tackle these matters. For instance Mr. Speaker, the Ministry of Finance has already moved to a Medium Term Expenditure Framework (MTEF), which is seeking to eliminate the deficit and ultimately reduce the debt.

Mr. Speaker, liabilities related to pension and other employee future benefits are included in the "Net Debt" amount disclosed in the Financial Statements and the Government has already started the review of these benefits to ensure their sustainability.

Mr. Speaker, Honourable Members will recall that in 2014, legislation was amended to suspend the automatic Cost of Living Adjustment (COLA) increases until such time as the sustainability of the Public Service Superannuation Fund and the Ministers and Members of the Legislature Pension Fund have been improved. This amendment resulted in a significant decrease in the actuarial liabilities of the Funds, which has been recognized in the Financial Statements.

Also, the Accountant General's Department ensures that Financial Instructions (FI) are available to, and delivers FI training in conjunction with the Department of Human Resources for, all Public Officers.

Mr. Speaker, with regard to the preparation of Summary Financial Statements for the Bermuda Government, the Ministry agrees there are benefits to issuing consolidated financial statements and Members will recall that legislation was passed in 2014 to create the reporting entity under which summary statements will be prepared.

Whilst legislative changes are required to effect consolidated reporting, they are simply one aspect of a complex approach that would be required to achieve this accounting objective. Accordingly, progress is being made on this important initiative, but it should be emphasised that consideration must be given to resources, accounting systems, management roles and other factors that are critical in the accomplishment of this task.

Mr. Speaker, the sign-off date for the completion of the audit was March 25 2015. The Ministry's position is that the audited financials should be able to be completed within nine months of the March 31 year-end, and have instructed the Accountant General to work diligently to address the issues causing delays in issuing the annual accounts of the Consolidated Fund.

Some financial highlights of the 2014 Consolidated Fund Financial Statements are as follows:

The total revenue raised by the Consolidated Fund for fiscal 2013/14 was approximately \$883.9 million, representing an increase of \$17.3 million or 2.0% from fiscal 2012/13 total revenue of \$866.6 million. This exceeded original budget estimates by approximately \$12.7 million or 1.5%. The most significant generators of revenues for fiscal 2013/14 were Payroll Taxes, accounting for \$330.9 million or 37.4% of total revenue; compared to \$328.0 million or 37.9% in 2012/13 and Customs Duty, accounting for \$175.0 million or 19.8%; compared to \$169.7 million or 19.6% in 2012/13.

Current expenses for fiscal 2013/14 were \$1.267 billion compared to current expensed of \$1.274 billion in 2012/13. The 2013/14 figure excludes the effect of a net gain on benefit plan amendments of \$214.1 million, which has the effect of reducing total current expenses to \$1.053 billion for 2013/14. The net gain was primarily attributable to the elimination of the pensions' cost of living

adjustment. The three largest components of current expenses were employee costs, grants and contributions and interest on debt. Total employee costs were \$594.8 million or 47.0% of total expenses, marginally less than the 2012/13 level of \$600.9 million or 47.9% of total expenses. Included in this amount is \$120.5 million of non-cash retirement benefit expenses. Grants and contributions were \$287.0 million or 22.7% of total expenses, compared to \$277.4 million or 22.1% in 2012/13). Interest on debt was \$109.7 million or 8.7% of total expenses compared to \$84.3 million or 6.7 in the previous year.

Total current expenditure on a modified cash basis (Schedule 12) was \$1.118 billion (2013- \$1.029 billion), which was \$180 thousand **less** than original budget estimates of \$1.118 billion. In 2013 total current expenditure on a modified cash basis was \$23.4 million higher than original estimates.

Mr. Speaker total capital account cash expenditure was \$65.3 million, which was \$19.2 million lower than the original budget estimates.

Total capital and current account cash expenditure for 2013/14 was \$1.183 billion, which was \$19.4 million or 1.6% lower than the original budget estimate of \$1.2 billion.

The all-inclusive results from government operations (both current and capital) for the year ending March 31, 2014, was a deficit of \$184.0 million. There are many non - cash expenses included in this figure. If we strip those away, the modified cash all-inclusive results

from government operations (on the same basis that is shown in the Budget Book) was a deficit of \$299.4 million. This compares to a deficit of \$331.6 million that was originally budgeted. Therefore, the actual overall deficit was down by \$32.1 million or 9.7% when compared to the original estimate. The decreased deficit is as a result of higher than budgeted revenues and better management of discretionary current and capital expenditures.

Cash and cash equivalents at the end of fiscal 2013/14 totaled \$21.8 million which was \$9.6 million higher than the balance at the end of 2012/13.

Mr. Speaker, net Public Debt, which excludes guarantees and is net of the Government Borrowing Sinking Fund, increased by \$291.6 million during fiscal 2013/14 and stood at \$1.768 billion at the end of the year representing a 19.7% increase. The escalation was due to a successful \$50 million local issue of senior notes at an interest rate of 4.75% per annum and an international offering of \$750 million in senior notes at an interest rate of 4.854% per annum. The proceeds of the issuances were used to repay outstanding short-term indebtedness with local banks and to fund the 2013/14 budget deficit, with the balance deposited into the Sinking Fund to cover any further budget deficits. The Sinking Fund increased for the year by \$439.4 million and was also used to retire \$120 million of senior notes that matured.

The level of debt mentioned above is not only unsustainable but economically and fiscally imprudent and the Government has already committed to redouble our efforts and determination to eliminate the government deficit as soon as possible, and eventually pay down on our debt.

Mr. Speaker, the statements of the Consolidated Fund provide valuable information on the financial position of the Government and I would encourage the public to examine these statements.

Thank you Mr. Speaker

May 15, 2015