



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement
To the House of Assembly

By

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

Consolidated Fund Financial Statements 2013

Date: 21st March, 2014

Mr. Speaker, in accordance with Government's commitment to effecting ongoing improvements in its Public Accounts and in reporting to Parliament, I am pleased to table audited financial statements relating to the Consolidated Fund for the year-ended March 31, 2013.

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 and changes in financial position 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 first time in six years. Despite the clean audit opinion, the Auditor General has, for the third 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;
- Increased 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 committed to review these benefits to ensure their sustainability.

Also the Accountant General's Department has recently updated Financial Instructions (FI) and has revamped their FI training that will be delivered to Comptrollers and all Heads of Departments.

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 confirms that in the first instance, we will bring forward legislation to create the reporting entity under which the 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 10th 2014. The Ministry's position is that the audited financials should be able to be completed within six months of the March 31 year-end, and have instructed the Accountant General to work diligently with the Office of the Auditor General to address the issues causing delays in issuing the annual accounts of the Consolidated Fund.

Some financial highlights of the Consolidated Fund Financial Statements 2013 are as follows:

The total revenue raised by the Consolidated Fund for fiscal *2012/13* was \$866.6 million, representing a decrease of \$47.6 million (-5.2%) from fiscal *2011/12* of \$914.2 million. This was lower than original budget estimates by approximately \$43.0 million (-4.73%). The most significant generators of revenues for fiscal *2012/13* were Payroll Taxes, accounting for \$328.0 million or 37.9% (2012 - \$344.7 million or 37.7%) and Customs Duty, accounting for \$169.7 million or 19.6% (2012 - \$180.7 million or 19.8%).

Revenues were below budget in *2012/13* mainly due to shortfalls in Customs Duty (\$30.3 million below), Other Revenue (\$11.8 million below), and Immigration Receipts (\$8.6 million below).

Current expenses for fiscal *2012/13* were \$1.254 billion (2012 - \$1.246 billion). The three largest components of current expenses were: employee costs, grants and contributions and professional services. Total employee costs were \$600.9 million or 47.9% (2012 - \$583.6 million or 46.8%) of total expenses. Included in this amount is \$114.3 million (2012 - \$113.1 million) of non-cash retirement benefit expenses. Grants and contributions were \$277.4 million or 22.13% (2012 - \$274.3 million or 22.0%) and professional services were \$96 million or 7.65% (2012 - \$99.2 million or 8.0%).

Mr. Speaker, total current expenditure on a modified cash basis (budget) was \$1.029 billion (2012 - \$1.083 billion), which was \$23.4 million higher (2012 - \$81.0 million higher) than original budget estimates.

Expenditures were above budget in *2012/13* primarily due to the following items:

- Increased expenditure on Government's health subsidy programme for the youth, aged, indigent and continuing care facility;
- Various above budget expenditures in the Ministries of Transport and Public Works;
- Above budget expenditure on substitute and paraprofessional's salaries in the Ministry of Education;

Mr. Speaker, total capital account cash expenditure was \$63.5 million, which was \$12.7 million lower than the original budget estimates. Total capital and current account cash expenditure for *2012/13* was \$1.092 billion, which was \$10.8 million (1 %) higher than the original budget estimate of \$1.082 billion.

The all-inclusive results from government operations (both current and capital) for the year ending March 31, 2013, was a deficit of \$408.0 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 \$225.9 million. In *2012/13* \$51.1 million of interest was paid from the Sinking Fund and the Government matching contribution to the Public Service Superannuation Fund was suspended, if we include these items the deficit would be \$309.3 million. Whether on a cash basis or an accrual basis the level of deficits mentioned above are not only unsustainable but economically and fiscally imprudent.

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

March 21, 2014