



## The Ministry of Finance

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### Ministry of Finance Headquarters

#### Ministerial Statement

To the House of Assembly

By

**The Hon. Curtis L. Dickinson, JP, MP**

Minister of Finance

### **Half Year Fiscal Performance and Revised Budget for the Financial Year 2020/21**

Date: 13<sup>th</sup> November, 2020

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Mr. Speaker, Honourable Members will recall that on the 8<sup>th</sup> of May I gave a Ministerial Statement that committed to reporting to this Honourable House on the overall financial performance of the Government's revenues and expenditures. Additionally, I committed to providing a recast budget, recognizing that the Budget presented in February was superseded due to the impacts of COVID-19.

In accordance with these commitments, Mr. Speaker, I rise this morning to provide this Honourable House with a half-year report on the Government's fiscal performance and advise on the revised Budget for this fiscal year.

Mr. Speaker, in all of their previous reports, the Fiscal Responsibility Panel has warned of Bermuda's vulnerability to a global economic downturn. With the onset of COVID-19, this risk has now materialized in a far more powerful form than the FRP or the Government could have anticipated.

This crisis is unprecedented. It is not one of our making, and it will have profound impacts on Bermuda's economy and our public finances. This Government's immediate response to the crisis has been swift and broadly appropriate, both concerning health-related and emergency economic measures in support of workers and businesses.

However, Mr. Speaker, the implications for Bermuda's public finances, direct and indirect, are extremely serious. Our high level of government debt makes us highly vulnerable both to a global economic downturn and to more Island-specific shocks.

Continuing far-reaching action, both immediately and over the medium term, will be required to manage this serious risk. The Government, the Opposition, the business community, trade unions, and the public need to be aware of these risks as we all have a part to play in getting our economy back on track.

We must recognise the uncertainties and, in particular, the risk that the economic impacts of the pandemic may be more severe and longer-lasting than currently anticipated. This will require some sacrifice from all sectors of our community. But rebuilding Bermuda's resilience will need more than this

– it also means addressing future risks and taking advantage of the opportunities presented by the crisis.

**2020/21 Half-Year Fiscal Performance:**

Mr. Speaker, the COVID-19 crisis has already had an immediate impact on the Bermuda economy and the government's fiscal position.

By way of background, I would remind Honorable Members of the headline numbers for the 2020/21 National Budget, which were: a revenue target of \$1.122 billion; current expenditure of \$1.057 billion, including debt service of \$121.4 million; capital expenditure of \$85.0 million; leading to a projected deficit of \$19.8 million.

However, as previously announced, the public-health measures required to safeguard the health of residents have caused a severe economic shock in the Bermuda economy. The economic impact of COVID-19 has also had a severe knock-on effect on the 2020/21 fiscal performance. The combination of lower fiscal revenues, and higher public spending, will cause the projected 2020/21 budget deficit of \$19.8 million to increase significantly.

Mr. Speaker, I will now speak to the half-year fiscal performance.

Mr. Speaker, total revenues for the first half of fiscal 2020/21 were \$462.8, \$82.6 million, or 15.1% below the same period last fiscal year. This was due to lower collections in all tax types other than Land Tax, Vehicle Licences & Registration, and Financial Services Tax.

Of significance, Mr. Speaker,

- Payroll taxes were down by \$6.5 million or 2.6%
- Customs Duty was down by \$31.4 million or 26.2%
- Passenger Taxes were down by \$26.2 million or 100%; and
- All Other Receipts down by \$10.2 million or 28.3%

Mr. Speaker, due to the easing of restrictions, including the opening of our borders, the revenue collections in the second fiscal quarter of this year showed an improvement of just over \$19.5 million when compared to the first fiscal quarter. The Ministry expects revenue collections to continue to improve with increased economic activity.

Mr. Speaker, current expenditures, excluding debt service and COVID-19 related expenditures, for the six months ending September 30, 2020, are \$35.9 million or 7.7% **lower** than the corresponding prior period ending September 2019. This was due to most expenditure types being down when compared to 2019 as a result of the Government's remote working policy.

Of significance, Mr. Speaker:

- Salaries and Wages were down by \$5.7 million or 2.8%;
- Employer Overhead was down by \$6.5 million or 16% due to Government suspending matching contributions into the pension funds;
- Energy costs were down by \$2.2 million or 31%;

- Travel was down by \$1.5 million or 91%; and
- Professional Services were down by \$1 million or 6%.

Mr. Speaker, since the onset of the pandemic, the Ministry of Finance has continuously stepped-up efforts to provide support to deal with health emergency needs and assist individuals and businesses. During this period, the Ministry of Finance COVID-19 - Fiscal Plan has provided a timely and targeted fiscal stimulus to our economy's various components, as needed. Additionally, significant public resources have been directed to strengthen the healthcare sector and support affected workers and economic sectors.

Mr. Speaker, during the first half of this fiscal year, the Government spent \$78.8 million in COVID-19 related expenditures. The majority of this expenditure - \$57.6 million - is connected to the Government's Unemployment Benefit in which we paid benefits to over 10,000 persons.

We have also spent just over \$21 million for other COVID-19 related matters to keep Bermuda safe and secure. This included costs related to the following:

- To purchase PPE;
- To provide for COVID-19 testing;
- To embody the Bermuda Regiment;
- To provide for quarantine facilities;
- To provide for enhanced cleaning contracts;
- To provide grant funding for the BEDC Business Sustainability & Continuity Funding Programme;

In this \$21 million, Mr. Speaker is an amount of \$5.8 million paid to the Bermuda Airport Authority to honour the airport minimum revenue guarantee with Skyport.

Mr. Speaker, when factoring in these COVID-19 related unbudgeted expenses, the total current account expenditure was \$506.7 million, a \$42.9 million, or 9.2%, increase compared to the period ended September 30, 2019.

Total current expenditures, including COVID-19 expenses and excluding debt service, for the six months ended September 30, 2020, are higher than the 2020/21 fiscal year original half-year budget estimate of \$467.8 million.

Mr. Speaker, capital expenditures for the six months ending September 2020 are \$3.4 million lower than the six months ending September 2019. This decrease was mainly due to the Government delaying the start of some capital projects due to COVID-19.

Interest expenses and related facility fees are tracking \$6.1 million higher than in 2019. This is due to higher debt levels after the Government's capital raise of \$1.35 billion at historically low rates. This borrowing provides liquidity to the Government in support of the impending economic recovery over the next two to three years.

Mr. Speaker, excluding debt service, the Government recorded a \$71.4 million current account deficit for the first six-month period ending September 30, 2020, compared to a \$50.7 million surplus for the same period in 2019.

The all-inclusive deficit was \$135.8 million compared to a deficit of \$7.6 million in 2019. The above-mentioned capital raise financed this deficit.

Mr. Speaker, net debt at the end of September 2020 stood at \$2.94 billion.

### **Revised Budget for 2020/21**

Mr. Speaker, COVID-19 impacts have made the 2020/21 budget presented and approved in this Honourable House outdated.

### **Revenue**

The original revenue budget estimate for 2020/21 was \$1.122 billion. COVID-19 has and is continuing to have a significant impact on Government revenues due to reduced economic activity in many sectors of the economy and the loss of most tourism-related taxes and levies. The Ministry's revised revenue estimate for 2020/21 is \$914.1 million, a reduction of \$208 million, or 18.5%.

This estimate assumes that revenues based on cruise ship related tourism fall to zero, while revenues from most broadly-based taxes fall by 10% - 22%.

Mr. Speaker, the primary reasons for the mentioned decrease in revenue are due to:

- A decrease in Payroll Tax from \$467.0 million to \$396.9 million, representing a \$70.0 million or 15% reduction;
- A decrease in Customs Duty from \$235.0 million to \$183.3 million representing a \$51.7 million or 22% reduction; and

- A decrease in Cruise Ship Departure taxes and the Transport Infrastructure tax from \$36.3 million to 0, representing a \$36.3 million or 100%

## **Expenditures**

### **Current Account**

Mr. Speaker, in the February Budget Statement, the original current account expenditure (before debt service) in 2020/21 was estimated at \$935.6 million.

Based on submissions by Ministries and Ministry of Finance projections, unbudgeted COVID-19 expenditures for this fiscal year are estimated to be \$125.2 million and consist of the following:

COVID-19 MINISTRY EXPENDITURES	22,000
UNEMPLOYMENT BENEFIT	58,000
SUPPLEMENTAL UNEMPLOYMENT BENEFIT	3,000
FINANCIAL ASSISTANCE	2,000
<b>QUANGO'S ASSISTANCE:</b>	
BEDC	12,000
WEDCO	3,500
GOLF COURSES	3,700
BAA - AIRPORT REVENUE GUARANTEE	21,000
<b>TOTAL EXTRAORDINARY EXPENSES</b>	<b>125,200</b>

Mr. Speaker, the management of public finances has taken on greater significance with the onset of COVID-19. As a result, the Ministry of Finance COVID-19 Fiscal Plan calls for a reexamination and reduction of lower priority budget expenditures to ensure that spending needed for COVID-19 matters are maintained and the deficit is contained. Accordingly, savings have been identified in the following areas:

- Continuing the freeze on the funding of vacant posts that are not required to address COVID-19 or to protect Bermuda’s national interests;
- Continuing the ban on non-essential government travel; and
- Reducing all discretionary spending, including grants, consultancy, training, materials and supplies, clothing and uniforms, etc.

To reduce the deficit further, other temporary payroll or government employee overhead savings were identified. Savings have also been identified in several discretionary areas such as grants, consultants, travel, repairs and maintenance, etc. Additionally, to reduce the deficit further, other temporary payroll or government employee overhead savings have been identified and implemented as the Government has been in negotiations with the Unions on this matter. I can advise that at this time, the four largest unions representing over 80% of public sector employees have agreed to Government’s cost-saving measures. At this time, I would like to thank these Unions and public officers for their support in this critical initiative.

To date, just over \$73 million in savings have been identified which are broken down as follows:

SALARY	(15,900)
WAGE	(4,100)
VACANT POSTS	(8,000)
EMPLOYER OVERHEAD:	
PSSF Contribution (Employer)	(19,167)
MMPF Contribution (Employer)	(833)
Social Insurance Contribution (Employer)	(6,000)
OTHER DEPARTMENTAL OPERATIONAL EXPENSES	(19,000)
<b>TOTAL CURRENT ACCOUNT EXPENDITURE SAVINGS</b>	<b>(73,000)</b>

Mr. Speaker, when factoring in the unbudgeted COVID-19 expenditures and savings that have been identified, the revised current account expenditure is \$987.8 million, which is \$52.2 million or 5.3% higher than the original estimate.

### **Capital Expenditures**

Mr. Speaker, I will turn now to capital investment. The original capital expenditure component of the 2020/21 Budget was set at \$85.0 million.

Although our COVID–19 Pandemic - Fiscal Plan originally called for a delay in some capital projects that had not commenced, we have revised our approach to support essential capital projects and support certain additional projects. These capital projects will support our economic recovery, provide employment for Bermudians, and improve our quality of life.

Mr. Speaker, in total, the Ministry is providing up to \$93 million in capital development up \$8 million from the \$85 originally budget.

## **Debt Service**

Mr. Speaker, revised debt service costs for 2020/21 are projected at \$128.7 million. This is approximately \$7.3 million higher than the original estimate of \$121.4 million. As mentioned previously, this was due to higher debt levels after the Government's capital raise of \$1.35 billion at historically low rates.

Mr. Speaker, in accordance with Section 2(3) of the Government Loans Act 1978, I will inform this Honourable House of the success of this borrowing transaction in a separate Ministerial Statement later in this session.

Mr. Speaker, after factoring in the impact of lost revenue (\$208.1 million), estimated additional expenses relating to the COVID-19 pandemic (\$125.2 million) the Government's cost-saving measures (\$73 million), increased capital expenditure (\$8 million), and increased debt service (\$7.3 million) our current revised estimate of the deficit for the 2020/21 fiscal year is approximately \$295 million. In making this estimate, we have provided for accelerated capital spending of \$65 million over the next six months to provide stimulus to the economy and increased jobs for Bermudians.

Mr. Speaker, this level of deficit is not only unsustainable but economically and fiscally imprudent. When considering the current high level of public debt, the Ministry of Finance regards this deficit as a serious challenge. However, the Ministry recognizes that during these unprecedented times, we must support our most vulnerable and ensure our citizens' health and safety. Mr. Speaker, in this fiscal year, the Government has had to take unprecedented policy actions to redirect existing resources towards health

and social support measures. These actions have allowed us to successfully control the virus spread and provide support to our economy.

Mr. Speaker, during these difficult times, we must continue to manage the fiscal affairs of the country with prudence. Therefore, we must be judicious in the use of additional funds borrowed.

Bermuda has responded well to the immediate challenges of COVID-19. We must now focus our efforts on rebuilding our economy.

**Thank you, Mr. Speaker,**