

Hon Roy McTaggart Budget Address
November 8th, 2019

Mister Speaker, it is indeed an honour to rise today and present **The Appropriation (Financial Years 2020 and 2021) Bill, 2019**.

Summary — 2020 and 2021 Budgets

Mister Speaker, the Appropriations set out in the Bill now before the House together with the Budget Documents I tabled earlier, collectively form the Government's 2020 and 2021 Budgets. Thanks to the sustainable fiscal strategy that the Government has been working to over the last six years, I can once again reassure the House that the Budgets are compliant with the Public Management and Finance Law (PMFL) and the Framework for Fiscal Responsibility (FFR).

As Minister for Finance and Economic Development I am pleased to present a Budget which is grounded in sound fiscal policy. As I shall illustrate later, Mister Speaker, there are few nations that are in as strong a financial position as the Cayman Islands. As I shall also demonstrate, we are in that strong position only because of the willingness of this Government to put in place the fiscal strategy the country needed and, perhaps more importantly, to stick to it.

I will highlight the key figures for the House. In summary, the 2020 and 2021 Budgets forecast:

- stable, annual Operating Revenues of **\$825 million** in 2020 and **\$849.7 million** in 2021 – this strong revenue position reflects that the country's track record of economic growth is expected to continue without increasing the tax burden on Caymanian families;
- annual Operating and Financing Expenses of **\$759.7 million** in 2020 and **\$774.4 million** in 2021 to fund the expanded and enhanced public services which deliver on the commitments this government has made to the people;
- robust Core Government Operating Surpluses of **\$65.3 million** in 2020 and **\$75.3 million** in 2021 that allow us maintain our track record of making capital investments from cash without the need to borrow;
- forecast Cash Balances of **\$327 million** at 31 December 2020 and **\$287.1 million** at 31 December 2021 – maintaining stable cash reserves well above the minimum required by the FFR while also funding Capital Investments, paying down debt, and ensuring we have funds available in case of future shocks;
- capital Investments of **\$182.6 million** in 2020 and **\$121.4 million** in 2021 to fund significant infrastructure improvements to meet today's needs and secure the Country's future. Investments will also be made to support our Statutory Authorities and Government Companies (SAGCs); and
- reductions in Core Government Debt of **\$35.9 million** in 2020 and a further **\$34.3 million** in 2021.

Fiscal Policy

Mister Speaker, on 12 April 2019 the Government presented its 2020 Strategic Policy Statement (SPS) which set out, in macro terms, the Government's medium-term fiscal policies and financial forecasts for the next three financial years, 2020–2022.

The 2020 and 2021 Budgets presented today are consistent with these policies and forecasts. As always, the numbers vary in detail from the April presentation but the direction and the trend remain the same. The changes made, reflect more accurate and up-to-date information now available on which to base these estimates.

Our overriding fiscal strategy is to sustainably manage the Government's finances by adhering to the following guiding tenets:

- 1. Compliance with the Principles of Responsible Financial Management;**
- 2. No new fees or taxes levied on the public; and**
- 3. No new borrowings!**

You have heard this mantra before but I make no apology, Mister Speaker, for repeating our three fiscal rules again to the House today. It is only by resolutely holding steadfast to these tenets over the past six financial years that the Government has placed the Cayman Islands on the sound financial footing we now enjoy. As a result, we have positioned the Country well to embrace opportunities for continued economic and social development and ensured that we are in the best possible position to withstand future economic shocks.

We have also built the resources and capacity to tackle head-on, the issues facing us as we continue to develop these Islands for the benefit of our people. Sound finances are a cause for celebration but they should not become an end in themselves. The really important thing that shines through this budget is that the strong financial platform that this Government has created is enabling us to allocate the resources necessary to propel the ambitious agenda we have set out for our Country and for our people.

This Budget keeps us moving forward on the path to long term fiscal sustainability. At the same time, it allows us to increase spending to deliver key priorities such as supporting vulnerable Caymanians; increasing educational opportunities for our young people; and ensuring Cayman remains a safe place to live, work, visit and do business!

Let me briefly mention the delivery of our fiscal strategy. First, our **Compliance with the Principles of Responsible Financial Management – in particular, achieving substantial Surpluses each year**

Mister Speaker, compliance with the Principles of Responsible Financial Management is required under the PMFL – it is not optional.

Failure to do so would result in us surrendering control of our budget to the United Kingdom – stripping us of that most basic privilege of deciding for ourselves how we spend our money. We have been forced down that road before and no-one in this House wants to see Cayman back in that position. This Government believes our financial independence should be fiercely protected and we are committed to ensuring that the Cayman Islands maintains the ability to control its own budget.

The challenge of operating public sector finances to generate a surplus position is one that faces countries around the world. Few are responding to that challenge as positively as the Cayman Islands. Worldwide, the data shows that fewer than 20% of Governments reported having a Budget surplus. The Cayman Islands ranks 7th in the world with a budget surplus equal to 4.4% of our GDP, just behind Hong Kong which reported a surplus of 5.2% of GDP. Many countries, including a large number who criticize Cayman's tax neutral status, are running significant budget deficits.

With this Budget we are taking further action to ensure that we remain in full compliance with the PMFL and FFR. This Unity Government continues to act in the long term best interests of these Cayman Islands!

Managing our finances to generate operating surpluses means that we will be spending less on our operating activities than we earn in revenues. By doing so, we will continue to build our cash reserves; be able to fund our significant programme of capital investments; and eliminate the need for any new borrowings.

Achieving this goal of our fiscal strategy is a significant challenge to both policy makers and civil servants as there is continuous pressure to increase expenditure to meet the ever changing demands for public services. I thank the Honourable Premier, my fellow colleagues in the Government Caucus and all civil servants for their continued efforts to seek cost effective solutions to meet these needs while delivering a Budget that is fully compliant.

No new fees or taxes levied on the public

Keeping the tax burden as low as possible is another critical element of our fiscal strategy. This Government believes in economic freedom. This means that the best place for the dollars earned by the hard work and

enterprise of Caymanians is in their pockets, not in the Government's coffers. The amount Government takes should only be that necessary to do the things that Government is best placed to do on behalf of our people collectively.

Experience the world over has shown that human ingenuity creates the business solutions which drive economic development, not Government intervention. This Government is committed to creating and enforcing a legislative framework which supports the development of a fair and equitable business environment. It is that which generates opportunities for Caymanians as owners, investors, employees and consumers. This Government's approach is yielding real results.

Our sound stewardship of the finances and our fiscal restraint are giving business the confidence to invest in Cayman. This stimulates more growth and generates more jobs. These things, in turn, create higher government revenues that maintain our sound finances even as we invest more in our economic future. And so it goes on, Mister Speaker. This is the virtuous circle at the heart of this Government's strategy.

No new borrowings

The Government is not planning to undertake any borrowing throughout the 2020–2021 budget period – instead, we remain focused on continuing to pay down our debts! This conservative but prudent fiscal strategy is absolutely right for Cayman. Through it, this Government is ensuring that we do not burden future generations with the costs of our decisions today.

We have a responsibility to take calculated steps to ensure that we act in a sustainable manner. Moreover, the financial strength our strategy delivers, ensures that we maintain the fiscal capacity to borrow should we be faced with unexpected economic hardships in times to come. In short, this strategy is right for today and good for tomorrow.

Mister Speaker, this strategy has served us well and we are continuing with it for this coming Budget cycle.

It is not just a strategy to avoid new borrowing. It is also a strategy to pay down the debt burden this Government inherited. Again, this is right for today and good for tomorrow. Paying down debt means that the debt financing charges we have to find from our operating budgets decrease, leaving more to spend on public services. Paying down debt now gives us flexibility and strength should we need to go to the markets in the future.

In the area of Debt Management, the Government has much to be proud of. Our achievements over the past six years have been nothing short of extraordinary. Over this timeframe we have managed to reduce our Core Government debt by making payments of **\$442.1 million** without having to suffer through major structural adjustments in our economy or massive public sector layoffs as many countries have had to endure during this period.

That outcome is the result of the discipline this Government has shown in making sure that the operating surpluses we have generated have not been frittered away but instead have been used to reduce the debt burden.

Later this month, we will achieve the largest ever single reduction in Cayman's public sector debt. As the House is aware, this month we will repay the **CI\$261.3 million (US\$312 million)** bullet bond that falls due. Also this month we will be following through with our plans to refinance **CI\$153 million** of that debt with an amortizing loan. That refinancing has long been planned and approved by this Honorable House in order to ensure that we maintain Government's cash reserves and liquidity.

The net effect of all of this is that we will have achieved, at a single stroke, a **\$108.3 million** net reduction of debt in the 2019 financial year. It is somewhat ironic, Mister Speaker, that we have had to ask the UK for special agreement to make this repayment as it completely breaks through the FFR ceiling for our debt servicing ratio. Needless to say, the UK had no problem with what is only a technical breach of our target ratios.

Achieving a net reduction of **\$108.3 million** of Government debt in 2019 alone, is only possible because of the responsible fiscal strategy this Government has followed. As a Government, we are rightly proud of this achievement and the positive impact it has on our future financial position and on our economy.

2019 Financial Forecasts

Mister Speaker, before delving into the details of the 2020–2021 Budgets, it is important that I provide an update on the current state of public sector finances and the forecasts to 31 December 2019.

Overall, the 2019 financial year is on track to deliver better than budgeted results driven in large part by continued growth in revenues which are in line with our growing economy.

Operating Revenues are forecast to be **\$824.2 million**, some **\$101.4 million** higher than estimated in the original 2019 Budget. This better than expected performance is primarily attributed to strong growth in the following revenue lines: *Import Duties; Stamp Duty on Land Transfers; Banks and Trust Licence Fees; Partnership Fees; and Tourist Accommodation Charges.*

These results point to healthy performance in our core economic sectors and demonstrate how the healthy Cayman economy benefits all Caymanians through the increased revenue yields that Government can then spend on vital public services. This is the strong economy, working for you.

In addition, the Government earned significantly better than expected interest on its cash deposits due to a combination of better market rates and maintaining higher cash balances.

Operating Expenses for Core Government are forecast to be **\$743.5 million** for 2019, which is **\$85.7 million** greater than the original budget of **\$657.8 million**. Increases are forecast for Personnel Costs which are trending higher by **\$24.5 million** due to a combination of factors driven by increased health insurance premiums and pension contribution rates, as well as the full-year impact of the 2018 Cost of Living Adjustment.

There has also been a significant increase of **\$25.8 million** in the cost of Tertiary Medical Care for Indigents and qualified persons who have exceeded their personal health insurance. The Government has also provided additional funding of **\$18 million** to the Health Services Authority and the Cayman Islands Monetary Authority for additional services.

Statutory Authorities and Government Companies are forecast to have a net Operating Loss of **\$6.5 million** for the year ending 31 December 2019 compared to an original budgeted loss of **\$5.8 million**.

The net result of these changes is that Core Government is now forecast to have an **Operating Surplus** of **\$80.6 million**, an increase of **\$15.5 million** above the approved 2019 Budget.

Core Government **Cash Balances** at 31 December 2019 are forecast to be **\$438.3 million**.

Overall, the impact of these updated projections for 2019 means that the Government is forecast to strengthen its degree of compliance with the Principles of Responsible Financial Management and the FFR as follows:

- a higher **Operating Surplus** than originally planned;
- increased **Net Worth**;
- lower than expected **Debt Service Ratio (DSR)** of 39.5% versus budgeted DSR of 46.7%. Normally the maximum DSR permitted is 10% however, as I said earlier, it was agreed with the United Kingdom to allow for this one-off breach as it is driven by the scheduled Debt repayment later this month;

- **Net Debt Ratio** of less than 0% which is considerably better than the budgeted 17.4%. This forecast improvement is driven by our reduced debt burden and higher cash balances; and
- **Cash Reserves** at 31 December 2019 are forecast to be at 186.4 days of Operating Expenses: more than double the originally budgeted degree of compliance of 91.9 days.

Mister Speaker, this forecast financial outturn for 2019 is a clear indicator of the firm foundation of our Public Sector finances. We will end 2019 in an even better financial position than what this Government's stringent financial strategy had called for. It is on this foundation that we have produced the 2020–2021 Budgets.

Economic Forecasts

Mister Speaker, this Budget has been prepared with the knowledge and context of the current state and medium term forecasts for the local and global economy. The Cayman Islands economy does not exist in a vacuum; we are inextricably linked to the ups and downs of the wider global economy.

We are living in dynamic and challenging times with seemingly ever increasing forces of change impacting us from many angles, including political, technological and environmental sources.

The International Monetary Fund, in its fall ***World Economic Outlook*** published in October 2019, summarized the current state of the Global Economy in this way – ***“the global economy is in a difficult situation and the forecast is subject to considerable downside risks.”***

The Premier stated in his address earlier that there is every possibility that we may face an economic slowdown during this budget period. One has only to turn to the international news to find major issues impacting the global economy, stories like: BREXIT; the US and China trade war; disruptive public protests; and impacts of natural catastrophes.

The possibility of a slowdown must be one of the risks we consider as we weigh budget priorities and I can assure the House that the 2020–2021 Budgets have taken these global factors into account as best we can, given the uncertainties.

It is probably part of the job of a Finance Minister, Mister Speaker, to be something of a prophet of doom. But I refuse to take that route. There is every reason to believe that Cayman is in a good position to weather any coming economic storm. There are, after all, many things which are positive in our local economy. The Cayman Islands are currently enjoying a period of great economic prosperity.

We have enjoyed several consecutive years of solid, sustained economic growth with an average annual growth rate of 3%; I will emphasize again here, Mister Speaker, that this is long term, sustainable, private sector-led growth. It reflects a strong underlying real world economy, not the debt-fueled excesses of Government-funded short-term fixes. While we must always remain cognizant of what is happening around us and keep our eye on the future, there is a strength and robustness to Cayman's economy that is the envy of many in the region.

The Cayman Islands have much to be proud of from an Economic Development perspective. We have built a strong stable economy by focusing on innovative high value added services that are in constant demand by a broad base of international, commercial and individual consumers.

The fundamentals of the Cayman Islands economy are strong. Our key macro-economic indicators tell the story clearly.

Real Gross Domestic Product (GDP), the primary indicator for economic growth, is projected to increase by an average rate of 2.2% in 2020 and 2021. This growth, while a bit slower than the 3.0% average annual growth of the

past five years is still indicative of a stable yet expanding economy. The lower projections reflect the global uncertainties I spoke of earlier rather than to any issues particular to Cayman.

Inflation, as measured by the **Consumer Price Index**, is expected to fall to 2.5% in 2020 and 2.0% in 2021. This is lower than inflation rates over the last two years, but indicates that inflationary pressures in the economy will persist based on higher international commodity prices and increased local demand and levels of consumption.

We must remember that Cayman imports nearly all of its consumables and manufactured goods, and as a result, local prices are particularly vulnerable to price changes in the country of origin.

I challenge our business community to continue to seek out new cost effective sources for the products they retail in our local market. Also, individual consumers, remember you have power too in the choices you make about the items that you spend your money on. I urge you to use that power wisely.

The **Unemployment Rate** for 2020 is forecast to be 3.5% and 3.6% in 2021, further indicating job market stability supported by a growing economy. Consequently, the levels of Caymanian unemployment are also expected to be low and stable. It should be noted that these rates are lower than those forecast for the USA and other Advanced Economies.

As I have said, growth in Cayman is generated by the enterprise and innovation that characterizes our private sector. Long may it remain so! Government has a responsibility to support growth and as far as possible to keep out of the way of private sector growth. That means minimizing the administrative and financial burdens we impose on local businesses.

Therefore, for the 2020 and 2021 Budgets, the Government will continue to offer the package of duty concessions that we have developed during our time in office which support economic growth by keeping both the cost of doing business and the cost of living in the Cayman Islands as low as possible.

These are:

1. **reduced import duty on diesel fuel used by Caribbean Utilities Company to generate electricity;**
2. **reduced import duty for licensed traders;**
3. **reduced import duty on building materials;**
4. **reduced trade and business licence fees for new licencees;**
5. **the continuation of current incentives for Cayman Brac and Little Cayman; and**
6. **reduced stamp duty rates for Caymanians purchasing their first property.**

These measures have proven to be effective in supporting our local economy and empowering our people to make the most with their hard-earned income.

The 2020 and 2021 Budgets

Mister Speaker, I now move to the details of the 2020 and 2021 Budgets.

Operating Surplus

For 2020, the Government is forecast to earn Operating Revenues of **\$825 million**, incur Operating and Financing Expenses of **\$759.7 million**, resulting in a Core Government surplus of **\$65.3 million**. When factoring in the forecast **\$17.2 million** Operating Loss of Statutory Authorities and Government Companies, the Entire Public Sector is forecast to have an overall Net Surplus of **\$48.1 million** for 2020.

In 2021, the Government is forecast to earn Operating Revenue of **\$849.7 million**, incur Operating and Financing Expenses of **\$774.4 million**, resulting in a Core Government surplus of **\$75.3 million**. When factoring in the forecast **\$16.9 million** Operating Loss of Statutory Authorities and Government Companies, the Entire Public Sector is forecast to have an overall Net Surplus of **\$58.4 million** for 2021.

Operating Revenue

I will say again that in line with this Government's pledge not to raise taxes, the 2020 and 2021 revenue forecasts do not include any new revenue measures or any material changes to the Government's revenue earning structure. In addition, given the global economic uncertainties, we have taken a conservative stance with regard to our revenue growth forecasts.

Total Operating Revenue for 2020 is forecast to be **\$825 million**, with **\$783.4 million** being coercive revenue and **\$41.6 million** in *sales of goods and services* and *other operating revenue*.

In 2021, Operating Revenue is forecast to be **\$849.7 million** with **\$806.6 million** in coercive revenue and **\$43.1 million** in *sales of goods and services* and *other operating revenue*.

The House will note that the 2020 operating revenue figure is the same as the revised forecast for 2019 I mentioned earlier and that the 2021 forecast is just 3% higher than the estimate for 2020. While others may have been tempted to post higher forecasts in order to artificially boost spending, that would not be consistent with the prudent approach this Government has followed throughout its term.

Should income be higher than forecast we can obviously look at the potential for supplementary estimates, but I would rather do it that way than be forced to cut spending because our revenue forecasts proved unreliable.

The Government will be realising and transferring approximately **\$34 million** and **\$34.2 million** into General Revenue from various trust accounts whose holding period is scheduled to mature in 2020 and 2021, respectively.

These are one-off transfers that relate to *bona-vacantia* financial assets that, by law, become the property of the Government after being held in trust by the Government with no claims being made after four years.

Operating Expenditure

Operating Expenditure in 2020 is forecast to be **\$747.2 million** and **\$763.4 million** in 2021. These amounts represent an increase over the 2018–2019 levels and are directly related to the provision of enhanced and expanded services and programmes across the Government, as we continue to meet the commitments we gave to the Country.

My colleagues will no doubt speak to the detail during the debate, Mister Speaker, but I want to outline the major drivers for the increased Operating Expenditure levels in 2020 and 2021 which are:

- a continued focus on the Government's strategic priority to improve teaching and learning in schools: including reviewing and strengthening the provision of special education services and early childhood care and education; continued review and implementation of the new education curriculum in high schools following its successful introduction at primary level this year. As the Premier said earlier, we are also bringing forward the continued development and implementation of technical and vocational training;
- continued investment in keeping communities safer through the enhancement of police services including community policing and outreach, and child protection via the Multi-Agency Safeguarding Hub (MASH) Unit; to support the infrastructure improvements also in the budget, the RCIPS budget provides for the development and implementation of a traffic management plan; and establishment of the Coastguard unit;
- border security has rightly assumed a higher profile in recent years and this budget allocates funding for the continued development of the effective and efficient administration, implementation, enforcement, and evolution of the Border Control laws and regulations; changing processes to maintain compliance with international obligations under treaties and

conventions related to the management of regular and irregular migration; and enhancement of the management of employment and national workforce development;

- a key new initiative in this budget is the establishment of a new ministry responsible for international trade, investment, aviation and maritime affairs to advance the economic and political interests of the Cayman Islands, including making it easier for potential overseas investors to do business in the Cayman Islands;
- our financial services industry remains the cornerstone of Cayman's economy and this Government has strenuously defended that industry while at the same time ensuring it is properly regulated. To that end, this budget provides the resources necessary to enhance Financial Services policy functions and the regulatory services provided by the Cayman Islands Monetary Authority in order to keep pace with evolving international regulatory requirements; enhance competitiveness of the financial services industry through advancements in policy, legislation, and strategy; and enhance international engagement to counter threats to the domestic financial services industry and improve the reputation of the jurisdiction;
- additional resources are being made available to strengthen the capacity and resilience of the Cayman Islands Fire Service;
- implementation of the Integrated Solid Waste Management System; continuation of the highly successful culling programme for the invasive green iguana; and commencement of operations of the new Residential Mental Health Facility;
- enhanced Information Technology services including essential improvements in cyber-security and extending the programme of e-Government initiatives which is making services more efficient and easier to access for the benefit of both local people and the business community;
- there is funding to meet the one-off cost associated with the conduct of the 2020 National Census and the 2021 General Election;
- I am delighted, Mr. Speaker, that we have the money to increase further our financial support of seniors and the Government will also be working to promote the rights and welfare of the most vulnerable in society; and
- the budget provides increased funding to the Cayman Islands National Insurance Company for the continued provision of health insurance services to its clients.

The comprehensive improvements in public services outlined in this budget require investments in people to deliver them. We are therefore, funding additional teachers and educational specialists to ensure our young people are given increased opportunities through education. We are employing more Police officers, coastguard officers and more staff in the Prison service and other public safety personnel as we improve community safety, enhance border security and invest in the criminal justice system.

A number of agencies across the Public Sector will be taking-on additional staff as part of the Government's drive for compliance with international regulatory frameworks for the financial services industry. Overall, Personnel Costs are forecast to increase in line with \$28 million in planned recruitment of additional officers to enhance capacity and improve services across Government.

Outputs from Statutory Authorities and Government Companies are expected to increase by **\$2.6 million** in 2020 and a further **\$3.4 million** in 2021. These changes are mostly attributed to: higher health insurance premiums charged by CINICO for pensioners, seafarers and veterans; and additional funding required by the Cayman Islands Monetary Authority to strengthen its regulatory services.

Collectively, our SAGCs are forecast to produce net deficits of **\$17.2 million** in 2020 and **\$17.0 million** in 2021. These deficits are driven by decreased financial performance by a number of entities, led by significant operating losses at the Health Services Authority and Cayman Airways.

The major components of Operating Expenses in the 2020 and 2021 Budgets, as shown in the financial statements are:

Personnel Costs – budgeted to be **\$363.6 million** in 2020 and **\$373.5 million** in 2021 to fund additional staff to deliver the initiatives included in this budget that I just spoke to.

Supplies and Consumables – budgeted to be **\$124.9 million** in 2020 and **\$127.2 million** in 2021.

Depreciation – budgeted at **\$38.4 million** for 2020 and **\$39.7 million** for 2021 and reflects the increase in the value of the Government's assets as various capital projects are completed.

Mister Speaker, it is important to remind Honourable Members and the general public that depreciation is a non-cash expenditure item which recognizes the cost of assets through the operating statement, in a systematic way, over the expected useful life of the asset.

Outputs from Statutory Authorities and Government Companies are forecast to be **\$131.8 million** in 2020 and **\$135.2 million** in 2021. The budget in this category will be used to fund the following:

- **\$41.8 million** in 2020 and **\$44.5 million** in 2021 to CINICO for the provision of health insurance benefits to, Civil Service pensioners, and qualified seafarers and veterans;
- **\$30.4 million** per year in 2020 and 2021 to the Health Services Authority for the provision of various medical services to the community;
- **\$18.5 million** per year in 2020 and 2021 to Cayman Airways for the provision of international airlift to the Cayman Islands from strategic tourism markets and domestic airlift between our three Islands; and
- **\$23.1 million** per year in 2020 and 2021 to the Cayman Islands Monetary Authority for enhanced regulatory capacity to keep abreast of ever-changing international regulatory requirements.

Outputs from Non-Governmental Output Suppliers are expected to remain stable over the budget period and are forecast to be **\$31.2 million** in 2020 and **\$28.8 million** in 2021. The major items in this category are:

- **\$19.7 million** in 2020 and **\$17.6 million** in 2021 for tertiary medical care at various local and overseas providers for uninsured, underinsured and indigent persons;
- **\$2.6 million** in 2020 and **\$2.7 million** in 2021 for Legal Aid Services;
- **\$1.3 million** per year in 2020 and 2021 for care, custody, and processing of irregular migrants; and
- **\$2 million** per year in 2020 and 2021 for the care of indigent and disabled elderly persons.

Transfer Payments are forecast to be **\$44.9 million** in 2020 and **\$46.2 million** in 2021. These funds will be used to deliver critical social programmes that support our young people in achieving their educational goals and provide vital financial support to the most vulnerable in our society.

The major Transfer Payments budgeted for in 2020 and 2021 are:

- **\$10 million** per year in 2020 and 2021 for Local and Overseas Scholarships to more than 2,000 students per year to enable them to pursue advanced studies and acquire the skills necessary to take the Cayman Islands forward;
- **\$15.2 million** in 2020 and **\$17.1 million** in 2021 for Temporary and Permanent Financial Assistance to support the most vulnerable in our community;
- **\$9.8 million** in 2020 and **\$11.1 million** in 2021 for Ex-Gratia payments to our retired Seamen and Veterans; and
- **\$2 million** in 2020 to the Chapel Church Bodden Town for the completion of the Bodden Town Hurricane Shelter.

Financing Expenses are expected to be **\$12.5 million** in 2020 and **\$10.9 million** in 2021. These expenses cover the interest payments and other financing costs associated with the Core Government's portfolio of Debt, which will be reduced by **\$35.9 million** in 2020 and a further **\$34.3 million** in 2021.

Net Operating Performance of Statutory Authorities and Government Companies is forecast to be a net loss of **\$17.2 million** in 2020 and **\$16.9 million** in 2021. These losses are recognized as an expense on the Operating Statement of the Core Government and are being driven by significant changes to the forecast financial outturns by a number of entities when compared to the previous budget cycle. Most notably, Cayman Airways and the Health Services Authority are forecast to have operating deficits in 2020 of **\$7.1 million** and **\$10.9 million** respectively, and **\$5.7 million** and **\$12.8 million** respectively, in 2021.

I should add, Mister Speaker, in many cases this financial performance reflects the strategic objectives Government is pursuing through the entities involved. For example, Cayman Airways is funded to enable it to operate vital services between our three Islands and to support the economy by maintaining important air links with strategic markets.

Therefore, while Government will continue to push the SAGCs to take action to maximise their financial performance, we recognize that there is an important balance between financial performance, commercial realities and the desired outcomes we are seeking to achieve via these SAGCs.

Capital Investments

Turning now to Capital Investments, Mister Speaker, this Government recognizes that Public Sector capital investments are a necessary and important economic catalyst for the continued economic development of these Islands.

For this Budget cycle the Government will be increasing the level of capital investments in order to address a number of infrastructural needs that are necessary in order to build the capacity needed to meet the needs of the people while also supporting and encouraging economic growth.

These investments are being made only after thorough analysis to determine their appropriateness, cost effectiveness and sustainability.

The resulting capital programme is hugely ambitious but now is the time for that ambition Mister Speaker. The Premier has already spoken of the need to bring forward much-needed investment in our road infrastructure. At the same time we have a significant number of key projects moving towards fruition as I will detail shortly. We have set out with the ability to finance all of these significant investment projects and while, inevitably, some may slip beyond this budget period, the Government is confident that we will deliver a major portfolio of projects over

the next two years. Taken together, progressing these projects represents one of the most important steps forward for these Islands in our recent history.

The Government intends to make Capital Investments totalling **\$182.6 million** in 2020 and a further **\$121.4 million** in 2021. These planned Capital Investments will be entirely funded from existing resources – that is cash generated from operating activities and surplus cash reserves. I reiterate that there will be no new Borrowings in 2020 or 2021.

Planned investments in Core Government assets for 2020 are **\$154.6 million** and **\$96.5 million** in 2021. The major investments in this category being:

- **\$42.9 million** in 2020 and **\$25.3 million** in 2021 to the Ministry of Education, Youth, Sports, Agriculture and Lands for: the continued development of the new John Gray High School campus; upgrades to other school infrastructure; and the development of a new Sunrise Adult Training Centre.
- **\$33.8 million** in 2020 and a further **\$8.3 million** in 2021 to the Ministry of Health, Environment, Culture and Housing to fund the construction of the new Residential Mental Health Facility; implementation of the Integrated Solid Waste Management System (ISWMS) including capping and remediation at the George Town landfill as well as the acquisition of additional property for the ISWMS project;
- **\$19.1 million** in 2020 and **\$17.8 million** in 2021 to the Ministry of Financial Services and Home Affairs to fund the construction of a new Prison facility at Northward; and enhanced Information Technology infrastructure to strengthen our capacity to handle International Tax Cooperation and other financial services matters;
- **\$14 million** per year in 2020 and 2021 for the development of, and upgrades to the road network infrastructure across all three Cayman Islands including the major upgrading of east-west capacity on Grand Cayman announced by the Premier;
- **\$9.4 million** in 2020 and **\$5.9 million** in 2021 to the Ministry of Commerce, Planning and Investment to continue the upgrade of the facilities for Department of Vehicle and Equipment Services; Information Technology upgrades to enhance cybersecurity and expand E-Government offerings;
- **\$8.3 million** in 2020 and **\$1.3 million** in 2021 to Judicial Administration to fund the renovation and fit-out of the Courts Buildings in George Town;
- **\$6 million** in 2020 and **\$4.3 million** in 2021 to the Ministry of Employment and Border Control to fund new Border Security Systems; and fit-out and equipment for the Department of Workforce Opportunities and Residency Cayman;
- **\$2.9 million** in 2020 and **\$4 million** in 2021 to the Ministry of District Administration, Tourism and Transport to fund the construction of a new National Weather Service Building in George Town; and renovations to the main District Administration Building in Cayman Brac;
- **\$1.9 million** in 2020 and **\$1.6 million** in 2021 for the preparatory works in advance of the major project for the redevelopment of the cargo and cruise berthing port in George Town, Grand Cayman; and
- **\$1.1 million** in 2020 and **\$4.4 million** in 2021 to the Office of the Commissioner of Police to invest in key service developments.

The Government is also planning to make Capital Investments into various SAGCs of **\$28 million** in 2020 and a further **\$24.9 million** in 2021. These investments will fund debt service obligations; operational deficits and various new capital investment projects. The major investments in this category are:

- **\$4 million** in 2020 and **\$3.9 million** in 2021 to the Cayman Turtle Conservation and Education Centre Limited, to fund operational deficits;
- **\$9.1 million** per year in 2020 and 2021 to Cayman Airways Limited to fund debt servicing obligations;
- **\$8 million** in 2020 and **\$5 million** in 2021 to the National Housing Development Trust to fund debt servicing obligations; and
- **\$4.5 million** per year in 2020 and 2021 to the Cayman Islands Development Bank to fund debt repayments.

Compliance with the Framework for Fiscal Responsibility

With respect to compliance with the Principles of Responsible Financial Management set out in the PMFL and the FFR, the 2020–2021 Budget forecasts the following levels of compliance with the Principles:

1. **Net Operating Position: should be positive** – Core Government’s Revenues should be greater than its Expenses. For 2020 and 2021, compliance is achieved as the Government is forecast to record a Net Operating Surplus of **\$65.3 million** in 2020 and **\$75.3 million** in 2021;
2. **Net Worth: should be positive** – Core Government’s Assets less its Liabilities should be positive. The Government’s Net Worth is forecast to be **\$1.5 billion** at 31 December 2020 and **\$1.6 billion** at 31 December 2021;
3. **Debt Service: that is, the annual payments of interest and principal related to all Public Sector borrowing commitments should be no more than 10% of Core Government revenue** – the Government is forecast to have a Debt Service Ratio of 7.8% in 2020 and 6.4% in 2021;
4. **Net Debt: The total debt of Core Government, plus the weighted average debt balance of Public Authorities less Core Government’s liquid assets, should be no more than 80% of Core Government’s revenue for the fiscal year** – the Net Debt ratio is forecast to be less than 0% in both 2020 and 2021. This dramatic improvement is a direct result of our fiscal strategy which promotes building reserves, and paying down our debts as quickly as possible. As a result of this strategy, for the first time since the implementation of the FFR, the Government’s cash reserves will be greater than its Net Debt!
5. **Cash Reserves: The unrestricted cash reserves (Operating Bank Account + General Reserve Fund) of the Core Government – measured at the lowest point in the financial year – should be sufficient to cover 90 days of Core Government’s estimated operating expenditures** – for 2020, the Government is forecast to have sufficient cash reserves to cover 131.1 days of operating expenditures at the lowest point during that financial year. In 2021, it is forecast to have 118.5 days of cash reserves: both years are expected to be well above the minimum 90-day requirement.

Conclusion

Mister Speaker, it scarcely seemed possible six years ago when this Government first came into office that the economy and the public finances would be in the healthy position that they are today. And yet here we stand. Five years of 3% growth, falling unemployment and projections of continuing growth. Year-on-year budget surpluses, growing investment in public services and infrastructure, and reducing Public Sector debt.

The Appropriations outlined in the Bill before the House and the accompanying budget documents set out a clear plan for how this Government intends to utilize and prudently manage our financial resources. They ensure that at

the end of our second consecutive term, we will be able to lay before the electorate clear evidence of a job well done.

We have delivered what we promised. We have moved the Country's finances to full compliance with the PMFL and we have achieved a financial strength that provides a stable platform for the years ahead. We have done this while keeping our promises not to take on new debt and not to introduce any new duties or revenue raising measures. Indeed, across these two terms we have a record of reducing duties where we have been able to do so.

Perhaps more important than that rosy financial picture is the substance of what this budget will achieve. The budget is not an exercise in mathematics. It is an exercise in political decision-making. And the decisions that my Caucus colleagues and I are presenting in these appropriations will ensure that we will continue to deliver high quality public services which meet the current and future needs of the people of the Cayman Islands; promote the sustainable economic development that is the key to these Islands' prosperity; and make the necessary investments in infrastructure and service improvements that secure the future well-being of our people.

The 2020–2021 Budget ensures that the Government has the resources to continue to make progress towards achieving all of its Broad Outcomes placing particular emphasis on education, health care, social welfare, infrastructure development, public safety and strengthening our key economic pillars. In doing so, we are ensuring that our People and our economy are building resilience.

By building resilience we are ensuring that we have the skills and wherewithal to handle future challenges and continue the progress and prosperity of these beloved Cayman Islands.

Mister Speaker, as you are no doubt aware, the preparation of the Government's Budget is a massive undertaking and is only possible with the commitment and dedication of the Civil Service.

I wish to thank His Excellency the Governor; The Honourable Premier; Deputy Premier; Cabinet Ministers; Official Members of Cabinet; Councillors; Chief Officers and their staff for their commitment to the budget process. I especially wish to thank the Financial Secretary and his team within the Ministry of Finance for their excellent work and commitment to produce the 2020–2021 Budgets. I have seen the long hours they have worked, often late into the evenings and on weekends, in order to prepare this budget and get us to this point. I am grateful to them all!

I now humbly commend **The Appropriation (Financial Years 2020 and 2021) Bill, 2019** to this Honourable House and ask all Honourable Members for their support of the Bill.

Thank you, Mister Speaker.