Pre-Budget Report

IN ADVANCE OF FISCAL YEAR
2020 - 2021

GOVERNMENT OF BERMUDA
Ministry of Finance

Chapter 1
Purpose of the 2020/21 Pre-Budget Report

What Is a Pre-Budget Report?

A Pre-Budget Report (PBR) is a policy statement issued by the Government prior to the release of the budget. It defines the priorities for the next budget in a medium-term framework covering external developments and internal strategies. The PBR should clearly state the Government's economic and fiscal policy challenges and its objectives and intentions in the medium term.

Like most small states and territories, Bermuda's economy is highly vulnerable to external events, underlining the need for financial and fiscal prudence. This vulnerability is compounded by continuing, albeit declining budget deficits, and a high level of Government debt, which now stands at $2.643 billion.

The Government has to take a number of actions to address the problems the island faces, and it is important that stakeholders and citizens understand these vulnerabilities, have the opportunity to give their views, and are aware of the factors driving the Government's fiscal policy decisions. The Government should be accountable for developing strategies to cope with both domestic and international turbulence, and the strategies adopted should be transparent and open to criticism and comment. The Government should also be accountable for their execution.

> *Greater transparency and public participation in the budget process [are] more likely to yield spending priorities that serve the best interests of society as a whole… The regular release of information can provoke public debate and encourage accountability. And budget information is important not just for accountability to the public but also for internal management purposes.*
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> *Holding the government fiscally accountable requires the production and dissemination of budget information from the formulation stage, through approval, execution, and evaluation (or oversight). Yet around the world today, citizens and legislatures frequently lack at least some basic information about government decisions and actions at every stage of the budget process.*[1]

[1] Harika Masud and Jason M. Lakin, "What the Open Budget Survey 2010 Tells Us about the Global State of Transparency", Yale Journal of International Economics, Winter 2011, p. 65.

Purpose of the Pre-Budget Report

The objective of the PBR is to increase public awareness of a government's fiscal and budget policy objectives, and to establish a benchmark for evaluating the conduct of fiscal and budget policy.

The PBR also serves to **educate** the public and encourage debate on the budget strategy and how effectively it copes with current economic and social priorities. The PBR is intended to provide an opportunity for stakeholders such as business and social groups to understand and comment on options for the next budget. This can give stakeholders confidence that the administration's budget policies are grounded in longer-term fiscal and budget strategies.

From the government's perspective, the scope for public misunderstanding of the (eventually chosen) budget strategy is reduced due to a greater public appreciation of the nature of the trade-offs facing the government.

Pre-Budget submissions by such groups that respond to the PBR can also **alert** the government to unforeseen pitfalls and alternative policy options and improve the quality of the budget. They may even pre-empt embarrassing policy back-flips after the budget has been handed down, when previously invisible problems come to the fore.

The PBR will also improve the budget preparation process for the **line ministries** in the current budget year as well as in forward years, by imparting a clearer knowledge of the government's strategies.

Finally, a PBR increases the **accountability** of present and future governments for effective fiscal policy management. This is at two levels:

- The government can be held accountable for the extent to which the fiscal strategy it proposes in the PBR conforms to the principles of sound fiscal management.
- The government can be held accountable at the end of the fiscal year for the extent to which the realised fiscal outcome conforms to the strategy it proposed for that year in the PBR.

Principles of Good Fiscal Policy

Fiscal policy should be directed to ensuring that prosperity reaches all segments of Bermuda's society while having a sustainable medium-term framework. To date, Bermuda's economy has not worked for all Bermudians, and the Government was elected to ensure prosperity reaches all. To meet these objectives, this Government's fiscal strategy will be framed in accordance with the following principles of sound fiscal management.

- Prudently manage financial risks faced by the Government, to include achieving prudent levels of general government debt and contingent liabilities.
- Ensure that fiscal policy contributes to the achievement of adequate national saving and, as appropriate, to dampening cyclical fluctuations in economic activity, taking account of the economic risks facing the nation and their impact on the Government's fiscal position.
- Pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden, while promoting fairness and equity in both spending and taxes.
- Maintain the integrity of the tax system.
- Ensure that policy decisions have regard to their financial effects on future generations.

The last few years have highlighted the conflicting goals policymakers face with regard to fiscal policy: more fiscal stimulus or fiscal austerity. The fiscal tightening pressure has sparked a debate between policymakers. Some governments have embraced austerity in a bid to quickly cut the deficit, while others continue to push for more spending. The way to think about the fiscal split is two-fold.

First, the classical concern: when deficits are high and people are worried about an unsustainable surge in debt, deficit reduction may have a strong positive confidence-building effect that offsets the negative shock to the economy. The counter to that is the Keynesian view: when there is a large output gap and demand remains weak, deficit reduction may weaken demand even more.

The Government maintains the position that while risks exist, it is critical that we invest in creating a more diversified economy. This will create stronger economic growth for the island, as our ability to reduce our debt depends on being able to grow our economy and create more jobs in Bermuda. A stronger and more diversified economy will assist in our mission to increase employment across all sectors of the Bermuda economy and create jobs and opportunities in not only existing industries, but also new sectors that will drive stronger economic growth in the future.

However, it is important to note that while diversification is a major priority, the Government will always put stability first, taking no risks with the island's sterling reputation or the sustainability of the public finances.

Risks Facing the Bermuda Economy

In their recent report, the Fiscal Responsibility Panel (FRP) highlighted a number of risks to Bermuda's economy. These risks, among others, underscore the need for financial and fiscal prudence, and the Government has considered these risks when framing the 2020/21 budget.

Some of the threats noted by the FRP are as follows:

- *Risks from slowing global growth*. Global growth has slowed amid rising trade tensions, particularly, but not exclusively, between the US and China, and is expected to remain weak in 2020. In its recent World Economic Outlook, the International Monetary Fund (IMF) again revised down its forecast for 2019 world growth, to 3.0%, the slowest growth since the financial crisis, with a slight but patchy and precarious pick up forecast in 2020. The IMF expects US growth, Bermuda's largest trading partner, to slow from around 3% in 2018 to 2% in 2020, easier monetary policy notwithstanding.
- *Impact of global warming and climate change.* According to the UN, "global emissions are reaching record levels and show no sign of peaking. The last four years were the four hottest on record, and winter temperatures in the Arctic have risen by 3°C since 1990. Sea levels are rising, coral reefs are dying." As a small island nation, Bermuda is particularly vulnerable. Due to the importance of the insurance and reinsurance sector to the economy of the island, Bermuda is also vulnerable to insurance losses from extreme weather events and natural catastrophes.

- *Potential EU action to keep Bermuda on the greylist as a "non-co-operative" tax jurisdiction under the EU Code of Conduct initiative*. Bermuda, together with Barbados and Aruba, was added to the EU's blacklist of non-cooperative tax jurisdictions in March as the country narrowly failed to meet a deadline for enacting acceptable amendments to legislation complying with economic substance rules. However, following a meeting of EU finance ministers in May, it was announced that Bermuda had committed to addressing EU concerns, particularly on economic substance for collective investment funds, and had therefore been moved to a so-called grey list of countries still under EU scrutiny for their tax practices. Bermuda was given until the end of 2019 to be fully compliant. Bermuda is currently fully on track to meet this deadline, but this is still a risk that has to be managed.
- *Risk from recent OECD proposals on corporate taxes.* The Base Erosion and Profit Sharing (BEPS) Pillar 2 - calling for a minimum global tax rate for corporations has been mandated by the G20 to be effective by or before the end of 2020 and to operate in tandem with BEPS Pillar 1, which involves the sharing of taxing rights between countries. While both the timing and implementation of any such measures remains highly uncertain, the direction of travel seems clear, and raises medium-term concerns on the potential impact on Bermuda's attractiveness as a base for international corporates.
- *Reputational risks.* Bermuda prides itself as a well-regulated place to do business with a respected regulatory and legal system. This has been key to Bermuda's success in attracting international business. There are potential risks to this reputation if something were to go wrong with any of the new businesses attracted by Bermuda's new FinTech strategy. Regulating these businesses effectively must be a high priority.
- *The general rise in populism and economic nationalism in advanced economies*. This risk has materialised, leading to significant tensions between the US and other countries, especially China; fortunately, Bermuda has, as yet, not been adversely affected in any direct sense. However, if trade tensions continue to rise, there will be an increasing risk of spillover into measures that would have a more direct impact on Bermuda, which benefits hugely from globalisation in general and international capital mobility in particular.
- *Brexit.* Bermuda's relationship with the European Union is administered under the Overseas Association Decision (OAD) through our Member State the United Kingdom. The OAD regulates trade between the EU and Overseas Countries and

Territories including Bermuda. This relationship will cease post Brexit up to the duration of the existing OAD. The vast majority of Bermuda's trade in goods is with the US, and most tourists are from North America. The direct impact of Brexit on Bermuda is therefore small. Post Brexit, the Government will use the resources within the Brussel's Office to develop direct contacts as part of our own strategy to defend Bermuda's interests in the EU, particularly in relation to financial services regulation and tax policy.

- *Effects of an ageing population, declining workforce, underfunded public sector pension funds and escalating health-care costs.* This remains a certainty, not just a risk, which will result in serious medium and longer-term pressures on public spending and challenges to growth. It will also make it more difficult to deal with a large debt overhang. While demographic trends are, by their nature, slow-moving and may not be immediately visible to the public, this is perhaps the single most serious long-term issue Bermuda faces and one that now needs to be addressed with some urgency.

Chapter 2
Economic and Fiscal Performance

Global Growth Weakening – Bermuda's Economic Outlook is Improving

Global Economy

According to the IMF's October 2019 World Economic Outlook (WEO), global growth continues to be weak. Global growth is forecast at 3.0% in 2019, picking up to 3.4% in 2020 (2019 growth has been downgraded by 0.3% from the April report and global growth in 2020 has been lowered by 0.2% since the same report). GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity.

The IMF attributes the disappointing trends to a variety of factors that include US-China trade tensions as well as country-specific factors in several emerging market economies, and by structural forces, such as weaker industrial output and increased uncertainty in confidence and investment in advanced economies.

Trade tensions have, among other things, impacted negatively on manufacturing activity, with higher tariffs and prolonged trade policy uncertainty damaging investment and demand for capital goods. In addition, the automobile industry is also contracting owing to a variety of factors, such as disruptions from new emission standards in the Euro area and China that have had durable effects. Overall, trade volume growth in the first half of 2019 had fallen to 1.0%, the weakest level since 2012.

In relation to the impact that a sluggish economy has on financial markets, according to the IMF's Global Financial Stability Report of October 2019, the prolonged period of accommodative financial conditions has pushed investors to search for yield, creating an environment conducive to a build-up of vulnerabilities. Lower yields have prompted institutional investors—for example, those with nominal return targets—to invest in riskier and more illiquid assets, providing a growing source of funding for nonfinancial firms and facilitating borrowing by weaker firms. Although this has supported economic activity, it has also increased risks for some lenders and borrowers.

US Economy

Based on information provided by the OECD Economic Outlook 2019, after an extended economic expansion, economic growth in the US is now slowing. This is due in part to increased tariffs on imported goods and high trade tensions. Also, the effects of a waning fiscal impulse, weaker growth by the trading partners of the US and demographic pressures are reducing economic activity and confidence in the economy. On the positive side, the US has experienced historically low unemployment rates, rising wages and high asset prices which are all supporting household income and consumption growth.

Although growth in the US economy is slowing, the data has remained positive with the economy projected to grow by 2.3% in 2019 down from 2.9% in 2018. Anticipated growth of 2.0% in 2020 and 2021, while not reaching the levels of 2018, will still impact Bermuda positively. Due to the fact that the US is Bermuda's largest trading partner and the source of the overwhelming majority of tourists visiting the island, its economy's positive growth bodes well for Bermuda's economic prospects.

Bermuda Economy

Bermuda's economy exhibited a marginal increase in 2018 of 0.1% based on constant market prices (real GDP). This result was below the Ministry of Finance's expectations of an increase in GDP of 0.5%–1.0% for 2018. The largest value increases in real terms were recorded in the construction and international business activity sectors. In contrast, the wholesale and retail trade sector recorded the largest decline in value.

Based on figures released by the Department of Statistics, GDP grew by an average of 3.5% in real terms in the first 2 quarters of 2019. This growth was primarily driven by construction work on a variety of projects such as office refurbishments, civil works such as road, dock and bridge refurbishments, as well as continued work on the BELCO power station construction, airport project and hotel development.

During the last 2 quarters of 2019 the Ministry of Finance anticipates that GDP is likely to moderate and the economy will grow at a rate of between 1% -2% in 2019.

Bermuda Economy 2019: Mid-Year Economic Review

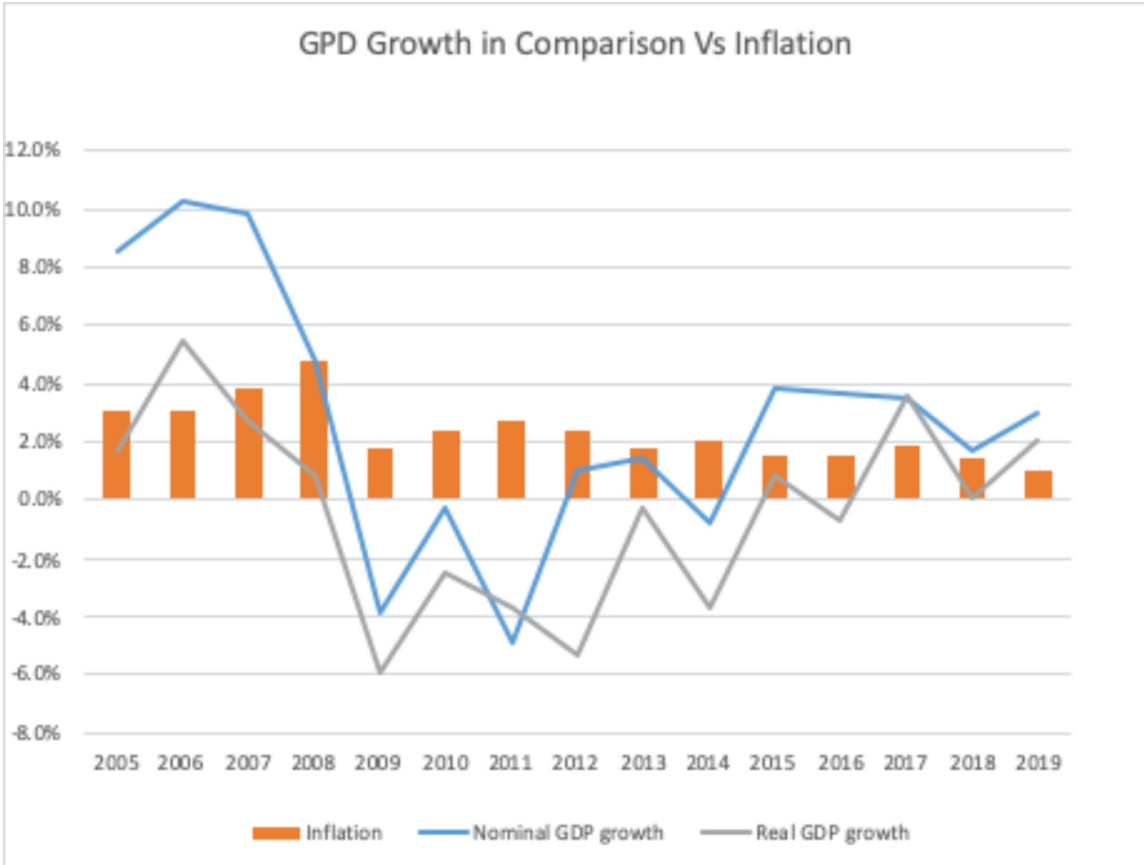
Summary Economic Indicators: Mid-Year Economic Review 2019

*Comparative data over the first half of 2019, except when otherwise indicated.

- The year to date (September) average Consumer Price Index was 1.0% and the 12 month average rate was 1.0%. The primarily causes of inflation during the last twelve months were increased costs in Health Insurance premiums of 3.1% in April and increases in the average costs of various food items throughout the year.
- Imports increased by 15.2% over the first two quarters of the year to register at $603 million. The majority of the increase can be attributed to a $65.5 million or 88.3% gain in the imports for machinery due in large part to Belco's new generator. The other category that contributed significantly to the rise in the level of imports was finished equipment.
- Air arrivals during the first three quarters of 2019 fell by 4.5% while the number of cruise passengers increased by 14.2% over the same time period. All-in-all, total visitor arrivals were up 7.4% versus a year ago.
- Total air visitor spending in the first nine months rose by $12.1 million or 3.8% settling at $327.5 million.
- There were 12,015 international companies and partnerships registered in Bermuda as of September 2019, representing a 1.2% decrease compared to the 2018 total of 12,156.
- 476 new international companies and partnerships were registered in Bermuda during the first nine months of 2019 representing a decrease of 113 companies when compared to the 2018 registrations of 589.
- Total value of new construction projects started for the first six months of this year fell by 19.3% from $62.1 million to $50.1 million. This decrease was due largely to Government funded projects which began in the first half of 2018 not being duplicated to the same extent in 2019.
- The estimated value of construction work put in place was $136.4 million, an increase of 20.3%. The majority of the growth can be attributed to work performed on hotels and guest houses. Work on roads, bridges and the airport also contributed to the overall construction output.

- Based on preliminary estimates from the Office of the Tax Commissioner, employment income for the first 9 months of 2019 increased by $114.9 million to $2.722 billion, an increase of 3.4% when compared to the first 9 months of 2018. This level of compensation represents one of the highest on record.
- Total retail sales for the first nine months of 2019 decreased by 2.0% or $17.5 million to register at $836.7 million.
- Bermuda's Balance of Payments for the second quarter of 2019 recorded a surplus on the current account of $161 million, which was $29 million less than the corresponding surplus in 2018. The decrease in the current account surplus was due in large part to an $11 million decline in financial services and a $10 million decrease in employee compensation.
- Based on figures released by the Bermuda Monetary Authority, Bermuda's money supply contracted by 1.5%, or $52 million, year over year at the end of the first quarter of 2019. The money supply declined mainly due to a decline in local customer deposit liabilities which were down 2.0% or $64.7 million.
- The Banking sector's total assets declined by 0.5% or $0.1 billion at the end of March 2019. The reduction was driven by a decrease in investments which fell by 4.3% or $0.4 billion over the past year.
- Loans & Advances fell marginally by 1.2% over the first quarter of 2019 while customer deposits contracted by 1.6% or $0.3 billion for the same time period.

Over the course of 2019, the economy has experienced a shift in the outcomes of a few of the indicators when compared to 2018. This year air arrivals are down after experiencing a revival over the last few years and imports and employment income have grown after declining last year. However, total visitor numbers, construction levels and the low level of inflation continue to have a positive effect on the economy. Conversely, retail sales and international company registrations continue to offset the positive aspects of the economy. Throughout the economic swings, the Government continues to make a concerted effort to stimulate domestic spending and foreign investment in Bermuda through targeted investment strategies and diversification of business development initiatives. This should lead to higher employment numbers providing sustained economic growth in most sectors.



Credit Ratings

The Government currently holds long-term foreign currency credit ratings of "A+" (positive outlook) from Standard and Poor's (S&P) and "A2" (stable outlook) from Moody's Investor Services (Moody's).

After the Government borrowed $170 million to honor its guarantee to the lenders to the Caroline Bay project, S&P issued a report on 6 November 2019 that affirmed Bermuda's A+ long-term sovereign credit and senior unsecured debt ratings as well as its A-1 short-term rating and AA+ transfer and convertibility assessment.

The headline of the report read as follows:

"Bermuda Ratings Affirmed At 'A+' On Continuing Sustained Economic Growth, Near-Balanced Fiscal Results; Outlook Positive"

S&P has viewed Bermuda in a positive light and has affirmed Bermuda's A+ long-term sovereign credit and senior unsecured debt ratings given the action taken by the Government to purchase the Caroline Bay loans. In the S&P report there was also recognition that the Government is on track to produce a balanced budget in the current fiscal year, and if sustained, should lower our government debt burden. There was also mention of the Government's policy making being effective and predictable. These comments highlight the fact that the Government remains committed to the island and its economy and demonstrates this through transparent and prudent governance.

The public should accept the outcome of this report as an independent, objective endorsement of our fiscal and economic policies and it is gratifying to note that S&P has noticed the progress the Government has made since we have been in office.

Debt Concern

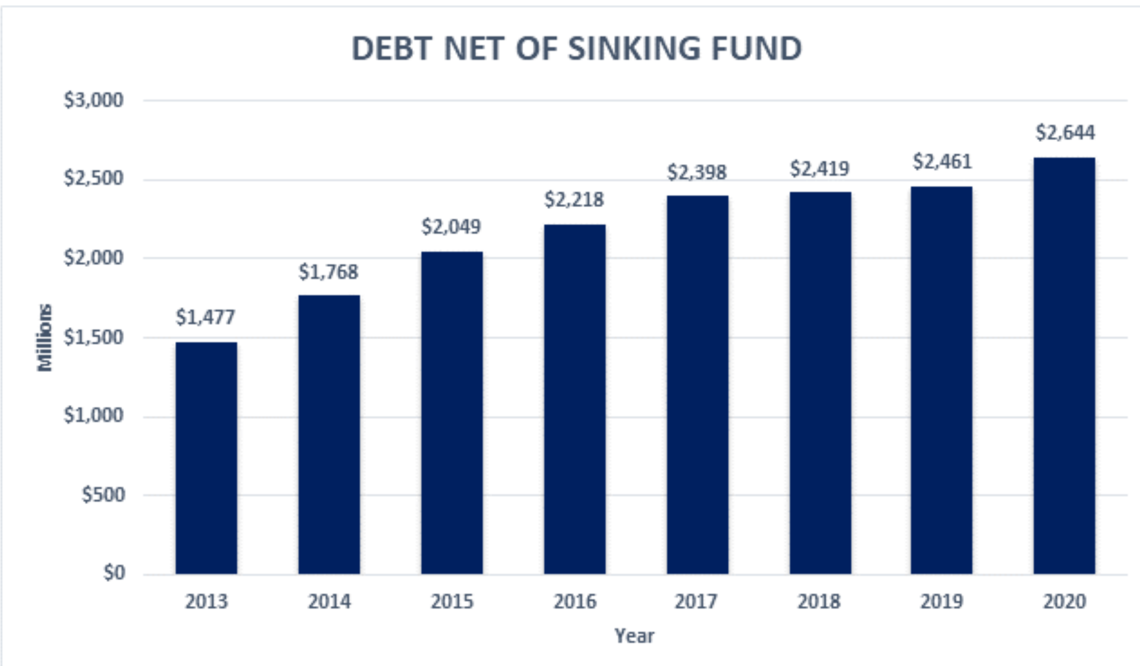
Present global and local economic conditions have improved, but there is still pressure on public financing. Since 2009, Bermuda's national debt has increased by $2.1 billion. At the end of this fiscal year, total net Government debt outstanding will be approximately $2.64 billion, which will be only $107 million beneath the present statutory debt ceiling of $2.75 billion. Like many small countries and territories, Bermuda's economy is extremely susceptible to outside events. The following vulnerabilities are common to many small nations and territories including Bermuda:

- A high level of openness means they are heavily exposed to shocks in global markets;
- A narrow resource base and small domestic market prevent small economies from diversifying to a vast assortment of activities, making them more susceptible in terms of trade shocks;
- When one prevailing activity declines, it has a major impact on the economy, which is the case in Bermuda in which the insurance sector continues to be dominant;
- Government revenues are volatile;
- High degree of susceptibility to natural disasters; and
- Capital markets tend to view small countries as riskier than larger countries.

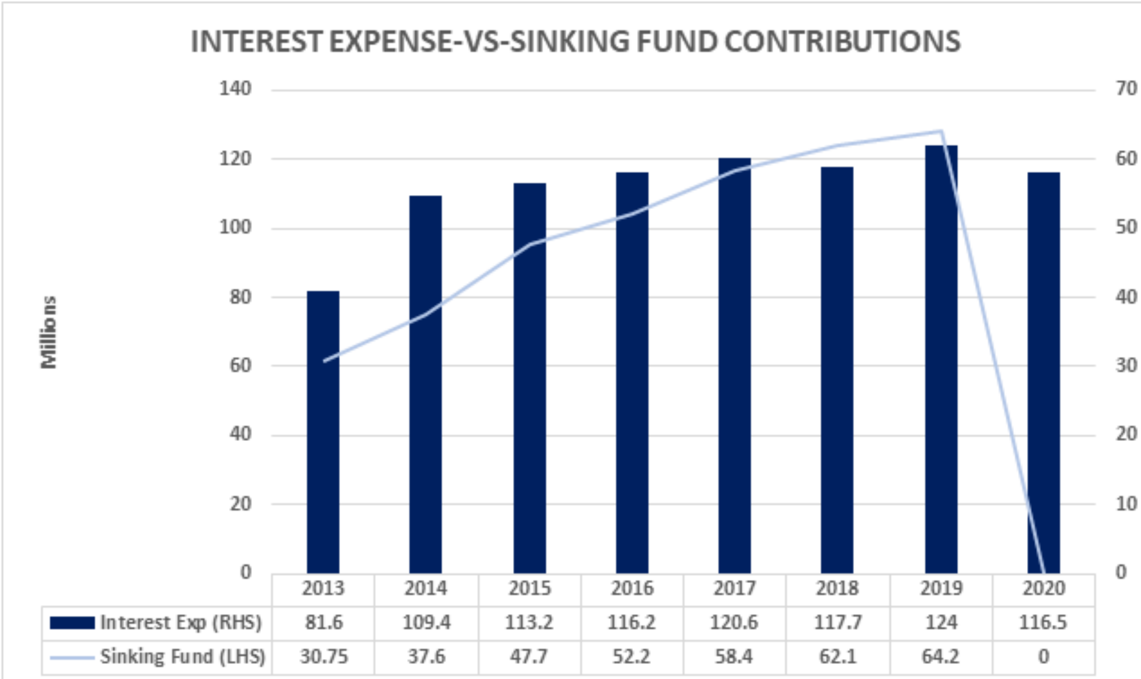
The above vulnerabilities emphasize the need to maintain lower debt levels than larger countries, and also point to the urgent need to diversify Bermuda's economy.

The annual debt service cost is currently $116.5 million, claiming 10.4 cents of every dollar the Government collects. In comparable jurisdictions, with similar economic challenges, they have been forced, by external forces, to take actions to reduce deficits and put into legislation formal rules to help them reduce both deficits and debt levels.

The Government remains committed to the objective of halting the increase in our net debt from fiscal year 2020/21 and subsequently working to reduce debt, in order to attain target ratios for debt to revenue and debt service to Government revenue of less than 80% and 10% percent, respectively. It is necessary to note that it will not be possible to achieve these goals without a diversified and growing economy which, in turn, will not only produce balanced economic growth, but also benefits all Bermuda residents.



The increase in borrowing in this fiscal year runs counter to the plan that was outlined in the budget statement in February 2019 which stated that the Government had no plans to incur any additional long-term borrowings in this fiscal year. However, in 2019 the Government had to borrow $182.4 million to make good on its guarantee by purchasing the interests of the Tranche B and C lenders for the Caroline Bay project. This new borrowing was also used to fund other expenses relating to professional services and purchase of the claims of amounts owing to contractors and sub-contractors associated with this project.



In the 2019/20 Budget, the Government decided to cancel the mandatory annual contribution to the Sinking Fund rather than borrow additional monies to make this annual contribution. This decision was made in light of the following factors: (i) apart from the private placement notes that were paid off in 2019 the next maturity of Government debt will occur in 2022; (ii) the interest expense associated with borrowing to fund the mandatory sinking fund contributions will be greater than the investment return generated on those funds and (iii) the Government is forecasting continued operating surpluses which it intends to contribute to the Sinking Fund or use to make open market purchases of its existing indebtedness.

2018/19 Actual Fiscal Review

The total revenue raised by the Consolidate Fund for fiscal 2018/19, excluding the extraordinary revenue of $10.2 million from paying off the North Channel Shipping loan, was approximately $1.09 billion, representing an increase of $27.5 million (2.6 %) from fiscal 2017/18's total revenue of $1.063 billion. This exceeded original budget estimates by approximately $416,000. The most significant generators of revenues for fiscal 2018/19 were Payroll Taxes, accounting for $467.5 million or 42.9% of total revenue (2017/18 – $456.7 million or 42.7 %) and Customs Duty, accounting for $226.1 million or 20.7% (2017/18 – $223.0 million or 20.9 %).

Current expenses for fiscal 2018/19 were $1.187 billion (2017/18 – $1.130 billion). The three largest components of current expenses were employee costs, grants and contributions and interest on debt. Total employee costs were $550.1 million or 46.3% of total expenses (2017/18 – $518.5 million or 45.9%). Included in this amount is $78.5 million of non-cash retirement benefit expenses. Grants and contributions were $319.2 million or 26.9% (2017/18 – $285.3 million or 25.2 %) and interest on debt was $124.0 million or 10.4% (2017/18 – $117.9M or 10.4 %). Total current expenditure on a modified cash basis was $1.11 billion (2017/18 – $1.073 billion), which was $7.9 million less than adjusted budget estimates (2017/18 – $20.7M less).

Total capital account cash expenditure was $58.6 million, which was $3.6 million lower than the original budget estimates.

Total capital and current account cash expenditure for 2018/19 was $1.168 billion, which was $11.5 million or 1.0% lower than the original budget estimate of $1.180 billion.

The all-inclusive result from government operations (both current and capital) for the year ending 31 March 2019, was a deficit of $123.3 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 $77.7 million. This compares to a deficit of $89.7 million that was originally budgeted. Therefore, the actual overall deficit was down by $11.9 million or 13.3% when compared to the original estimate. The decreased deficit is a result of prudent management of discretionary current and capital expenditures.

The 2018/19 fiscal results are concrete facts that indicate that the Government is committed and capable of maintaining control of the public finances while at the same time working for the people of Bermuda and delivering the level of services that they deserve.

Cash balances as at 31 March 2019 totalled $26.7 million which was $6.5 million higher than the balance as at 31 March 2018.

Net Public Debt, which excludes guarantees and is net of the Government Borrowing Sinking Fund, increased by $42.3 million during fiscal 2018/19, standing at $2.461 billion at the end of the year compared to $2.419 billion in 2018. This represents a 1.8% increase from 2018. Items of note are as follows:

- There was a successful public debt issue of $620 million in November 2018. The majority of the proceeds were utilised to retire higher interest-bearing debt saving the Government just over $1.0 million in interest expense.
- The 2019 Sinking Fund balance was $218.9 million compared to $150.2 million in 2018.

The 31 March 2019 total accounts receivable net of provision for doubtful accounts increased by 8.8% to $195.6M, as compared to $179.7M at 31 March 2018. The most significant contributor to the accounts receivable balance before provision was the Office of the Tax Commissioner of $272.7M, representing an $18.1M increase in accounts receivable from 31 March 2018 ($254.6M). The increase in the gross taxes receivable was offset by an increase in the respective allowance for doubtful accounts balance of $6.2M to $100.4M in fiscal 2018/19 from $94.1M in 2017/18. The net accounts receivable balance was 17.8% of revenue for the year (2018 – 16.8 %). A significant portion of the gross receivable at 31 March 2019 (57.1 %) represents Payroll Tax, which was due and payable on 15 April 2019. During the month of April 2019, the Government collected approximately $126.1M in Payroll Taxes (April 2018 – $120.6M). The total 2019 allowance for bad debts was $137.0M, representing a $6.5M, or 4.9%, increase from 31 March 2018.

The closing Net Book Value of Tangible Capital Assets for the year was $668.7M (2018 – $692.8M), a decrease of $24.1M or 3.5% on the year. Additions of tangible assets capitalized during the year were $22.6M, which was 50% less than 2017/18. The addition of capital items was spread evenly amongst all asset categories. Major capital asset activity undertaken during the year were:

- BELCO LED Street Lighting Project – In September 2015 the Government entered into a 10 year lease to purchase agreement with BELCO to provide the installation of 4,400 LED luminaries. This leasing arrangement was capitalized during the year at a value of $3.07M net of depreciation. The remaining lease liability to BELCO of $2.5M was also recorded in the financial statements.

- Major renovations to the building housing the Department of Marine and Ports in the amount of $1.2M and the Cabinet Office of $1.7M were capitalized during the year and included as additions.
- The annual amortization expense on the capital assets was $46.4M and this, when offset by the additions and disposals resulted in the net decrease seen in the value of the capital assets.

Eight-Month Fiscal Performance to November 2019

The headline numbers for the 2019/20 National Budget were: a revenue target of $1.118 billion; current expenditure of $1.111 billion, including debt service of $116.5 million; capital expenditure of $64.7 million; and a projected surplus of $7.4 million.

Total revenues for the eight months ending November 2019 are $742.3 million or $8.6 million (1.16%) above November 2018. This is due to higher collection in payroll tax, passenger tax, foreign currency purchase tax, and customs duty, offset by lower collections in stamp duty, all other receipts, international company fees and civil aviation receipts.

In general, total revenues are tracking slightly below budget estimates, however the strength in payroll tax receipts increases the chances of meeting the total revenue target of $1.118 billion for the current fiscal year.

Customs duties are currently tracking 2.0% below budget estimates and approximately $2.8 million above receipts that were recorded up to the same period in 2018. Payroll taxes are tracking 1.5% above budget estimates and are $8.2 million higher than 2018 receipts.

Current expenditures, excluding debt service, for the period ending November 2019 are $1.4 million lower than in November 2018. Government current account spending to date is lower during this fiscal year, when compared with the same period last year, mainly due to lower grants and contributions, material and supplies, other expenses, insurance and professional services cost offset by higher salaries, wages and employee overheads as a result of the pay award given to public officers for 2018/19 which was not fully recorded until the 2019/20 fiscal year.

Overall, current expenditures, excluding debt service, are presently tracking 0.3% or $2.6 million above budget estimates. The $622.5 million spent in the first eight months of

2019/20 represents approximately 66.95% of the total current account budget of $929.9 million.

Capital expenditures for the period ending November 2019 are slightly higher than in November 2018, registering at $35.2 million, which is 54.5% of the total 2019/20 capital budget allocation of $64.7 million.

Interest expenses are tracking 5.1% or $4.0 million lower than 2019. This is due to lower debt levels and strategic Asset/Liability Management by the Government in which relatively expensive debt has been refinanced by less expensive debt.

Total expenditures for the reporting period were $736.5 million, which was $47.2 million lower than in 2018.

Excluding debt service, the Government recorded a $84.5 million current account surplus for the first eight months of the year.

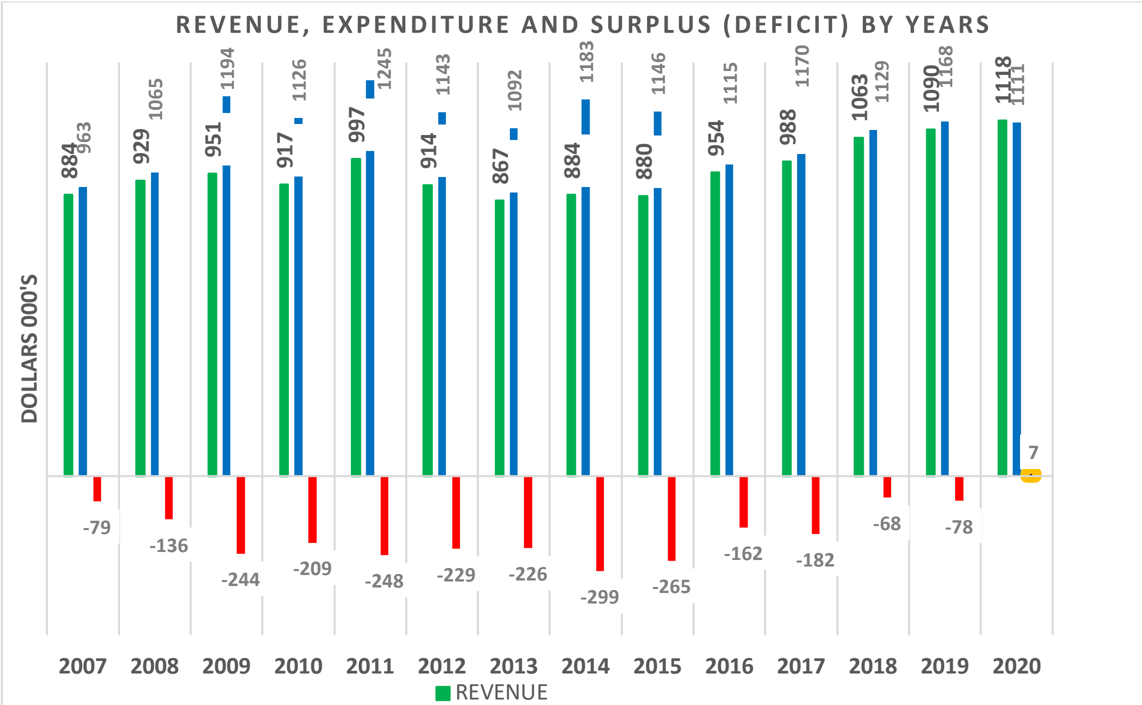
For the first eight months of 2019/20 Government incurred a small surplus of $5.8 million, compared to a deficit of $50.0 million for the corresponding period in 2018/19.

Gross debt at the end of November 2019 stood at $2.67 billion. Net of the Sinking Fund debt was $2.63 billion. During this period Government had to borrow $170.1 million to make good on its guarantee and purchase the interest of the Tranche B and C lenders for the Caroline Bay project.

In November 2019, $80 million of Private Placement notes matured. Government drew from the Sinking Fund to pay off these Private Placement Notes which reduced interest expense on an annual basis by $4.7 million.

The Caroline Bay project will result in the Government incurring additional interest expenses of approximately $4.0 million in this fiscal year, in addition to other expenses relating to professional services and the purchase of claims of amounts owing to contractors and sub-contractors associated with this project.

2019/20 BUDGET PERFORMANCE FOR THE MONTH ENDING 30TH NOVEMBER, 2019			
REVENUE			
	2019/20 ORIGINAL ESTIMATE $000	NOV 2019/20 $000	NOV 2018/19 $000
CUSTOMS DUTIES	235,000	158,350	155,516
PAYROLL TAX	466,100	354,000	345,777
INTERNATIONAL COMPANIES	66,655	6,485	9,012
FOREIGN CURRENCY PURCHASE TAX	26,164	19,363	15,677
LAND TAX	85,375	42,409	41,713
HOTEL OCCUPANCY TAX	12,000	7,683	9,012
VEHICLE LICENCES & REGISTRATION	30,984	19,325	19,229
PASSENGER TAX	32,300	31,220	24,317
STAMP DUTY	29,000	14,698	21,130
CIVIL AVIATION RECEIPTS	16,000	10,667	13,233
FINANCIAL SERVICES TAX	12,250	8,830	6,872
TELECOMMUNICATION RECEIPTS	17,685	11,790	11,530
IMMIGRATION RECEIPTS	16,300	11,429	10,844
ALL OTHER RECEIPTS	72,642	46,050	49,792
TOTAL	1,118,455	742,299	733,654
EXPENDITURE			
	2019/20 ORIGINAL ESTIMATE $000	NOV 2019/20 $000	NOV 2018/19 $000
Current Account Expenditure	929,861	622,522	623,901
Capital Account Expenditure	64,715	35,270	34,286
Interest on Debt	116,550	78,667	82,667
Sinking Fund Contribution	-	-	42,815
TOTAL	1,111,126	736,459	783,669
SURPLUS (DEFICIT)	7,329	5,840	(50,015)


REVENUE, EXPENDITURE AND SURPLUS (DEFICIT) BY YEARS
DOLLARS 000'S
884
963
-79
929
1065
-136
951
1194
-244
917
1126
-209
997
1245
-248
914
1143
-229
867
1092
-226
884
1183
-299
880
1146
-265
954
1115
-162
988
1170
-182
1063
1129
-68
1090
1168
-78
1118
1111
7
2007
2008
2009
2010
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2012
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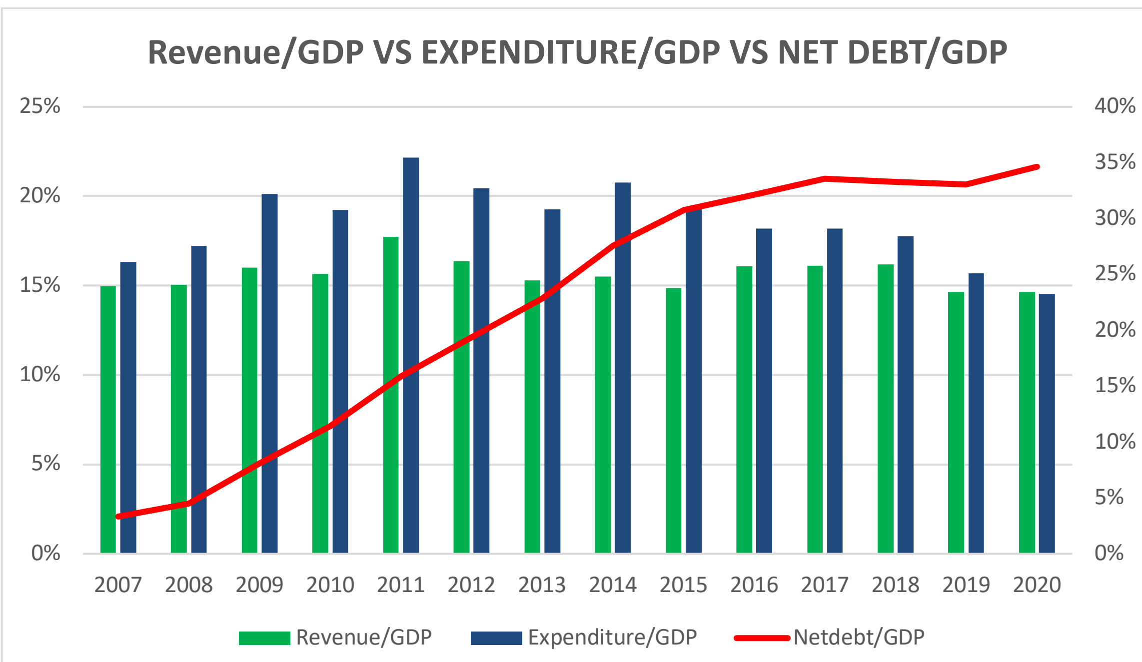
2014
2015
2016
2017
2018
2019
2020
REVENUE


Revenue/GDP VS EXPENDITURE/GDP VS NET DEBT/GDP
25%
20%
15%
10%
5%
0%
40%
35%
30%
25%
20%
15%
10%
5%
0%
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Revenue/GDP
Expenditure/GDP
Netdebt/GDP

Chapter 3
The Government's Fiscal Strategy for 2020/2021

Framing the 2020/21 Budget

The key factors which will impact upon the framing and composition of the 2020/21 Budget include:

- Government's 2017 General Election Campaign Platform and the 2018 Speech From The Throne;
- Economic considerations;
- Taxation sensitivities;
- Assessment of External Threats;
- Continuing deficits and high debt levels;
- Reintroduction of Zero Based Budgeting;
- Feedback from the Pre-Budget Report in advance of fiscal year 2020/2021;
- Financial obligations from the Caroline Bay Project;
- Tax Reform Commission; and
- Risks facing the country.

These factors are vital to the Government in terms of determining high policy priorities and establishing a baseline budget ceiling.

Current global and local economic conditions have improved, however, there is still a level of pressure on public finances. It is important to note that during the preceding period of recession the level of national debt increased sharply and the Ministry of Finance regarded persistent growth, in absolute debt, as a serious challenge. At the end of this fiscal year total net Government debt outstanding, including debt raised for the Caroline Bay project will stand at $2.643 billion.

Taxation sensitivities relate to the perception by tax payers of the weight of the existing tax burden and their willingness to absorb further tax rate increases. The 2019/20 Budget featured a $28.6 million (2.67%) increase in revenues; accordingly, there is not likely to be the ability by taxpayers to afford any material increases in 2020/21. On the contrary there is likely to be further appeals for Government tax relief. In addition, Government must be mindful of the impact of any further increases on Bermuda's competitiveness as a jurisdiction. However, despite this background, it is important that Government still seek to enhance revenue from policies that generate economic growth.

Considering 2019/20 revenue collections, economic conditions, and possible revenue raising measures, the Ministry of Finance is anticipating total revenue in 2020/21 between $1.130 - $1.140 billion. Some of the revenue measures being considered in the 2020/21 budget are as follows:

- Implementing the biennial review of government fees;
- The "Large Ship Infrastructure Tax" will be redefined and renamed the 'Transport Infrastructure Tax'. The tax rate will be increased from $22.00 to $25.00 per passenger over the age of two. This will take effect 1 May 2020 for all cruise ships, regardless of size and passenger count, that berth in Dockyard between 1 April and 31 October. In 2020, the new rate will start on 1 May 2020 according to the one-year notice provided to cruise lines. These funds will be used specially to invest in new transport infrastructure over the next ten years.
- Adjusting International Company Fees
- Increasing Immigration Fees

It is imperative that Government aggressively maximize the collection of all delinquent tax debts owed at this time.

Controlling Government expenditure has been, and still remains, a focus of the Government. The Government's 2017 Election Platform called for increased Government efficiency in order to control Government expenditure, as opposed to across-the-board cuts. In this regard, in order to determine high policy priority programmes the Budget Office will reintroduce Zero Based Budgeting (ZBB) in the upcoming fiscal year. Policy prioritization at the start of the budget process will facilitate a better alignment of the allocation of limited resources with Government's overall policy initiatives and objectives.

ZBB is a method of budgeting in which all expenditures must be justified, starting from zero. ZBB involves a fundamental re-examination of all Department business units/services and justification of funding and performance. This method requires that each Department analyse its entire budget request in detail, both current and proposed new services, in order to identify the most effective and efficient methods for service delivery and resource allocation. This analysis includes; examination of the services purpose/objectives, alternative service delivery models, proposed service levels and resource requirements, consequences/risks of not providing the service and the benefits and outcomes of each service level. Once the analysis has been completed, then all service levels for each Department are ranked and a consolidation and final ranking of all the Departments within a Ministry is composed. The respective Minister will review the final Ministerial ranking to agree the priorities and spending proposals before submission to Cabinet.

After carefully considering the current level of spending required to operate the Government in its current form, and the various obligations and commitments of the Government, the Ministry proposes to set the total current account appropriation, less debt service, close to the budgeted expenditure approved in 2019/20 of $929.9 million. Holding nominal program spending growth to almost zero this fiscal year means that in real terms, the Government is reducing spending across the board.

The Government remains committed to balancing the budget. However, if unrealistic targets are established and not met, this undermines the credibility of the Government pertaining to public commitments on cost control. Actual comparable current account expenditure for the last six years is as follows:

In BD$ millions	**Fiscal Year Ended March 31,**						
Fiscal Year	2013	2014	2015	2016	2017	2018	2019
Current Expenditure	998.8	970.9	935.1	902.2	914.3	892.9*	921.2
Percentage change		-2.79%	-3.69%	-3.52%	1.34%	-2.34%	3.17%

** Includes one-off $25 million reduction in Bermuda Hospital Board Subsidy and the Government's pay award to public officers, which cost the Government approximately $9 million.*

It is also critical that we maintain and strengthen our infrastructure and stimulate economic activity, therefore the Government is considering setting capital expenditure at an anticipated level between $80 - $85 million, an increase of $20.3 million over the 2019/20 levels. Most of this increased spending will be allocated to improve our transportation infrastructure using the additional tax receipts from the new 'Transport Infrastructure Tax'.

The Government's fiscal projections for the 2020/21 budget were laid out in the 2019/20 Approved Estimates of Revenue and Expenditure.

The 2020/21 estimates presented below have been revised to reflect an updated estimate for interest on debt and additional amounts being considered for capital expenditure. The original estimates for 2020/21 for interest on debt and capital expenditures were $116.5 million and $65 million respectively.

	ESTIMATE 2019/20 $000	**ESTIMATE 2020/21 $000**
Revenue and Expenditure Estimates		
Revenue	1,118,455	1,140,824
Current Account Expenditure (excl. debt & s/fund)	(929,861)	(929,861)
Current Account Balance (excl. debt service)	188,594	210,963
Interest on Debt	(116,500)	(121,500)
Surplus (Deficit) Available for Capital Expenditure	72,094	89,463
Capital Expenditure	(64,715)	(85,000)
Budget Surplus (Deficit)	7,379	4,463

Policy Options Under Consideration for 2020/21 Budget

The following are **considerations** for inclusion in next year's budget. One of the main objectives of a pre-Budget statement is to provide a document that elicits discussion from stakeholders. Prior to finalising the budget, the Government will hold public forums and meetings with stakeholders and discuss the ideas outlined below.

Payroll Tax

Reduce the Lower Band of Payroll Tax.

In line with the spirit of the recommendations from the Tax Reform Commission, the Government is considering reducing or eliminating the lowest band of Payroll Tax to provide relief to those workers that have suffered through wage stagnation and increases in the cost of living. If the Government reduces or eliminates the lowest band, it will adjust the higher employee bands in order to maintain revenue neutrality for Government.

Assessing the Deductible on Dividends Paid to Shareholders

In 2018 the Payroll Tax Act was amended to repeal the concept of notionals, and effective 1 April 2018, deemed employees and self-employed persons were subject to payroll tax on their actual remuneration, which includes dividends or any other form of profit distribution. The amendment also provided for the introduction of a $10,000 deductible on dividends paid to each shareholder. The Government will assess the cost of increasing the deductible from the $10,000 limit.

Incentive for Job Creation

In the upcoming budget the Government will consider extending payroll tax relief for the creation of new jobs in Bermuda to all sectors. This programme will provide a two-year employer payroll tax concession for additional jobs created in Bermuda.

Payroll Taxes for Small and Medium Size Businesses

Currently Employers pay at a rate of 1.75% when their taxable remuneration is under $200,000. Once it goes over the threshold of $200,000, the rate jumps to 7.00%. The Tax Reform Commission proposed that there should be rates in between. This would allow small and medium size businesses to expand their employee base, but the increase in the tax rate would not be so punitive. In line with the recommendation, the following is being considered:

- Create a new payroll band between $200,000 and $350,000 at a tax rate of 3.5% to assist small business growth.
- Create a band between $350,000 and $500,000 at a tax rate of 6.75% to encourage business growth.

Payroll Taxes for Public Service Vehicles

In the 2017/18 Budget the Government implemented a proposal from the Bermuda Taxi Owners Association for an amendment to the Payroll Tax Rates Act 1995. This proposal involved a one-time payroll tax payment per taxi to be paid yearly at the Transport Control Department, in addition to the licensing fee, at or before the end of September.

It is proposed to expand the successful Taxi Industry Payroll Tax scheme to all persons with Public Service Vehicles. This will include Limousines, Airport Limousines, and Minibuses. Persons in these categories would therefore no longer be required to file quarterly Payroll Tax returns to the Office of the Tax Commissioner. This method would benefit permit owners because tax payment will become simpler and convenient. It is proposed to set a flat rate tax of between $1,000 - $1,500 per vehicle.

Biennial Fee Increase

By way of standing policy, Government reviews all fees on a regular basis to ensure that there is reasonable cost recovery for the provision of the various services offered by a range of Government Departments. The last biennial review of government fees was conducted in 2018 when fees were increased generally by 5%.

Cruise Ship Passenger Tax

On 1 May 2019, the Ministry of Tourism and Transport gave one year’s notice to all cruise lines that the estimated revenue from the large ship infrastructure tax was insufficient for the transport infrastructure needed to handle current and future increased passenger demand. Therefore, the Government made a policy decision to provide one year’s notice that the “Large Ship Infrastructure Tax” will be redefined and renamed the ‘Transport Infrastructure Tax’. Accordingly, the tax rate will be increased from $22.00 to $25.00 per passenger over the age of two. This will take effect 1 May 2020 for all cruise ships, regardless of size and passenger count, that berth in Dockyard between 1 April and 31 October.

This measure is a direct result of the urgent need to improve Bermuda's transportation infrastructure and plan the redevelopment of existing cruise ship piers in support of the growth in cruise ships and cruise passengers. Our cruise ship partners and our visitors deserve the best Bermuda can offer.

The revenue received from the infrastructure tax will be used to invest in new transport infrastructure over the next ten years.

Land Tax

The Land Valuation Department will conduct their quinquennial revaluation of land, after which a 2020 Draft Valuation List will be produced. The List will be published on 31 December 2020 and will come into effect for land tax purposes on 1 January 2021.

Depending on the results of the Valuation there may be a need to adjust Land Tax rates in order to maintain revenue neutrality for Government.

International Company Fees

The Government is considering the Tax Reform Commission recommendation to increase the yield on international company fees by introducing additional bands.

Increase in Immigration Fees

The Government is considering the Tax Reform Commission recommendation to increase the yield from Immigration fees by increasing the 3 - 5 year work permit fee.

Managed Service Tax

The Government is considering the Tax Reform Commission recommendation to levy a tax on professional services provided by non-Bermudian businesses to local and international companies.

The Government emphasises that the policy options listed above are for discussion purposes and that no decisions on any of the above for the 2020/21 budget have been made. During the month of February, the Government will hold public meetings on the above policy options to encourage public debate and discussion on the priorities for the 2020/21 budget. The Government welcomes feedback on this report, as we look to involve as many as possible in the Open Budgeting Process.

Historical Economic and Fiscal Information

As of or for fiscal year ended March 31 (except as specified)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(dollars in millions, except ratios and GDP per capita)										
Bermuda's economic data											
Nominal GDP	5,938.90	6,634.50	6,312.70	6,378.20	6,465.70	6,413.90	6,654.50	6,899.90	7,142.30	7,263.50	7,445.09
Nominal GDP growth (%)	-3.9%	11.71%	-4.9%	1.0%	1.4%	-0.8%	3.8%	3.7%	3.5%	1.7%	2.5%
Population	64,395	64,129	63,193	62,408	61,954	61,777	61,735	63,791	63,892	63,973	64,027
Population growth	0.3%	-0.4%	-1.5%	-1.2%	-0.7%	-0.3%	-0.1%	3.3%	0.2%	0.1%	0.1%
GDP per capita	90,168	103,456	99,896	102,202	104,363	103,823	107,791	108,164	111,787	113,540	116,280
Inflation	1.8%	2.4%	2.7%	2.4%	1.8%	2.0%	1.5%	1.5%	1.9%	1.4%	1.8%
Real GDP growth (%)	-5.9%	-2.5%	-3.7%	-5.3%	-0.3%	-3.7%	0.8%	-0.7%	3.6%	0.1%	1.8%
Unemployment	4.5%	7.0%	6.0%	8.0%	7.0%	9.0%	7.0%	6.0%	6.0%	5.2%	5.2%
Government profit and loss data											
Revenues	950.8	917.3	996.7	914.2	866.6	883.9	880.4	953.6	988.0	1,062.8	1,089.7
Expenditures	1,194.30	1,126.40	1,245.10	1,142.80	1,092.45	1,183.30	1,145.80	1,114.30	1,170.00	1,129.30	1,168.00
Surplus (deficit)	-243.5	-209.1	-248.4	-228.6	-225.9	-299.4	-265.4	-160.7	-182.0	-66.5	-78.3
Interest expense	18.2	29.9	56.3	67.6	81.6	109.4	113.2	116.2	120.6	117.7	124.0
Sinking fund contributior	9.5	10.3	18.3	25.7	30.8	37.6	47.7	52.2	58.4	62.1	64.2
Government balance sheet data											
Total debt	562.2	823.4	1,087.5	1,351.0	1,574.0	2,305.0	2,185.0	2,335.0	2,484.0	2,568.9	2,680.0
Sinking Fund balance	79.8	64.5	85.5	114.7	97.1	536.6	135.8	117.3	86.0	150.2	219.2
Net debt	482.4	758.9	1,002.0	1,236.3	1,476.9	1,768.4	2,049.2	2,217.7	2,398.0	2,418.7	2,460.8
Guarantees	0.8	210.8	210.8	207.3	278.6	515.4	519.1	698.5	541.4	533.5	533.5
Government cash flow data											
Capital expenditures	200.3	125.1	121.0	59.5	63.5	65.4	49.8	43.7	76.7	56.6	61.6
Loan proceeds	217.2	261.2	264	264	223	731	-120	150	149	85	111
Increase in sinking fund	12	-15.3	21	29.2	-17.6	439.5	-400.8	-18.5	-31.3	64.2	69
Net increase in debt	205.2	276.5	243.1	234.3	240.6	291.5	280.8	168.5	180.3	20.7	42.1
Government financial ratio data											
Debt service ratio	2.9%	4.4%	7.5%	10.2%	13.0%	16.6%	18.3%	17.7%	18.1%	16.9%	17.3%
Net debt/GDP	8.1%	11.4%	15.9%	19.4%	22.8%	27.6%	30.8%	32.1%	33.6%	33.3%	33.1%
Surplus (Deficit)/GDP	-4.1%	-3.2%	-3.9%	-3.6%	-3.5%	-4.7%	-4.0%	-2.3%	-2.5%	-0.9%	-1.1%

Chapter 4
Government Reform

What is Government Reform?

- It is a plan that over time is expected to change and improve the way Government delivers its services.
- These changes will be embedded into how departments and ministries operate.
- The changes will impact how public officers do their jobs.
- Ultimately, how the general public interacts with Government departments and how services are accessed should improve.

Government Reform timeline so far

- Following extensive research by PwC a Government Reform Strategic Plan was written and submitted to Government and subsequently approved by Cabinet;
- 1 March 2019 – Premier, David Burt, JP, MP announced the Plan in the House of Assembly and stated he would share it with the Unions;
- 15 March 2019 – an overview presentation was given to a joint Civil Service Executive (CSE) and Heads of Department (HOD)meeting;
- 17 May 2019 – in the House of Assembly, the Premier gave an overview of the Government Reform Plan and tabled it;
- 20 May 2019 – Head of the Public Service, Dr. Derrick Binns sent out an announcement about the Government Reform Plan.
- 20 June 2019 – Joint CSE and HOD workshop took place to discuss the Reform implications, define what the vision, purpose and commitments mean for each ministry and begin the reorientation of the Budget process for 2020/2021.
- July and August individual ministries worked with Management Consultant Services (MCS) to create mission statements for each department.

Government Reform Status Update

The Cabinet Office has developed a Strategic Planning Framework that will be used to move this initiative forward. This planning framework served as the starting point towards the building of a comprehensive roadmap to realise Government Reform.

The Plan highlighted the **Current State** and anticipates a **Future State** towards a Vision of "***A future-forward Government for the people of Bermuda"*** with the Purpose of "***Enhancing the lives of the people of Bermuda".***

Given the complexity of this initiative and all of its moving parts, it was imperative that the implementation was well-structured and planned. Thus, a Programme Management approach is being utilized to execute the multi-year implementation to move Government from the current state towards the desired future state.

What this means is that the Government will ensure coordinated management of all of the individual projects and the related change management activities to achieve beneficial change within the public service.

Five project management teams, comprising several technical officers have been determined and the Management Consulting Services (MCS) section is functioning as the Programme Management Office (PMO), as well as Project Managers on each Project Team. Union partners have also been invited to assist with various initiatives.

Project teams are being supported by technical officers from all levels within the Service. These officers are completing the various tasks associated with delivery of each of the projects. Some of the officers are experts in the specific areas and others are provided training and growth opportunities or simply have an interest in participating in the change initiative.

The opportunities to participate on the various teams are many and the Government looks forward to more public officers getting involved as the projects are rolled out.

A comprehensive communications plan has been developed to ensure all stakeholders are aware of and understand the implementation plans and regular updates are being issued.

Some of the project teams have already commenced work on a number of initiatives in accordance with the identified priorities.

Notwithstanding that all of the work is important; the Government's priorities are the Information and Technology components as well as the People components of the Plan. To be clear, the People component of the Plan is all about continuing to support the growth and development of talented public officers, empowering these officers through effective talent management, training, and implementation of accountability processes and systems.

The Plan has incorporated, and builds on some of the work that was already in progress that is consistent with the Government's Vision and Purpose for the public service. For instance, in our election manifesto, this Government committed to review the SAGE Recommendations as a part of its efforts to reform the public service.

Recommendations contained in the first section of the Report entitled "Performance: the Critical Paradigm Shift", which sought to strengthen leadership and address performance gaps, were of particular importance to this Government and in this area at least seventy-five percent or more of these recommendations have either already been implemented or are a work in progress.

Specifically, under this Administration:

- the hierarchy of the Civil Service has been restructured in accordance with the recommendations; and as a consequence, some of the recommendations peculiar to the functioning of the Civil Service Executive have been implemented;
- the recommendations regarding Government employees capacity for implementing change have been implemented, including the monitoring and accountability for MCS recommendations at the Ministerial and PS level and an accountability structure for monitoring and implementation of Internal Audit recommendations; also
- amongst others, work is in progress to implement the recommendations specific to succession planning and talent management as well as those recommendations specific to performance management and accountability.

This Government has assessed employee readiness for change and identified obstacles, such as being an overly bureaucratic environment with a weak execution model, and deliberately put in place the building blocks to enable the Service to move towards a shared Vision and Purpose.

Steps to ensure the integration of the Vision into the public administration work-stream have commenced as identified previously.

To address the Strategy and Performance components of the Reform Framework, a series of Strategic Alignment workshops were designed for the Executive, Leadership Team and Management of the Public Sector. The workshops facilitated a whole-of-government understanding of reform, improved strategic thinking, calibrated understanding of the

Vision, supported Managers in creating a compelling imagery of the future and enabled the rethinking and alignment of Ministry and Department Missions with the Government's Vision. To this end, participants were asked to specifically describe what the Vision meant in their area of functioning.

Importantly, the workshops emphasized the concept of public value in relation to the work of Government. Public Value is a concept which seeks to legitimize the operations of public entities through the benefits provided to the public. It is a form of accountability and is the value that results from the delivery of specific benefits directly to persons or groups. It suggests that whatever is actually undertaken and produced using public resources should achieve outcomes and impacts desired by the public. In order to appreciate their role in adding public value, participants reviewed their operating model and were encouraged to think about the outcomes and results of their operations from the perspective of outcomes desired by the beneficiary of their services.

49 members of the Executive and Leadership Team participated in the first Workshop on 20 June 2019. Over the period July to August, workshops were held at the Ministry and Departmental level for the Heads of Departments, Middle Managers and Senior Technical Officers. The combined participation to date is **163**.

These workshops established the foundation for the Performance Measurement workshops, which were conducted during the period 21 October to 8 November. 14 workshops were completed Government-wide for the Heads of Departments, Middle Managers and Senior Technical Officers. The participation was **154**.

The workshops were critical towards alignment of Fiscal Management and Strategic Management, particularly given the role of the ZBB process in the Public Service Plan. Therefore, the scheduling and conduct of the workshops were aligned with the Budget Office's Budget Timetable for the FY2020/21 Budget process. Thus, in the short term, the workshops served to improve the Strategic Objectives and Measures which are collated and communicated in the Budget Book. The workshops also served to help Business Unit Managers identify and select Measures which are aligned with their Department's priorities for the FY 2020/21 and which will indicate if outcomes are being achieved and if stakeholders are satisfied.

The execution of these workshops is an important milestone towards the ***Aspirational Objective of the public service is driven by a culture of performance and accountability wherein progress toward the achievement of desired outcomes is measured in a fair, transparent and consistent manner across all ministries and departments.*** Specifically the workshops deliver on the following Tasks and Detailed Objective:

- Train all Permanent Secretaries and Heads of Departments in evaluation methods, especially defining outputs and outcomes (People Task)
- Design and implement a standard set of performance metrics to drive accountability, promote transparency, and build public confidence.

This Government has embarked upon an ambitious work-plan towards Government Reform. Innovation and technology will underpin change as the Government works to achieve one hundred percent paperless processing by 2023. Ultimately the Public Service will be the employer of choice, where talented individuals are rewarded fairly and valued over the long term for their contributions to enhance the lives of the people of Bermuda.

Chapter 5
Conclusion

Commitment to Budget Transparency

This PBR represents a step forward in the preparation of budgets and the formulation of budget policy in Bermuda. To meet international best practice for budget transparency, the International Budget Partnership recommends that governments publish eight budget reports during the budget cycle. The documents and the governments' commitments are below:

1. **Pre-Budget Report:** This document is the Government's fourth PBR. It is recommended that this document be issued at least one month prior to the Budget Statement to allow adequate time for public feedback to assist in budget policy formulation.
2. **Budget Statement:** The Government issues budget statements annually. This practice is a matter of custom and will continue.
3. **Citizens' Budget:** A Citizens' Budget is a non-technical presentation that "can take many forms but its distinguishing feature is that it is designed to reach and be understood by as large a segment of the population as possible". A Citizens' Budget is a simplified summary of the budget designed to facilitate discussion. The Government has issued a guide to the budget in the past and will issue this document with the 2020/21 Budget Statement.
4. **Enacted Budget:** The Enacted Budget is the appropriations bill which is passed by the legislature annually, as required by the Bermuda Constitution.
5. **In-year Reports:** The Government currently issues quarterly fiscal performance reports and will continue to do so.
6. **Mid-year Review:** The Government currently issues a Mid-year Review and will continue to do so.
7. **Year-end Report:** The Government does issue financial statements once they have been audited as per the Bermuda Constitution. The Government also provides highlights of the financial statements by way of a Ministerial Statement in the House of Assembly. The Government commits to developing and releasing a more comprehensive report by way of a Financial Statement Discussion and Analysis document at the same time as its annual financial statements.
8. **Audit Report:** The Auditor General currently issues an Audit Report annually.

It is the aim of the Government to provide all of these reports during the coming budget cycle and 2020/21 fiscal year. In publishing this document and conforming to international standards of budget transparency, this Government reaffirms its commitment to good governance.

Feedback

The Government invites and welcomes feedback on this document. In addition to electronic communication, the Government will hold public meetings in February 2020 to discuss the principles laid out in this document and to solicit public feedback.

Comments can be emailed to: openbudget@gov.bm

GOVERNMENT OF BERMUDA

Ministry of Finance