



**“Transitioning to a more efficient, responsive  
and affordable Public Service”**



**Presented by the Hon. Chief Minister, Reuben T Meade  
& Minister of Finance, Economic Development and Trade  
Delivered in the Legislative Council**

**On 24<sup>th</sup> March 2011**

**24th March 2011**

## Table of Contents

<b>Table of Contents.....</b>	<b>2</b>
<b>ABBREVIATIONS.....</b>	<b>4</b>
<b>INTRODUCTION.....</b>	<b>5</b>
THE CHANGING WORLD .....	5
HOW DO WE INTEND TO RESPOND?.....	6
ECONOMIC AND FINANCIAL CONTEXT.....	6
<i>International Developments.....</i>	6
<i>Regional Developments.....</i>	7
<i>Local Context.....</i>	7
MAJOR ACHIEVEMENTS.....	8
<i>Enhancing the Tourism Product.....</i>	8
<i>Restructuring the tax delivery system.....</i>	9
<i>Improving Access to the Island.....</i>	9
<i>Confronting Social Challenges.....</i>	10
<b>KEY CHALLENGES AND OUR RESPONSE FOR FISCAL 2011.....</b>	<b>11</b>
STRENGTHENING POLICY DEVELOPMENT & ECONOMIC MANAGEMENT.....	12
DELIVERING KEY ECONOMIC INFRASTRUCTURE TO ATTRACT AND FACILITATE PEOPLE, INVESTMENT AND TRADE.....	13
<i>Road Infrastructure.....</i>	13
<i>Accommodation and Institutional strengthening.....</i>	14
<i>Little Bay Town Centre Development.....</i>	14
<i>Port Development.....</i>	15
<i>Information Communications Technologies (ICT).....</i>	15
<i>Environment and / Physical Planning – Zoning, GIS/LIS systems.....</i>	16
PROVISION OF STRONG AND EFFECTIVE LEADERSHIP WITHIN ALL AREAS OF GOVERNMENT.....	16
<i>Implementation of the new Constitution.....</i>	17
<i>Modernisation of the Public Service.....</i>	17
<i>Leadership and management of statutory &amp; government owned institutions.....</i>	18
PROVIDING EFFICIENT, AFFORDABLE AND TARGETED SOCIAL POLICIES.....	18
<i>Providing relevant and high quality educational opportunities.....</i>	19
<i>Providing access to affordable health care.....</i>	19
<i>Promoting Social wellbeing and development .....</i>	20
DELIVERING APPROPRIATE AND RESPONSIVE INTERNAL SECURITY AND PUBLIC SAFETY FRAMEWORK.....	21
PURSUING MEANINGFUL RELATIONSHIPS ABROAD .....	23
<b>BUDGET PROPOSALS FOR 2011-12.....</b>	<b>24</b>
PUBLIC FINANCIAL MANAGEMENT & ALLOCATIONS.....	24
<i>Financial services sector governance.....</i>	24
<i>Management of the Recurrent Budget.....</i>	25
<i>Targeting the Capital Budget.....</i>	28
<i>Managing Public Debt.....</i>	28
<i>Overdraft considerations.....</i>	29
<b>SIGNIFICANT ECONOMIC AND FINANCIAL POLICIES.....</b>	<b>29</b>

<i>GDP GROWTH AND PUBLIC SECTOR CONTRIBUTION</i> .....	29
<i>BUDGETARY AID</i> .....	29
<i>FOOD SECURITY</i> .....	30
.....	30
<i>FINANCIAL POLICY MODIFICATIONS</i> .....	30
<i>Modernization and Simplification of the Tax Regime</i> .....	30
<i>Introduction of a Single Employment Identification Number</i> .....	31
<b><u>ACKNOWLEDGEMENTS</u></b> .....	<b>32</b>
<b><u>CONCLUSION</u></b> .....	<b>33</b>

## **ABBREVIATIONS**

CARICOM	-	Caribbean Community
CARTAC	-	Caribbean Regional Technical Assistance Centre
CDB	-	Caribbean Development Bank
DFID	-	Department for International Development
DMCA	-	Disaster Management Co-ordination Agency
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
EU	-	European Union
FCAU	-	Financial Crime and Analysis Unit
FCO	-	Foreign Commonwealth Office
FRA	-	Fiduciary Risk Assessment
FSC	-	Financial Services Commission
GDP	-	Gross Domestic Product
HMG	-	Her Majesty's Governor
ICT	-	Information Communication Technology
LEAP	-	Lower Attainment Programme
MCRS	-	Montserrat Customs and Revenue Service
MSS	-	Montserrat Secondary School
OCT	-	Overseas Countries & Territories
OECD	-	Organisation for Economic Co-operation & Development
OECS	-	Organisation of the Eastern Caribbean States
PEFA	-	Public Expenditure and Financial Accountability
PWD	-	Public Works Department
RMPF	-	Royal Montserrat Police Force
SVG	-	St. Vincent and the Grenadines
TIEA	-	Tax Information Exchange Agreements
UK	-	United Kingdom
UWI	-	University of the West Indies

# BUDGET STATEMENT 2011 FISCAL YEAR

*“Transitioning to a more efficient, responsive and affordable public service”*

## INTRODUCTION

1. As we embrace the inescapable challenge of managing the Montserrat economy in this turbulent environment, I am reminded of the words of Leo Nikolaevich Tolstoy, *“Everyone thinks of changing the world, but no one thinks of changing himself”*.
2. There are many who feel that the world must change to facilitate the success of our individual economy. Unfortunately the prevailing economic and social challenges facing global economies including the regulation of terrorism and crime have made it much more difficult to access resources in the same way we have grown accustomed. But we cannot lose hope. And we must admit that the situation requires a relevant and homegrown strategy to facilitate our continued development. This is what we want to encourage, but Government cannot do it alone. In times like these that we must remember that over the ages civilizations have had to accept and adapt themselves to changes that threatened their way of life. These changes have come about as a result of natural disasters, the effect of diseases, war and conquest and global economic decline. This is nothing new. We must also note that some of the greatest innovations have come out of these periods of extreme hardships as people adjust to the challenges faced.

## THE CHANGING WORLD

3. The global economy is in the process of stabilizing a wide range of economic, social and political imbalances. Old regimes, concepts and values are being challenged and many countries are seeking new ways of governing themselves and managing their circumstances in this new economic environment.
4. In considering our own situation, the current challenges which we face are as follows:
  - Achieving medium to long-term budget sustainability. Our goal of fiscal sustainability remains a key commitment, but to achieve this, we must balance the need to reduce public expenditure, with the need to maintain low unemployment levels; the need to raise more revenues with the need to ensure that we do not stifle economic growth, deter investors or reduce household incomes to unrealistic levels.
  - We must develop our physical infrastructure as a basis for economic growth, but this must be balanced against the need to protect our natural environment and resources.
  - Historically, our economy has been dominated by the public sector. This is not a prescription for a vibrant, healthy economy with sustained growth. We need to re-establish this balance by growth in the private sector, but the experience in many countries shows that this is a long term process.

- Montserrat needs a larger population – but we must balance the need for population growth with the need for social integration and our capacity to sustain the population at the targeted levels.
- We all want to be safe and secure – but we must balance our desire to move freely and live without interference with the need to manage the risks we face, both natural and societal.

## HOW DO WE INTEND TO RESPOND?

5. In our bid to transition to a more successful national economy, and establish a healthy balance in all spheres of the economy, we are required to make changes to ourselves and our institutions, to deliver services not only in an efficient and affordable manner but more importantly the transition must facilitate national growth and development. It is with this in mind that we have discussed the objectives, strategies, policy options and priorities for the next three years.

6. In moving forward, the development strategy will be underpinned by five pillars, namely:

- A clear set of policy commitments designed to stimulate economic growth and reduce our reliance on budgetary aid.
- Agreement with our development partners on the provision of key economic infrastructure to attract and facilitate investment and trade;
- Strong and effective leadership including the governance of the institutions of government and the private sectors;
- Efficient, cost effective and targeted social policies to build, sustain and encourage social integration and development for all the people of our society
- Appropriate and responsive legal systems and a flexible internal security framework.

7. The policies and programmes supporting these pillars will be implemented over the next three to five years. Clearly, we do not have the capacity and resources to make it happen all at once. This is what we mean to convey by our theme, “*transitioning to a more effective, responsive and affordable public service.*”

## ECONOMIC AND FINANCIAL CONTEXT

### *International Developments*

8. Globally, many countries have started to recover from the recession as world output is estimated to grow by 4.4% in 2011. This is mainly due to the strong growth in emerging economies such as China, India and Brazil as well as industrialised countries like Germany.

This growth rate is slightly lower than the 4.9% growth experienced in 2010. The debt crisis in Europe remain extremely important to the region as Eurozone countries contribute significantly to tourism and aid. Natural disasters and a series of outbreaks of political and social unrest, particularly in the Middle East and North Africa and more recently in Japan will have an impact on international commodity prices.

### ***Regional Developments***

9. After an expected lag, the economic crisis fully impacted the region during 2009. This impact was felt, especially in the tourism and construction sectors which are major contributors to GDP growth in most territories including Montserrat. This was expected as North American and European countries saw a decrease in wealth in 2009 and 2010, as unemployment affected millions of people in these regions. The economies of the Eastern Caribbean Currency Union (ECCU) countries contracted by 7.0% and 3.2% in 2009 and 2010 respectively. Construction, one of the key sectors in the region declined, due mainly to the fact that the wealthy countries no longer had the funds to lend or invest which led to a decrease in direct foreign investments. However, there are indications of recovery in 2011 and 2012 due to apparent improvements in the economic fortunes of our principal trading partners in North America and Europe.
10. ECCU countries have recognised the need for structural reform. As small open economies we are very susceptible to the external shocks and must look toward ways of managing these risks. All of the ECCU Countries have pledged to adopt the recommendations from the Eight Point Stabilization Programme to promote both financial stability and sustainable development.

### ***Local Context***

11. In 2010 Montserrat's real Gross Domestic Product (GDP) contracted by 6.1%, a contrast to 1% growth experienced in 2009. This is mainly due to declines in Construction (26%), Wholesale & Retail (14%), Transport (20%) and Mining & Quarrying (74%). This decline in growth is projected to be halted in 2011.
12. Sectoral declines in Mining and Quarrying were due to the volcanic disruptions in the latter months of 2009 and the early months of 2010. This caused the destruction of essential mining equipment and closing of Trants Bay, a major mining site for the industry. The completion of infrastructure works at Little Bay and the delayed approval of major capital projects were the principal causes for the decline in the construction sector in 2010.
13. The agricultural sector also contracted by 0.3% in 2010, in comparison to 30% growth in 2009. This can be attributed to the fall in the production of crops by 40% which was due to the losses suffered from the volcanic eruptions and the passage of Hurricane Earl. Fish production also saw a decline of 17%, as fish pots were damaged by Hurricane Earl. Livestock production was the only sub sector of the Agriculture industry that experienced growth.

14. The tourism and services sector were heavily impacted by the dislocation of residents in Isles Bay and Old Towne, coupled with heavy ash concentrations which caused many visitors to cancel reservations in late 2009 and into the first half of 2010.
15. Despite the disruptions early in the year, tourist arrivals increased by 4.3% in 2010 in comparison to the same period in 2009. This can be attributed to the increase in sea arrivals due to the re-introduction of the ferry service. Sea and excursionist arrivals increased by 1,425. In contrast however, total stay over arrivals contracted by 7.4%. Hotels and Restaurants saw a growth of 10% in 2010 compared to a 22% decline in 2009.
16. Montserrat's inflation rate increased by 3.2% in 2010, a reflection of increases in the sub-index of Gas, Electricity & Water which grew 11.3% in comparison to 2009. This is a reflection of the increasing oil prices throughout 2010. This sub-index caused increases in other sub-indices, Food & Beverages, Household Goods and Services which increased by 1.8%, 4.1% and 3.9% respectively.
17. Prospects for growth remain conservative at less than 1% for 2011, as capital projects get on the way and Government policy measures come into effect. It is the expectation, that with the strengthening of the private sector and Government's fiscal structures, that the process for attaining sustainable growth and development in the long term will result.

## **MAJOR ACHIEVEMENTS**

18. There are several areas where achievements in fiscal 2010 are noteworthy.

### ***Enhancing the Tourism Product***

19. After three years of the Tourism Development Project Phase II funded by DFID and the EU, the Montserrat Tourist Board (MTB) has completed all the travel related projects, ferry port terminal, visitor information signs, and the facilitation of travel through the Antigua and Montserrat airports. Four capacity building projects have also been completed and in the attractions category, six of the projects have been completed:
  - Woodlands Beach facility;
  - The rejuvenation of the hiking trails;
  - The publication of the Centre Hills Field Guide;
  - The Botanical Gardens;
  - The Amerindian Garden;
  - The Historical Buildings and Sites Inventory; and
  - One substantially completed Heritage Walking Tours.
20. Plans for two major new attractions: the Volcano Interpretation Centre, and the National Museum, both at Little Bay, are well advanced. The Tourism Challenge Fund supported the operation of a new local airline; an adventure eco-tour company; an outdoor campsite at Mount Pleasant; an annual Literary Festival; opening of a guest house/restaurant at Olveston House; and the rejuvenation of the marine habitat at Woodlands Beach. I wish to commend



the work of the Tourist Board and other individuals, groups and organisations that have made these projects possible.

### ***Restructuring the tax delivery system***

- 21.** Government of Montserrat is committed to reforming the tax system. Over the past year, a number of steps have been taken to make this commitment a reality. In this regard, we have sought to strengthen the tax system firstly by continuing the merger of the Inland Revenue and Customs Departments into the Montserrat Customs and Revenue Service (MCRS). The anticipated benefits are to strengthen the arrangements for tax collection, integrate tax planning, and encourage a strategic and coordinated approach to taxation policy and maximize its use as a development tool. The staffing arrangements are currently being assessed and the changes will be in place before the current Director General, MCRS leaves in September.
- 22.** The reforms also saw improvements in efficiency and greater compliance within the Customs area. The introduction of Automated System for Customs Data (ASYCUDA) World made it possible for substantial increased speed in the processing of customs documents and the clearing of goods from the port. The strengthening of the investigative and enforcement divisions of the Montserrat Customs and Revenue Services (MCRS) has and will continue to enhance compliance. Investment in taxpayer education is expected to pay dividends in the short to medium term. The third component of the reforms will be the systematic modification of the tax regime to make it simpler to encourage trade and development. The net effect of these changes will improve the trading environment in the medium to long term.
- 23.** In the case of direct taxation - Personal Income Tax and Corporation Tax we are trying to address the problem of arrears. When this Government came into office, it recognized that the level of arrears was quite high. The total arrears were approximately \$22 million of which the major portion was penalties and interest. The list also included some taxes owing from as far back as 1967 - a significant portion being uncollectible. This Government has provided an amnesty to allow all parties to settle or make arrangements to settle their outstanding taxes. We have collected over one million dollars as of January 2011 and written off millions more. We will however, extend the period for persons wishing to negotiate for a further three months. After this extension, persons who still have not made the necessary arrangements or sought relief must be seen as unwilling to take up the offer of leniency. The MCRS will then begin to apply the full provisions of the law to all persons with outstanding balances.

### ***Improving Access to the Island***

- 24.** The Government's attempt at having a locally owned airline service the island has led to monopolistic pricing. It is Government's intention therefore to encourage and promote competition in the delivery of air services to the island. To date, we have a proposal for another airline startup by a group of non-resident Montserratians.

25. Access continues to be an essential foundation for both social and economic development. Based on the arrangements made this year, we go into the next financial year on a solid footing, with the continued operation and growth of Fly Montserrat and the very recent arrival of a new airline SVG Air, to provide scheduled services at a reduced airfare of US\$74 plus taxes per passenger. We also have a regular ferry service, contracted in December 2010 to provide scheduled services, currently 4 days weekly. We will continue to monitor and encourage improvements in this area.
26. We have started discussion on important initiatives to further improve access, including an extension of the airport operating hours, continued development of sea access infrastructure at Little Bay and options to provide sea access for sand mining and other heavy industry exports. These initiatives will gradually open up more opportunities for social and economic development.

### ***Confronting Social Challenges***

27. In keeping with our commitment to close all shelters by June 2012 three communal shelters Almond and Poinsetta at Davy Hill and Jacaranda at Brades, were closed during the past year. We currently have three shelters in operation with 24 persons in need of permanent housing. We plan to construct two blocks of 8, 1-bed apartments, which will enable us to close two more shelters in the coming months. That will leave us with one shelter, which we plan to close by the end of this fiscal year.
28. To date we have completed eleven 2 bedroom houses at a cost of \$2.7 million; five 3 bedroom units at a cost of \$1.4 million; three 1 bedroom duplexes for a total of six units at a cost of \$1 million for our mentally challenged; an eight 1 bedroom apartment block at a cost of \$1.7 million and approximately \$700,000 so far on the government accommodation project at Brades. These have not only contributed significantly to employment but have put over \$7.5 million into the economy from housing construction alone. We are working.
29. There were some notable successes in 2010 in the education sector including: completion of a two-storey building at the Brades Primary School, annual attainment tests at Grades 3 and 5 showing performance ranges from an average of 52% to 60% for Mathematics and 37% to 39% for Language Arts, across the two grade levels; results of the change programme at the Montserrat Secondary School (MSS) including, implementation of a Lower Education Attainers Project (LEAP) and a curriculum review; and a plan is now in place to improve the financial sustainability of the Montserrat Community College (MCC).
30. In the Health Sector, the Government of Montserrat continued to maintain the full range of primary and secondary services despite increasingly challenging conditions. Notable successes include the agreements to move to the detailed design plans to develop Glendon Hospital, recruitment of a highly qualified and experienced Chief Medical Officer, the construction of a new dental clinic through the Basic Needs Trust Fund (BNTF), the development of a Nutrition Office and the planning process for the cemetery is now complete.

31. We have ensured the provision of highly specialized health services through arrangements made to bring a number of visiting specialists to our island. The services provided last year include ophthalmology, psychiatry, urology, gastrointestinal and gynecology. Health education was provided throughout the year in oncology and sexually transmitted diseases with considerable local and external support. We have found a way to introduce high value care notwithstanding our limited financial resources.
32. The Youth Department, through the vision of our young Parliamentary Secretary attached to that Ministry, launched the new Helping Youth Prepare for Employment (HYPE) programme which saw 18 young people gaining experience in fields including mechanics, body works, Fire, Search and Rescue, hairdressing, plumbing, woodwork, and electrical. Over 150 young persons were the recipients of training and personal development opportunities at summer camps and other workshops during 2010.
33. We have provided monthly financial assistance to approximately 275 households covering 320 vulnerable individuals in 2010. Approximately 95 households received Rental Assistance while the Foster Care Programme catered for 10 children. Additionally, approximately 337 one-off grants were approved during 2010 with a total expenditure of approximately \$470,000. We have over the past year provided support for medical care and other referrals at a cost of approximately \$320,000. Coupled with all of this we provide approximately \$800,000 in support of the Golden Years Home for the elderly. We did this at a total cost of approximately \$3.8 million. Despite the increased financial strictures we are committed to continuing this level of assistance. We do care about the vulnerable in our society and will continue to provide for them.
34. 2010 saw a resurgence in school sports at all levels. The community made their presence felt in their hundreds at the well organized meets which saw athletes from Nursery through to the MSS displaying great athletic prowess. Two of our premier athletes have been offered sports scholarships; one of them is currently in Jamaica availing himself of the opportunity.
35. The Government is also making an effort to strengthen Community-based activities. Planning and preparation for village under 17 cricket, Netball and athletic tournaments are well on the way. The importance of sport to the health and well being of our nation remains an important element of our social development. Sport is an integral part of the social fabric and will remain so under the leadership of this Government.
36. Despite the economic challenges, we have had many things to be proud of, many things to cheer about, many things to make us laugh and many things to inspire new hope to face the challenges with renewed vigour.

## **KEY CHALLENGES AND OUR RESPONSE FOR FISCAL 2011**

37. The key challenges we face relate to the pillars referred to before and it is to these that our policy and programme responses are targeted including the total budget of \$134,556,100. We have crudely allocated portions of the budget to these pillars based on the ministries and departments and their function but in future years the allocation through the Medium Term Expenditure Framework (MTEF) will be linked to actual programmes.

### ***STRENGTHENING POLICY DEVELOPMENT & ECONOMIC MANAGEMENT***

38. The first major challenge therefore is keeping the recurrent budget in check while developing the private sector. \$33.3 million or 25% of the estimates has been assigned to this objective. There are two sides to this coin – reducing public expenditure means cutting back or at least containing the operating cost of delivering public services and investing more including savings in increasing private sector economic activity. The resulting policy measures are designed to address the issues over time from both perspectives and include:

- Continuing to contain or reduce the cost of the administration and programmes delivered by the public service. We must be cost conscious without reducing the quality of service. We will therefore strengthen the Internal Audit function to increase scrutiny of revenue collection systems, expenditure controls and compliance as one measure of securing value for money.
- Reviewing high cost programmes in order to streamline costs to make the relevant programmes more sustainable. Government's thrust to maintain budget sustainability will be enhanced by the introduction of the Pension Amendment Bill in the Legislative Council. The key features of the Bill include gradually increasing the retirement age of Civil Servants from 55 to 65, adjustment of the pension accrual rate from 2% to one 1% and capping of the combination of Social Security payments and Civil Service Pension to 85% of salary. The effect of this measure will make the Civil Service Pension Scheme more sustainable in the long term. We have ensured that benefits accruing prior to the effective date of the Act will be preserved. A similar bill will be put in place for legislators as well so that there is greater equity in the two systems.
- Using the International Monetary Fund (IMF) Article IV consultation assessment of the Economy and the Medium Term Expenditure framework to target resources to priority areas while making appropriate allowances for maintaining social safety nets. This will ensure a more considered and systematic approach to linking resources to priorities.
- Developing a robust private sector development strategy, with transparent and well targeted incentives and the removal of all barriers to local and foreign investments. Montserrat has the potential to offer a wide range of business and personal opportunities and we will ensure that we welcome and facilitate investors to support our economic growth. This effort will entail a change in the institutional arrangements where we intend to have a more focused trade and

investment promotion agency which has the specific mandate to provide a range of support for private sector businesses. Given the trauma undergone, and the commitment and resilience of locally owned businesses over the years, incentives will be provided to ensure that they are not crushed after investing and showing so much faith in the island's resurgence when many others fled or wanted us to abandon the island.

39. The policy measures will continue to focus on our target economic sectors. We have commissioned studies aimed at developing the energy and mining sectors and these are at varying stages of discussion and implementation. We are in discussion with Department for International Development (DFID) and Foreign and Commonwealth Office (FCO) regarding the financing of a power station and a medium speed diesel power generation plant in the short term. In the medium to long term, discussions are on-going regarding the funding for the drilling of exploration and production wells for the development of geothermal energy. We will also review our approach to the development of wind, solar and other forms of energy.

### ***DELIVERING KEY ECONOMIC INFRASTRUCTURE TO ATTRACT AND FACILITATE PEOPLE, INVESTMENT AND TRADE***

40. The second pillar of our development strategy is to ensure that we have agreements for a number of key infrastructural projects. At this point, we have made provision for expenditure of just over 24% or \$32 million in capital investments. We have excluded from these estimates any projects that are still under discussion and have not yet received funding approval. So while we have been allocated other resources, for example, from the European Commission, we did not include the expenditure at this time. The decision to omit some projects takes into account the delays that sometimes occur with donor approvals. The change in political leadership in the UK, the global financial and economic crisis, and the delayed implementation of a number of major capital projects resulted in a negative growth rate for Montserrat in 2010. Despite the major difficulties encountered, we managed to complete a number of key economic infrastructure projects.

### ***Road Infrastructure***

41. The passage of Hurricane Earl has caused severe damage to the island's road infrastructure. Our emergency response mechanisms were severely tested, but the Ministry of Communications and Works with support from other bodies promptly responded, clearing roads and culverts that were impassable. This was not an easy task, but this government has continued to show its commitment to the well-being of the people of Montserrat.
42. Government has recently received approval of some EC\$14.6 million for the Salem to St. John's Road Refurbishment Project. Nine contracts have been issued under the project for

drainage works between Nantes River and Woodlands. Further drainage work will be done from Woodlands to St. John's. Other components under the project include the resurfacing of the main road from Salem to St. John's and upgrading of the Asphalt Plant, all of which will be undertaken over the next eighteen months. The benefits under this project will include improved pavement quality and a pedestrian footpath from Cudjoe Head to Brades. All of these changes will contribute to increased safety for road users. We are pleased to announce that work to restore the road access, consequential to the passage of Hurricane Earl, at the more difficult areas of the Silver Hills road is almost complete.

### ***Accommodation and Institutional strengthening***

- 43.** The Public Works Department (PWD) is charged with the responsibility of developing and maintaining civil works and buildings infrastructure on Montserrat, but has struggled to do so due to unreliable, aged and/or poor maintenance of its fleet. We have received approval of \$6.2 million towards the Restructuring of the PWD Mechanical Workshop Project.
- 44.** Much progress has been made to date: two contracts have been awarded to improve the physical layout at the workshop, which includes the paving of the workshop yard. Most of the funding under the project is allocated for upgrading the essential plant and equipment and also to update the maintenance practices and procedures. This project is very timely, as it provides well needed support to the ongoing roads project.
- 45.** This government has placed tremendous emphasis on the need for efficient and effective delivery of government services on Montserrat. This cannot happen if adequate infrastructure is not in place.
- 46.** The Project Implementation Unit in the Ministry of Economic Development and Trade commenced the implementation of an \$11.4 million government accommodation project. This project will provide modern, hurricane and earthquake resistant and low maintenance office buildings.
- 47.** The first of the four buildings is now being constructed at Government Headquarters and the second building for the Ministry of Communication and Works is expected to commence shortly. The tenders have been reviewed and the Central Tenders Board's has recommended that an award be made to the successful evaluated bidder.

### ***Little Bay Town Centre Development***

48. In my last Budget presentation, I referred to the development of the Little Bay Master Plan. Over the past year we have seen a complete transformation of the Little Bay area which is designated for the Town Centre. Over \$30 million was invested in the project for the development of the infrastructure network for the new town. Roads, drainage and pedestrian walkways were constructed, water, electricity and cable lines have been installed, and underground and landscaping work was completed. Three new link roads were constructed which opened up lands for commercial and residential development. The implementation of the Master Plan will continue. We will see the start of the new Social Security building in Little Bay which will include office space for rent. We hope that this will provide a stimulus for private investments in the new town so that in time it can become the primary commercial centre on island.

### ***Port Development***

49. Phase 1 of the Port works has been completed. This work has resulted in the reclamation of land and hard surfacing going towards the sea starting from the existing security offices to the ramp on the southern berth of the jetty. This has created some 33,000 square feet of additional space. The reclaimed area will be used as the platform from which the contractor for Phase 2 can operate. In the future this site will be upgraded to accommodate passenger processing operations and leisure craft users.

50. Phase 2 of the Port Development Project which is currently at the design stage involves the construction of a jetty and breakwater facility. This facility will be able to facilitate cruise ship calls, cargo vessels all year round and provide a safe harbour for fishing boats and yachts. The design of the facility has unfortunately taken longer than anticipated. However, it is important to get it right the first time rather than having a design which does not suit our needs.

### ***Information Communications Technologies (ICT)***

51. The Information Communication Technologies (ICT) Roadshow held in April 2010 generated a lot of interest amongst the public and private sectors. One of the most impressive outcomes of this event was the impact it had on young persons. Given the perceived potential of this sector, this Government continues to seek innovative approaches to transform our ailing economy into one which is thriving, sustainable and competitive. In this regard, we intend to invest in the development of ICT-related infrastructure.

52. Government has approved a new e-Government Strategy which is intended to support the government's efforts to improve its structures and processes through effective use of ICTs and deliver integrated, efficient and purposeful public services through multiple channels. The successful implementation of the eGovernment Strategy will support the following achievements:

- Modernized public service to attract foreign investments and international trade;

- Reduced expenditures in public service by process improvement;
- Increased productivity and trade in economic sectors using international connectivity through broadband internet access;
- ICT-enabled private sector especially micro and small enterprise;
- Strengthened linkages with the Caribbean region.

53. The Online Geographical Information Systems project is already well advanced and should be further improved this year. Other projects in the pipeline include online filing of Income Tax Returns and Property Tax Payments; and a new Patient Administration System for the Hospital and Clinics.

***Environment and / Physical Planning – Zoning, GIS/LIS systems***

54. Our natural environment and cultural heritage is of fundamental significance to all our residents and visitors, for its inspirational, artistic, scientific, economic, spiritual and other values. This government remains committed to ensuring the sustainable use, preservation and protection of this heritage for this generation as well as for future ones. The development of a new Physical Development Plan will provide a comprehensive framework for infrastructure planning over a long term time frame. This will then enable us to programme aid funds over a longer time frame. Additionally, Government will lead and support the following during the next year:

- the development of comprehensive environmental legislation and regulations;
- the development of the national Climate Change Adaptation Strategy and Action Plan;
  - a climate change Vulnerability and Capacity Assessment (VCA);
- A comprehensive, efficient and accessible mapping and geo-information system to support planning, decision making and development; and
- A more efficient and up-to-date regulatory framework for land surveys and property registration.

***PROVISION OF STRONG AND EFFECTIVE LEADERSHIP WITHIN ALL AREAS OF GOVERNMENT***

55. The third pillar underpinning future strategies and programmes is Government's drive to ensure that strong and effective leadership is present or is being developed in all areas of Government. We have therefore made a provision of \$25.2 million or 19% of the budget and



put in motion a number of activities and programmes that will secure the desired outcome over time. These are:

### ***Implementation of the new Constitution***

56. The constitutional reform is now completed after over five years of discussion and interest among our people at home and overseas. I am pleased to say that this Government's successful negotiation with Her Majesty's Government resulted in agreement of the Montserrat Constitution Order in September, 2010. We recognise that many persons would have liked to see more radical changes. However, this Constitution improves upon the 1989 Constitutional Order and there is a mechanism for change where appropriate and justifiable. We wish to thank all those persons who took the time to contribute to this process.
57. This new Montserrat Constitution Order contains significant advances recommended by our own people. It introduces a number of improvements to our relationship with Her Majesty's Government. Significant changes to existing legislation will be made, new legislation will be introduced and standards and procedures will be developed in order to strengthen good governance practices on Montserrat, including making the Auditor General truly independent. The process has begun to establish the Integrity and Complaints Commission which will, inter-alia, set up the office of the Ombudsman to deal with complaints by the general public especially where they feel aggrieved by public officials or processes. The introduction of the National Advisory Council and the operation of the Electoral Commission will provide the capacity to be better able to handle matters of emergency and electoral reform. The new Constitution will provide a focus on transparency and accountability by upholding standards of integrity, public service ethics and conduct. There is a considerable amount of work to be done, before we can realize the true benefits, and to this end, the appropriate structure is being developed to ensure that these changes are realized. The new Constitution will be in force from 1<sup>st</sup> September 2011. Getting us to that goal will require significant commitment from the Attorney General's Chambers.

### ***Modernisation of the Public Service***

58. The public service modernisation activities are progressing. We are currently implementing Phase 2 of the Public Service Reform (PSR2) project which will focus on implementing approved recommendations for a strengthened Public Service Management System. The modernisation processes will strengthen Policy and Strategic Management; improve service delivery; integrate public finance and economic Management; and rationalise and address anomalies and inconsistencies within the Human Resource Management and Development to ensure better performance. There are a number of activities that will come together over the next year as follows:
  - i. The Deputy Governor's Office was restructured and is in the process of being strengthened to provide appropriate oversight of human resource management including training and performance management, consular services, management of prisons, Defence Force and emergency management. This service will be

supported by a new Public Administration Act and regulations that will replace the Public Service Commission Act and General Orders.

- ii. The Office of the Chief Minister is in the process of being restructured in keeping with the proposed constitution. The Office of the Premier will be headed by a Cabinet Secretary, responsible for coordinating the development of Government's Strategic Plans, for recording and follow up on policies agreed by Cabinet and for information services. This will ensure that the Government of the day has the capacity and framework to manage its policy from a central point and to disseminate it more effectively and in a more organised manner. Regional affairs, trade and immigration matters will reside in this office.
- iii. The Ministry of Finance and the Ministry of Economic Development will come together to strengthen and improve the Public Finance and Economic Management capacity. This is necessary to respond to regional and international commitments in terms of international taxation and financial regulation matters. More importantly, the introduction of the Medium Term Expenditure Framework will require a more joint and coordinated approach to economic and fiscal management. The regulatory and scrutiny aspects of public finance management must be improved to meet the new and emerging role of the Public Accounts Committee. This will also enable the Financial Secretary to have greater financial oversight of the Statutory Bodies.
- iv. The Ministry of Agriculture, Lands, Housing and the Environment will also undergo some rationalisation which would ensure more effective use of the human resources within the Ministry.

#### ***Leadership and management of statutory & government owned institutions***

59. The Public Expenditure Framework Assessment (PEFA) and Fiduciary Risk Assessments conducted by independent consultants engaged by Government, DFID and Caribbean Regional, Technical Assistance Centre (CARTAC) expressed overall concern over the management of public corporations and statutory organisations. The Ministry of Finance hosted a workshop on the Management of State Owned Enterprises with resource persons engaged by CARTAC. This was to begin the process of getting government owned organisations to be aware of their responsibilities, take steps to comply with the provisions of the Public Finance Management and Accountability Act and to reduce the risks highlighted in the PEFA/FRA reports.

#### ***PROVIDING EFFICIENT, AFFORDABLE AND TARGETED SOCIAL POLICIES***

**60.** It is critical that the process of redistribution of economic benefits be put in place to ensure that the vulnerable and persons who have the will to do so be given the opportunity to develop fully. This is the reason underlying the fourth pillar which is aimed at achieving social transformation. Accordingly \$34.0 million or 25% of the budget has been assigned to support the initiatives highlighted in this sector.

***Providing relevant and high quality educational opportunities***

**61.** Our aim to develop efficient, cost effective, and targeted social policies requires us to focus on developing the education system. The Ministry with responsibility for education plans to systematically create a framework that effectively supports social and economic development and produce citizens with the foundation to become globally competitive.

**62.** It is for this reason that we are focusing attention on the governance, management and delivery of education services. We will seek over the next three years to:

- i. Improve the legislative and policy framework to guide the development of educational development and management;
- ii. Explore the use of current and emerging technologies that can be used to improve the delivery of educational programmes;
- iii. Improve the overall management of the Ministry and other providers to ensure that a caring, client focused and results oriented service develops over time.
- iv. Provide appropriate educational facilities over the medium term to respond to the growing student population. We are about to award a contract for the commencement of a Project to expand the number of learning spaces at the Look Out Primary School.
- v. Increase the number of trained teachers by 15% over the medium term along with appropriate retention policies; and
- vi. Improve the quality of education at all levels of the school system in terms of teaching, learning arrangements and assessment tools.

**63.** The Montserrat Community College must continue to play a major role in the delivery of tertiary education alongside the UWI Open Campus. We intend to improve access to vocational training by increasing the number of technical training workshops. This will ensure the development of some of the technical skills relevant to the overall development of Montserrat. We must however, find ways of reducing the reliance of the college on direct Government budgetary support.

***Providing access to affordable health care***

64. As a people-centered government, the health of the people of Montserrat continues to be a fundamental part of our strategy. It is for this reason that 17% of the budget is allocated to its delivery.
65. We are in the process of completing a Comprehensive Health Development Plan which we hope would clarify, among other things, the Government's policies and programmes on a range of health services and rationalize options in a realistic manner for consideration and funding.
66. There are a number of key aspects of the plan that is worth noting. Chief among these are:
- i. Revision of the legislative and policy framework to provide the legal support for the policies and programmes agreed. These will take into consideration the key elements required to improve public confidence in the health care system, the arrangements for handling the needs of our senior citizens, our response to persons living with HIV/AIDS and determining the quality of service that can be accessed on and off island. Specifically, we are examining and incorporating new legislation on Mental Health which is required to enable better management of patients in the community and institutions, while addressing the human rights of those who have mental illness. The Ministry will bring up to date, the Medical Act to include registration requirements for a range of other health practitioners. The Ministry also intends to bring the outdated Quarantine Act into line with the International Health Regulations. These regulations seek to reduce the risk of a range of modern threats to public health including infectious diseases as well as non infectious risks which may be transported by air or sea.
  - ii. The proposed redevelopment of the Glendon Hospital will provide infrastructure for 38 beds in the medium term. This will contribute to achieving our ambitions for a purpose built facility to meet the needs of patients and complying with modern health facility standards creating an environment suitable for health care providers to deliver proper standards of care to patients. The plan makes provision for upgrading the information system and the equipment necessary for modern health care.
  - iii. We will continue the linkages and agreements with overseas professionals and institutions to ensure that specialist services are available to our residents on a regular basis. We already have arrangements for a number of visiting specialists as discussed earlier.

***Promoting Social wellbeing and development***

67. In every society there are vulnerable groups that require the state to intervene to ensure their well being or the overall well being of the community. In 2011, Government will continue to improve its services to the most vulnerable and where necessary, make the necessary legislative changes to support this commitment. Our policies will seek to:
- i. Address issues related to targeting and improving the delivery mechanisms for social welfare services;
  - ii. Provide appropriate safeguards for the protection of children and juveniles;
  - iii. Coordinate and improve support to our social partners in providing community care such as Meals on Wheels, Old People's Welfare Association and Golden Years Foundation.
  - iv. Adopt the National Youth Policy and action plan as this will inform the timing and level of Government's intervention in the development of our youth in our community.
68. Another major policy area of this Government is housing. We have made considerable progress in providing housing for the vulnerable. However, there are still a number of housing related matters that must be resolved or arrangements and systems put in place to guide future housing programmes.
69. These matters range from the improvement of the legislative and management framework for social housing, review and improvement to the building codes and the promotion of investments in future accommodation facilities on island.

***DELIVERING APPROPRIATE AND RESPONSIVE INTERNAL SECURITY AND PUBLIC SAFETY FRAMEWORK***

70. Finally, the fifth pillar is the administration of justice and securing the safety and security of the island. My Government has channeled \$10.1 million, 7% of the budget towards its legal and security systems, but the underlying potential of this pillar can only be valued when we consider the crimes committed globally. The value of reputation, peace and tranquility is beyond measure and it is essential that we do everything within our power to maintain this environment.
71. In 2010 we have been confronted with a number of cases and events that have caused Government grave concern. Government is committed to a zero tolerance policy with respect to crimes and illegal acts of any type.
72. We have and will continue to take steps to strengthen the key institutions relevant to the administration of justice and public safety. It is important however, that they perform with the highest level of professionalism and integrity. As we move into the future, we expect to see in place programmes such as peer reviews, improved personnel screening and other external assessments where necessary to ensure that these characteristics are developed and engrained in the reputation of these institutions.

**73.** Our local Royal Montserrat Police Force (RMPF) has set itself challenging targets for both increasing the percentage of successful disposals of major crimes on the one hand by 10% over the next two years and reducing the levels of reported major crimes by 6% over the same period. This is welcomed and we hope that over the short and medium term that we will be rewarded with a positive outcome.

**74.** Over the next year, the main policy measures in support of maintaining public safety and security will include:

- Rigorous enforcement of the 2010 Proceeds of Crime Act which enables us to respond to international requirements and investigate the criminality involved in a range of financial transactions. We have allocated resources to establish a Financial Crime and Analysis Unit (FCAU) but recognise that this may vary based on the scope and nature of any crime being investigated.
- Ensuring our coasts and ports are secured both physically and through the absence of corruption in the departments charged with ensuring this security, the peripheral agencies importing and exporting goods, the Police and Judiciary charged with enforcing the rule of Law and finally everyday citizens who want to see the Island prosper. We aim to ensure that all immigration is in accordance with the law and make a commitment to identifying and deporting illegal entrants.
- The Police's success in 2010 is evident in the seizures of drugs and arrests of the alleged offenders. These incidents are a good indicator of the wider problem. The RMPF will continue to develop an intelligence led policing strategy, target drugs and drug offenders, and weed out internal corruption where it exists.
- Addressing the problems of home grown crime will be tackled through enhancing our community policing strategy, targeting offenders of domestic violence, sexual and child abuse and maintaining our strong relationships with community representatives, social groupings and other agencies such as the MCRS, Prison Service, Social Welfare Department and the Ministry of Education.
- There is a considerable workload generated by the need to keep our laws up to date. In the immediate future priority will be given to those legislative requirements to adopt the Constitution with an anticipated date of September for full enactment of the new provisions. In the meantime, the Legal Department must keep pace with the regular programme of legislative review and commits to have 50% of our legislation reviewed and up to date by the end of 2013.
- Disaster Preparedness and Planning continues to be an important focus and in 2011 we will update the National Disaster Plan which is in urgent need of review. The plan is expected to feature sections on several hazards to which Montserrat is exposed and vulnerable including hurricanes, oil spills, volcanic activity, Urban Search and Rescue and Land Evacuation.

- Essential equipment and infrastructure upgrade activities will be undertaken including, upgrade of the emergency telecommunications network, replacing the island wide siren system and bringing all of the emergency shelters back into an acceptable condition.

75. Successful implementation of these policy measures will require strong foundations. I would like to speak a little about how this government will continue to develop those foundations.

### ***PURSUING MEANINGFUL RELATIONSHIPS ABROAD***

76. Enhanced co-ordination of Montserrat's regional and international relationships was a priority over the past year and we plan for further deepening of these relations over the 2011-2012 fiscal year. There are four areas of focus, the first is our relationship with the United Kingdom, the second is our relationship with the European Union as an Overseas Country and Territory (OCT), the third is our relationship with the region and finally our relationship with the rest of the world.

77. We are an Overseas Territory of the United Kingdom and as such there is a constitutional relationship with the United Kingdom being the administering power. This is an unavoidable relationship and an essential one given the global economic turmoil and our own vulnerabilities. An important aspect of this relationship is a preservation of our right to self determination. At times it is stormy but it is a partnership arrangement. As such we will continue to discuss and agree roles and responsibilities and find ways that are mutually acceptable in delivering them. Clearly, our focus is on economic regeneration at this time and it is our hope that considerable thought and resources will be available to address the issue of sustainability. We intend to engage our benefactors in a more coordinated and focused way over the next year and beyond.

78. We value this relationship. The fact that Montserrat was able to retain an investment grade credit rating of Triple B minus (BBB-) with positive outlook from Standards and Poors, the international credit rating agency was underpinned by the positive commitment and support of the UK Government. This rating is important as we seek to attract foreign investment to our shores.

79. Our relationship with the European Union is a consequence of our relationship with the United Kingdom and this too is defined in law in the OCT Legislation. It is a relationship that has brought many benefits to Montserrat but it is one that has imposed considerable obligations. This is a relationship however, that is critical to our economic development and cannot be easily replaced. In this relationship, it is critical that there is a level playing field and balance between the regulatory obligations, relevance of these regulations and resources available to implement them.

80. In this regard, considerable effort and resources have been utilised in keeping pace with Montserrat's international obligations in the past year. We signed and ratified eleven Tax Information Exchange Agreements (TIEAs) in 2010 out of over forty countries approached including France that have insisted in blacklisting Montserrat. We wish to commend the

work of the Her Majesty's Treasury and the Foreign and Commonwealth Office for assisting us to obtain these signatures. We are close to signing a further five agreements that would ensure that Montserrat migrates from the OECD grey-list to the white list. This has been a challenging task as OECD countries and others do not see the urgency or relevance of signing such agreements with Montserrat as they have no economic or trade relations with the island.

81. At the regional level, membership in CARICOM and OECS has given us a sense of size as Montserrat with a population of five thousand people we become a part of a group with fourteen million people. It is in this relationship that we are able to cost effectively benefit from access to Central Bank (ECCB) resources and a stable currency; have access to a Development Bank (CDB); have access to a judicial system at a fraction of the cost and resolve some of our technical capacity challenges.
82. For instance, continued success in the implementation of the new ASYCUDA World system will depend on technical support from regional sources. This online clearing service introduced in 2010 will reduce the transaction cost of importers and enhance importing and exporting goods from Montserrat. Also, it will enhance Montserrat's integration in the global trading system. Clearly, being over four thousand miles from the UK and Europe requires a strong and functional relationship with our neighbours that within a minimum of 17 minutes and a maximum of 2 hours away by air.
83. We will therefore seek to strengthen this relationship and be an active partner in the regional integration process.
84. Madame Speaker, Montserrat's relationship with the rest of the world is guided by the relationship of HMG with various countries. We have had a strong trading relationship with the United States and Canada as can be supported by our trade statistics. We also have a long history of bilateral support from both countries. Montserrat retains an open-door policy to reputable and credible investors and citizens of both countries and the rest of the world.

## **BUDGET PROPOSALS FOR 2011-12**

### ***PUBLIC FINANCIAL MANAGEMENT & ALLOCATIONS***

#### ***Financial services sector governance***

85. Government continues to enhance its corporate governance of the financial services industry. Consistent with the Monetary Council's recommendation, Government endorsed the concept of a single regulatory unit. Subsequently, legislation has been introduced to allow the Financial Services Commission (FSC) to regulate not only international (offshore) banks, but also insurance companies, money service providers, and co-operative societies.



86. In keeping with our international obligations the Government of Montserrat last year revised its anti-money laundering and combating financing of terrorism legislation. In addition, the Government accommodated the Caribbean Financial Action Task Force's Mutual Evaluation team who carried out an assessment of the jurisdiction's anti-money laundering regime.
87. During this financial year Montserrat is scheduled to be evaluated by the OECD Global Forum peer review to assess whether the legislative framework and implementation of the laws meet international standards for transparency and exchange of information in tax matters. This is to ensure that Montserrat is able to meet commitments made in Tax Information and Exchange Agreements signed with a number of OECD countries.
88. Government intends to open the financial services industry to international service providers who wish to carry out business from within Montserrat. The FSC will support Government in the creation of credible partnerships to build a world class financial services sector on island.

### ***Management of the Recurrent Budget***

89. Her Majesty's Government has indicated its willingness to provide continued assistance to Montserrat to balance its recurrent budget. This currently amounts to approximately 54% of our recurrent budget. The current agreement is that budgetary aid must decline over time as we develop our private sector's contribution to economic activity. At the same time, HMG has indicated its willingness to provide funding for strategic and targeted investments that will lead to the overall sustainability of the island. This means that the opportunity is there to obtain greater levels of targeted development aid. However, all aid comes with conditions.
90. The challenge for us is that local revenues are either increasing marginally or in some cases declining. This situation leads to relatively fixed resources available to fund day to day expenses such as salaries and wages, electricity and maintenance. We do not intend to increase taxes even though some user charges are due for review having been set in some cases, over twenty years ago and bears no relation to the cost of the service. Consequently, the pressure to control the administration cost of Government rises every time increases are requested without corresponding cuts in other areas.
91. The Ministry of Finance has had to apply stringent controls over the years and 2010 fiscal was no exception. The budget was released in quarterly tranches to ensure that expenditure reflected budgetary aid received and local revenues collected. This has introduced significant challenges for public sector managers who had to rearrange their work programmes to reflect the budget realities. Unfortunately, this is likely to continue in the short to medium term or until private sector contribution to the economy increases. After all, this is the sector that pays the taxes that fund what we do in the public sector. It is for this reason that emphasis is placed on:
  - i. The development of the economic infrastructure of the island – port facilities, road infrastructure and energy;

- ii. The transfer of certain public sector services to the private sector;
- iii. Focus on investments and other institutional developments in key sectors – Tourism, mining, construction, ICT.
- iv. Control and targeting of public expenditure to obtain greater efficiency and value for money.

92. The total budget allocation for 2011 fiscal for both the recurrent and development budget is \$134,556,100. This exceeds the amount in the 2010/11 budget by \$11,119,200.
93. In the [detailed estimates](#) it should be noted that the recurrent budget has decreased from \$98 million to \$97 million. The underlying assumption is that similar budgetary controls on the management and use of the recurrent budget will yield savings of approximately \$1 million. While we anticipate that we will overcome the delays in the outsourcing programme, the budget does not make an adjustment for any efficiency savings. However, we expect productivity to increase and that the services and revenues generated in the medium to long term will underpin the anticipated growth of economic activity in the private sector.
94. It should be noted that the estimates do not yield a decrease in the budget deficit but stabilizes it at \$52 million to be funded by DFID. This is consistent with GoM's policy of halting the unsustainable increase in the budget deficit for 2011 and to take steps to reduce in subsequent years. The budget does not include major allocations for emergency expenditure as these are unpredictable and there is a long standing arrangement with DFID that this category of expenditure will be considered and addressed when they occur. The estimates include funding for public sector reform but recognize that this will occur over a number of years and must reflect the capacity and other constraints on island.
95. Consolidated Fund expenditure is expected to remain constant relative to actual expenditure for 2010/11. A decrease in the level of gratuitous payments is expected this year and a policy decision has also been taken to reduce gratuity payments from 25% of taxable emoluments to 12.5%.
96. There is an increase in the subhead Refunds and this is aimed at addressing the buildup of taxes owing to taxpayers. Clearly, as we seek to collect the taxes owed to Government, we need to specifically refund you, the taxpayer any amounts due to you by Government in a timely manner. We expect that this provision will enable us to do that.
97. There have been some changes in the allocation to the Supply Votes of ministries and departments based on their submission, their projected expenditure to 31 March 2011 and the need to fund certain critical programmes next year. For those accounting officers that have responded and submitted a list of outstanding commitments attempts have been made to pay some of these from the 2010 allocation and some have been included in the [2011 estimates](#).
98. The Ministry of Finance recognizes that this was a very challenging year and in this case is trying to deal globally with some of the outstanding problems that have occurred across ministries and departments.

- 99.** In providing the detailed allocation to ministries and departments, the level of the available resources is fixed over the year. Therefore, ministries and departments cannot get all they have requested and public services delivered cannot exceed what the taxpayers are willing to afford. A constructive debate about this budget must therefore be about what government should be involved in, including how government can do things more efficiently and smarter; how we can achieve greater value for money spent and how we can focus expenditure in areas that will make us more sustainable. We are willing to hear the suggestions from the public on this and other issues.
- 100.** The allocations to the major ministries and departments in the order they appear in the budget will now be presented but the allocations of all units are included in the schedule attached which in fact is the budget or the estimates of revenue and expenditure.
- 101.** The allocation to the Police is \$6,405,600. We all want Montserrat to remain a peaceful and tranquil island that is safe for investment and for its citizens and those who choose to reside here. I am aware that they have an ambitious work programme but the call is for all managers to live within their means.
- 102.** The budget for the DMCA is \$9,273,800 included in this budget is the cost of operating the Montserrat Volcanic Observatory (MVO). This is a critical service in terms of the safety of the persons who live further south and provide information on which investors can make their decisions. When I note the number of non nationals who continue to build and purchase houses on island and the number of investors who maintain an interest, I am comforted by our investment in this area. We wholeheartedly support any requests by this group to be involved further through investment opportunities which they can identify and get involved in.
- 103.** The Office of the Deputy Governor has been allocated \$5,728,200. This office is responsible for the public service and in whose remit the public sector reform programme lies. The allocation reflects Government's commitment to a more performance based civil service and the need to improve governance in the public sector.
- 104.** An allocation of \$5,489,400 has been made to the Office of the Chief Minister. The allocation includes funding for Broadcasting services, Government Information Services, Subvention to the Tourist Board and funding for the operation of the Chief Minister's Office.
- 105.** The Ministry of Finance has been allocated \$4,015,500. This includes allocations for Department for Information Technology and E-Government Services (DITES). We have made significant progress in this area including the implementation of the web based ASYCUDA World import clearing software. There are a number of computerized applications used throughout Government that require licenses that to be paid and need greater technical support. We have sought to contain the budget of this department but it is likely to increase as technical staff is recruited and regional and other support declines.
- 106.** The Ministry of Agriculture, Land, Housing and the Environment has been allocated \$5,921,300. This budget covers a number of areas such as the Department of Agriculture, Land Registry, Physical Planning, Department of the Environment and the Housing Unit. A budget of \$783,600 has been allocated for projects in areas managed by this Ministry.

- 107.** The Ministry of Communication and Works & Labour has been allocated a total of \$10,353,900. The allocation has been provided to fund the Department of Public Works, the Mechanical Workshop, Airport Management and Labour. The Ministry is responsible for the implementation and management of \$8,507,300 of project funds.
- 108.** The Ministry of Education will receive a recurrent budget allocation of \$8,154,100 and \$4,404,000 to cover projects planned for developing the educational infrastructure. This budget will cover the administration of education and the provision of services delivered at the pre-primary, primary, secondary and the tertiary level.
- 109.** The last major area is health. The Ministry of Health, Youth Affairs, Community Services and Sports has been allocated \$16,625,300. This area is considered a basic ingredient of well being and in developing the energy levels required to implement our sustainable development plans.
- 110.** The allocations to the smaller departments are included in the schedule attached to this budget and details enumerated in the [Estimates of Revenue and Expenditure](#).

### ***Targeting the Capital Budget***

- 111.** The total capital budget for 2011 is \$36,963,700. This is \$11,541,900 more than the estimate approved last year. This is consistent with the policy of our benefactor, the United Kingdom and our own policies of striving to minimize aid for recurrent purposes and concentrating on spending in relevant and well targeted economic development infrastructure and projects.
- 112.** These key projects have been outlined above and are detailed in the Estimates of Revenue and Expenditure.

### ***Managing Public Debt***

- 113.** Montserrat's Public Debt currently stands at \$8.5 million. This is approximately 7% of GDP. The genesis of the debt was for two reasons. The first was the approval of line of credit from the Caribbean Development Bank and subsequent on lending of these funds for the development of Agriculture, housing and industrial development. A substantial amount of these facilities were destroyed by volcanic activity and a few of these assets remain in the habitable portion of the island. The second and the largest portion of the debt was used for the development of port facilities in Plymouth. This is no longer useable. The balance is being repaid by the Montserrat Port Authority through the Government of Montserrat.
- 114.** As we seek to develop our infrastructure in the north, it will be necessary for us to consider borrowing in the absence of adequate levels of grant funding from the various donor countries with whom we have a relationship. Already an application has been made to the CDB for a loan for the purchase and construction of a power plant. The proposal is with Her

Majesty's Government for consideration and approval. This matter is urgent as the continued use of emergency sets threaten the sustainability of the facility and reliability of power generation for new investments.

- 115.** The second area that may need loan funding is the development of port facilities. All are agreed that this infrastructure is essential for our development and long term sustainability. While we would welcome this as a gift, the current realities may make this impossible. Government may therefore need to once again borrow for this infrastructure.
- 116.** I raise the public debt issue in this manner to highlight the implication of such an eventuality. The current recommended limit of debt to GDP is 60%. Montserrat's GDP is approximately \$120 million. This means that to borrow for these critical infrastructure requirements and remain within prudent levels recommended for fiscal sustainability is impossible. There is therefore a clear need for an urgent and comprehensive financing strategy.

### ***Overdraft considerations***

- 117.** In approving the budget for 2010 fiscal, the Legislative Council approved an overdraft facility of \$5,000,000. This has proven quite useful in dealing with the seasonality of revenue and expenditure flows. The facility is one that Government intends to retain at the same level over the fiscal year 2011 and has been included in the 2011 Appropriation Bill.

## **SIGNIFICANT ECONOMIC AND FINANCIAL POLICIES**

### ***GDP GROWTH AND PUBLIC SECTOR CONTRIBUTION***

- 118.** The growth rate for 2010 was negative -0.08%. We expect this to increase by not less than 2% over the next two years. This growth will reflect mainly the implementation of infrastructure projects, private sector development programmes and investments in the development of key sectors - mining and quarrying, energy, construction (private).
- 119.** The public sector will still contribute significantly to GDP and is not be expected to fall over the next year. The dominance of the public sector investment programme in economic infrastructure and institutional infrastructure will keep Government's contribution to GDP high. This trend is likely to continue until large projects like the Port Development is completed.

### ***BUDGETARY AID***

- 120.** DFID continues to advise that Montserrat must take steps to reduce its recurrent budget deficit. The indicative amounts for recurrent budgetary support for 2012 is \$48 million and

45 million for 2013. The writing is clearly on the wall. We must plan and work toward our goal of economic sustainability.

## ***FOOD SECURITY***

**121.** This is a key policy goal of the Government of Montserrat. The intent is to build self reliance through greater local production and employment within the Agricultural Sector and boost GDP growth. We have seen increased efforts in developing backyard gardens and increased acreage being brought under cultivation by several farmers. These attempts must be commended. These activities are expected to result in increased production of targeted crops, livestock and fish. Targets include increases of over 20% for tomatoes, 30% for sweet peppers, 30% for carrots, 100% for bananas and 20% for sweet potatoes. Poultry production will increase from 7,000 chicks in 2010 to 9,000 chicks by March 2013.

## ***FINANCIAL POLICY MODIFICATIONS***

### ***Modernization and Simplification of the Tax Regime***

**122.** Government is committed to making it simpler and easier to do business in Montserrat. Now that we have successfully implemented ASYCUDA World, we will turn our attention to the simplification of the tax rates. We intend to de-mystify the clearance of goods at our Ports of Entry and to ensure that the systems and rates are easier for all to understand. In simplifying the procedure, the first step will be to clarify and outline the procedures and provide instructions in simple language for all in electronic and written format.

**123.** The second step will be to reduce the number of rates used in clearing goods through the Customs. This will however, means a rebalancing of the entire tax regime that is, direct and indirect taxes.

**124.** Therefore, with effect from 1 July 2011, the 5% Service Tax and the Consumption Tax with its multiple rates will be replaced by a General Consumption tax of 15% on all goods. This will be structured so that it can be applied to internal and external services. This is inline with current practices and the fact that our countries are being reshaped into service oriented economies.

**125.** We intend to address the multiple import duty rates however these are subject to a number of agreements made as a member of CARICOM when the Common External Tariff (CET) was introduced. Our intention will be to make representation to have these rates adjusted to a smaller range of rates hopefully not exceeding five rates for the entire range of goods imported.

**126.** There will be in addition Excise duty applied to certain goods such as Tobacco and Alcohol.

**127.** With respect to Income Tax, we are proposing to reduce the rate of taxation for most individuals it is important that the poorest in society are protected (and not made poorer) by

adjusting the tax bands. Social welfare payments are triggered at a level of EC\$ 8,000 as such the personal allowance of \$15,000 was found to be appropriate.

128. However, a new banded system of taxation is now proposed whereby the poorest pay less tax, the table suggested is:

<u>Current</u>	<u>Proposed</u>
EC\$ 0 – 15,000 @ 0%	0 – 20,000 @ 5%
EC\$ 15,001 – 20,000 @ 15%	20,001 – 25,000 @ 15%
EC\$ 20,001 – 26,000 @ 25%	25,001 – 30,000 @ 25%
EC\$ 26,001 and over @ 30%	30,001 – 150,000 @ 30%
	EC\$ 150,001 and over @ 40%

129. Notwithstanding, the \$0 - \$20,000 category attracts a 5% tax. The personal allowance of \$15,000 will ensure that persons earning up to \$15,000 pay no tax but it ensures that every employee on Montserrat files a tax return. This is a critical and vital component of this policy that will assist greatly in providing the labour market information that we have been trying to develop for years. This will help us calculate employment rates and assist us in manpower planning for the island. It will serve to provide us with information to make the current tax regime fairer as we continue to re-formulate our tax system.

130. In addition it is proposed to further develop the use of technology in allowing for electronic submission and payments of all taxes in line with the e-governance and greener government strategy.

131. No further change is proposed in other taxes at this stage, however following the implementation and evaluation of these proposals we intend to look at the level of corporation tax with a view to lowering it to attract more investment and business to the island.

### ***Introduction of a Single Employment Identification Number***

132. Finally, we will commission work on developing a single Tax Information Number (TIN) that will be provided to every person employed on island. This number will remain with you from the time you start working to the time you die. This number will be used for all direct and indirect taxes and cross referenced to your Social Security number and drivers license. It will also prepare the foundation for technology based solutions and furthering our e-government strategy.

133. This government will leave behind a simpler, fairer, more coordinated and transparent tax system. It will also leave a more efficient system that aids development planning. These

policies are not about revenue raising measures, it is about getting the information required to make Government work more effectively openly and efficiently for you.

## **ACKNOWLEDGEMENTS**

- 134.** As we reflect on the past year I am both humbled and hopeful by the sacrifices made by and the support received from so many people, institutions and Governments to keep the operations of Government and indeed the island 'above the waterline'. I could therefore not complete this budget without making mention of a few of our benefactors.
- 135.** I must first like to acknowledge the efforts of Her Majesty's Government in particular DFID in providing budgetary support and the FCO in assisting us in facilitating the negotiation of tax information exchange agreements (TIEAs). We are still confronted by a range of issues that will take a while to overcome. We were pleased to welcome the Secretary of State for DfID, the Right Honourable Andrew Mitchell for a familiarisation visit earlier this year. We look forward to a productive relationship as we strive to rebuild critical infrastructure in the north.
- 136.** We want to also recognise the continued budgetary support received from the European Union. We acknowledge the efforts of the commission to facilitate our development needs. As a key partner in our development, we are keen to improve the dialogue and work with their technical team to improve the aid delivery mechanisms.
- 137.** Earlier this month saw the departure of former Governor, Peter Waterworth and his wife Catherine. His three year tour of duty has ended. As he retires, we wish him and his wife well in their future endeavours. We get ready to welcome his replacement Mr Adrian Davis and his wife to the island. We will work together in a manner that places the development of Montserrat and its people first.
- 138.** I also extend heartfelt gratitude to the Indian High commissioner based in Port of Spain, His Excellency, Malay Mishra for relating the continued interest and support of the Indian Government to Montserrat. We are pleased that India has, through the High Commissioner, agreed a package of support for Montserrat in areas of Agriculture, cultural promotion, small business development, sports, energy, training and healthcare. We also want to thank the Indian Government for providing two scholarships to the people of Montserrat over the last year. We look forward to a long and fruitful relationship as we get ready to welcome an Indian team of small business development specialists in April.
- 139.** We wish to thank the OECS Authority and in particular, the Prime Minister of St Vincent and the Grenadines who continue to take the lead in seeking to resolve the Insurance Fiasco. While this is proving to be a very difficult, we applaud the efforts of all those who have spent countless hours trying to bring this to a positive conclusion.
- 140.** The Eastern Caribbean Central Bank Governor and staff must be commended for their effort and willingness to continue to be at the forefront of the development of the region.



- 141.** At the CARICOM level we are grateful for their continued work on various aspects of regional integration. We thank the organs of this institution who have provided the technical support. In this regard, we applaud the work of CDB and CARTAC in particular for responding to the specific needs of Montserrat over the past year.
- 142.** I wish to express my gratitude to the many hard working public servants who work tirelessly to put country above self and whose efforts have and will continue to make a difference in the lives of our people. There is room for improvement and we will continue to strive for the best way to serve the people of Montserrat.
- 143.** Finally, it would be remiss of me not to thank team MCAP and the public for their support as we try to make a difference.

## **CONCLUSION**

- 144.** This budget is about change. It is about recognizing that we cannot remain the same while the world is changing. It is about making a transition to a new economy, it's also about ensuring our people make the transition with us and it's about preparing public officers and the institutions of government to respond and facilitate the change. Ultimately, it's about changing ourselves to face the competition that is coming because this is inevitable.
- 145.** In this budget, we are proposing to begin to establish the right policy framework to advance our position at home, regionally and internationally. This will help to target our scarce resources where they are most needed and where they can have the greatest effect.
- 146.** We propose to pursue the key economic infrastructure that will lay the foundation for future growth. This will give hope to local investors that have tarried without seeing the benefits of the new dawn of economic recovery. It will provide a reason for foreign investors to want to be a part of shaping this new economy.
- 147.** We propose to create and strengthen the institutions of government to ensure that the leadership is sound, the legal framework is enabling, the systems are responsive and the people perform with professionalism and respect.
- 148.** We propose to commit to the supremacy of the rule of law. This is to ensure that we protect the rights of all who live here and fulfill our obligations as a member of the international community. We will continue to ensure that public safety is safeguarded. More importantly the result must be for Montserrat to be the place that everyone who comes to our shores wants to call home.
- 149.** I read a quote from Lisa Taylor which states that, "We must learn to view change as a natural phenomenon - to anticipate it and to plan for it. The future is ours to channel in the direction we want to go... we must continually ask ourselves, "What will happen if...?" or better still, "how can we make it happen?"

**150.** This is a Government that embraces change. We ask you to join us in asking the question, “How can we make it happen?”

Thank you.

