



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement
To the House of Assembly
By

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

Consolidated Fund Financial Statements 2016

Date: 10 March, 2016

Mr. Speaker, I am pleased to table audited financial statements relating to the Consolidated Fund for the year-ended March 31, 2016.

As Honourable Members are aware the Consolidated Fund is the general operating fund of the Bermuda Government and is the Fund through which Government conducts the majority of its transactions. The Consolidated Fund financial statements report the financial position, operations, change in net debt and cash flows resulting from the activities of the Government. This includes the accounts of the Senate, the House of Assembly, all Government departments and offices and all courts.

Mr. Speaker, I am pleased to note that the annual accounts of the Consolidated Fund of the Government of Bermuda were given an unqualified audit opinion for the fourth consecutive year following six years of qualified opinions. Despite the clean audit opinion, the Auditor General has, for the sixth consecutive year, included explanatory paragraphs as ‘other matters’ which she deems appropriate. These “other matters” relate to the following:

- The increased level of the net debt and the need for the Government of Bermuda to take concerted action to address it;
- Ongoing incidents of non-compliance with the Government of Bermuda’s Financial Instructions; and
- The preparation of Summary Financial Statements for the Bermuda Government.

It is important to note that these explanatory paragraphs do not alter the Auditor General’s unqualified opinion, but are highlighted matters. However, the Government shares the Auditor’s concerns in these areas and has already started to tackle these matters. For instance Mr. Speaker, the Ministry of Finance has already put in place a three-year plan to eliminate the deficit and ultimately reduce the debt.

Mr. Speaker, liabilities related to pension and other employee future benefits are also included in the “Net Debt” amount disclosed in the Financial Statements and the Government has already started the review of these benefits to ensure their sustainability.

Also, I can report that the Cabinet Office and Ministry of Finance are collaborating to develop an enhanced Financial Instructions Training Programme. The key aim of this Programme is to raise awareness and understanding of Financial Instructions with a view to positively impact compliance and reporting.

Mr. Speaker, with regard to the preparation of Summary Financial Statements for the Bermuda Government, the Ministry agrees there are benefits to issuing consolidated financial statements and Members will recall that legislation was passed in 2014 to create the reporting entity under which summary statements will be prepared.

Whilst legislative changes are required to effect consolidated reporting, they are simply one aspect of a complex approach that would be required to achieve this accounting objective. Accordingly, progress is being made on this important initiative, but it should be emphasised that consideration must be given to resources, accounting systems, management roles and other factors that are critical in the accomplishment of this task.

Mr. Speaker, the sign-off date for the completion of the audit was February 3rd 2017. Although this was 2 months earlier than the 2015 sign-off, the Ministry's position is that the audited financials should be able to be completed within nine months of the March 31 year-end, and have instructed the Accountant General to work diligently with the Office of the Auditor General and new Auditor General to address

the issues causing delays in issuing the annual accounts of the Consolidated Fund.

Some financial highlights of the 2016 Consolidated Fund Financial Statements are as follows:

The total revenue raised by the Consolidated Fund for fiscal 2015/16 was approximately \$960.7 million, representing an increase of \$57.0 million (6.3%) from fiscal 2014/15 total revenue of \$903.7 million. The most significant generators of revenues for fiscal 2015/16 were Payroll Taxes, accounting for \$361.1 million or 37.6% of total revenue (2014/15 - \$326.9 million or 36.2%) and Customs Duty, accounting for \$192.6 million or 20% (2014/15 - \$171.5 million or 19%). Total revenue on a modified cash basis (on the same basis that is shown in the Budget Book) was \$953.6 million (2015 - \$880.4 million), which was \$22.3 million more than original budget estimates (2015 - \$21.3 million less than original budget estimates).

Mr. Speaker, current expenses for fiscal 2015/16 were \$1.176 billion (2014/15 - \$1.211 billion). The three largest components of current expenses were employee costs, grants and contributions and interest on debt. Total employee costs were \$532.4 million or 46.2% (2014/15 - \$567.1 million or 47.0%) of total expenses. Included in this amount is \$79.1 million (2014/15 - \$144.3 million) of non-cash retirement benefit expenses. Grants and contributions were \$298.2 million or 25.9% (2014/15 - \$296.4 million or 24.5%) and interest on debt was \$116.2 million or 10.1% (2014/15 - \$113.2 million or 9.3%). Total

current expenditure on a modified cash basis was \$1.071 billion (2014/15 - \$1.094 billion), which was \$12.1 million **less** than original budget estimates (2014/15 - \$11.0 million less than original budget estimates).

Mr. Speaker total capital account cash expenditure was \$43.7 million, which was \$24.6 million lower than the original budget estimates.

Total capital and current account cash expenditure for 2015/16 was \$1.114 billion, which was \$36.7 million or 3.2% lower than the original budget estimate of \$1.151 billion.

The all-inclusive results from government operations (both current and capital) for the year ending March 31, 2016, were a deficit of \$215.3 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 \$160.6 million. This compares to a deficit of \$220.0 million that was originally budgeted. Therefore, the actual overall deficit was down by \$59.4 million or 27.0% when compared to the original estimate. The decreased deficit is a result of prudent management of discretionary current and capital expenditures.

Cash and cash equivalents at the end of fiscal 2015/16 totaled \$42.1 million which was \$2.7 million higher than the balance at the end of 2014/15.

Mr. Speaker, the 31st March 2016 total accounts receivable net of provision for doubtful accounts increased by 16.7% to \$163.5 million, as compared to \$140.1 million at 31st March 2015. The most significant contributor to the accounts receivable balance before provision related to taxes collected by the Office of the Tax Commissioner (“OTC”) of \$219.5 million, representing an approximate \$22.5 million increase in accounts receivable from fiscal 2015 of \$197.0 million. The primary reason for the increase in accounts receivables related to land tax. Honourable Members will recall that rates were amended in 2016 which required revised land tax demand notices to be sent out. A significant portion of the gross receivable at March 31, 2016 (52.7%) represents Payroll Tax which was due and payable on 15 April, 2016. During the month of April 2016, the Government collected approximately \$101.6 million in Payroll taxes (April 2015 - \$94.1 million).

Mr. Speaker, Net Public Debt, which excludes guarantees and is net of the Government Borrowing Sinking Fund, increased by \$168.1 million (2014/15 – \$281.2 million) during fiscal 2015/16, standing at \$2.218 billion (2015 - \$2.050 billion) at the end of the year. This represents an 8.2% increase from 2015. While there were no new debt issues during 2015/16, the debt position increased due primarily to a BNTB \$150 million loan taken out during the year. The 2016 Sinking Fund balance was \$117.3 million (2015 – \$135.3 million). At the close of the year, the available borrowing limit was \$282.3 million (2015 – \$450.3 billion).

The level of debt mentioned above is not only unsustainable but economically and fiscally imprudent and the Government has already committed to intensify our efforts and determination to eliminate the government deficit, and eventually pay down on our debt.

Mr. Speaker, the statements of the Consolidated Fund provide valuable information on the financial position of the Government and I would encourage the public to examine these statements.

Thank you Mr. Speaker

March 10, 2016