13 February 2014

Dear Sir/Madam,

Please find enclosed for publication a response to the Advertorial by James Bergstrom on behalf of Coalition for Cayman published in the Friday, 7 February 2014, edition of the Caymanian Compass.

Yours faithfully,

[Signature]

Hon. Marco Archer
Minister for Finance & Economic Development
Response to C4C

13 February, 2014

The Progressives Government was elected on a platform of fiscal prudence and has been working assiduously to address the fiscal challenges it inherited through improving public finances, restoring confidence in the rule of law and by our Government’s ability to manage the affairs of the country.

We have always maintained that the public and private sectors share equally important roles and must contribute positively in partnership with each other for the betterment and improvement of the Cayman Islands. And as such, our Government welcomes constructive dialogue and the efforts of those who are willing to engage in useful discussions on ways in which we can continue to improve and strengthen the economy for the betterment of all Caymanians.

However, it is disappointing to see efforts being expended on rhetorical exercises to sensationalise selective numbers in our national budget for the purpose of casting doubt on the economic recovery and future sustainability of the Cayman Islands and its people.

This is akin to a person coming into your home and adding-up your mortgage, your car loan, the future cost of educating your children, the estimated future costs of looking after your grandmother and what it will cost to take care of yourself when you retire, then taking that total number, dividing it between the number of people in your household and then saying, well, each of you owe $100,000 today. Is that a useful exercise? That person would be completely ignoring the fact that you are working and your future employment prospects are sound, you have never missed a loan payment, you have an A-class credit rating, your family has a financial plan and have been putting money away to build up savings and further, that you sat down and decided on ambitious but achievable goals to ensure you have future financial security.

The key facts are thus:

Our Country enjoys an Aa3 credit rating from an internationally renowned ratings agency, Moody’s, which means any security issued by the Government is high quality and has very low credit risk. Our consistently prudent macroeconomic management and a well-functioning legal system were recognised as an integral part of maintaining that rating.

Today, every retired Civil Servant who is entitled to the benefit of retirement healthcare has medical coverage, which the Government budgets and pays for on an annual basis.

The pension funds are liquid and every Pensioner who accrued a benefit and is entitled to receive that benefit does so.
The Progressives Government has a sound fiscal plan, endorsed by the UK Government, and is working to restore compliance with all principles of responsible financial management, as enshrined in law, by 30 June, 2016.

Therefore, we do not believe that an exercise to take the value of obligations that become due many years into the future and divide it by the Caymanian population in 2012 is particularly useful. It totally ignores the prospects for economic growth and any intended policy changes.

A better exercise is not to sensationalise future obligations through miscalculations and rhetoric, but rather to ask the question: does the Government have a plan?

In late November 2013, the Government outlined its Strategic Policy Statement (the "SPS"), which lay out in broad terms, the plans of the Government for the next 3 fiscal years. That SPS shows the Government working to achieve a position where the difference between central Government debt ($468.6 million) and the amount of money it has in the bank ($420.7 million) will be less than $48 million in just 3 short years: this will be a notable position when it is achieved.

The Progressives Government also plans to continue paying towards its past service pension obligation every year, to ensure its continued sustainability.

Moreover, the Government should be lauded for placing the past service liability figure squarely on the face of its balance sheet so that it is transparent and clear to the world. Many advanced and developing countries do not place their pension liability obligations in their financial statements. The Government plans to remove this deficiency within 20 years. This will be achieved by Government continuing to make, as it has done in past years, contributions to Public Sector Pensions Plans that are in addition to on-going regular contributions made on a monthly basis.

Additionally, in 2014 the Government will also conduct an actuarial valuation on its pension and healthcare obligations and implement measures to ensure that persons will continue to enjoy reasonable benefits accrued during their working careers.

In a recently published C4C letter it noted that the “very substantial increases in revenue measures should not be solely attributed to the current Government”. This Government has not introduced any new revenue measures since taking office in May 2013. Rather than seeking to introduce substantial revenue packages, this Government has been working to cut wastage, achieve greater efficiency, improve accountability, reduce spending and build cash reserves. In other words, we are reducing expenditure and making the best use of the revenues that are currently available to stabilise and improve public finances for the benefit of all Caymanians.
Part 3 of the C4C’s letter is headed “Expenses” and the Progressives Government wishes to address matters mentioned thereunder.

“Civil service salaries are reduced -0.3% by $0.5m to $180m.”

This results from deliberate efforts to restrict new hires while reducing the size of the Civil Service through attrition and voluntary redundancy.

“Civil service pension and healthcare costs for past and present employees rise +36% from $55m to $75m annually ($36m current employee healthcare, $21m current employee pension, $18m past employee healthcare).”

Rising healthcare costs is a global phenomenon – the Cayman Islands is not immune to this trend. The Government is looking at the benefit plans offered to the civil service, whilst promoting healthier living with a view towards reducing future public sector healthcare costs.

“Total Community Medical Care expenses increased +25% from $56m to $69m.”

As noted above, increasing healthcare costs is a global issue, however, the Government is examining ways to minimize the annual increase as part of its overall cost reduction strategy and will be addressing these in the upcoming budget in May 2014.

“Education expenses rise 23% from $60m to $74m representing approx. $9,300 per student.”

The Government is unapologetic about its investment in education. The Government will continue to work towards ensuring adequate infrastructure and other key resources to provide quality education in the Cayman Islands. We believe that educating Caymanians will help to provide equal opportunities in the job market and that the sustainability of our country depends on having well-educated, contributing citizens. The Government will therefore continue to invest in the future of our people by investing in education to ensure every Caymanian child is afforded the best opportunity of a high quality education.

“Policing rises +7% from $30m to $32m. Fire increases +20% from $5m to $6m.”

One of the primary functions of any government is ensuring the safety and protection of its citizens and the preservation of law and order. It is also true that one of our greatest assets is the relative safety in Cayman enjoyed by residents and visitors alike. The Government must ensure that the safety is maintained by providing the resources needed by the men and women in our emergency response services by providing for the capacity to deal with any eventuality.
“Tourism has had its funding reduced by 24% from $21m to $16m.”

The Government is finding smarter ways to promote the Islands and reducing costs in the areas of travel, accommodation and others to do more with less. For example, the government is using social media to advertise at no cost to Government and recently took a common sense decision to move the Tourism Department into the new GOAB, saving $628,951.20 a year. You can expect to see those savings reflected in the new budget.

“Regulation and Licensing (much of this relates to the Financial Services Industry) is reduced -29% from $21m to $15m.”

This relates to the way CIMA is funded and they were not cut 29%. CIMA will simply receive a greater amount of revenue directly from third parties, which reduces the budgetary reliance on Government.

Under C4C letter captioned “Critical issues”:

**Unsustainable debt.** The Government is dealing with its current and future liabilities in a systematic way that will ensure the future sustainability of public finances. It would not be wise to go out and borrow monies now, paying real interest on it, to put away in a fund to settle liabilities, some of which are due 20 years from now. The Government considers it more prudent to continue to pay off its existing loans and reduce interest expense where possible while building cash reserves and systematically contributing to its future liabilities such as pensions. This is the strategy currently employed by the Government as it is in the best interest of the country; and it is a strategy endorsed by the UK Government.

**Unsustainable expenditure.** To say we now have around 80 statutory bodies is inaccurate: Government has 25 Statutory Authorities and Government-Owned Companies, with some performing better than others.

The Government’s surplus belongs to every citizen in this country and will be returned to them via future benefits afforded by education, healthcare, security services, infrastructure and other benefits. The Government is currently considering what services it can privatize as the Government recognizes that a reduction in the long-term liability for head count and health and pension benefits can only occur with a reduction in the range of services provided. There are certainly services that can be delivered by the private sector, but the Government has to look carefully at which services it considers for privatization and ensure it is in the best long term interest of the people of this country.
The C4C letter also says it is essential that the members of the civil service have their pension and health benefits aligned to those offered in the private sector. Whilst the Government is not opposed to reasonable solutions and are taking steps to address these concerns, does C4C have any study or empirical evidence that the benefits they provide as employers afford the level of retirement savings that will allow their employees to retire with dignity and not become dependent on the Government for assistance in future years or, that the healthcare coverage allows their employees to access needed care without Government assistance? It should be noted that some of the expenditures that the Government currently undertakes as part of its moral responsibility stems from employers who are focused solely on minimizing costs and increasing profits without adequate regard for their employees and their future needs. At the end of the day, C4C should be realistic; not everyone can take care of themselves. If they plan to run a Government that doesn’t take into consideration the most vulnerable of our society, then they have a very bleak outlook for human kind. In all societies there will be those who need government assistance to exist. It’s something this Government realises and even more, understands and fully intends to taper these benefits with welfare to work programmes as the economy continues to improve.

Recently, the Government has been spending as much as $18 million annually to provide overseas medical care for people who are deemed medically indigent. Many of those people worked their entire lives but were not provided with sufficient benefits to take care of themselves in their retirement years. Therefore, the Government now has both a moral and a financial obligation of caring for these people whilst taking steps to separate the needy from the greedy.

The Progressives Government will continue to examine ways to reduce public sector costs, but to do so with due regard to the consequences of such actions.

Ghandi once said “The true measure of any society can be found in how it treats its most vulnerable members.” The Government believes in a hand up as opposed to a hand out, but it also recognizes that it cannot balance the budget solely on the backs of the poor and the elderly. Social reform is a multifaceted effort that requires intervention in several areas and not simply by cutting off assistance to those in need, but because we are a responsible Government we do intend to separate the needy from the greedy and will continue to find ways and means of sustainably reducing public sector costs while recognizing and honoring our social responsibilities as a modern society.

**Actions taken that need to be reversed**

The C4C letter speaks to a $1.7 billion liability and says the Government must immediately begin to make provisions by putting money aside for it on an annual basis. It then says the $100 million surplus is not a $100 million surplus at all and is only $22 million or 3% of revenue when other things are factored in.
At the same time, C4C is also recommending lower Government revenues through a roll back of fees whilst admitting that a large scale cut to the Government’s largest area of expenditure (personnel cost) could result in a “major blow to the economy and social unrest unless they are done in a thoughtful and managed way”.

The Progressives Government has been in office for a mere 8 months, yet the recommendation is to collect less revenue by rolling back fees, whilst simultaneously increasing the expenditure on Tourism and Financial Services. This is an amazing recommendation by the C4C, which we are sure is not one that the proponents employ in their own businesses. Nevertheless the Government is grounded in reality and fully intends to make good on its promises of first stabilising finances and then rolling back certain fees. However, it is being done in a systematic way that will not place the Government and the country in an unsustainable position of further deficits. It should be noted that the Government managed to use only CI$2 million of the approved CI$44 million overdraft facility in the 2013/14 fiscal year. Therefore, it is undeniable that public finances are improving, costs are being reduced, cash reserves are growing. Continued prudence is what is required; not magical equations, rhetoric and grandstanding.

Minister of Finance Marco Archer