

## Cayman: the full text of the document that proves it is...

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This is the full text of the [Cayman document](#) that proves that the Island is facing a crippling financial crisis:

### **Speaking Notes for the Hon. McKeeva Bush for the**

Meeting Held with Senior Civil Servants, Government Boards and Private Sector Business Leaders to Obtain Ideas and Suggestions for New Revenue Measures

**Ritz-Carlton, Thursday, 27 August 2009**

Good morning everyone.

I would like to take this opportunity to thank all of you for taking time out of your busy schedules to attend this very important meeting.

Along with other countries around the world, the Government and citizens of the Cayman Islands are feeling the effects of the global recession. Everyone is facing tough financial times, everyone has had to tighten their belts and make more sacrifices in order to make ends meet. But I strongly feel that as an integrated and informed community, we can pull through these difficult times.

Over the past weeks, there has been numerous articles and comments made in the media about the financial situation of the Government. Today I want to inform you of the current financial position of the Government, provide some indications as to the government's thoughts on how to approach the challenges that lay ahead, and to hear from you, your ideas and thoughts of how we can all pull together and assist in getting our country through these hard times. We face unprecedented challenges. And we must embark on solutions realizing that our solutions will also have to be unprecedented.

I want to say a few words first about the format of this meeting. When the government

called this meeting it was intended that an important update is provided by the government to senior civil servants and the private sector. It is also intended to provide the opportunity for you to give your input. I chose this format, not because I expected that we would write a report together here today. I realise that would not be practical given the numbers and the time.

But I also felt that given the seriousness of the situation, there should be an opportunity for all concerned to be able to hear directly from others. I also felt it was important for the private sector to hear directly via this forum of the concerns and ideas being developed by the civil service. And also for the civil servants to hear directly from the private sector.

Secondly, if I had taken a smaller group first, then there would likely be no end of chatter about special interest groups and the question will invariably be asked why didn't I bring everyone together into the initial discussions because everyone is affected.

Now first let me briefly summarise the current financial situation of the government:

### **The preliminary financial results and position of the Government as at 30th June 2009**

The most recent preliminary financial results for the year ended 30th June, 2009 shows that the Government's Operating Revenue was CI\$487.4 million. Operating Expenses of the central government totaled CI\$557.1 million and the net loss of the public authorities totaled CI\$11.4 million. Taking the Operating Expenses and net loss of the public authorities away from the Operating Revenue, the entire public sector ended up with an operating deficit of CI\$81.1 million for the year ended 30th June 2009.

The loan balances of the Entire Public Sector, as at 30th June 2009, totaled CI\$598.0 million. This amount comprises of CI\$416.5 million for central government and CI\$181.5 million for public authorities.

The Government's cash balances as at 30th June 2009 totaled CI\$90.4 million. This amount comprises of CI\$14.3 million in operating cash balances and CI\$76.1 million in restricted cash balances.

### **The cash position of the Government as at 25th August 2009**

On Tuesday 25th August 2009, two days ago, the Government held CI\$65.6 million in its bank balances. Of this amount CI\$76.1 million was in the Government's restricted cash reserves.

In order to pay the salaries and wages of civil servants on payday on 25th August 2009 the Government also had to take a deliberate action to postpone the payment of other expenses such as pension, health insurance, and postpone payments to contractors

and other general suppliers.

When the UDP Government came into office, there were a number of capital projects that were already underway. Unless the Government takes the decision to stop construction on these projects thereby incurring excessive penalty costs, the Government is legally obligated to cover all costs associated with completing these projects. It is estimated that these existing capital projects will incur approximately CI\$150.5 million in costs during the 2009/10 financial year. This does not include furniture and fixtures for the schools. This amount includes CI\$74.5 million for the high schools and CI\$39.0 million for the Government Office Accommodation Project.

Some payments on these existing construction contracts have also had to be held back in order to pay Civil Service payroll expenses. This, of course, is not a sustainable situation.

### **Forecast cash position as at 30th September 2009**

Based on the forecasted financial position as at 30th September 2009, the Government will incur approximately CI\$78.1 million in cash outflows and is estimated to collect CI\$29.5 million in cash. Utilizing the remaining CI\$4.5 million of the overdraft facility, the Government will face a cash shortage of CI\$44.1 million.

### **Communication with the Foreign Commonwealth Office (FCO)**

Since the Government incurred an operating deficit at the end of the 2008/9 financial year and was not in compliance with other Principles of Responsible Financial Management as specified under the Public Management & Finance Law (2005 Revision), the Government now has to seek the FCO's approval to borrow.

The Government has already negotiated with local banks to borrow up to CI\$372.0 million which is required to take it through to 30th June 2010. The loan funds are ready and available and all that is required in order to draw down on the funds is the approval of the FCO.

We are presenting a bare bones budget. The majority of these funds will be used to fund an existing loan facility and to fund existing capital projects.

On 18th August 2009, the Government wrote to the FCO requesting permission to borrow up to the CI\$372.0 million. Along with other financial information, the Government laid out a cost savings plan on how it can decrease the forecasted operating deficit and realize savings of approximately CI\$89.3 million.

On 20th August 2009, the FCO informed the Government that they were not convinced that the Government can sustain these cost savings and therefore they were unlikely to permit any additional borrowing.

On Tuesday 25th August 2009, I spoke with the FCO minister to seek its approval to allow the Government to borrow at least CI\$30.0 million that is urgently needed to make current operating and capital payments.

The FCO informed the Government that it is "neither approving nor disapproving" the Government's request to borrow the CI\$30.0 million before the end of August.

Despite the cost savings plan, the FCO has also stated that the Government needs to demonstrate new revenue sources for the 2009/10 financial year.

The Civil Service examined various revenue areas in which the Government could increase or enhance its existing revenue streams. Several suggestions which were put forward include:

- \* Imposing taxes on money transfers;
- \* Introducing property taxes;
- \* Revision to various miscellaneous fees, some of which have remained unchanged for decades;
- \* Increasing customs duties;
- \* Increasing alcohol and tobacco duties;
- \* Increasing gasoline tax;
- \* Legislate the requirement for money in dormant bank accounts to be turned over to the Government; and the
- \* Introduction of a national lottery

In addition, I am aware that there is some interest by the civil service and the credit union to purchase the new government admin building and this will generate an initial capital injection of tens of millions while providing an investment opportunity for civil servants.

The government is already proceeding on a path that will result in a PFI for the two existing schools with the existing contractors.

However, it is not a question as to the Government's willingness to consider these new revenue measures. Rather the issue is that if these measures are implemented the wider community will have to pay these increased fees so we have to carefully consider them.

At this stage let me now read a statement directly from the FCO which highlight the serious gravity of the situation. **Letter from the FCO to LoGB the Hon. McKeeva Bush.**

## **The Way Forward**

Do we now accept the UK's implication that we should introduce direct taxes such as income and property taxes in this country?

Or do we craft and implement our own vision on the way forward for a sustainable and successful economy in these islands?

I strongly believe that had we put some of the following ideas which I supported in 2005, we would be in a better position today.

There is an urgent need to move the cargo port of George Town which the cruise sector has also said must be done.

\* Relocation of cargo facility.

The advantages of creating a cargo facility in Eastern Districts at no cost to Government would provide a:

\* Deep Water protected harbour

\* Mega Yacht Marina

\* Oil Bulk Storage facility outside of George Town and the flight path

\* New Cargo Port adjacent to Government owned land

\* A container port where the transshipment of cargo takes place

\* Cruise Ship Home berthing opportunities (economic benefits)

\* Provide much needed fill for roads and other infrastructure projects

\* Provide jobs and economic stimulus to the country

As I understand it there are 2 proposals for this. One is a site at the Bodden Town side of Breakers and one is at Half Moon in East End.

\* We can widen the channel in the North Sound which will come in through the channel by Big Key, come across the head of barkers, meet the Morgan's harbour channel and come south to meet up all those channels already cut from West Bay up to George Town baccadere. The channel will allow mega yachts to come into George Town. Many of these are already registered in the Cayman Islands. The yacht owners will invest in homes, apartments and will support local businesses including transportation, restaurants, stores etc. This will bring jobs and business opportunities for Caymanians and cause a new sustainable economic boom on the North Sound of Seven Mile beach.

\* Build cruise ship berthing facilities. The FCCA was here yesterday and made it clear in no uncertain terms that the Cayman Islands must get the proper facilities or lose its

cruise business. The building of our berthing facilities in George Town will allow our cruise business to be facilitated and improve our visitors experience. It will thereby increase revenues for the government.

\* Developing quickly a sewerage system for the country in particular in George Town can bring the government much needed revenues and employment for our people. I am hereby asking for expressions of interest without delay.

\* We should consider making additional efforts to attract first class five star resorts, coupled with convention centres, golf and gaming facilities.

The first point I wish to make in terms of the way forward is that things will need to change. I know that may sound obvious, but we must realize that we cannot continue as if everything is normal when faced with these unprecedented challenges. We must accept that our way of doing things and our own environment will have to change and it will have to change very quickly.

As I have said several times before, the ideal scenario as far as civil servants is concerned, is to minimise or completely avoid any cuts in jobs for the civil service. We have attempted to address that by making severe cuts in operational expenditures including the suspension of pension payments. We have already reached 90 million dollars in this regard.

We can attempt to cut our expenditures even further, but we also need to be realistic about how much can be achieved in that area beyond the cuts we have just made. The reason I say this is because as our economy grows there are increasing demands on services from the public sector. We cannot continue to support the needs of the economy in terms of these services as well as infrastructure needs without the necessary civil service apparatus.

At the same time that we have worked aggressively on cutting expenditures, it is clear that we need to increase government revenues.

In terms of increasing our revenues to meet the necessary expenses, there are two avenues:

The first is to increase our indirect taxes. This has been the approach in the past and we will continue to fund our infrastructure and public service needs via indirect taxes.

We are receiving input from civil servants as well as the private sector on ways to improve revenues and over the next few days, we will agree on a set of measures.

The second avenue for raising the necessary revenues is to put policies in place to increase economic activity. This will in turn create a natural increase in revenues for the government as our volume of economic activity and level of investment will have increased without any need to raise indirect taxes.

In practice I believe what will be required at this stage is a combination of these two approaches.

That is, we must immediately identify new sources of revenues while at the same time we must make swift changes to our domestic policy framework to get the economy moving.

I now want to say a few words now about the need to adjust what I see as our current approach to foreign investment in this country.

In my opinion, and particularly in these dire economic times, this is not the time to continue with overly protectionist policies towards inward investment. As I said earlier, if we can find ways to increase our revenues naturally, while minimising taxes, we will be better off.

But if we do not secure the necessary investment to give us the natural increase in revenues and employment, we will have to resort to other measures. This could well mean cuts in jobs for civil servants and these cuts would have to be made quickly if we do not have alternative solutions in place.

It could also mean making more aggressive increases in indirect taxes for the private sector which would be detrimental to the cost of living and to the economy as it would deter business.

To be clear, I want to avoid any solution that negatively impacts the civil service. And this government wants to avoid any significant increases in the cost of living and working in this country.

And we also want to minimize any significant increases in indirect taxes.

But we cannot and will not achieve any of this without making changes in other areas.

We cannot all continue to have everything without giving up something.

We must work together realising that changes will have to be made.

And one of those changes is that we will need to think differently about the way we treat those who continue to place their confidence and their money into our local economy. It is simply not acceptable for us to say we will take your investment but we will not provide you with the resources you need. Or that we will not do what is necessary to improve our systems to facilitate that investment. Or that we will take their tens of millions of investment dollars but we will fight them tooth and nail for every work permit or planning or environmental permits that they require.

In my opinion, this current approach is unacceptable.

The government is faced with an extraordinary situation that it must respond to.

There are many Caymanians out of a job right now. This is not the time to stifle inward investment. While other countries are falling over themselves to attract the necessary investment to put people back into jobs, we are encouraging a system that makes investors feel unwelcome.

We will either need to make aggressive cuts in either jobs or work hours for civil servants as well as raise indirect taxes or we will need to focus on the areas where we can secure the revenues without harming our economy and our quality of life.

The government therefore seeks your support to achieve the right result. I therefore ask that you consider what I have said today and take the message on the seriousness of our situation and the need to make urgent changes to the approach of our boards, departments and respective organizations.

There needs to be urgent changes to the way our bureaucracy impacts inward investment. And there needs to be a change in the attitude towards those who have helped to build this country to what it is today.

Finally I know that many of you in the audience will appreciate the opportunity to raise your feedback in this forum and at this time I will open the floor up for a few comments.

Those of you who have reports and formal submissions, we will certainly be looking at those with a more focused group to arrive at a final set of solutions on the way forward.

For more information, contact [\*\*Paul Byles\*\*](#).