Minister of State
Ministry of Finance

Contribution to the 2013/14 Budget Debate
June 5, 2013

I. Introduction

- One week ago today, the Minister of Finance presented the Government's Budget Communication for FY 2013/14.

- Today, I want to lead off the debate in this Honourable House on the Government's Budget for the coming year.

- In doing so, I will return to some of the key messages in the Budget, and provide supplementary details on certain measures and initiatives that were set out in the document.

- The fundamental tenets of our Government's policy agenda, in respect of our core economic and social priorities, are detailed in our Charter for Governance.

- We have pledged that we will implement the action plan in the Charter over the course of the full, five-year mandate that has been given to us by the Bahamian people.

- We will fulfill that pledge. The 2013/14 Budget is fully faithful to that plan.

- In essence, our approach to making the plan a reality is measured and balanced, aimed at achieving a broad range of mutually reinforcing objectives, namely:

  - Putting the public finances on a solid and sustainable footing for the long haul;

  - Transforming Government into a modern administration that provides public services efficiently and responsively to the needs of our citizens;

  - Strengthening economic growth and job creation; and

- Building a healthy, more prosperous and secure society.

- Ours is an ambitious plan indeed but the Bahamian public deserves no less. As the Prime Minister stated forcefully in the Budget Communication, our Government is up to the challenge.

II. <u>Redressing the Public Finances</u>

- I will begin with our plan of action to put the public finances on a sustainable footing for the future.

- Government is no different than an individual household in that it must both manage its financial resources wisely and budget its expenditures judiciously to ensure that it lives within its means. Otherwise, financial hardship is sure to ensue.

- When we came to office last year, we inherited an unsustainable fiscal situation, in fact a debt tornado that was increasingly spiraling out control and ravaging an ever greater proportion of our revenue base merely to pay interest on the debt and cover required principal repayments.

- Because of that, virtually 25 cents out of every revenue dollar is siphoned off before we can even begin to spend on much needed programmes and services for the public.

- The burden of Public Debt, that is the ratio of Debt to GDP, was poised to shoot from a projected level of roughly 53 per cent at the end of the 2012/13 fiscal year, to almost 70 per cent within a span of only four years.

- So nefarious was the debt spiral that, had we remained passive and done nothing, fully 33 cents of our intake would have been hived off for debt servicing within a matter of only a few years.

- One need only look around the globe to see the devastating economic and social damage than can result from lax fiscal policy and runaway public debt.

- Our Government appreciates the cold, hard reality that sound public finances are indispensable to a strong and vibrant private sector and economy which is capable of creating sufficient and well-paying employment opportunities.

- To that end, we developed and released an aggressive medium-term fiscal consolidation plan in this year's Mid-Year Budget Statement. The fiscal stance presented in the 2013/14 Budget Communication is fully consistent with that plan and keeps us on track to achieve the core fiscal targets going forward.

- Our fiscal plan does call for us to borrow some $465 million in 2013/14. While that is down from well over $500 million in 2012/13, let there be no doubt that we are still not satisfied with that level of borrowing.

- With our medium-term fiscal consolidation plan, we are moving gradually, and in a measured way, in the right direction to eliminate the Government's recourse to borrowing to finance its activities. In this way, we are balancing the needs for fiscal redress with our priorities of strengthening growth and creating jobs.

- I will say a few words on the projected fiscal outturn for 2012/13 and then turn to additional details on the medium term fiscal plan, including supplementary details on the major fiscal actions in 2013/14.

Fiscal Performance in 2012/13

- The 2012/13 Budget Communication explained in detail the extent of the fiscal challenge that we inherited as we came to office and I will not dwell on those details at this time.

- Suffice it to say that, with the large cost overruns that we faced from the previous Administration, our room to manoeuvre was severely constrained.

- As a result, we were at the time projecting a deficit of $550 million, or 6.5 per cent of GDP.

- At the mid-point of the fiscal year, it was apparent to us that, with weaker than expected growth of the economy, our Recurrent Revenue collections were trending at a considerably lower level than projected. In fact, at mid-year, they were running some 10 per cent below forecast.

- In response, the Government announced in the Mid-Year Statement that it was implementing a number of broad-based fiscal measures, in respect of both Recurrent and Capital Expenditure, to address the slippage and secure the achievement of our Deficit target for the full 2012/13 fiscal year.

- Specifically, we committed to hold Recurrent Expenditure this year to a level of $1,720 million, down just over $100 million from last year's Budget estimate.

- Last week's Budget revealed that we have succeeded in doing even better than that. Recurrent Expenditure this year is now estimated at $1,659 million, fully $162 million lower than the Budget forecast.

- The reductions in spending this year are fairly broad-based and spread across the various expenditure Heads. The larger reductions have been recorded in respect of:

  - Dept. of Public Service – $29.8M
  - Ministry of Tourism - $19.9M
  - Ministry of Finance - $19.4M
  - Public Hospitals Authority - $17.5M
  - Dept. of Education - $13.7M.

- Several areas of Government have been subjected to little or no reduction in expenditure level this year, in line with our Government's core priorities in the near-term. These areas include:

- Royal Bahamas Police Force;
- Ministry of National Security;
- Prisons Department;
- College of The Bahamas;
- Bahamas Technical and Vocational Institute;
- Department of Social Services;
- Ministry of Youth, Sports and Culture;
- Department of Labour; and
- The Ministry of works and Urban Development.

- We have also been able to hold Capital Expenditure this year below the level originally budgeted. It is now expected to total $350 million, down $50 million from the last May's Budget forecast and $13 million lower than the Mid-Year estimate.

- Recurrent Revenues in 2012/13 have remained on the somewhat weaker path that we had witnessed at the mid-year. They are now projected at a level of $1,380 million, fully $170 million or 11 per cent below the Budget forecast.

- As one might expect with a weaker economy, the main revenue shortfalls are occurring in the areas of Import Duties and Excise Taxes, down by $49 million and $112 million, respectively, from the forecast.

- Likewise, Stamp taxes on real property transactions are down by $20 million, while Business Licence Taxes are lower than budgeted by some $15 million.

- On the plus side, Air Departure Tax is $10 million higher than was projected in last year's Budget.

- Despite the revenue weakness, our discipline on the expenditure front has paid dividends in that the GFS Deficit in 2012/13 is now projected at $508 million, down from the $550 million Budget estimate.

- Relative to GDP, the Deficit will now come in at 6.1 per cent, down from the 6.5 per cent forecast in both last year's Budget and the Mid-Year Statement.

- While this is a stellar achievement in and of itself, it marks a stark departure from the experience of our predecessors, who invariably and miserably overshot their deficit targets year in and year out.

- Take their last four years in office, for instance.

- In 2008/09, they forecast a GFS Deficit of 2.1 per cent; it came out at 4.5 per cent.

- In 2009/10, the target was 3.9 per cent; the outcome, 5.1 per cent.

- In 2010/11, they said it would be 3 per cent; if we exclude the exceptional revenues from the sale of BTC shares, the deficit was actually 4.8 per cent.

- Sadly the story goes on after that.

- In their last year, their deficit objective was 3 per cent of GDP but, in actual fact, the outturn was 5.6 per cent.

- So, in that perspective, for our Government to actually do better than its deficit target in 2012/13 is indeed and unquestionably an achievement in which we can take great pride.

- We have clearly demonstrated to Bahamian citizens, the private sector and international markets, our firm commitment to fiscal discipline and our ability to deliver on our stated fiscal objectives.

Fiscal Action in 2013/14

- In the upcoming new fiscal year, we have taken the actions necessary to position ourselves to do better yet on the GFS Deficit.

- Recurrent Expenditure is being held to a level of $1,737 million, basically unchanged from this year as a proportion of GDP.

- Within that total, I would highlight some of the larger items, namely:

  - Salaries of permanent, pensionable employees - $550 million;
  - Salaries of contract workers - $25 million;
  - National Insurance contributions - $22 million;
  - Rental accommodation - $18 million;
  - Electricity - $18 million;
  - Food for human consumption - $16 million;
  - Gasoline and diesel – 9 million; and
  - Telephones, telexes and faxes - $6 million.

- In addition, it is important to note that interest charges on the public debt will absorb $230 million in 2013/14. With another $86 million allocated for debt redemption, fully $316 million of the projected Recurrent Expenditure total of 1,737 million is dedicated solely to debt servicing.

- That leaves us with a discretionary Recurrent Expenditure level of $1,421 million.

- Of that total, almost 50 per cent is accounted for by the items listed above, at an aggregate level of $664 million. These expenditure items, by their nature, are less discretionary than might be desirable and really impinge on our flexibility to address public financial redress.

- This is an area that the Government will need to focus on going forward and I will return to the subject shortly.

- Capital Expenditure in 2013/14 is being held to a level of $295 million, down $55 million from last year. That also represents a reduction from 4.2 per cent to 3.4 per cent of GDP.

- As for Recurrent Revenues, they will of course be bolstered by the expected growth in nominal GDP during the next fiscal year. The various revenue enhancement measures announced in last week's Budget will also make an important contribution.

- As for the various fees and charges that were adjusted in the Budget, I would reiterate that such fees have remained constant for a number of years. As such, their adjustment at this time is designed to bring them up to market levels that more fully reflect the costs to Government of delivering the various services that they represent.

- Going forward, it will be important to subject these fees and charges to regular review to ensure that they continue to cover the Government's costs.

- I will say a few brief words on the Bills that were introduced with the Budget.

PASSENGER TAX ACT

- Amend the legislation so that departure tax is paid by all outgoing passengers. This is consistent with industry practice.

FAMILY ISLAND DEVELOPMENT ENCOURAGEMENT

- An amendment to allow extensions to this Act to be done by Order of the Minister.

CITY OF NASSAU REVITALIZATION

- An amendment to allow extensions to this Act to be done by Order of the Minister.

- ***EXCISE ACT***

- Act is now WTO compliant in structure with the biggest change is the revision to the pre 2010 structure for vehicle duties.

- ***TARIFF ACT***

- Act now WTO compliant. Major change is the inclusion of alcohol in the schedule, items formerly in the Stamp Act.

REAL PROPERTY TAX

- Amendment to make it mandatory for the mortgagee to pay the property tax 90 days after the amendment comes into force in the absence of evidence of payment by the mortgagor.

STAMP ACT

- Eliminates the duties on alcohol and imposes a stamp duty on the conversion of remittances and dividends and management fees in excess of $500,000 per annum.

- Extends the 1st home exemption for Bahamian citizens for an additional 5 years and clarifies that the value of the exemption is for transaction documents for a maximum of $500,000, which could mean a conveyance of $250,000 and a mortgage of $250,000 or a conveyance of $500,000.

BUSINESS LICENCE

- Introduces a progressive business licence schedule and incorporates basic anti-avoidance provisions.

SAVINGS BANK

- Allow the Post Office Savings Bank to invest a larger portion of its reserves in government securities (up from 1/3 to ½)

INSURANCE ACT
BAHAMAS MARITIME AUTHORITY ACT
URCA ACT
CLIFTON HERITAGE AUTHORITY ACT
BRIDGE AUTHORITY ACT

- All of these incorporate a provision to allow for the transfer of surplus resources to the Consolidated Fund.

Real Property Tax Amnesty Programme

- On March 1st 2013, the Government initiated a new Real Property Tax Amnesty Programme. The purpose of this programme is to allow property owners the opportunity to have their property assessed without any penalties. Additionally, the programme seeks to allow property owners to bring their accounts current with opportunities available for significant savings. In an effort to address as many accounts as possible, the programme is divided into four segments.

- The first segment seeks to allow property owners with residential and commercial buildings, who were not currently on the assessment list, the opportunity to register their property without incurring any back taxes in respect of the years prior to the assessment. This segment also encourages self-registration of property owners, thereby encouraging many new accounts to be added to the assessment list. To May 31st, 471 new accounts were created for total collections of $1.1 million.

- The other three segments of the programme seek to encourage property owners with arrears or those who are current, the opportunity to settle any amounts due while providing savings for the taxpayer as a form of incentive.

- These three segments consist of the following:

  - Where no more than three years of payment arrears exist, 50 percent of the total owed in both principle and surcharges is waived, provided full payment is made by June 30th 2013;

    - to May 31st, a total of 415 such accounts were settled for total collections of $4.8 million;

- Where accumulated arrears for more than three years exist, 100 percent of surcharges only are waived, provided payment is made by December 31st 2013;

    - To May 31st, 114 such accounts were settled for total collections of $2.44 million

- To reward property owners presently on the assessment list whose payment of property tax is current, a 5 percent rebate is given for tax year 2013 and shall continue to be offered each year for the next two years if the said account remains current.

    - To May 31st, 77 such accounts were settled for total collections of $728,131.

- All told, the Real Property Tax Amnesty Programme has therefore yielded some $9.1 million in additional revenue over the three month period from March to May 2013.

- As a result, revenues are projected at $1,503 million as compared to $1.380 million this year.

- The GFS Deficit next year is therefore expected to come in at $443 million, down $65 million from 2012/13. That represents a sharp improvement, from 6.1 per cent to 5.1 per cent of GDP, and keeping us on track with our medium-term fiscal consolidation plan.

- As per that plan, our approach to fiscal redress is measured and balanced and designed to be compatible with the attainment of our other overriding economic and social objectives.

- Because of the responsible and reasoned approach of our plan, there is no need for the slashing and burning that can be so detrimental to an economy and society.

Medium-Term Fiscal Consolidation Plan

- We remain fully committed to pursuing the medium-term fiscal consolidation plan that we set out in February.

- As such, in future years, Recurrent Expenditure will be allowed to grow in modest increments such that its weight declines somewhat relative to the size of the economy.

- By 2016/17, we expect it to be down one full point from current levels and to stand at 19.1 per cent of GDP.

- Accordingly, we will actively re-prioritize the expenditure allocations on an ongoing basis to ensure that they align as fully as possible with the core economic and social objectives set out in our Charter for Governance.

- In the three outer years of our fiscal plan, we expect to keep Capital Expenditure at 3 per cent of GDP, which is a level broadly consistent with past historical trends.

- The crux of our fiscal strategy resides in getting the yield of our revenue system up to a level more in keeping with both the needs of modern governance and the norm in the region.

- To that end, we have embarked on major modernization exercises in respect of the administration of our important revenue streams, namely Customs and Real Property Tax. We are also in the process of establishing a Central Revenue Agency to bring together the administration of a number of taxes and thereby reap the efficiency benefits of economies of scale.

- The cornerstone of our revenue enhancement strategy is the major tax reform package that we announced in February, featuring a new Value Added Tax (VAT).

- Through 2016/17, tax reform, including the VAT and concurrent reductions in Tariff and Excise rates, is expected to contribute just over 2 per cent of GDP to the revenue yield.

- Modernization of the Real Property Tax should produce a one percentage point to GDP boost to revenues.

- Administrative reforms to Customs operations should, at a minimum, generate a 0.5 percentage point revenue increase.

- The new excise stamps on tobacco products will curtail smuggling and protect some $20 million in Government revenues annually.

- All told, tax and administrative reforms are expected to raise the revue yield of our revenue system by some 4 percentage points of GDP, from 17.4 per cent in 2013/14 to 21.5 per cent in 2016/17.

- As the Prime Minister stressed in the Budget Communication, the fiscal benefits of our medium-term plan are evident:

  - We will eliminate the Recurrent and GFS Deficits by 2015/16; and
  - The course of the Government debt burden, as measured by the Debt-to-GDP ratio, will be reversed and the ratio will fall to

roughly 50 per cent in 2016/17. That will be down from the 56.4 per cent level expected in 2013/14 and off sharply by almost 20 points from the 70 per cent level that would have prevailed if we had continued on the derelict fiscal course of our predecessors.

III. Transforming Government

- I now turn to the major initiatives to transform Government that we launched in the Mid-Year Budget Statement and that are further buttressed in the 2013/14 Budget Communication.

New Procurement Legislation

- The Financial administration and Audit (Amendment) Bill 2013, when enacted, will bring the present rules surrounding Government procurement in line with international best practice and meet the country's obligations under the Economic Partnership Agreement with the European Union.

- There will be established, within the Ministry of Finance, a Public Procurement Department headed by a Chief Procurement Officer appointed by the Minister of Finance. The principal function of the Department will be to ensure that procurement is done in a fair and equitable manner. An independent appeals mechanism, a Public Procurement Review Tribunal, will also be created once the Bill is enacted.

- The draft Financial Administration and Audit Public Procurement Regulations, which the Public Procurement Department will be charged with implementing, are comprehensive and consistent with procurement regulations internationally and in the Caribbean.

- Highlights of the Regulations include:

- a) prescribing the membership, functions and powers of the Public Procurement Board (the successor to the Tenders Board);
- b) prescribing procurement entities and their functions, powers and duties;
- c) providing for the constitution of the Procurement Review Tribunal and the appointment of its members;
- d) providing for the procedures for complaints and appeals to the Procurement Review Tribunal and from the Tribunal to the Supreme Court; and
- e) providing for any other matter necessary or conducive to giving effect to the provisions of the Regulations.

- Following up on a commitment the we made in last year's Budget, section 57 of the Regulations, upon coming into force, would prevent a procuring agency which is defined as a Ministry or Department, a Town Committee under the Local Government Act or any entity including public corporations, in which the Government owns more than 50 percent of the shares, from executing contracts once Parliament has been dissolved and given that the contract: (a) has not yet come into force; and (b) has not been executed by all the parties. This Regulation allows the Minister to waive this prohibition when a state of national emergency has been declared.

- In addition, section 58 mandates that the Public Procurement Board should use its best effort to ensure that on an annual basis at least 20% in value of all Government procurement contracts are awarded to small businesses which are defined as businesses: (a) with less than twenty-five employees; and (b) owned by persons who are citizens of The Bahamas.

- This is a comprehensive and needed reform. The present system is 40 years old and highly centralized with major gaps in coverage. For example it does not cover public corporations which rely on tax revenues to cover their operations.

- Studies on procurement reform in other developing countries have shown that savings of up to 20% in the procurement of goods and services are possible. This initiative is therefore consistent with the Government's deficit reduction goals.

- As a result of the complexities of the current system, the reform process would be multi-staged. Therefore, the Ministry of Finance is proposing a two year timeframe for its full implementation after passage of the Bill and the legislation coming into force. The Bill and Regulations are drafted to allow provisions to be brought in separately to accommodate a gradual implementation.

- The first step would be an education campaign for procuring entities and vendors and followed by the appointment of a Public Procurement Board. It is proposed that this exercise be lead by a senior officer within the Ministry of Finance.

Public Sector Pension Reform

- The Ministry of Finance now has in its possession a report on the public sector pension. The report confirms what many suspect, that the current system of pay-as-you-go pensions will impose an increasing burden on the public pursue.

- In this year's Budget, the allocation to pensions and gratuities of public officers is in excess of $60 million and this amount is expected to grow at a rate faster than inflation in the medium-term.

- The principle of the reform process that the Government is considering is simple. The Government would wish to improve coverage, as there are significant numbers of persons employed by the Government who are not pensionable, protect the benefits of today's workers but, at the same time, manage more effectively the growth in the government's pension obligations.

- The next step in the reform process is internal consultation within the public sector before the formal presentation of the Government on the options for reform.

New Customs Management Act

- The purpose of this Bill is to correct errors and provide for the continuance of the current export control and regulation regime for scrap metal and copper.

- There also Regulations which accompany the new Customs Management Act.

- Also introduced are processing fees, new services charges and the environmental levy.

- The processing fee will be 1% of the value of entries submitted to Customs subject to a minimum of $10.00 and capped to a maximum of $500.00.

- In addition, provision is made for a processing fee for manifests and other declarations for inbound and outbound aircrafts and vessels.

Strengthened Debt Management

- One part of the reforms underway at the Ministry of Finance is greater focus on debt and cash management to ensure that the

Government’s borrowing operations do not become an impediment to growth.

- This initiative is in the form of a tripartite committee, comprising the Ministry of Finance, the Central Bank and the Treasury, and it has already yielded some beneficial results with an appreciable decline in the cost of short-term debt.

- The other area of focus is protecting the Government on currency and interest rate risks. Work in these areas is ongoing.

Reducing Operating Costs

- In the Mid-Year Statement, the Minister of Finance indicated a focus on reducing costs in a number of areas, namely: telecommunications, electricity, vehicles and insurance.

- Work in these areas is well underway with the completion of telecommunications audits in several agencies; the completion of a mobile device policy to regulate the use and issuance of mobile devices in the public sector; and the launch of an initiative to begin the process of transforming the Government's vehicle fleet to a lower cost fleet.

- In this regard, the Government is adamant that its position as a large buyer should provide some appreciable benefits.

- With respect to insurance, the Government is carefully reviewing the existing benefits and exploring ways to protect these benefits without paying an exorbitant price. It is instructive to note that countries in the region have adopted strategies which could prove beneficial and could lay the groundwork for natural coverage.

- With respect to electricity, the Ministry of Finance will be launching, in the new fiscal year, tender exercises to retrofit government premises with the latest lighting technology which would substantially reduce the electricity costs for those premises.

Public-Private Sector Partnerships

- As the Minister of Finance indicated in the Budget Communication, the country's infrastructure needs cannot all be provided by the state. This has to be recognized and, as result, the Government has long partnered with quasi-agencies such as NIB and BEC in providing infrastructure; be it in Government offices, clinics or for Family Island generation.

- The Ministry of Finance is seeking to expand the range of available partners for national development to include the private sector and the types of projects for financing. In this regard, The Ministry will be developing a framework for Public Private Partnerships (PPPs) with a focus on investments in the areas of education, health and general administration (office rents). If executed efficiently, this could stimulate job creation and lead to lower operating costs for the Government.

IV. <u>Building a healthy, more prosperous and secure society</u>

National Health Insurance

- Committed to its introduction during the mandate

- Currently reviewing in detail all aspects of such a plan, as well as the cost implications

- Must approach this initiative in a financially prudent way to ensure the programme is not only effective, but also financially sustainable

- Government will, through the review process, determine the bestt way to implement the programme in a phased and efficient manner.

Tackling the Crime Issue

- Project Safe Bahamas – fully integrated approach involving all concerned agencies

- Reiterate that $2M allocated in Budget for additional police cars

- CCTV – programme will continue to expand

- Over $8M allocated over this year and next to increased manpower in Police Force

- Five-year programme, worth roughly $175M, to modernize marine fleet and harbor facilities of Defence Force

- Have also invested to increase manpower of Defence Force

- As well, Swift Justice has been reinstated

Other Key Social Initiatives in Budget

- $10M to Works and Urban Development for Urban Renewal and small home repairs

- Through country strategy agreed with Caribbean Development Bank, $30M allocated to education, especially special education and transformation of COB to University status

- $5.5M to construct new primary and secondary schools (Inagua, San Salvador, Gregory Town, Lowe Sound Andros)

- Our Lady's School: rent and renovate for 100 special needs students

- Will construct in NP a new educational and multi-purpose facility for special needs persons

- Constructing mini-hospitals across nation…two to begin construction in new year (South Eleuthera and Cat Island)

- Moving forward with construction of new homes

- Investing over $4M to establish new School of Agriculture and Marine Sciences in North Andros

- Beginning process to invest $10M in new sports facilities in Family Islands

- National Training Agency

- Beginning work to develop a week-long Mardi Gras Festival

- Allocating $1M to installation of greenhouses

- Have sustained our commitment to social assistance transfers to persons in need

V. **Conclusion**

- In conclusion, I would return to a crucial point made by the Prime Minister made in the Communication last week, that we are engaged in generational change.

- At no time in recent memory have our small nation and its Government been enveloped in so much fundamental, deep-rooted and vitally important change.

- Indeed, we are in the process of re-making Government in this country.

- We are striving to create modern governance and an effective, efficient and responsive administration of public services.

- We are building a solid fiscal foundation to support Government in a sustainable way.

- We are beginning to lay the groundwork for stronger growth and job creation.

- All of which will support our ongoing efforts to enhance the health, prosperity and security of Bahamian society.

- Our agenda is full but it is balanced and measured. All of its constituent components are mutually complementary and supportive.

- Our plan meets the needs of Bahamians and they have given us the mandate to deliver on it. The 2013/14 Budget attests to our commitment and ability to do so.