

Bahamas 2012/13 BudgetCommunication

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2012/13 BUDGETCOMMUNICATION

It is my honour to present the 2012/13 BudgetCommunication.

INTRODUCTION

With this, the first Budget of the new mandate with which the Bahamian people have entrusted my Government, we launch our programme to transform the Bahamian economy and society for the benefit of all Bahamians. The key policy thrusts of the 2012/13 Budget are faithful to the major themes that we enunciated in both our Charter for Governance and last week's Speech from the Throne.

I would like to state at the very outset of this Communication that we do not propose to increase any taxes on Bahamians in this Budget.

This Budget unequivocally sets us on the course of change that we pledged to initiate and pursue with diligence and dedication. However, in light of the very short time since our return to Government, this Budget is but the very first step in that process of transformation.

I would highlight that we have already implemented two of the actions that are in our Charter for Governance and that we committed to implement in the first 100 days of our coming to office. Specifically we have already created the Ministry for Grand Bahama and re-established the Ministry of Financial Services.

As we move forward, we will be guided by the vision for the future set out in the Charter. That beacon will illuminate the way and ensure that we make steady and concrete progress in securing the overriding economic and social objectives that are vital to a prosperous and harmonious society.

I will note at the outset that our room for manoeuvre is, at least in the short-term, severely constrained by the dire fiscal situation that has been handed to us by the previous Administration. As I will set out in

detail below, the Government's deficit and debt levels at this time are much worse than we had anticipated. We have been left with sizeable, ongoing capital expenditure commitments and a legacy of contracts entered into in the final days of the former Administration.

We are committed to putting an end to such practices. As we stated in the Speech from the Throne, we will table legislation to prevent the entering into of Government contracts, including contracts of employment, or the payment of public monies therewith, between the date of dissolution of Parliament and the date of a General Election unless such contracts or payments are pre-determined by an independent statutory body to be absolutely essential for the maintenance of essential services.

In addition, as a matter of priority, we will do whatever is necessary such that, going forward, the Government is properly positioned to more efficiently and effectively function and ensure that public monies are properly spent and accounted for and that we avoid the types of cost overruns that have recently been witnessed.

We will pay particular attention to the large capital expenditure projects that are already in the pipeline. We will monitor these closely to ensure that contract terms are respected and that the Government is receiving full value for money in respect of these significant expenditure commitments. We also face the carry-over into 2012/13 of certain recurrent expenditure commitments of the previous Administration in respect of the promotions exercise, back pay, salary increases and the payment of insurance benefits.

Accordingly, as my Government is firmly committed to fiscal prudence and the return of the fiscal accounts to more desirable and sustainable positions, we will need to adopt flexible, innovative and fiscally responsible approaches as we initiate our comprehensive programme of legislative proposals and policy initiatives to address the key economic and social challenges of our country. In particular, with our fiscal flexibility as constrained as it is, we will focus our efforts on promoting the expansion of the private sector, which holds the key to the creation of sustainable job opportunities. We will eschew job programmes of the type introduced by the previous Administration, which ballooned from an initial estimate of \$25 million to some \$48 million, all the while lacking any focus on viable, long-term employment creation.

We fully appreciate that it will be imperative to rebuild the fiscal buffers over time. The significant structural fiscal reforms that I will propose in this Budget, especially in respect of the Government's revenue base and revenue administration, will be critical in this regard. The stronger, sustainable fiscal position that will result from these measures will facilitate the full implementation of our agenda for change and will underpin enhanced confidence and more buoyant growth and job creation.

IMMEDIATE INITIATIVES IN OUR PROGRAMME OF CHANGE

Building A Safer Bahamas

We have unambiguously expressed our firm commitment to the implementation of a national crime agenda as one of the two central priorities of our programme of change. As a first step, we are immediately following up on our commitment to reinstate and re-invigorate the Urban Renewal Programme to foster a beneficial and effective relationship between the Police and the community.

Within the fiscally responsible Budget allocations presented in this Budget, we will begin to develop and implement the many legislative, policy and programme initiatives in our agenda to combat crime, namely:

- Amendments to the Police Act;
- The creation of a National Intelligence Agency;
- The development of a National Firearms Control Strategy, including the establishment of a Firearms Department and Database;
- The reintroduction of the Swift Justice Initiative;
- The reintroduction of the Witness Protection Programme;
- Amendments to the Rehabilitation of Offenders Act;
- The reintroduction of school-based policing;
- The revitalization of the Tourism-Based Police Initiative; and
- The re-equipment and repositioning of the RBDF to more effectively control our borders.

Both our Charter for Governance and the Speech from the Throne speak to the need to determine the extent of interest, among the Bahamian population, in establishing a national lottery and/or decriminalizing and properly regulating the web shop-type gaming business. It is estimated that this area holds the potential to make a significant financial contribution in support of Government expenditures on the nation's economic and social priorities in the years ahead. Accordingly, we will soon present the details for a national referendum on the issue. Should it be deemed that it is in the national interest, development work on the necessary legal and administrative framework will be finalized.

Promoting Industry and Creating Jobs

The second core imperative of our programme of change is the strengthening of the domestic economy and the attendant creation of jobs, the broadening of Bahamian ownership in the economy and the attainment of a higher standard of living.

To that end, the Government will re-focus the mandate of the Bahamas Development Bank and the Bahamas Agricultural and Industrial Corporation to broaden their range of activities, beyond merely lending money, to include the provision of equity, credit guarantees and marketing and accounting support.

We remain faithful to our commitment to explore all lawful means by which majority ownership of BTC can be restored to the Government and the Bahamian people. We shall very shortly arrange a timetable for discussions that we propose to undertake in this regard with the present owners of the majority stake in BTC and other interested stakeholders.

As a means of stimulating the real estate market and the construction sector, the Government is following up on its commitment to reduce the stamp duty rate on conveyances over \$250,000 from 12 per cent to 10 per cent. As for the other rates of stamp duty, I would note that first-time homeowners already benefit from the existing exemption from stamp duty. The Government will, however, review the entire structure of stamp duties on conveyances in the context of its overall programme of fiscal reform.

In addition, we are introducing a cap of \$50,000 as the maximum real property tax payable on an owner-occupied residence as a means of further stimulating the construction sector.

In order to stimulate near-term job creation for small contractors, we are also announcing that an allocation is being made in this Budget for home repairs and community improvements under the auspices of both the Urban Renewal Programme and the Ministry of Housing.

I am also announcing that Exuma is being reinstated for eligibility under the Family Island Development Encouragement Act. Assistance to Homeowners in Distress

The loss of a home or threat of a loss is emotionally devastating for any family. We therefore reaffirm our commitment to a mortgage relief programme that will help save the homes of those persons who, by reason of involuntary job losses, underemployment or chronic illness, are no longer able to service their mortgage loan obligations as they were previously doing.

Preliminary discussions with representatives of the clearing banks and other institutional lenders have already been initiated and these discussions will continue with a view to arriving at a mortgage relief programme in the shortest possible time.

In the meantime, we wish to reiterate that the programme was never intended to assist homeowners who have the means to pay their mortgage obligations but simply decided not to do so. We therefore strongly urge all homeowners who have the means to do so, to continue to meet their mortgage loan obligations as and when they fall due.

The first draft of a Bill to administer and regulate Pension Funds is now complete and will be presented to Parliament shortly. As was stated in the Speech from the Throne, we will ensure that employees have access to their pension savings for emergency purposes, including mortgage relief. We will do so within the broader context of the revised Bill to which I have just referred.

Rescuing Grand Bahama

The economic plight of Grand Bahama is painfully evident and the unemployment situation there clearly attests to this reality. The Government has firmly expressed its commitment to addressing the needs of, and rescuing, Grand Bahama in a meaningful manner. A new Ministry for Grand Bahama has already been created, with a mandate of ensuring that Grand Bahama receives maximum benefits from all Government initiatives. The Ministry will also develop proposals for the extension of duty-free concessions to East and West Grand Bahama.

The Minister for Grand Bahama will engage in wide- ranging discussions with the various stakeholders in Grand Bahama, as well as with other Government Ministries, to advance our priority of restoring the

economy of Grand Bahama. This will entail an evolving process as we go forward and the Ministry's organization and budget allocation will evolve and grow accordingly.

As well, in this Budget, we are immediately implementing certain tax measures to promote the revitalization of Grand Bahama. For existing properties in Grand Bahama, the hotel occupancy tax is being reduced by 50% for five years for all properties filing returns under the newly-introduced electronic reporting system. And, to assist in ensuring the success of new hotels, the hotel occupancy tax will likewise be reduced by 50% for ten years after opening. To access these concessions, it will be necessary for a hotel to register online with the new electronic reporting system, as is required of all hotels in the country.

A Renewed Commitment to National Health Insurance

Our commitment to National Health Insurance remains solid and we will pursue preparations for the financially sustainable implementation of such a plan. In addition, we are allocating funds to the Public Hospitals Authority to facilitate the acquisition of new cancer screening technology to ensure that Bahamian women have access to state-of-the-art mammogram machines at both the Princess Margaret and Rand Memorial Hospitals.

Securing an Adequate Revenue Base and Strengthening Revenue Administration Tax Reform

It is clear that, if we are to restore the nation's public fiscal affairs to a more desirable and sustainable state, we will need to place particular focus on securing an adequate base for sustaining and enhancing the annual level of revenue.

It has been noted by many observers that our tax system is inadequate to finance a 21st century public administration. At a level of 18.6 per cent of Gross Domestic Product (GDP), Recurrent Revenue in The Bahamas pales in comparison to that in many other countries, where the Government revenue-to-GDP ratio is in the mid-20% to 30% range.

Our tax base is much too narrow, focusing as it does on goods to the exclusion of services. This is simply unacceptable in a modern economy where the consumption of services is predominant. The present tax system is also difficult and expensive to administer and subject to abuse and evasion.

As was presaged in the Charter and highlighted in the Speech from the Throne, it is important that we now address the issue of tax reform. To that end, a White Paper will be prepared and will serve as the basis for extensive public consultations. The paper will also serve to underpin the work on tax reform to be undertaken by the Council of Economic Advisors that the Government will appoint following the enactment of the enabling legislation foreshadowed in the Speech from the Throne. A Centralized Tax Administration

A modern tax system can only be successful if it is widely accepted by taxpayers. In turn, to be so accepted, the system must be administered effectively, efficiently, transparently and equitably. The current tax administrative structure is disjointed, inefficient and inequitable in many respects. There are currently more than 30 departments and agencies collecting a variety of taxes and fees that constitute both tax and non-tax revenue. In order to remedy this situation, my Government will proceed with the plans for the creation of a new centralized Tax...