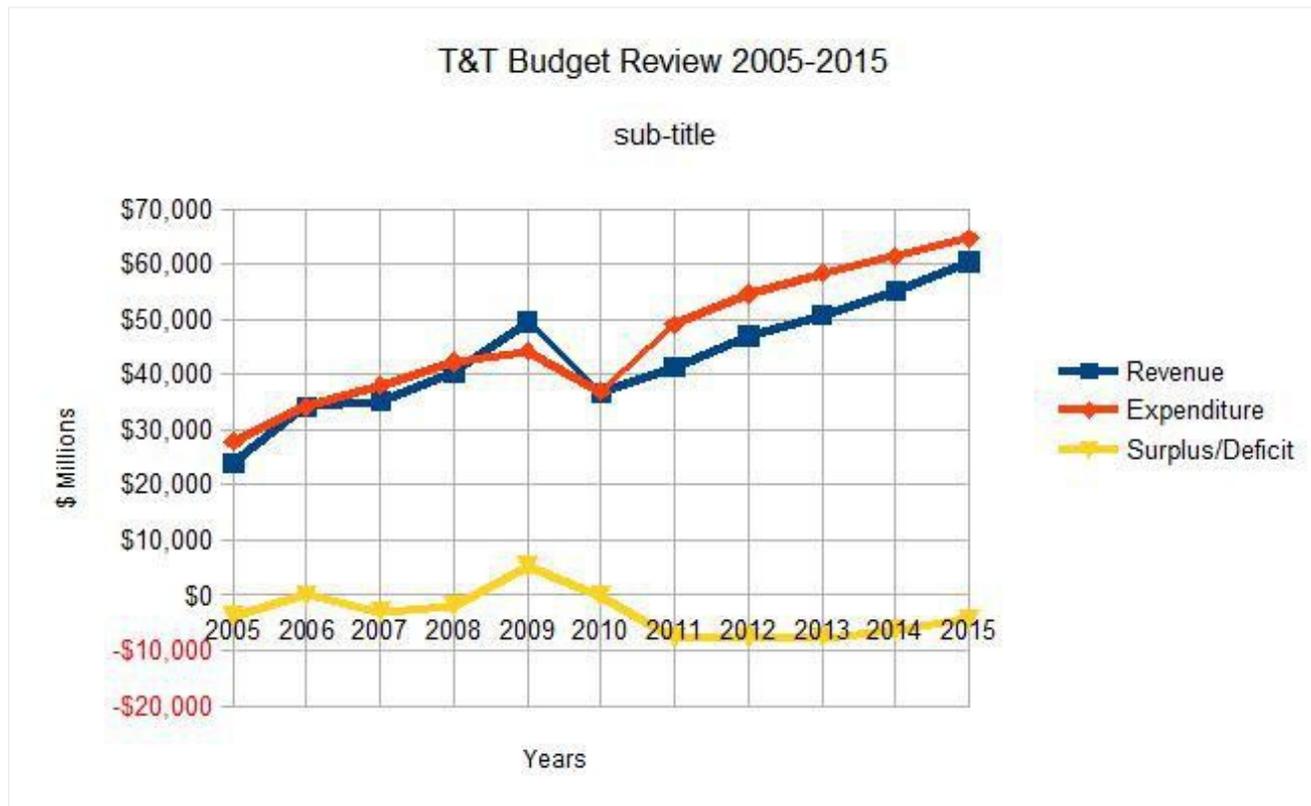


Balancing the Scale

21st January 2015

This article is to engage the issues of falling national revenues due to price declines for fossil fuels, the ongoing commentary and the [PM's 8 January 2015 statement](#) with its attendant criticisms. I am going to focus on the role of the real estate and construction sectors in this unfolding series of serious challenges.

This is the graph and table from my previous budget commentary 'A [Fistful of Dollars](#)' to illustrate the trend in terms of how successive governments have attempted to balance revenues and expenditure.



| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Revenue | \$24,016 | \$34,129 | \$35,126 | \$40,381 | \$49,465 | \$36,664 | \$41,284 | \$47,000 | \$50,736 | \$55,041 | \$60,351 |
| Expenditure | \$27,918 | \$34,119 | \$38,054 | \$42,261 | \$44,206 | \$36,915 | \$49,016 | \$54,600 | \$58,405 | \$61,398 | \$64,664 |
| Surplus/Deficit | -\$3,902 | \$10 | -\$2,928 | -\$1,880 | \$5,259 | -\$252 | -\$7,732 | -\$7,600 | -\$7,669 | -\$6,357 | -\$4,313 |

As I stated at that time, the Minister of Finance met cynical expectations by announcing [Trinidad & Tobago's largest-ever budget for 2015](#), with estimated revenue of \$60.351 Billion in support of estimated expenditure of \$64.664 Billion. That is an 'overspend' of \$4.313 Billion, with 2015 being the sixth consecutive year of deficit budgets – resulting in a nominal total of deficits of just under \$34 Billion since 2010.

We are beset by the continuing decline in the market prices of fossil fuels, the emergence of shale oil as a strong rival to traditional oil & gas and the reducing cost of other durable alternative energy sources such as solar and wind power. All of this at a time when we seem to have developed a collective taste for overspending, at both the personal and national levels, and with national elections virtually upon us.

This is a moment which demands the most searching reflection, so every lawful possibility should be up for examination and discussion.

My comments are set out in three areas.

Revenue Generation

Property Taxation needs to take an active part of this national discussion.

Rental Income – We must consider active measures to collect income tax on the substantial rental income which is now untaxed. There is substantial undeclared property rental income accruing to property owners and we need to find a way to put that into the national balance sheet.

Stamp Duty (transfer taxation) needs to be more closely monitored as a class of taxation, since there is a high level of evasion of this tax.

We also need to grapple with the re-introduction of a revamped Property Tax (taxation on ownership) as proposed in 2009 reforms by the previous PNM administration. That property tax was projected to earn annual taxes of about \$143M, which means that the last 5 years of ‘tax holiday’ have cost the country at least \$700M.

The previous attempt to tax property was strongly opposed as a significant element of the Peoples Partnership 2010 campaign under the slogan ‘Axe the Tax’. The new property tax system would have required an open and deep database of all property ownership, details and tax assessments. Such a database would have allowed an open examination of who owns what and what rents are charged and who sold what, to whom and for how much. That exposure would be very threatening to those who prefer privacy and secrecy to conduct their affairs. We can expect hostility to any effective property tax proposal.

To me the point is that too much money is now being left on the table in terms of uncollected property taxes. That money is sitting in plain sight, as the properties and details of ownership are plainly visible.

Occupation of the new State offices in POS needs to proceed as an utmost priority to stop the huge monthly rental payments. As misconceived as those State office projects were, they are now virtually fitted-out, so the best thing is to occupy them as soon as possible.

Reducing Expenditure

It is imperative to control transactions in Public Money so that the high levels of waste and theft can be limited.

The key initiative here is to ensure the proper implementation of the newly-assented Public Procurement & Disposal of Public Property law – Act No. 1 of 2015. That means the appointment of the correct calibre of officials to the new Office of Procurement Regulation and the establishment of effective regulations so that the law can be proclaimed without overdue delay. Our original estimates were for the new law to take six months to implement, so the race is on.

We also have to pause to consider the PM's insistence at starting the San Fernando – Mayaro highway. At a time when we ought to engage in a national re-examination of expenditure, this huge project is being promoted at the highest level. We have seen that there is now a requirement to borrow for the cost of the \$7.2Bn San Fernando-Point Fortin highway and we are now hearing that this San Fernando – Mayaro highway is expected to cost about \$15Bn. This project must be brought within the new Public Procurement law so that this vast proposed expenditure of Public Money can be properly studied, controlled and subjected to the required controls.

Off Balance Sheet projects

The most disturbing aspect of this entire scenario is that there are huge undisclosed liabilities which have been deliberately omitted from our national accounts.

The first example of these is the Billion-dollar-plus Beetham Water Recycling Project (BWRP) in which the entire procurement process has been arranged to prevent it appearing in the national accounts. Those concerns have been detailed in this space before and in the [JCC's formal statement of 20 March 2014](#). Despite our repeated calls, there has not even been an attempt to establish the facts of this project within our country's accounts and the impact on WASA and NGC. It is critical to establish the true implications of the huge BWRP.

Government to Government arrangements (G2G) have long been a bone of contention for the JCC, in that those are uncompetitive arrangements which drain our country's scarce foreign exchange and contribute nothing in terms of transfer of technology. The [JCC's position](#) is one of complete objection to those arrangements since they are also secret, which means that we do not know what are our liabilities.

The JCC objected strongly to G2G arrangements under the previous administration and we continue to do so under this administration. Some of the recent G2G arrangements under the Peoples Partnership are the

- \$1.8Bn contract in March 2012 to Shanghai Construction Group to build Couva Childrens' Hospital and several sports complexes, including the Velodrome/Cycling complex at Balmain and the controversial complex at the Tacarigua Savannah.
- The Pitch Lake at La Brea is under a May 2013 agreement signed with EXIM Bank of China at the same time as a Confidentiality Agreement.
- San Fernando Teaching Hospital 2011 agreement with Austria.
- La Brea Port and seven industrial parks to be built via a February 2014 agreement with China.

It is important to establish the nature and extent of our major liabilities if we are to have a real chance to maneuver these threats.