FINANCE COMMITTEE REPORT

Adoption

The Minister of Finance (Hon. Karen Nunez-Tesheira): I beg to move the following motion standing in my name.

Be it resolved that the House adopt the first Report (2009) Session of the Finance Committee of the House of Representatives of the Republic of Trinidad and Tobago and on proposals for the supplementation of the 2008 appropriation.

Mr. Speaker, the Finance Committee of the House of Representatives met on Wednesday, January 14, 2009 and agreed to a number of proposals with respect to the accounts for fiscal year 2008. The proposals broadly encompass the supplementation of the 2008 appropriation and write off of losses approved by Cabinet in fiscal 2008. The Committee also noted the transfer of funds between subheads of the same head of expenditure.

The approval for the supplementation of the 2008 appropriation in the sum of $1,073,918,701 is being sought to:

(1) Retire an advance from the Contingency Fund of $20 million;

(2) Retire advances made from the Treasury deposits totaling $444,631,006; and

(3) Bring to account disbursements on loans for the supply of offshore patrols vessels and the acquisition of fast patrol craft in the amount of $609,287,695.

Towards the end of the 2008 fiscal year, the sum of $20 million was drawn from the Contingency Fund to meet payment of all outstanding contract gratuities under Head 20: Pensions and Gratuities. These payments were deemed urgent and critical because they represented obligations to officers engaged on a contractual basis by the State.

In accordance with section 115(2) of the Constitution and section 16(4) of the Exchequer and Audit Act, Chap. 69:01, resources drawn from the Contingency Fund are recoverable at the close of the financial year in which the advance was made.

During the 2008 fiscal year, the Government accessed advances from Treasury Deposits to lease critical expenditure under the following three Heads of expenditure: Head 18 Ministry of Finance; Head 31 Ministry of Public Administration; and Head 40 Ministry of Energy and Energy Industries.

In accordance with section 17(1)(b) of the Exchequer and Audit Act, Chap. 69:10, advances made from the Treasury Deposits are recoverable within 12 months after the close of the financial year in which the advances are made.

In the case of the Ministry of Finance, the sum of $235,765,200 was required to meet Trinidad and Tobago's contribution to the Caricom Development Fund. Article 158 of the Revised Treaty of Chaguaramas establishing the Caricom Community including the Caribbean Single Market and Economy states that this development fund is to be established for the purpose of providing financial assistance or technical assistance to disadvantaged countries, regions and sectors.

At this 27th regular meeting of the Conference of Heads of Government of Caricom held on July 03—06, 2006, the contribution formula proposed by the Council for Finance and Planning for the Regional Development Fund was considered and approved. In keeping with the formula, Trinidad and Tobago's contribution would be US $37.07 million when the fund becomes operationalized.

By letter dated January 10, 2008, the Secretary General of Caricom indicated that Member States were being urged to frontload their contributions with a view to having the Caricom Development Fund inaugurated at the following Intersessional Meeting of the Heads of Government which was being held in the Bahamas on March 07 to 08, 2008. The decision to frontload contributions was made to enable the fund to generate sufficient investment income to meet its administrative costs in the first year of operation. Had this not be done, Caricom member countries would have been called upon to make additional contributions to cover these expenses. Since funds were not provided in the 2008 estimates to meet this commitment, an advance of $235,765,200 was therefore made from Treasury Deposits to facilitate the payment of Trinidad and Tobago's contribution to the Caricom Development Fund, based on the formula agreed to by the Conference of Heads of Government of the Caribbean Community.

To date, Caricom member countries have contributed US $64,528,744.93 to the fund, which is detailed as follows: This is stated in United States dollars: Dominica, $74,074.07; Trinidad and Tobago, $37,70,000; St Kitts/Nevis, $660,000; St. Vincent and the Grenadines, $679,950; St. Lucia, $980,000; Barbados, $5,012,285; Jamaica, $8,130,000; St. Lucia, $212,431; Belize, $1,260,000; Guyana $1,450,004.86; and finally the contribution from Caricom Petroleum Fund on behalf of member countries, $9 million.

In the case of the Ministry of Public Administration, funds were urgently required to meet the payment for the first instalment of US $15,660,541.

In respect of sublease 1 between the Port of Spain Waterfront Development Company, a wholly-owned special purpose subsidiary of UDeCott and the State, the Port of Spain Waterfront Development Project was financed through the US private placement market with First Caribbean International Banking and Financial Corporation and its affiliate Barclays Capital Incorporated as financing agents. In order to secure the financing, the parties agreed in the financing documents that the internationally-accepted financing mechanism of the credit/tenant lease would be employed. This financing mechanism provides that the borrower, in order to secure the loan facilities advanced by the lender for construction would lease the land and buildings to be constructed thereon to a creditworthy tenant, the State in this case, who would make lease payments over the life of the lease that would be exactly matched to the blended principle and interest payment required under the financing. In other words, the lease payments by design would amortize the principal and interest indebtedness under the financing. I wish to emphasize that credit/tenant lease is an internationally accepted form of financing arrangements for this type of transaction.

In keeping with the term of financing agreement, the State was required to enter into subleases with UDeCott Limited, in respect of lands situated at King's Wharf Port of Spain that were leased to UDeCott or its successor in interest by the Port Authority of Trinidad and Tobago. An agreement to sublease was executed on January 31, 2007, among the Port of Spain Waterfront Development Limited, UDeCott and the Commissioner of State Lands at the request of the lenders. Sublease 1 was executed on January 02, 2008, in respect of lands of which the Hyatt Hotel Office Tower 1 and the car park were constructed.

Sublease 2 was executed on December 31, 2008, in respect of lands on which Tower 2 was constructed. By deed of rectification entered into by the same parties to the sublease, the terms of the sublease have since been reduced to 30 years with an option to renew. It was also agreed that US $15,660,541 in respect of sublease 1 and US $4,951,139 in respect of sublease 2 be payable semi-annually in respect of an instalment rent reflecting repayment of UDeCott's debt service obligation to it lenders for a period of 17 years; the debt service period. Approval for this transaction was obtained during the first quarter of the 2008 fiscal year and payments became due on July 01, 2008. Consequently, an advance of $99,645, 806 was issued from Treasury Deposits to meet the obligation.

As it relates to the Ministry of Energy and Energy Industries, the sum of US $17.2 million or approximately TT $109,220,000 was required to facilitate Government's equity injection, with respect to its 40 per cent shareholding in Alutech Limited. Alutech Limited is an integrated technical development centre, which will develop and pilot manufacturing processes at a pre-industrial scale for the production of aluminium downstream products, particularly light motor vehicle parts. The equity contribution was utilized to meet debt financing obligations or Alutech to First Citizens Bank, comprising a principal of US $17,065,545 and interest of US $134,455. Mr. Speaker, the decision to make an equity injection in Alutech Limited was made after the presentation of the 2008 Budget. In the circumstances, an advance of $109,220,000 was made from Treasury Deposits to meet the cost of the investment.

Supplementary resources are also required to bring to account disbursements on two loans, one from BNP Paribus London branch and the Louise TSC Offshore Limited for the supply of three offshore vessels and another from the Australian and New Zealand bank for the acquisition of six fast patrol crafts for the Trinidad and Tobago Defence Force. The disbursement for the supply of offshore patrol vessels was TT $568,197,212, while the sum disbursed for the acquisition of six fast patrol craft was TT $41,090,483.

In summary, the approval is being sought for the supplementation of the 2008 Appropriation in the sum of $1,073,918,701 to retire the advances and to bring to account the disbursements under the following Heads of expenditure: Head 18: Ministry of Finance, $235,765,200; Head 20:

Pensions and Gratuities, $20 million; Head 22: Ministry of National

Security, $609,287,695; Head 31: Ministry of Public Administration, $99,645,806; and Head 40: Ministry of Energy and Energy Industries, $109,220,000.

The Finance Committee also agreed to the write off losses in the sum of $11,614,514.50 for the 2008 fiscal year comprising $9, 633,000.45 under Head 18: Ministry of Finance; $26,145.26 under Head 22: Ministry of National Security; and $2,582,335.79 under Head 42: Ministry of Local Government.

The write offs under the Ministry of Finance were in respect of unpaid arrears on leases of vending booths and the pavilion at Maracas Beach; outstanding amounts on accountable advances; amounts outstanding on final year student loans; student cess loans and student devaluation loans and overpayments of salary and acting allowance to Mr. Feerahim Mohammed, retired Revenue Officer II, Inland Revenue Division. In the case of the Ministry of National Security, the write off is in respect of overpayment of salary to Mr. Alan John, retired Immigration Officer IV, Immigration Division. The write off under the Ministry of Local Government relates to arrears of rent owed by tenants in the New City Mall.

Mr. Speaker, I now refer to transfer of funds between subheads of the same Heads of expenditure. With effect from August 01, 1988, Cabinet delegated its authority to approve transfers between subheads to the Minister of Finance when it agreed, among other things as follows: request for transfer of funds between separate subheads under the same Head of expenditure should no longer be submitted for the Cabinet but can be decided by the Minister of Finance on the advise of the Budget Division. Consequently in fiscal 2008, the Minister of Finance approved the transfer of funds in the sum of $253,490,064 between subheads under the same Head of expenditure. It should be noted that the transfers were approved by the Minister of Finance, based on notes from the respective Ministers requesting the transfer. It should also be noted that these transfers are requested to reflect changed circumstances in Ministries and departments and a consequential reordering of priorities. They do not increase the total appropriation in any way.

Statements showing the transfers approved by the Minister of Finance and explanations for some of the more significant transfers were attached as appendices of the agenda, which was provided to hon. Members of this House. Hon. Members may recall that on August 20, 2007 both Houses of Parliament approved the Draft Appropriation Bill 2008 for the sum of $36,477,188,115, which became law.

It should be noted that the total package approved for the 2008 budget comprised a total expenditure of $42,260,949,246 constituted as follows:

- expenditure authorized by the Appropriation Bill, $36,477,188,115;
- expenditure by direct charge on the Consolidated Fund, $5,328,761,131;
- expenditure from the Unemployment Levy Fund, $380 million; and
- expenditure from the Green Fund, $75 million.

After taking into consideration the total projected revenue for the fiscal year 2008 and adjusting for capital repayments and sinking fund contributions, an overall fiscal surplus of $89.2 million was projected at that time.

Mr. Speaker, in keeping with established practice, a mid-year review of revenue and expenditure was undertaken during April—May 2008 period. Following this exercise, a supplementation of the Appropriation Act, 2008 was passed by Parliament authorizing access to a further sum of $3,490,016,910 from the Consolidated Fund to meet additional recurrent expenditure of $3,173,373,910 and additional capital expenditure of $316,643,000.

Taking into consideration the then projected transfer into the Heritage and Stabilisation Fund of $1,718.8 million by direct charge, further expenditure of $721.8 million by direct charge, primarily to meet obligations to the defence force emanating from the settlement of remuneration packages, projected additional expenditure of $35 million under the Unemployment Relief Programme; increased expenditure of $990.7 million from the unallocated Infrastructure Development Fund resources, savings of $606.1 million were identified across various heads of expenditure, and factoring in the projected increase in total revenue of $6,355.5 million, an overall surplus of $5.3 million was projected at the time of the mid-year review.

In September 2008, a second Finance (Supplementary Appropriation) Bill was approved by Cabinet and passed by both Houses of Parliament for the sum of $3,900,000,000 which was deposited into the Infrastructure Development Fund before the end of fiscal year 2008.

Again, in September 2008, at the time of the preparation and presentation of the 2009 budget, the Ministry of Finance revised the revenue projection for fiscal year 2008 upwards to $52,658.9 million. Correspondingly, expenditure was forecasted at $52,619.7 million, resulting in an anticipated surplus of $39.2 million. This position was communicated to Parliament at the time of the presentation of the 2009 budget on September 22, 2008.

Mr. Speaker, following the submission of data on actual revenue and expenditure at the end of the 2008 fiscal year by government ministries, departments, statutory authorities and other bodies and the Tobago House of Assembly, the provisional fiscal outturn for fiscal 2008 was prepared by the Ministry of Finance. Based on this data, overall spending was $53,843.6 million and total revenue was $56,660.3 million, yielding a substantially larger overall fiscal surplus of $2,816.7 million. This surplus is $2,777.5 million more than that projected at the time of the preparation of the 2009 budget. Revenue overshot the revised estimates by $4.14 billion while actual expenditure was $1,223.9 million greater than the revised allocation.

Mr. Speaker, total revenue collected in fiscal 2008 was $56,660.3 million which was $4,001,400,000 higher than revised projection estimated at the time of the preparation of the 2009 budget. The positive variance was mainly due to higher than anticipated receipt from taxes on income and profits in the amount of $4,057,7000,000; unemployment levy of $691.1 million; Green Fund in the sum of $111.9 million; royalty on oil, $305.8 million and profits from state enterprises of $166.8 million. These were partially offset by lower than projected receipt from taxes on goods and services to the tune of $250.2 million; taxes on internal trade of approximately $197.9 million and non-tax revenue of $385.5 million.

The better than projected performance of taxes on income and profits was primarily due to improved tax take from oil companies, other companies and individuals of $2,909.8 million, $899.8 million and $242.8 million respectively.

In the case of oil companies, the improved performance resulted from better than projected oil and gas prices which averaged US $83.70 per barrel and US $3.39 per mmcf in the first quarter; US $89.99 per barrel and US $4.47 per mmcf in the second quarter; US $113.91 per barrel and US $3.91 per mmcf in the third quarter and in the fourth quarter, US $110.28 per barrel and US $4.78 per mmcf. These oil and gas prices compared favourably with the original price assumptions of US $50 per barrel and US $3.55 per mmcf used in the preparation of the 2008 budget.

It should be noted that the actualized oil and gas prices of US $110.28 and US $4.78 per mmcf was substantially higher than the US $85 per barrel and US $3.70 utilized to estimate oil and gas revenues for the fourth quarter.

However, when the estimates of revenues from oil companies of $25,625.6 million prepared on September 30, 2008 to determine the deposit into the Heritage and Stabilisation Fund was compared with the actualized oil and gas receipts for 2008 of $25,657.8 million, the variance was a mere $32.2 million.

The higher level of revenue from other companies and individuals which both form part of the category taxes on incomes and profits was influenced by the positive impact of the tax amnesty, which was granted to defaulting taxpayers on taxes due up to and including the year of income 2006. In addition, the positive variance of taxes from other companies was reflective of the extraordinarily high prices of ammonia, urea and methanol.

The positive variance in the unemployment levy, Green Fund and the royalties on oil was influenced by the same factors that accounted for the increase in taxes from oil companies.

In the case of state enterprises, positive variance was caused by higher than anticipated dividends and income from the National Enterprises Limited. The shortfall in the collection of VAT was related to lower than projected domestic sales and imports in the fourth quarter. The lower than projected take from import duties was influenced by the same factors as those which influenced VAT.

In the case of non-tax revenues, the shortfall from share of profits from oil companies was as a result of the profit being deposited in the Consolidated Fund in fiscal 2009 instead of September, 2008.

With respect to administrative fees and charges, the projected earnings from signature bonuses of $282 million did not materialize since the respective contracts were still in the process of being finalized at the end of fiscal 2008.

Mr. Speaker, revised expenditure for fiscal 2008 was projected at $52,691.7 million at the time of the presentation of the 2009 budget, whereas the actual amount spent was $53,843.6 million, reflecting an increase of $1,223.9 million.

Mr. Speaker, the major areas where expenditure was higher than projected were deposits into the Heritage and Stabilisation Fund which was $1,864.4 million higher; transfers to state enterprises, which were $102 million higher primarily because of equity investment in Aluteh; VSEP payments in the Ministry of Health for which an additional sum of $60.7 million was utilized; and interest payments which were more than projected by $160.8 million. This increase in expenditure is attributed to the issuance of more Treasury Bills than was projected.

The impact of the preceding areas in which expenditure was higher than expected was partially offset by lower than projected expenditure in the following areas: personnel expenditure which was $95.5 million lower because of administrative delays experienced with the filling of vacant posts and the non-payment of allowances associated with those posts; other goods and services which is $125 million lower and the development programme for which expenditure was lower by $530.4 million; expenditure under the Consolidated Fund fell short by $283.9 million; and under the Infrastructure Development Fund it was lower by $246.5 million.

With respect to other goods and services, the main reasons for the shortfall in expenditure were:

(1) the non-procurement of furniture and furnishings as well as office equipment by a wide range of ministries and departments;

(2) non-recruitment of contract officers by ministries and departments;

(3) failure by some Members of Parliament to pay arrears to constituency staff and to establish constituency sub-offices as approved by Cabinet; and

(4) a reduction in the use of rent/lease vehicles and equipment by ministries.

It should be noted that of the $53,843.6 million recorded as expenditure in fiscal 2008, $9,163.8 million represented savings, which comprised $6,587.8 million deposited into the Heritage and Stabilisation Fund, and $2,576 million transferred into the Infrastructure Development Fund in 2008, but remained unspent at the end of the fiscal year.

In addition, an overall fiscal surplus of $2,816.7 million was recorded in the fiscal year. Taken together, it means that of the $56,660.3 million collected in revenue by Government in fiscal 2008, $11,980.5 million was saved, and

$44,679.8 million was expended. Government's demonstrated commitment to the Heritage and Stabilisation Fund has already yielded significant, tangible, economic benefits for Trinidad and Tobago.

The Heritage and Stabilisation Fund has been repeatedly cited among the factors responsible for Trinidad and Tobago's improvement in its international ratings. Certainly, our citizens can be comforted in the fact that their future is in safe hands.

Mr. Speaker, before I close, permit me to deal a bit with a legal basis for the activity in which we are engaged here today. The Constitution of the Republic of Trinidad and Tobago makes provision for the submission to Parliament of supplementary appropriations in section 113(3). This subsection specifically states:

"If in respect of any financial year it is found—

(a) that the amount appropriated by the Appropriation Act for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by the Act; or

(b) that any moneys have been expended for any purpose in excess of the amount appropriated for the purpose by the Appropriation Act or for a purpose for which no amount has been appropriated by the Act,

a supplementary estimate showing the sums required or spent shall be laid before the House of Representatives and the heads of any such

expenditure shall be included in a Supplementary Appropriation Bill."

This provision in the Constitution is also used as a legal basis for bringing Bills for variations of appropriation to Parliament when resources are to be moved from one head of expenditure to another.

Mr. Speaker, while dealing with these legal provisions, may I also take the opportunity to clarify the legal basis for the action being

taken by the Government to curtail expenditure in 2009 fiscal year, to levels lower than that approved by Parliament in the Appropriation Act without returning to Parliament.

The Exchequer and Audit Act, Chap. 69:01 anticipating circumstances when government's revenue were lower than projected or circumstances in which other exigencies would occur, made provision for the Minister of Finance to curtail expenditure, as one of the instruments available to him—they say "him" in the legislation—

under the general rubric of Control and Management of Public Finances. In section 5(2), it is specifically stated that:

"Notwithstanding any general or specific authority which may have been given by him, it shall be within the discretion of the Minister to limit or suspend any expenditure charged under any appropriation Act, or by virtue of section 18 and so authorized if in his opinion the exigencies of the financial situation render such limitation or suspension necessary."

For completeness, section 18 deals also with the granting of credits.

May I conclude by reminding hon. Members that the report that we are about to debate deals primarily with the supplementation of the 2008 appropriation and write-off of losses approved by Cabinet in fiscal year 2008.

Mr. Speaker, I beg to move.