

**TURKS AND CAICOS ISLANDS  
FISCAL AND STRATEGIC POLICY STATEMENT  
2013/14 – 2018/19**



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**TURKS AND CAICOS ISLANDS  
FISCAL AND STRATEGIC POLICY STATEMENT  
2013/14 – 2018/19**

## **1. INTRODUCTION**

### **Purpose and Content**

The Fiscal and Strategic Policy Statement (FSPS) sets out the policy and financial parameters the Government intends to use to prepare its Budget for the 2013/14 financial year. The FSPS is strategic and high level in nature. It does not allocate resources to individual expenditure items or specify the particular initiatives the Government intends to pursue; rather the role of the FSPS is to outline, for consideration and approval by the House of Assembly, the strategic parameters on which the Budget for 2013/14 will be based. Detailed information will be contained in the Budget when it is presented to the House of Assembly in June 2013.

The Fiscal and Strategic Policy Statement (FSPS) present a summary of the Turks and Caicos Islands Government broad objectives over the next six financial years.

The FSPS then includes a statement of the Government's economic and fiscal objectives supported by a summary of recent economic statistics, trends and forecasts including GDP and the performance of key sectors.

The statement of government outcomes and economic and fiscal objectives is then followed by an analysis of fiscal performance, including public sector borrowing, accounts receivable and debt. Operating revenues and expenditures, including capital expenditures and debt repayment are projected up to and beyond 2018/19.

## **2. GOVERNMENT OUTCOMES**

The Government's strategic focus is based on delivering the commitments made in the Progressive National Party's (PNP) manifesto and the Public Financial Management Framework Document agreed with the Government of the UK. The Government is committed to delivering on its campaign promises. The Government's mission is to continue designing policies and taking concrete actions to develop our people. To this end the Government will continue to articulate the necessary initiatives that will allow the country to achieve realistic, positive and sustainable goals. The Government aims to bring prosperity to all the people by providing them with opportunities and the tools and resources to capitalize on those very opportunities.

The Government will embrace a higher level of sophistication and maturity in the conduct our affairs both domestically and internationally. Transparency, accountability and respectfulness will be the guiding principles upon which the Government will conduct the affairs of the people.



## TURKS AND CAICOS ISLANDS GOVERNMENT

The Government will continue to effectively utilize the country's human resources, natural resources and economic assets to develop, expand and strengthen the country and economy so that the Turks and Caicos Islands can service national needs while at the same time becoming a strong and competitive force in the regional and international arena. The Government's mission is to ensure that the country and its people are not left behind in this rapidly changing global environment.

It is the Government's intention to build a multi-faceted, diverse, economically strong, world-respected, religious, law-abiding society in which all stakeholders can harmonize and synchronize their efforts in building a great country.

### **Broad Policy Goals**

The following are the Government's broad policy goals:

1. Charting a path to economic prosperity	6. Strengthening of the family unit
2. Institutionalization and maintenance of good governance	7. Enforcement of immigration, labor, and border control policy
3. Educating and empowering all at every stage of development	8. Disaster Management
4. Greater presence and development of culture and national pride	9. Transportation and Communication enhancement
5. Provision of reliable, accessible, affordable, and sustainable high quality healthcare.	10. Sustainable use of natural resources and utilities



### **3. ECONOMIC OVERVIEW**

#### **Introduction**

The domestic economy continues to recover from the drastic contraction in output in 2009. The benefits of this recovery are however unlikely to be felt all that much outside of the island of Providenciales. There are downside risks to continued recovery in the form of the projected muted growth in TCI's major tourism and investor source countries; that is in the US, Canada and the EU. Both the US and Euro area economies face potential fiscal contraction in 2013 as a result of the US "fiscal cliff". High levels of personal household debt may also lead to curtailed economic activity in Canada. The relatively inelastic demand for TCI's high-end tourism may however be somewhat immune to the overall contraction of these source economies.

Achieving renewed economic growth, job creation and the generation of increased public revenues will also depend very much on sustaining domestic policies that support good governance including good financial governance, sound economic management and improving the climate for investment. What follow is a review of recent global, regional and TCI economic performance together with forecasts for 2013 and beyond and a summary of major assumptions.

#### **World Economic Performance and Forecasts**

The IMF reports that the global economy has deteriorated further and it has therefore reduced its growth projections. In its October 2012 World Economic Outlook the IMF states: "The recovery has suffered new setbacks, and uncertainty weighs heavily on the outlook. A key reason is that policies in the major advanced economies have not rebuilt confidence in medium-term prospects. Tail risks, such as those relating to the viability of the euro area or major U.S. fiscal policy mistakes, continue to preoccupy investors. The World Economic Outlook (WEO) forecast thus sees only a gradual strengthening of activity from the relatively disappointing pace of early 2012. Projected global growth, at 3.3 and 3.6 percent in 2012 and 2013, respectively, is weaker than in the July 2012 WEO Update, which was in turn lower than in the April 2012 WEO."<sup>1</sup>

The economic fortunes of the US, Canada and the European Union (EU) are likely to continue to dominate the tourism, financial services and other investment and trade interests of the TCI.

The IMF predicts a modest recovery in the US with weak job creation and a more stable housing market. The US now faces the challenge of avoiding excessive fiscal consolidation in the form of the impending "fiscal cliff."<sup>2</sup> Growth in output in the United States is projected at 2.2% in 2012 and 2.1% in 2013 compared with 2.4% in 2010 and 1.8% in 2011. Inflation is expected to moderate from 3.1% in 2011 to 2.0% in 2012 and to 1.8% in 2013. Unemployment is also expected to fall slightly from 9.0% in 2011 to 8.2% in 2012 and to 8.1% in 2013.

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<sup>1</sup> IMF. World Economic Outlook. October 2012.

<sup>2</sup> The fiscal cliff is a newly coined term referring to the effect of a number of laws which if unchanged could result in tax increases, spending cuts, and a corresponding reduction in the budget deficit beginning in 2013. These laws include tax increases due to the expiration of the so-called Bush tax cuts and spending cuts under the Budget Control Act of 2011.



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Recovery in Canada has been more robust thanks to more favorable financing conditions and the commodity boom. However, further expansion is expected to be modest. Projected annual output growth for Canada is expected to fall from 3.2% in 2010 and 2.4% in 2011 to 1.9% in 2012 and 2.0% in 2013. Growth in Canada has been constrained by the sluggish expansion in the US. The main risks facing Canada lie in high house prices and the levels of personal household debt. Inflation is projected to fall from 2.9% in 2011 to 1.8% in 2012 and 2.0% in 2013. Levels of unemployment should remain comparatively static at 7.5% in 2011, and 7.3% in both 2012 and 2013.

Financial stress in the Euro area has increased with recession spreading. Growth in the Euro area is also projected to fall, from 2.0% in 2010 and 1.4% in 2011 to a contraction of -0.4% in 2012 and weak growth of 0.2% in 2013. Inflation in the Euro area is projected to fall from 2.7% in 2011 to 2.3% in 2012 and to 1.6% in 2013. Unemployment is expected to remain high, increasing from 10.2% in 2011 to 11.2% in 2012 and 11.5% in 2013.

### **TCI Economic Performance and Forecasts for FY 2013/14**

The TCI economy remains dependent on a few industries; that is, tourism and associated service industries and financial services. Commercial activity has also been concentrated in recent decades on the island of Providenciales leading to an imbalance in economic activity. The nature of economic growth and the import of labour, especially in the decade to 2009, have also led to the position where indigenous islanders are a minority in their own country. As other countries have experienced, whether in terms of business ownership or employment, a key concern is that indigenous islanders have commonly missed out on the benefits of foreign investment.

The economy of the TCI has two major components; one a more modern, dynamic, open and international economy consisting of a Providenciales-based economy of mostly high-end tourism and ancillary industries that is closely linked through public revenue, policy and expenditure to the public sector “economy”, largely based on Grand Turk. The other, second component to the TCI economy, is that of the remainder of the islands where, with the exception of a few isolated and exclusive high-end tourist resorts, other industries such as agriculture and fisheries have struggled to develop and create domestic economic activity.

A new investment policy was approved by the Governor in September 2012. The specific objectives of the new “Investment Policy 2012” are to: (i) Attract long-term growth oriented investment that is aimed at creating local jobs and other local value-added to the economy of the TCI; (ii) Pro-actively draw appropriate investment to the country that stimulates the economies of the lesser-developed Family islands; (iii) Pro-actively draw investment to the country that creates new industries; (iv) Attract investment to the TCI that otherwise meets the development priorities of the country; (iv) Operate a regulated system of investment incentives that is clear, transparent and relatively easy to operate, including monitoring for compliance; and (v) Continue to reduce the cost of doing business and improve the regulatory and other environment for all investment in the TCI.

The cost of doing business in the TCI is considered to be comparatively high by regional as well as global standards. While the high-end tourism that has developed on the island of Providenciales may be somewhat immune to the relatively high cost of business operations the same level of costs will tend to deter other investments and the diversification of the economy.



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TCI achieved comparatively high rates of economic growth, commonly in double digits, in the decade leading up to the economic crisis of 2007 to 2008. Annual growth in current prices ranged from a low of 2.22% in 2002 to almost 25% in 2006. The crisis resulted in a contraction and loss of output of measured as a fall in GDP of 19.6% in real, constant prices in 2009. Growth in output has since recovered though at comparatively modest levels by TCI standards.

TCIG has not produced statistics on consumer price indices in recent years. However, inflation is assumed to track that of TCI's major trading partners in North America. Visible trade remains in negative balance reflecting the nature of the service economy. A table on key economic indicators follows.

**Table 1**  
**Key Economic Indicators**

Per capita GDP (2011, current market prices): US\$ 23,107

Year	2006	2007	2008	2009	2010	2011
GDP constant prices (US \$m)	568.1	600.2	649.8	522.8	527.9	549.6
GDP (constant prices) growth	17.9	5.6	8.3	(19.6)	1.0	4.1
GDP current prices (US \$m)	721.9	773.5	862.7	703.2	686.8	726.9
GDP (current prices) growth	24.5	7.1	11.5	(18.5)	2.3	5.8
Fiscal balance/GDP (%)	2.4	0.4	(3.3)	(4.9)	(4.5)	(8.7)
Inflation rate (period average, %)	2.9	3.7	7.9	4.1	3.2	5.2
Balance of Visible Trade (US \$m)	(480.0)	(564.0)	(566.0)	(355.0)	(286.0)	(302.0)

% of GDP in current market prices for each year

### Economic Assumptions and Forecasts for FY 2013/14 and beyond

The IMF WEO projects continued modest economic growth in the US and Canada with a contraction of output in the EU. However, assuming sustained good governance, sound economic policy and management and a move toward a more open environment for commerce and trade in the TCI, private sector investment is expected to increase leading to a return to growth in output.

It will likely take some years for TCI to return to the higher rates of growth of the 1990s and early 2000s. There is however some grounds for optimism; that is, (i) an anticipated recovery of some of the lost capacity and output; (ii) the recent substantial interest in private investment; and (iii) anticipated improved policy in support of a better climate for investment.

The major tourism, stop over non-resident visitors are projected to grow from 377,172 in 2012 to over 413,000 by 2017. GDP (in basic, current prices) is forecast to increase from an estimated \$ 669 million in 2012 to \$ 939.5 million in 2017. These estimates are expected to lead to total government revenues expanding from \$187 million in 2011 to 227 million by 2017 and to a net fiscal situation improving from a deficit in 2011 to a surplus of over \$30 million in 2017.



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**Table 2**  
**Macroeconomic Projections**

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Stop-over non residents	391,662	407,919	418,655	418,414	413,597
GDP \$m at basic prices (Current Prices)	710.5	759.8	817.2	874.1	939.5
GDP \$m at basic prices (Constant Prices)	516.4	542.5	573.3	602.7	636.6
Growth in GDP at basic prices	4.2	5	5.7	5.1	5.6
Total Government Revenue, \$m	239.9	210.5	224.2	229.7	227.0
Fiscal Surplus, \$m	56.4	13.0	26.3	31.8	30.6
Outstanding Debt, \$m	292.4	276.3	240.4	197.5	156.5

Downside risks to such projections are: (i) society's lack of acceptance of a more open environment for investment and business; (ii) the narrow and vulnerable nature of the TCI economy; (iii) the particular sensitivities of tourism revenues to health, weather, security and other personal risks; (iv) the continued strength of alternate financial services centers; and (v) continued and possibly greater international controls over the financial services industry.

## 4. AGGREGATE FINANCIAL TARGETS

This section specifies the aggregate financial targets for the Government established by Cabinet for the preparation of the 2013/14 Budget and the financial targets for the 2014/15 through 2018/19 financial years. The targets for 2014/15 to 2018/19 provide a planning guide for the Government and will be updated in subsequent FSPS documents in light of changes to the financial position of the government and/or policy priorities.

This section also outlines the fiscal strategy and rationale on which the aggregate financial targets are based as well as explaining how these targets comply with the Principles of Responsible Financial Management (the Principles) specified in the FFD.

### The Government's Fiscal Strategy

The Government's fiscal strategy continues to be similar to that outlined in the 2012/13 Budget. This strategy is centred on the primary goal of keeping the Government's finances compliant with the Principles of Responsible Financial Management and consists of the following five main components:



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## Strategy 1: Controlling Government Expenditure

The Government is taking definitive steps to control expenditure in a prudent and rational manner. The Government has commissioned an extensive review of public sector entities aimed at reducing the rate of cost increases for the delivering of services to the public.

According to the new constitution the Minister of Finance shall ensure that all contingent liabilities of the Government, including pension and healthcare liabilities, are subjected to independent actuarial assessment at least every two years, and shall report the information provided by any such assessment to the House of Assembly within two months of receiving it.

**Table 3**  
**Forecast Operating Expenditure**

	Forecast Based on Actual 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
<b>Recurrent Expenditure</b>							
Personnel Costs	51,822	61,146	61,896	61,896	63,134	63,134	63,134
Pension and Gratuity	5,529	5,529	5,529	5,529	5,664	5,799	5,934
Provision for investment in milestones	6,238	0	0	0	0	0	0
Transfers to NHIB	18,222	18,222	18,769	19,332	19,803	20,275	20,747
Hospital Provisional Charges	24,295	24,295	25,024	25,775	26,403	27,032	27,662
Subventions	6,399	5,599	5,599	5,599	5,736	5,872	6,009
Rental of Assets	4,980	5,180	5,085	4,968	4,967	4,965	4,965
Other expenditure	29,008	46,298	47,528	48,769	49,857	50,936	52,010
<b>Total Recurrent Expenditure</b>	<b>146,493</b>	<b>166,269</b>	<b>169,430</b>	<b>171,868</b>	<b>175,565</b>	<b>178,013</b>	<b>180,461</b>
<b>Annual per cent Recurrent Expenditure increase</b>		<b>13.50%</b>	<b>1.90%</b>	<b>1.44%</b>	<b>2.15%</b>	<b>1.39%</b>	<b>1.38%</b>
	Forecast based on Q3 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
<b>Non-Recurrent Expenditure</b>							
Civil Recovery	7,382	4,200	3,000	2,000	0	0	0
SIPT recovery	6,614	5,000	4,000	3,000	0	0	0
Outstanding Bills	1,384	0	0	0	0	0	0
Debt service, interest and fees	7,274	7,520	7,035	6,677	5,005	3,901	2,855
<b>Total Non-Recurrent Expenditure</b>	<b>22,654</b>	<b>16,720</b>	<b>14,035</b>	<b>11,677</b>	<b>5,005</b>	<b>3,901</b>	<b>2,855</b>

This FSPS establishes clear targets for operating expenditure over the course of the next six financial years.

Recurrent Expenditure growth rates are assumed at a net of 13.5% for 2013/14 due primarily to the 10% salary reinstatement in 2013/14. Actual recurrent expenditure growth rates are assumed at 1.90% for 2014/15 and 1.44% 2015/16.

Personnel cost is estimated at 32.4% of recurrent revenue in 2013/14, 28.7% of recurrent revenue in 2015/16 and about 26.6% in 2018/19. In order to achieve these targets, net growth in personnel costs will be accompanied by reductions in other operating expenses. Critical to these adjustments is to ensure that there is no compromise with the delivery and efficiency of public service.

Embedded in the operating expenditure forecast is a general contingency provision of \$5.0 million for each year covered by the FSPS.



## ***Strategy 2: Management of Public Debt***

In March 2011 the UK Government finalized a US\$260 million loan guarantee package to cover a period of government operations ending in 2016. The outstanding debt is currently US\$179 million on this facility. The TCI Government intends to ensure outstanding debt can be refinanced independently, affordably and sustainably when the guarantee period ends.

The new constitution sets a number of general principles for public financial management. These principles assert that the Government shall, after public consultation in the Islands, formulate a framework document stating its principles of public financial management which sets: (i) limits on levels of public debt relative to public revenue; (ii) limits on debt service costs as a proportion of total public expenditure; and (iii) levels of reserves relative to public expenditure.

The Fiscal Framework Document (FFD) that has been agreed with the Secretary of State states that unless in exceptional circumstances different arrangements are agreed in writing by the TCIG and the Secretary of State, the TCIG will borrow only to fund capital expenditure where: (i) The proposed project is forecast to yield sufficient revenues to fund the additional debt service costs; or (ii) The Government can demonstrate that it has sufficient surplus operating cash flows to fund the additional debt service costs which arise from borrowing to finance such capital expenditure. It further states that the TCIG will give preference to borrowing from concessional lenders that should ensure that the lender's expertise is brought to projects.

Further, according to the FFD, the level of debt must be affordable and consistent with the delivery of macroeconomic and fiscal sustainability and financial stability in the short, medium and long term. To this end, the TCIG must: (i) Comply with certain borrowing limits within specified dates specified; (ii) Remain in compliance with the borrowing limits subsequent to the dates specified or such earlier date by which compliance is achieved; and (iii) Put in place arrangements to repay loan principal.

The Secretary of State has set specific debt reduction targets by certain deadlines. For instance, net debt as a ratio to annual operating revenue must not exceed a maximum of 110% by 2015/16. Also, net debt as a percentage of annual operating revenue must not exceed 80% by 2018/19, while maintaining debt service at a maximum of 10% of annual operating revenue and liquid assets at least 25% of annual operating expenditure.

In line with the Public Finance Management (PFM) Ordinance 2012, a Sinking Fund has been established for the purpose of paying down the public debt. Revenue for the Fund is from two sources: civil recovery and budget surpluses. The former is credited to the Fund upon receipt while the latter goes in to the Fund, at the end of the financial year.

The Government recognizes the significance of managing public debt in order to keep it at credible and sustainable levels. Therefore, one of its major policy decisions is to avoid borrowing to fund capital investment and operating expenses over the period under review. Instead the Government seeks to maximise operating surpluses and to pursue other initiatives for financing.

This FSPS forecasts a repayment of \$170 million of the bond in 2015/16 and the acquisition of new financing of \$85 million, at an interest rate of 5% per annum; amortized and repayable over 5 years from operating surpluses. No further amounts were assumed to be transferred to the Sinking Fund because the new loan is being paid in the normal course of operations.



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Table 4 above shows the Government's individual debt accounts amounting to a total of \$397.8 million as of March 31, 2013. It should be noted that TCInvest's loans, which were previously classified as contingent liabilities, now form part of TCIG's total debt. According to the figures above, TCInvest loans amount to 3.5% or \$12.14 million of TCIG's total debt. It should be noted also that all loan payments are up to date and all loan covenants are being observed.

**Table 4**  
**Statement of Public Sector Borrowings**

Original Lenders	Loan Balance March 31, 2013	Currency	Original Date of loan	Maturity Date	Interest Rate
CDB Loan #4 Further Education	2,093,584	US\$	7/1/2003	4/1/2028	2.50%/ 3.61%
Scotia Bank Short Term Loan	9,000,000	US\$	6/1/2011	2/1/2016	0.75%
HSBC Bonds Issued	170,000,000	US\$	4/1/2011	2/1/2016	3.20%
Citi Bank Commercial loan	3,958,213	US\$	11/1/2002	11/1/2017	8.75%
RBTT Loan 2006-2018	3,888,889	US\$	3/1/2006	3/1/2018	7.98%
RBTT Loan 2004-2015	4,888,889	US\$	10/1/2004	10/1/2014	2.95%
TCI Bank Limited Infrastructure	5,200,000	US\$	11/1/2006	11/1/2020	8.00%
TCI Bank Limited Infrastructure	3,541,667	US\$	5/1/2006	5/1/2021	7.50%
Caribbean Development Bank (CDB) #11	64,380	US\$	7/1/2007	4/1/2015	2.50%
Caribbean Development Bank (CDB) #12	420,307	US\$	10/1/2009	1/1/2020	4.00%
CDB - National Disaster	404,261	US\$	10/1/2009	10/1/2019	2.50%
TCIAA - First Caribbean International Bank	67,200,000	US\$	7/1/2012	7/1/2018	6.00%
TCInvest - NIB loan 1	225,000	US\$	9/20/1997	9/30/2017	4.75%
TCInvest - NIB loan 2	600,000	US\$	2/24/2005	3/31/2026	5.00%
TCInvest - NIB loan 3a	449,146	US\$	12/31/2005	3/31/2026	5.00%
TCInvest - NIB loan 3b - Commercial loans	587,746	US\$	3/31/2005	3/31/2018	6.00%
TCInvest - NIB loan 3c - Educational loans	769,138	US\$	12/31/2009	12/31/2017	5.00%
TCInvest - EIB	34,435	US\$	5/25/2004	5/25/2016	2.00%
TCInvest - EIB	58,014	US\$	5/25/2004	5/25/2016	2.00%
TCInvest - EIB	111,755	US\$	5/25/2003	5/25/2016	6.00%
TCInvest - EIB	153,431	US\$	5/25/2004	5/25/2016	6.00%
TCInvest - EIB	290,495	US\$	5/25/2004	5/25/2016	6.00%
TCInvest - EIB	44,546	US\$	5/25/2004	5/25/2016	6.00%
TCInvest - EIB	115,383	US\$	5/25/2005	5/25/2016	6.00%
TCInvest - EIB	220,923	US\$	5/25/2005	5/25/2016	6.00%
TCInvest - EIB	268,599	US\$	5/25/2006	5/25/2016	6.00%
TCInvest - CDB 1SFR	283,393	US\$	6/21/1989	1/10/2019	2.00%
TCInvest - CDB 2SFR	143,739	US\$	6/30/1995	1/10/2018	2.00%
TCInvest - CDB 2SFR	24,998	US\$	4/11/1989	1/10/2013	3.61%
TCInvest - CDB 3SFR	676,667	US\$	12/31/1996	1/4/2020	3.61%
TCInvest - CDB 3SFR	109,649	US\$	12/31/1996	1/4/2016	2.00%
TCInvest - CDB 5SFR	30,450	US\$	11/9/2000	1/4/2018	2.50%
TCInvest - CDB 5SFR	416,746	US\$	11/9/2000	1/7/2016	2.50%
TCInvest - CDB 5SFR	871,398	US\$	11/9/2000	1/7/2017	3.61%
TCInvest - CDB 5SFR	518,672	US\$	11/9/2000	1/7/2019	3.61%
TCInvest - CDB 6SFR	2,623,182	US\$	12/6/2006	1/7/2027	3.61%
TCInvest - CDB 6SFR	1,400,944	US\$	12/6/2006	1/7/2027	4.00%
TCInvest - CDB 9SFR	1,107,672	US\$	5/11/1998	1/4/1931	2.50%
PPP - Hospital debt - various lenders	115,000,000	US\$	7/1/2009	7/1/2029	various rates
<b>Total Government Debt</b>	<b>397,796,312</b>	US\$			



**Strategy 3: Revenue Enhancement**

The third element of the Government’s fiscal strategy relates to the development and implementation of a more stable and sustainable revenue base for the Government.

Continuing the efforts commenced by the previous administration, the government will explore suitable options for new revenue streams. The government intends to start the process of enhancing its revenue structure and to improve on the mechanisms of revenue collection in 2013/14. As such, Table 5.1 shows a number of new and enhanced revenue streams with their accompanied charges; all of which will start this fiscal year with the exception of the property levy slated for April 2014.

It should be noted that the revenue forecast of these new revenue measures were modelled very prudently. For instance, the 9-month forecast for the increase in Accommodation Tax in 2013/14 is discounted at 50 % and the General Services Tax is discounted at over \$300,000 in that same period. Overall, the revenue contingency for the period 2013-14 is over \$3 million. These contingencies continue to show signs of increase when the new measures take full effect from 2014/15.

**Table 5.1  
Forecast Operating Revenue**

	Forecast Based on Actual 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
<b>Recurrent Revenue</b>							
Import Duty	48,319	50,735	53,272	55,935	57,300	58,664	60,031
Accommodation Tax	34,009	36,709	38,545	40,472	41,460	42,446	43,435
Customs Processing Fee	18,877	19,821	20,812	21,852	22,386	22,918	23,452
Stamp Duty on land transactions	13,928	15,124	15,881	16,675	17,082	17,488	17,896
Work Permits and Residency Fees	10,847	11,639	12,221	12,832	13,145	13,458	13,772
Fuel Tax	6,909	7,254	7,617	7,998	8,193	8,388	8,584
Business License renewal	2,531	2,958	3,105	3,261	3,340	3,420	3,499
Accommodation Tax - Rate increase of 1% as of July 1, 2013	0	1,160	2,480	2,604	2,668	2,731	2,795
General Services Tax of 6% - As of October 1, 2013	0	900	1,800	1,890	1,936	1,982	2,028
Communication Tax on Cable & Internet - As of October 1, 2013	0	806	1,440	1,512	1,549	1,586	1,623
Temporary Drivers License of \$30 - As of October 1, 2013	0	255	536	563	576	590	604
Customs Duty based on CIF - July 1, 2013	0	3,213	4,498	4,723	4,838	4,953	5,069
Customs Processing Fees based on CIF - July 1, 2013	0	1,285	1,799	1,889	1,935	1,981	2,027
Property Levy - April 1, 2014	0	0	1,500	1,875	1,921	1,966	2,012
Other recurrent revenues	35,871	36,571	38,400	41,320	44,328	49,383	50,533
<b>Total Recurrent Revenue</b>	<b>171,291</b>	<b>188,431</b>	<b>203,905</b>	<b>215,401</b>	<b>222,657</b>	<b>231,956</b>	<b>237,360</b>
<b>Annual per cent Recurrent Revenue increase</b>		<b>10.01%</b>	<b>8.21%</b>	<b>5.64%</b>	<b>3.37%</b>	<b>4.18%</b>	<b>2.33%</b>
<b>Non-Recurrent Revenue</b>							
Land Sale Receipts	11,194	3,000	3,000	3,000	3,000	3,000	3,000
NIB Revenue	6,150	1,000	300	300	300	300	300
EU Grants & Other Grants	12,594	4,000	6,000	5,000	0	0	0
Civil Recovery Program	28,177	5,000	5,000	2,500	0	0	0
SIPT Recovery	2,000	8,000	5,000	2,500	0	0	0
Sale of Shares	7,500	0	0	0	0	0	0
Other Receipts	1,024	1,024	1,024	1,024	1,024	1,024	1,024
<b>Total Non-Recurrent Revenue</b>	<b>68,639</b>	<b>22,024</b>	<b>20,324</b>	<b>14,324</b>	<b>4,324</b>	<b>4,324</b>	<b>4,324</b>
<b>Total Revenue</b>	<b>239,930</b>	<b>210,455</b>	<b>224,229</b>	<b>229,725</b>	<b>226,981</b>	<b>236,280</b>	<b>241,684</b>
<b>Annual per cent Total Revenue increase/-decrease</b>		<b>-12.28%</b>	<b>6.54%</b>	<b>2.45%</b>	<b>-1.19%</b>	<b>4.10%</b>	<b>2.29%</b>



## TURKS AND CAICOS ISLANDS GOVERNMENT

Table 5.1 shows positive increases in both recurrent revenue and total revenue in general. The exception is a decline in total revenue in 2013/14 by 12.28% due mainly to a sharp expected decline in Civil Recovery and Grants. A slight decline of 1.19% in total revenue for 2016/17 is forecasted as a result of the expiration of major non-recurrent revenues.

It should be noted that the FFD revenue projections are taken from the Framework Document agreed between the Secretary of State and TCIG, signed by the Governor in September 2012. The current Ministry of Finance (MOF) projections update the profile assumed in the Framework Document, to include optimistic assumptions on the level of civil recoveries and other recurrent revenue.

Revenue growth rates for the existing revenue streams are assumed to average around 5% for the next three years, with the positive effects of any new revenue enhancing measures being reflected in FY 2014/15 and FY2015/16.

Actual revenue and expenditure growth rates before adjustments for new revenue initiatives are assumed to be 2.44% for 2016/17, 2.38% for 2017/18 and 2.33% for 2018/19.

**Table 5.2**  
**Revenue Contingency Forecast**

<b>Discounted New Revenue Forecast</b>	<b>Forecast 2013/14</b>	<b>Forecast 2014/15</b>	<b>Forecast 2015/16</b>	<b>Forecast 2016/17</b>	<b>Forecast 2017/18</b>	<b>Forecast 2018/19</b>
Accommodation Tax - Rate increase July 1, 2013	1,160	2,480	2,604	2,668	2,731	2,795
General Services Tax - October 1, 2013	900	1,800	1,890	1,936	1,982	2,028
Communication Tax - October 1, 2013 (Cable & internet)	806	1,440	1,512	1,549	1,586	1,623
Temporary Drivers License - October 1, 2013	255	536	563	576	590	604
Customs Duty based on CIF - July 1, 2013	3,213	4,498	4,723	4,838	4,953	5,069
Customs Processing Fees based on CIF - July 1, 2013	1,285	1,799	1,889	1,935	1,981	2,027
Property Levy - April 1, 2014	0	1,500	1,875	1,921	1,966	2,012
	<b>7,619</b>	<b>14,053</b>	<b>15,056</b>	<b>15,423</b>	<b>15,790</b>	<b>16,158</b>
<b>New Revenue Forecast before discount</b>	<b>Forecast 2013/14</b>	<b>Forecast 2014/15</b>	<b>Forecast 2015/16</b>	<b>Forecast 2016/17</b>	<b>Forecast 2017/18</b>	<b>Forecast 2018/19</b>
Accommodation Tax - Rate increase July 1, 2013	2,325	3,100	3,255	3,334	3,414	3,493
General Services Tax - October 1, 2013	1,236	2,595	2,725	2,791	2,858	2,924
Communication Tax - October 1, 2013 (Cable & Internet)	1,008	1,800	1,890	1,936	1,982	2,028
Temporary Drivers License - October 1, 2013	510	1,071	1,125	1,152	1,179	1,207
Customs Duty based on CIF - July 1, 2013	4,284	5,998	6,297	6,451	6,604	6,758
Customs Processing Fees based on CIF - July 1, 2013	1,285	1,799	1,889	1,935	1,981	2,027
Property Levy - January 1, 2014	0	2,500	3,125	3,201	3,277	3,354
	<b>10,648</b>	<b>18,863</b>	<b>20,305</b>	<b>20,801</b>	<b>21,296</b>	<b>21,792</b>
<b>Revenue Contingency</b>	<b>3,029</b>	<b>4,811</b>	<b>5,250</b>	<b>5,378</b>	<b>5,506</b>	<b>5,634</b>
<b>Cumulative Revenue Contingency</b>	<b>3,029</b>	<b>7,839</b>	<b>13,089</b>	<b>18,467</b>	<b>23,973</b>	<b>29,607</b>



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Table 5.2 shows the value of the new tax initiatives that is included in the overall revenue forecast. These new measures will generate \$7.6 million in 2013/14 and \$15.0m in FY2015/16 when the full effect of their implementation will be realized.

The information at the bottom of the table, labelled “new revenue forecast before discount”, shows the amount that the models developed by the Ministry of Finance determined would be collectable for each of these revenue items. It indicates that these new measures could result in additional revenue of \$10.6 million in FY2013/14 and up to \$20.3 million in 2015/16, when the full effect of their implementation will be realized.

To be prudent however, we have included the discounted forecast in the FSPS, with the understanding that there could be a revenue contingency of \$3.0 million in FY2013/14 and \$5.3 in FY2015/16. The potential accumulated revenue contingency for the three year period up to FY2015/16 is \$13.1 million.

### ***Strategy 4: Financial Improvement of Statutory Authorities and Government Companies***

The fourth element of the Government’s fiscal strategy is to minimise losses within Statutory Authorities and Government Companies and reduce the level of operational and capital support required from core Government over the next six years. The Government is committed to working with the relevant Boards to implement appropriate policy actions necessary to realise this goal. Options being explored include mergers, closing and transferring services to one of the exiting ministries, totally discontinuing some operations and possibly outsourcing, where some services may even be secured from the private sector at more competitive rates.

### ***Strategy 5: Public Private Partnerships***

The fifth element of the Government’s fiscal strategy relates to the need for on-going development of our country’s infrastructure in order to support economic development. The Government will continue to seek partnership with qualified third party entities for the development of large capital projects, subject prior to approval of the SOS.

The primary objective of this strategy is to minimise the financial burden of these developments on the public purse while simultaneously creating economic opportunities. The aim of this kind of arrangement is to shift the financial risk to the private sector while assisting the development of public infrastructure.

The Framework Document states that Public Private Partnerships (PPP) or any other form of alternative financing will not be considered by TCIG for: (i) Projects with a lifetime value of less than \$15 million and therefore too small to justify the transaction costs; or (ii) Projects where the fast pace of change in the sector makes it difficult to effectively define the outputs it requires in a long term contract (such as Information and Communication Technology projects). All proposed capital projects with an expected lifetime value of \$5 million or more will be incorporated in the published FSPS, and appraisals will be published for public consultation prior to procurement.

The capitalised value of all alternative financing transactions (including PFI/PPP arrangements) that will place future financial obligations (in terms of increased expenditure or reduced revenue) on the Turks and Caicos Islands Government will be recorded by the government as public debt.



# TURKS AND CAICOS ISLANDS GOVERNMENT

## Statement of Fiscal Performance – (Previous Two Financial Years)

**Table 6.1  
Actual Revenue by Ministry- FY2010/11**

Ministry Reveue FY 2010/11	Budget (\$'000)	Actual (\$'000)	Variance (\$'000)
Office of the Governor	-	-	-
Office of the Public Service Commission	45	67	22
Police	35	41	6
Attorney General's Chambers	6	5	(1)
Judiciary	800	266	(534)
Audit Office	10	-	(10)
Office of the Premier and Ministry of Tourism, Trade, Investment and District Administration	-	-	-
Office of the Deputy Premier and Ministry of Finance, National Insurance and Economic Planning	95,716	84,899	(10,817)
Ministry of Natural Resources, Fisheries and the Environment	15,662	10,431	(5,231)
Ministry of Housing, Agriculture, Works and Telecommunications	1,268	874	(393)
Ministry of Education, Youth, Sports and Culture	1,233	509	(724)
Ministry of Home Affairs and Public Safety	2,450	2,311	(139)
Ministry of Health and Human Services	2,160	136	(2,024)
Ministry of Trade, Tourism and Communications	18,910	7,819	(11,091)
Ministry of Border Control and Labour	16,851	13,480	(3,371)
<b>TOTAL ALL MINISTRIES/DEPARTMENTS</b>	<b>155,145</b>	<b>120,838</b>	<b>(34,306)</b>

Total revenue for the year was \$120.8m a negative variance of \$34.3m against the budget. One of the largest variances occurred in the Ministry of Trade, Tourism and Communications which reported revenues \$11.1m below budget. Office of the Deputy Premier and Ministry of Finance, National Insurance and Economic planning had a negative variance of \$10.8m and Ministry of Natural Resources, Fisheries and the Environment reported negative variances of \$5.2m. Ministry of Border Control & Labour also incurred shortfalls, a reported variance of \$3.4m below the budget. Most of these shortfalls were due to the overall world wide economic recession, after the financial meltdown in 2009, to which the country was not insulated.

FY 2010/11 variations from the budget can be attributed to the underperformance on revenues in all government ministries. In the Ministry of Trade, Tourism & Communications, revenues shortfalls in Communications Tax, Telecommunication Licenses and spectrum fees, came in \$6.7m below budget.

In the Ministry of Finance & Economic Planning, revenues from Import Duties fell \$8.8m below budget, while other revenue items such as Business License Renewals and Gaming Machine Tax each fell \$1.0m below budget. Revenues for Stamp Duty on Land transactions under the Ministry of Natural Resources, Fisheries and The Environment came in \$4.3m below budget.

Under the Ministry of Border Control & Labor, work permit and residency fee revenues were \$2.5m below budget, as well as revenues on stamp duty miscellaneous and Labor Clearance Fees, together reporting \$0.7m below estimates.

Year 2010 – 2011 was a difficult financial year globally as world markets experienced shortfalls in consumer spending and overall revenues. Turks & Caicos was not immune to the challenges experienced throughout world markets as we see from the end of year results, which reports a negative variance \$34.3m against budget.



# TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 6.2**  
**Actual Expenditure by Ministry – FY2010/11**

<b>Ministry Expenditure FY 2010/11</b>	<b>Budget (\$'000)</b>	<b>Actual (\$'000)</b>	<b>Variance (\$'000)</b>
Office of the Governor	12,103	13,367	(1,264)
Office of the Public Service Commission	5,061	4,356	706
Police	18,626	15,791	2,835
Attorney General's Chambers	1,992	1,951	41
Judiciary	2,280	2,091	189
Audit Office	620	517	102
Office of the Premier and Ministry of Tourism, Trade, Investment and District Administration	-	62	(62)
Office of the Deputy Premier and Ministry of Finance, National Insurance and Economic Planning	8,424	10,656	(2,232)
Ministry of Environment and District Administration	5,541	4,899	642
Ministry of Housing, Agriculture, Works and Telecommunications	10,938	10,419	519
Ministry of Education, Youth, Sports & Culture	30,934	29,369	1,564
Ministry of Home Affairs and Public Safety	9,708	8,552	1,156
Ministry of Health and Human Services	43,986	57,594	(13,608)
Statutory and Other Charges	17,440	18,852	(1,412)
Ministry of Trade, Tourism and Communications	7,870	13,350	(5,480)
Ministry of Border Control and Labour	6,112	6,301	(189)
<b>Total All Ministries and Departments</b>	<b>181,634</b>	<b>198,127</b>	<b>(16,492)</b>

Total expenditure for the year 2010/11 was \$198.1m, an overspend of \$16.5m above the budget. One of the largest variance in excess expenditure is \$13.6m spent in the Ministry of Health & Human Services. Ministry of Trade, Tourism and Communication and Ministry of Finance, National Insurance & Economic Planning also had excess expenditures of \$5.5m and \$2.2m respectively.

Historic liabilities such as payments for Overseas treatment of patients and outstanding medical bills to both Grand Turk Hospital & Myrtle Rigby contributed \$9.8M to the excess expenditure under the Ministry of Health & Human Services. Excess expenditures also took place in salaries, wages and overtime costs. TCIG remitted budgeted transfers of \$1.0m per month to National Health Insurance Board. This amount was budgeted to cover the cost of Treatment Abroad and also contributions for wards of the state. However, this is in addition to the amount paid directly to ICL on behalf of NHIB to cover clinical costs.

Excess Expenditures in the Ministry of Finance, National Insurance & Economic planning derived from \$3.04M in claims against the government. In the Ministry of Trade Tourism and Communication a subvention of \$3.1M above the original budgeted was given to the Tourist Board. A subvention to Ports Authority increased by \$0.7M from the budgeted subvention of \$1M. Subvention payments have exceeded the budget during the entire financial year as the budget accounted for a 25% reduction in SB cost due to the statutory body reform which was significantly delayed during the financial year, hence the justification for the over expenditure.



## TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 6.3**  
**Actual Revenue by Ministry – FY2011/12**

<b>Ministries Revenue FY 2011/12</b>	<b>Budget (' \$000)</b>	<b>Revenue (' \$000)</b>	<b>Variance (' \$000)</b>
Office of the Governor	-	1,311	1,311
Office of the Public Service Commission	70	68	(2)
Police	54	83	29
Attorney General's Chambers	5	8	4
Judiciary	585	632	47
Audit Office	10	-	(10)
Office of the Premier and Ministry of Tourism, Trade, Investment and District Ad	-	-	-
Office of the Deputy Premier and Ministry of Finance, National Insurance and Eco	111,659	116,938	5,279
Ministry of Natural Resources, Fisheries and the Environment	10,520	16,493	5,974
Ministry of Housing, Agriculture, Works and Telecommunications	1,165	982	(183)
Ministry of Education, Youth, Sports and Culture	1,027	417	(611)
Ministry of Home Affairs and Public Safety	3,210	3,256	46
Ministry of Health and Human Services	86	93	7
Ministry of Trade, Tourism and Communications	20,493	15,300	(5,193)
Ministry of Border Control and Labour	18,188	15,457	(2,731)
<b>TOTAL ALL MINISTRIES/DEPARTMENTS</b>	<b>167,071</b>	<b>171,037</b>	<b>2,685</b>

FY 2011/12 reported yearend revenues of \$171m, \$2.7m above budget. The Highest reporting revenues for the year came from the Ministry of Natural Resources, Fisheries and the Enviroment who reported revenues of \$6.0M above buget. Revenues in the Ministry of Finance, National Insurance and Economic Planning were \$5.3 million above budget, While revenues in the Ministry of Trade Tourism & Commications reported revenues \$5.2M below budgets.

In the first quarter of 2011/12, many factors threated the Ministry of Trade, Tourism & Communication, such as the Fire Officers strike in April which closed the Providenciales International Airport for a day or so, causing flights to be rerouted and passengers rebooked at later dates and the Noro Virus in May/June which also resulted in passengers being rebooked for later dates and some hotels being closed. However, excess revenues earned from Accommodation Tax, which reported revenues \$6.0m above budget, as well as revenues from Customs Processing Fees which reported revenues \$2.6M above budget after a rate increase from 4% to 6%, helped to offset some of the loses incurred from other ministry revenue shortfalls.

Revenues from the Ministry of Border Control & Labor also performed under budget by \$2.7m. Work Permit Fees have struggled during FY 2011/12 primarily due to the late implementation increased fees which only took effect in December 2012. The world economic downturn can also be credited to the decrease in workpermit revenues. Many projects and investments in the Turks & Caicos which would have required people obtaining workpermits, have been put on hold due to financial restraints many of the investors are facing. The Ministry of Border Control & Labor has added pressure because of the scarcity of Jobs in todays economy. The Labour Deparments is being pressured to meet revenue demands from workpermits fees, as well as meeting the demands of having to give Turks & Caicos Islanders preference for available jobs over persons requiring workpermits.



# TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 6.4**  
**Actual Expenditure by Ministry – FY 2011/12**

<b>Ministry Expenditure FY 2011/12</b>	<b>Budget (\$'000)</b>	<b>Actual (\$'000)</b>	<b>Variance (\$'000)</b>
Office of the Governor	12,987	15,685	(2,697)
Office of the Public Service Commission	3,489	3,556	(67)
Police	15,691	15,903	(213)
Attorney General's Chambers	1,842	2,022	(180)
Judiciary	2,442	2,494	(52)
Audit Office	552	467	85
Office of the Premier and Ministry of Tourism, Trade, Investment and District Administration	-	65	(65)
Office of the Deputy Premier and Ministry of Finance, National Insurance and Economic Planning	6,818	7,945	(1,128)
Ministry of Environment and District Administration	4,294	4,026	268
Ministry of Housing, Agriculture, Works and Telecommunications	9,517	10,298	(780)
Ministry of Education, Youth, Sports & Culture	23,414	23,102	312
Ministry of Home Affairs and Public Safety	8,308	7,917	391
Ministry of Health and Human Services	43,547	53,590	(10,044)
Statutory and Other Charges	27,513	37,836	(10,323)
Ministry of Trade, Tourism and Communications	6,014	6,120	(107)
Ministry of Border Control and Labour	4,976	4,872	104
<b>Total All Ministries and Departments</b>	<b>171,404</b>	<b>195,898</b>	<b>(24,493)</b>

Total expenditure for FY 2011/12 was \$195.9m, \$24.5m above the year's budget. Statutory and Other Charges had the largest variance in excess expenditure for the year, \$10.3m above the budgeted \$27.5M for the year. Outstanding bill payments of \$14.2m contributed to this excess expenditure. An under spend in contingency of \$3.8M helped to reduce the variance against the budget.

Expenditure for Ministry of Health and Human Services was \$53.6m, \$10.0m above budget. A transfer of \$25.2m to National Health Insurance Board, \$13.2M above the \$12.0M budgeted, contributed to the excess expenditure for that period. This was due to the treatment of the Windstorm Insurance, which was forecast as being a part of the NHIB additional costs incurred.

Personnel Costs were above budget and forecasts for the year, largely due to increased expenditures for long serving civil servants Gratuity and delays experienced in the Public Sector Right Sizing Program. This expenditure is expected to be significantly reduced in future years since the Voluntary Severance Program payment of about \$5.3m, which was paid at the end of March.

Historic Liabilities continue to add to over-expenditure, including the backlog lease payments of \$3.7m to National Insurance Board for the two buildings, the Hilly Ewing Building in Providenciales and the N.J.S. Francis Building in Grand Turk.



## Aggregate Financial Targets

The aggregate financial targets for the Government established by Cabinet for 2013/14 and the subsequent 5 financial years are provided in Table 6 below. These targets have been developed in order to comply with the fiscal plan agreed between the Government and the Secretary of State. The aggregate targets fall into three groups: operating targets, balance sheet targets and cash flow targets.

**Table 7**  
**Aggregate Financial Targets for Core Government**

FINANCIAL MEASURES	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
<b>OPERATING TARGETS</b>							
Recurrent Revenue	171,291	188,431	203,905	215,401	222,657	231,956	237,360
Non-Recurrent Revenue	68,639	22,024	20,324	14,324	4,324	4,324	4,324
<b>Total Revenue</b>	<b>239,930</b>	<b>210,455</b>	<b>224,229</b>	<b>229,725</b>	<b>226,981</b>	<b>236,280</b>	<b>241,684</b>
Recurrent Expenditure	146,493	166,269	169,430	171,868	175,565	178,013	180,461
Non-Recurrent Expenditure	22,654	16,720	14,035	11,677	5,005	3,901	2,855
<b>Total Operating Expenditure</b>	<b>169,147</b>	<b>182,989</b>	<b>183,466</b>	<b>183,545</b>	<b>180,569</b>	<b>181,914</b>	<b>183,315</b>
<b>Surplus Before Capital Programme</b>	<b>70,783</b>	<b>27,467</b>	<b>40,763</b>	<b>46,180</b>	<b>46,411</b>	<b>54,365</b>	<b>58,369</b>
Capital Development Projects	(14,416)	(14,416)	(14,416)	(14,416)	(15,858)	(18,236)	(20,060)
<b>Net Operating Surplus</b>	<b>56,367</b>	<b>13,051</b>	<b>26,347</b>	<b>31,764</b>	<b>30,554</b>	<b>36,129</b>	<b>38,309</b>
<b>BALANCE SHEET TARGETS</b>							
<b>Net Government Debt</b>	<b>292,432</b>	<b>276,325</b>	<b>240,470</b>	<b>197,479</b>	<b>156,481</b>	<b>110,228</b>	<b>64,247</b>
<b>CASH FLOW TARGETS</b>							
Opening Cash Balance	1,644	45,700	53,650	73,766	9,170	19,289	34,991
Other Net Cash Inflows	1,500	4,117	1,667	1,833	750	550	550
Sinking Fund Transfers	40,548	11,102	20,116	26,427			
Net Operating Cash Surplus	17,319	6,066	7,898	7,170	31,304	36,679	38,859
Debt Repayment	(13,811)	(9,218)	(7,898)	(183,193)	(21,185)	(20,977)	(19,184)
New Borrowing	-	-	-	85,000	-	-	-
<b>Closing Cash Balance</b>	<b>45,700</b>	<b>53,650</b>	<b>73,766</b>	<b>9,170</b>	<b>19,289</b>	<b>34,991</b>	<b>54,666</b>
<b>Liquid Cash Reserves</b>	<b>5,152</b>	<b>2,000</b>	<b>2,000</b>	<b>9,170</b>	<b>19,289</b>	<b>34,991</b>	<b>54,666</b>

## Operating Targets

The operating targets reflect the three main numbers from the operating statement: operating revenue, operating expenses and operating surplus. The surplus is the key operating measure.

According to Table 7, total revenue in 2013/14 is forecasted below the 2012/13 level by 14.0% but steadily increases in subsequent years. Apart from 2013/14, the Recurrent Revenue growth rates are comparable but with the cautious assumptions used in formulating the debt ratios in the Framework Document agreed with the Secretary of State.



## TURKS AND CAICOS ISLANDS GOVERNMENT

Recurrent revenues<sup>3</sup> are expected to increase moderately from 2013/14 onwards. The forecasted increases will be as a result of the Government's deliberate policy interventions and from increases that will result from normal business activity. These two factors are expected to positively affect major macroeconomic indicators in the local economy.

Non-recurrent revenue primarily includes Civil Recovery, SIPT income and receipts from Land Sales, in addition to Grant Funds from EU and others. Its sharp decline is mainly due to Civil Recovery falling from \$28.2 million in 2012/13 to \$5 million in 2013/14 and thereafter. The expected decline in Grant funding and the decrease in the sale of shares will also contribute to the decline in non-recurrent revenue. Civil recovery and SIPT revenues are forecasted to end by financial year 2015/16.

Total recurrent expenditure is forecasted to increase by \$19.8m or 13.5% in 2013/14 from 2012/13, and moderately thereafter. According to Table 7, recurrent expenditure is expected to increase from \$146.5 million in 2012/13 to \$166.3 million in 2013/14, then from \$169.4 million in 2014/15 to \$171.9 million in 2015/16.

Personnel cost adjustment<sup>4</sup> of 10 percent is a major contributing factor to the increased changes in recurrent expenditures over the period under review. In addition to \$1.5 million provided for the recruitment of additional staff. The pay-and-grade is currently being assessed but will not be implemented until there is sufficient sustainable revenue to cover the cost.

Non-Recurrent Expenditure primarily includes Civil Recovery, SIPT and outstanding bills from previous years. The gradual-to-sharp reduction in non-recurrent expenditure is mainly due to the Civil Recovery and SIPT programmes anticipated to end in 2015/16. The forecast assumes that Civil Recovery and SIPT programmes which is estimated at \$14.0 million in 2012/13 will reduce to \$9.2 million in 2013/14; \$7.0 million in 2014/15; and finally to \$5.0 million year ending March 2016.

Total operating expenses are forecasted at \$182.9 million in 2013/14, a net increase of \$13.8 million or 8.2% from 2012/13 level of \$169.1 million. Total operating expenses are also forecasted at \$183.5 million in 2015/16 and decreases just slightly to \$183.3 million by the end of fiscal 2018/19. These targets are consistent with the Government's goal to be more efficient and less costly in delivering services. The targets are also indicative of the Government's commitment to maintaining prudent financial management.

Operating surpluses before capital expenditure are targeted throughout the six-year forecast period as is required by the Framework Document. These surpluses are consistent with the Government's fiscal strategy outlined above and will be used to fund essential social and economic infrastructure projects contained in the capital programme.

Net operating surplus is forecasted at \$13.0 million in 2013/14 or 7.0% of Recurrent Revenue; \$31.8 million in 2015/16 or 14.7% of Recurrent Revenue, and \$38.3 million in 2018/19 or about 16.1% of Recurrent Revenue.

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<sup>3</sup> Revenues for 2013/14 are affected by assuming: (i) revenues for Import Duty, Customs Processing Fee, Work Permits and Residency Fees, Fuel Tax, Accommodation Tax and Business Licenses will increase by 5 percent due to increases in business activity; (ii) Assuming some marginal increases in each category for the effects of the new compliance measures being implemented by the Revenue Commissioner and (iii) A small increases in other revenues to account for the additional amount already collected from the FSC.

<sup>4</sup> 10 percent salary reinstatement, \$3M for full-year incremental adjustment and \$1.5M for new staff



## Balance Sheet Targets

The balance sheet reports the assets and liabilities of the core government. The balance sheet targets reflect the main measures important to assess the government's financial position. Fixed Assets are not currently recorded in the account of the Government therefore the Net Worth statement will not be useful. A new fixed asset policy document is currently being reviewed by Cabinet and should be finalized and implemented during fiscal 2013/14. This will result in the installation of new fixed asset software that will maintain the fixed asset register.

## Government Debt

The Government is forecasting new borrowings of \$85 million in fiscal 2015/16 to refinance a portion of the \$170 million bond that will mature during that period. This new debt is assumed to be at a rate of 5% per annum, amortized and repayable over 5 years. This is consistent with the Government's fiscal strategy of financing the development of new infrastructure by operating cash flows.

According to Table 7, the country's outstanding net debt is forecasted to decrease starting from last year's ending balance of \$292.4 million in 2012/13 to \$197.5 million in 2015/16. Net Debt target as defined by the FFD, that is, after offsetting government cash, is forecast at \$276.3 million in 2013/14; \$197.5 million in 2015/16 and \$64.2 million at the end of 2018/19.

## Cash Flow Targets

The cash flow targets would normally relate to two main categories, net cash flows from operations and financing cash flows from borrowing. The Government does intend to acquire new financing of \$85 million upon the retirement of the UK guaranteed debt in 2015/16.

According to Table 7, net operating cash flows before transfer to the Sinking Fund are targeted to decrease from \$56.4 million in 2012/13 to \$31.8 million in 2015/16 and to \$38.3 million by 2018/19. These operating cash flows will enable the Government to fully fund its planned capital programmes and repay the principal on outstanding debt.

Under the Framework Document the Government is mandated to run a surplus and transfer all balances over \$2m to the Sinking Fund at year end in order to pay down the national debt and ultimately accumulate an investment fund for the benefit of the people of the Turks and Caicos Islands.

Sinking Fund transfers of amounts above \$2 million at year end are actually at \$40.5 million for 2012/13, forecasted at \$11.1 million in 2013/14, \$20.1 million in 2014/15 and \$26.4 million in 2015/16. The accumulated amounts in the Sinking Fund will assist with the repayment of the \$170 million bond in 2015/16.

Debt repayment is comprised entirely of principal repayments of existing debt as the Government fulfills its financial obligations. Repayments totaling \$13.8 million are forecasted for 2012/13; \$183.2 million in 2015/16 including the repayment of \$170 million of the bond and \$9.0 million to Scotia Bank. Interest payments are already included in operating expenses.

Liquid Cash Reserves, which is net of the Sinking Fund, is at \$5.2 million in 2012/13, the equivalent to 13 days of planned expenditure, \$9.2 million or 20 days in 2015/16 and \$54.6 million or 111 days by the end of 2018/19. Compliance with the minimum requirement of 90 days of planned expenditure which is required by 2018/19 will be attained by the end of financial year 2018/19 and sustained thereafter.



# TURKS AND CAICOS ISLANDS GOVERNMENT

## Compliance with Principles of Responsible Financial Management

Table 8 summarizes the extent to which the aggregate financial targets comply with the Principles of responsible Financial Management. The table shows the degree of compliance with the Principles in each year of the forecast period.

**Table 8**  
**Compliance with Principles of Responsibilities Financial Management**

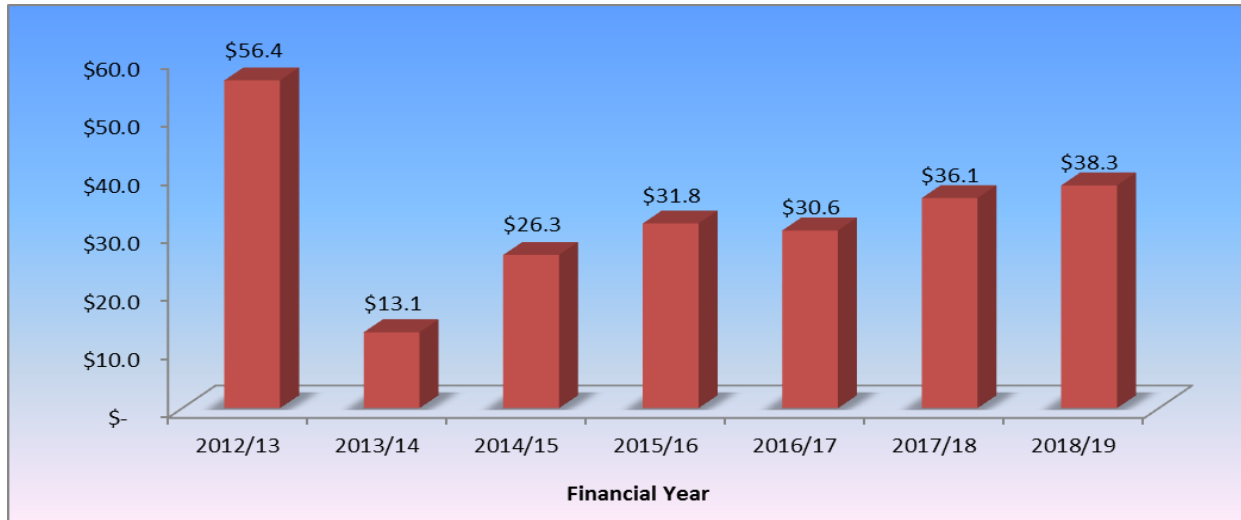
PRINCIPLES	DEGREE OF COMPLIANCE
<p><b>Operating Surplus:</b> should be positive all years</p> <p>Operating Surplus = Total Operating revenue - Total Operating expenditure</p>	<p><b>Complies in all years</b></p> <p>2012/13: \$56.37 million            2013/14: \$13.05 million            2014/15: \$26.35 million            2015/16: \$31.76 million            2016/17: \$30.55 million            2017/18: \$36.13 million            2018/19: \$38.31 million</p>
<p><b>Debt Service:</b> Debt servicing cost for the year should be no more than 10% of core revenue by the end of fiscal 2018/19</p> <p>(Debt servicing = interest + principal repayments + other debt related expenses + transfers to the Sinking Fund)</p>	<p><b>Complies by the end of fiscal 2018/19</b></p> <p>2012/13: 36.0%            2013/14: 14.8%            2014/15: 17.2%            2015/16: 15.4%            2016/17: 11.8%            2017/18: 10.7%            2018/19: 9.3%</p>
<p><b>Net Debt :</b> Should be no more than 110% of core revenue by fiscal 2015/16 and 80% of revenue by the end of 2018/19</p> <p>(Net debt = Government debt balances + weighted outstanding balance of statutory entities guaranteed debt - government cash balances)</p>	<p><b>Complies in both 2015/16 and 2018/19</b></p> <p>2012/13: 170.7%            2013/14: 146.6%            2014/15: 117.9%            2015/16: 91.7%            2016/17: 70.3%            2017/18: 47.5%            2018/19: 27.1%</p>
<p><b>Liquid Cash Reserves:</b> Should be no less than 90 days of estimated expenditure by the end of financial year 2018/19</p> <p>At least 90 days in 2018/19:            Liquid cash reserves = government cash balances - Sinking Fund balance</p>	<p><b>Complies by the end of fiscal 2017/18</b></p> <p>2012/13: 13 days            2013/14: 4 days            2014/15: 4 days            2015/16: 20 days            2016/17: 40 days            2017/18: 72 days            2018/19: 111 days</p>
<p><b>Financial Risks:</b> Should be managed prudently so as to minimise risk</p>	<p><b>Complies in all years</b></p> <p>Insurance cover exist for key assets and major potential liabilities.            Hurricane and other natural disaster preparedness strategy in place</p>



### Overview of the Aggregate Financial Targets

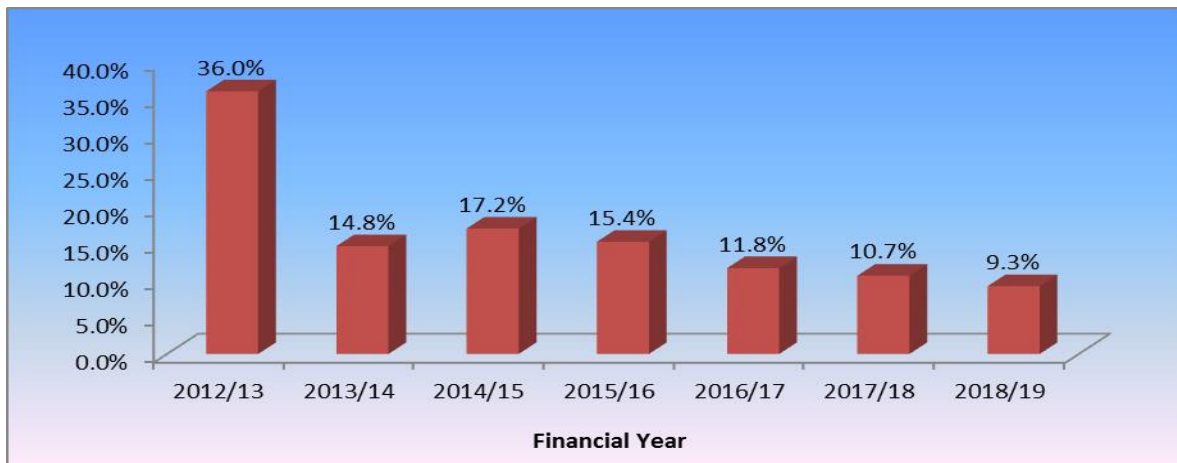
Figures 1 through 8 provide a graphical presentation of the aggregate financial targets for the period 2012/13 to 2018/19.

**Figure 1  
Government operating Surplus**



The Operating surplus (Figure 1) of \$56.4 million in 2012/13 is expected to fall sharply in 2013/14 to \$13.1 million due to the sharp decline in the year’s recurrent revenue but peaked at around to \$38.3 million in 2018/19. It is expected that responsible fiscal management of operating expenditures and robust compliance measures will ensure revenue targets are met.

**Figure 2  
Debt Service Ratio**

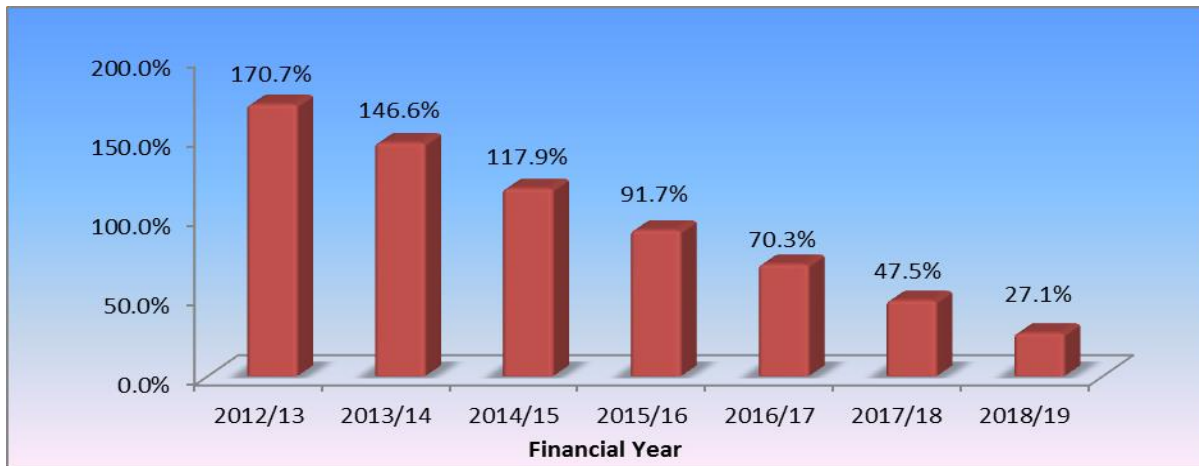


The Debt Service (Figure 2) is defined as annual payments resulting from public borrowing commitment or any other forms of borrowing, including the entire public sector, any other debt guaranteed by the Government and the amounts transferred to the Sinking Fund each year, less the new debt funding in 2015/16 . The Government will be compliant with the Principles of Responsible Financial Management ratio of 10% or less, at the end of 2018/19 as agreed in the Framework Document.



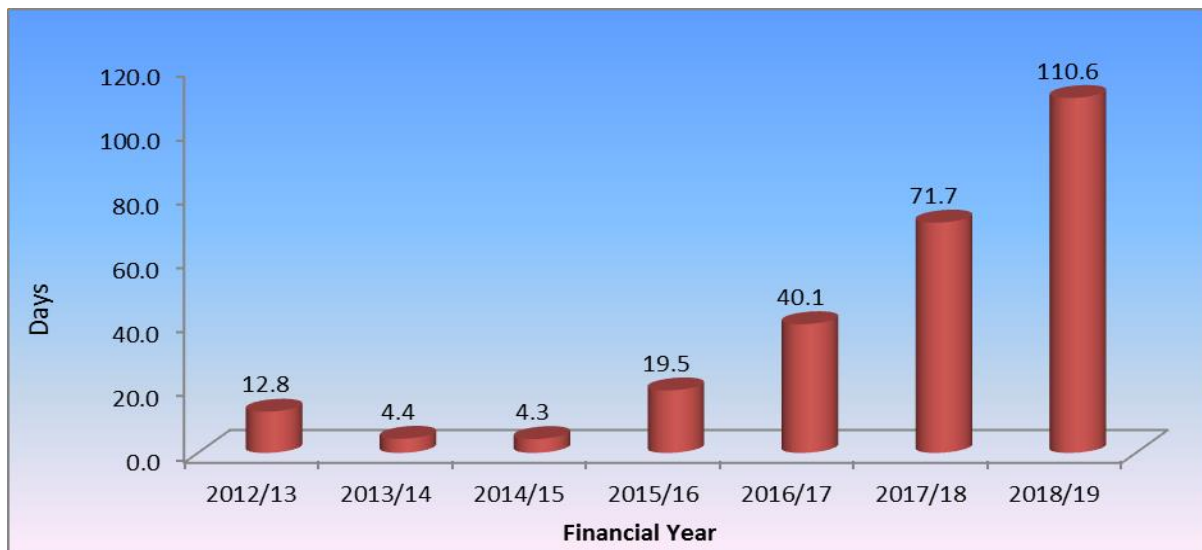
## TURKS AND CAICOS ISLANDS GOVERNMENT

**Figure 3**  
**Government Net Debt Ratio**



Government Debt (Figure 3) is defined as all public borrowing commitment including all public sector debt and those guaranteed by the government, less unencumbered cash balances, as a share of recurrent revenue. The Net Debt Ratio is forecasted to improve by 143.6 percentage points from 170.7% of Recurrent Revenue at the end of 2012/13 to 27.1% at March 31, 2019. This forecast improvement demonstrates the Government's commitment to taking definitive steps towards achieving compliance with this important principle, while gradually reducing its debt load.

**Figure 4**  
**Liquid Cash Reserves**



Liquid Cash Reserves (Figure 4) is defined as the lowest of liquid funds at the disposal of the government during the fiscal year. The funds cannot be pledged against budgeted expenditure or liabilities of any form. Due to the transfer of all surplus cash over \$2 million into the Sinking Fund as per the Framework Agreement, the Liquid Cash Reserves will not be in compliance until the end of fiscal 2018/19. Liquid Cash Reserves in this document do not include reserves of statutory bodies or boards.



# TURKS AND CAICOS ISLANDS GOVERNMENT

**Figure 5**  
**Capital Development Expenditure**



New investment in infrastructure and other capital programmes are needed to meet the requirements of a growing economy, but this process must be prioritized by declared strategic development goals.

The Capital Development Programme (Figure 5) allocation will remain steady at 2012/13 level at \$14.4 million until 2015/16 but increases steadily the three years that follow. The increases in capital expenditures start the year immediately after the repayment of the \$170 million bond. All capital expenses will be financed from cash generated from operating surpluses and existing non-Sinking Fund cash reserves.

**Figure 6**  
**Government Debt Management**



The outstanding balance of Government net debt (Figure 6) is forecast to decrease from \$292.4 million at the end of 2012/13 to \$197.5 million by the end of fiscal year 2015/16 and to a balance of \$64.2 at the end of 2018/19.



# TURKS AND CAICOS ISLANDS GOVERNMENT

## Summary of Government Debt

Government debt includes all public sector borrowings and not just core government. It also includes any other debt guaranteed by the Turks and Caicos Islands Government. Table 9 summarizes these borrowings.

**Table 9**  
**Summary of Government Debt**

GOVERNMENT DEBT	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Citibank	3,959	3,125	2,292	1,459	625	0	0
CDB Loans	3,108	2,812	2,517	2,244	1,978	1,713	1,447
RBTT Loans	8,028	4,472	1,667	1,111	556	0	0
HSBC/RBTT Loans	170,000	170,000	170,000				-
Scotia Term Loan	9,000	9,000	9,000	-	-	-	-
TC Bank Loan	8,741	7,675	6,608	5,541	4,475	3,408	2,341
New Borrowing	-	-	-	85,000	68,000	51,000	34,000
Imputed PPP Hospital debt outstanding	115,000	109,250	103,500	97,750	92,000	86,250	80,500
TCIAA (Adjusted to FFD 20% weighting)	10,980	9,080	7,020	4,840	2,360	-	-
TCInvest (Net)	8,692	7,228	5,764	4,300	2,836	1,372	-
<b>Total Government Debt</b>	<b>337,507</b>	<b>322,642</b>	<b>308,367</b>	<b>202,245</b>	<b>172,830</b>	<b>143,743</b>	<b>118,289</b>

## 5. SUMMARY OF FINANCIAL PROJECTIONS

The Government has developed a set of financial projections to help guide the setting of the six year fiscal targets. These projections are summarized in Table 6 below.

**Table 10**  
**Summary of Financial Projections**

FINANCIAL MEASURES	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Budget (\$'000)	Target (\$'000)	Target (\$'000)	Target (\$'000)	Target (\$'000)	Target (\$'000)	Target (\$'000)
Operating Surplus Before Financing	70,783	27,467	40,763	46,180	46,411	54,365	58,369
Capital Development Expenditure	14,416	14,416	14,416	14,416	15,858	18,236	20,060
Operating Surplus After Financing	56,367	13,051	26,347	31,764	30,554	36,129	38,309
New Borrowing	0	0	0	85,000	0	0	0
Government Net Debt	292,432	276,325	240,470	197,479	156,481	110,228	64,247
Cash Balance	45,700	53,650	73,766	9,170	19,289	34,991	54,666
Liquid Cash Reserves	5,152	2,000	2,000	9,170	19,289	34,991	54,666



## **6. FINANCIAL ALLOCATIONS**

This section specifies the indicative financial allocations to individual ministries for the 2013/14 Budget. These allocations are used as the basis for the Premier, Ministers and Official Members and their Ministries and Departments to establish their outputs and detailed budgets for the 2013/14 financial year.

### **Revenue Allocations**

The aggregate financial targets set out in Table 7 establish the forecast revenue for the government for the 2013/14 financial year, through fiscal 2018/19.

Table 11 below provides the indicative allocations of operating revenue for each ministry for the forecast period. These allocations represent the amount expected in recurrent and non-recurrent receipts, for which the Accounting Officer will be held responsible.

### **Operating Allocations**

The aggregate financial targets set out above establish the operating limits for the government for the 2013/14 financial year. These include the total operating expenses for the forecast year.

Table 12 below provides the indicative allocations of operating expenditure to each ministry for the forecast period. These allocations represent the amount available to fund operations, for which the Accounting Officer will be held responsible.

### **Capital Allocations**

The aggregate financial targets set out below in table 11 also establish a limit for capital expenditure. Table 13 provides the indicative Capital Development allocations to each ministry for the forecast period. This allocation can be used to fund the capital development programme as prioritized by Cabinet and the respective ministry.

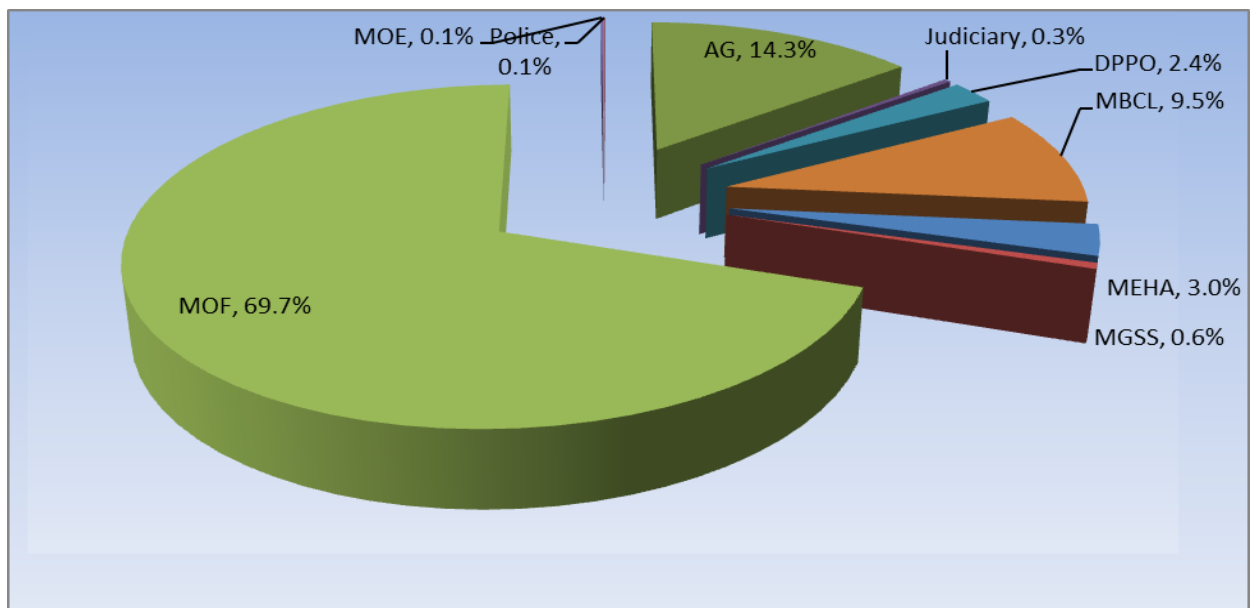


# TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 11**  
**Operating Revenue Allocations**

All Ministries	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Office of the Governor	-	-	-	-	-	-	-
Police	118	124	130	139	142	146	149
Attorney General's Chambers	52,238	30,023	31,998	30,530	28,457	28,944	29,900
Judiciary	695	730	766	816	836	856	876
DPP Office	5,000	5,000	5,000	2,500	-	-	-
Ministry of Border Control and Labour	18,721	19,907	20,902	22,166	22,483	23,018	23,554
Ministry of Environment and Home Affairs	5,614	6,405	6,725	7,127	7,300	7,474	7,648
Ministry of Government Support Services	1,153	1,211	1,271	1,348	1,381	1,414	1,447
Ministry of Finance and Tourism	156,018	146,665	157,025	164,663	165,934	173,971	177,643
Ministry of Education, Youth and Sports	286	300	315	334	342	350	358
Ministry of Health and Human Services	88	92	97	102	105	107	110
Office of the Premier	-	-	-	-	-	-	-
Office of the Deputy Governor	-	-	-	-	-	-	-
Statutory Charges	-	-	-	-	-	-	-
<b>Total Operating Expenditure</b>	<b>239,930</b>	<b>210,455</b>	<b>224,229</b>	<b>229,725</b>	<b>226,981</b>	<b>236,280</b>	<b>241,685</b>

**Figure 7**  
**Operating Revenue 2013/14**



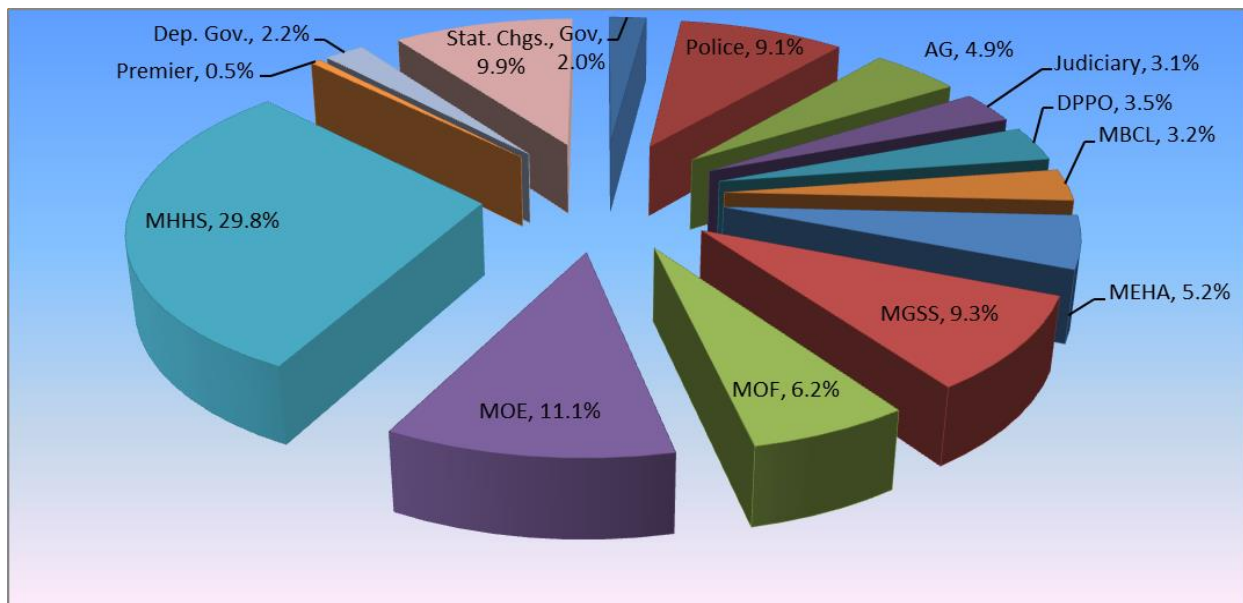


# TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 12**  
**Operating Expenditure Allocations**

All Ministries	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Office of the Governor	2,170	3,695	3,840	3,949	4,028	4,076	4,125
Police	15,646	16,695	17,029	17,399	17,747	17,960	18,175
Attorney General's Chambers	18,105	8,946	8,120	7,314	4,400	4,453	4,506
Judiciary	2,838	5,749	4,921	3,052	3,113	3,150	3,188
DPP Office	-	6,350	5,480	4,608	2,660	2,692	2,724
Ministry of Border Control and Labour	4,892	5,798	5,972	6,151	6,274	6,350	6,426
Ministry of Environment and Home Affairs	11,447	9,537	9,823	10,117	10,320	10,444	10,569
Ministry of Government Support Services	14,547	17,022	17,393	17,915	18,426	18,647	18,871
Ministry of Finance and Tourism	9,364	11,386	11,671	11,980	12,227	12,374	12,522
Ministry of Education, Youth and Sports	18,325	20,273	20,657	21,188	21,612	21,872	22,134
Ministry of Health and Human Services	48,886	54,509	55,872	57,387	58,709	59,430	60,134
Office of the Premier	-	1,000	1,030	1,064	1,086	1,099	1,112
Office of the Deputy Governor	1,841	3,979	4,092	4,215	4,299	4,351	4,403
Statutory Charges	21,085	18,049	17,564	17,206	15,669	15,019	14,426
<b>Total Operating Expenditure</b>	<b>169,147</b>	<b>182,989</b>	<b>183,466</b>	<b>183,545</b>	<b>180,569</b>	<b>181,914</b>	<b>183,315</b>

**Figure 8**  
**Operating Expenditure 2013/14**



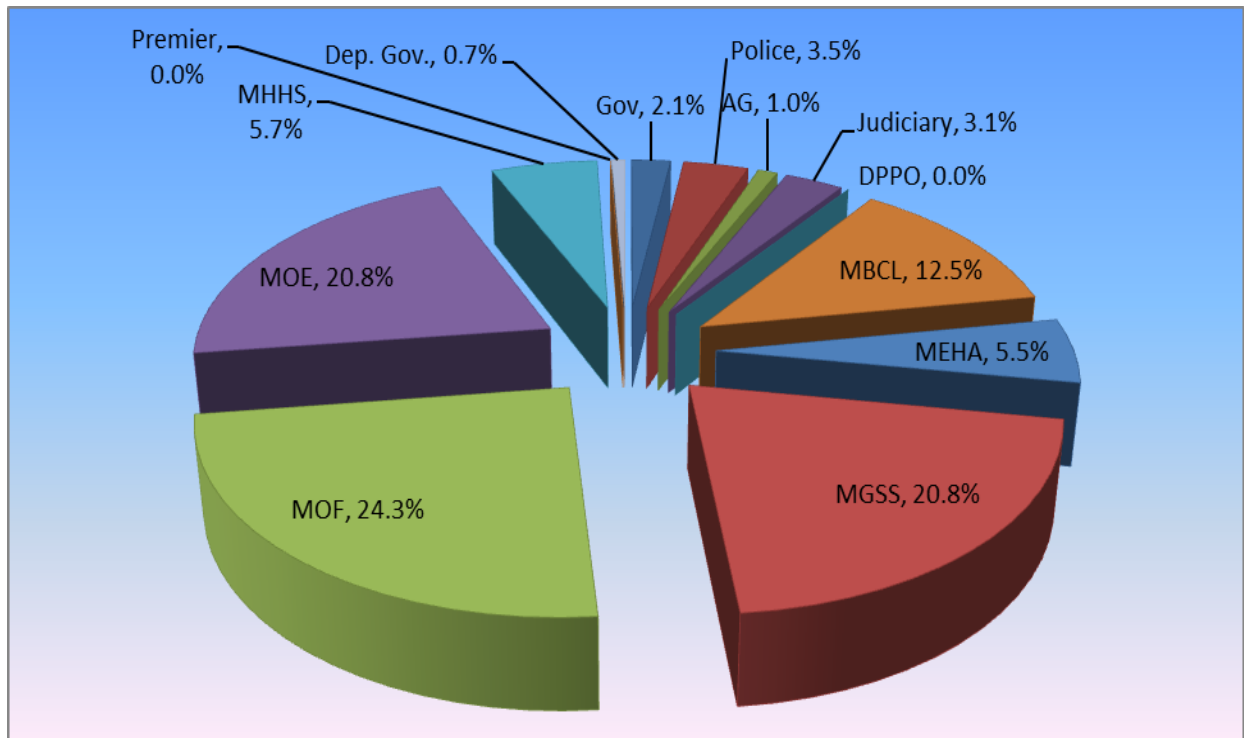


# TURKS AND CAICOS ISLANDS GOVERNMENT

**Table 13**  
**Capital Development Allocations**

All Ministries	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Office of the Governor	-	300	60	110	110	110	110
Police	231	500	150	300	417	518	799
Attorney General's Chambers	166	150	150	100	150	250	551
Judiciary	1,150	450	100	50	50	380	380
DPP Office	-	-	-	-	-	-	-
Ministry of Border Control and Labour	343	1,800	1,800	1,563	1,650	1,800	2,100
Ministry of Environment and Home Affairs	164	800	800	1,000	1,000	1,250	1,400
Ministry of Government Support Services	4,250	3,000	4,012	4,500	5,000	5,400	5,700
Ministry of Finance, Trade and Tourism	7,347	3,500	1,000	750	503	500	600
Ministry of Education, Youth, Sports and Culture	527	3,000	4,794	4,000	4,802	5,400	5,660
Ministry of Health and Human Services	238	816	1,500	1,993	2,126	2,572	2,700
Office of the Premier	-	-	-	-	-	-	-
Office of the Deputy Governor	-	100	50	50	50	56	60
<b>Total Capital Development Expenditure</b>	<b>14,416</b>	<b>14,416</b>	<b>14,416</b>	<b>14,416</b>	<b>15,858</b>	<b>18,236</b>	<b>20,060</b>

**Figure 9**  
**Capital Development Expenditure 2013/14**





## **7. CONCLUSION**

This Fiscal and Strategic Policy Statement establish the policy and financial framework on which the 2013/14 budget will be prepared.

The policy goals and financial parameters outlined in this document clearly reflect the strategic policies established by the new administration. Those policies are based around 10 broad outcomes which include: Charting a path to economic prosperity, strengthening of the family unit, institutionalization and maintenance of good governance, enforcement of immigration, labor, and border control policy, educating and empowering all at every stage of development, disaster management, greater presence and development of culture and national pride, transportation and communication enhancement, provision of reliable, accessible, affordable, and sustainable high quality healthcare and sustainable use of natural resources and utilities.

The financial targets set out in this FSPS allow for the funding of various programmes that will progress the key policy initiatives relating to these outcomes. Particularly, the targets provide for delivery of a capital development programme that includes continued work on schools, road network infrastructure and other significant assets. This capital programme will be funded primarily by operating surplus and other financial initiatives.

This Fiscal and Strategic Policy Statement show that the Government is committed to delivering on its manifesto and the strategic targets agreed with the Secretary of State. It shows that the Government is continuing to manage the finances in a prudent manner.