



**GOVERNMENT OF THE TURKS
AND CAICOS ISLANDS**

**FISCAL AND STRATEGIC
POLICY STATEMENT
2014/15 – 2018/19**



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**PURPOSE**

This revised Fiscal and Strategic Policy Statement (FSPS) 2014-15, provides an update to the FSPS that was approved in 2013/14 and the first approval for 2014/15. It outlines the fiscal parameters that the Government intends to use to prepare and fund its Budget for the 2014/15 financial year. It establishes clear aggregated financial targets that are completed in accordance with the Public Financial Management Framework.

ECONOMIC PERFORMANCE AND PROJECTIONS

The International Monetary Fund (IMF) in its World Economic Outlook (WEO), 2014 has hypothesized that global activity strengthened during the second half of 2013. Further, that activity is expected to improve in 2014–15, largely because of recovery in the advanced economies. They have projected global growth at 3.7 percent in 2014 and 3.9 percent in 2015. There continues to be some level of instabilities and downside risks in some economies.

In the United States growth is projected at 2.8 percent in 2014, a marginal increase from 1.9 percent in 2013. It is also anticipated that euro area will be entering a path of recovery. Growth is projected to strengthen to 1 percent in 2014 and 1.4 percent in 2015 (IMF, 2014). The Caribbean's growth rate remains subdued in especially the tourism dependent economies, as a result of external vulnerabilities (IMF, 2013).

Tourism remains a major contributor to the GDP of the Turks and Caicos Islands. Whereas, the Government of the TCI is working assiduously, to introduce additional measures to diversify the economy and strengthen the path to a stabilized economy, its major focus continues to be on further development within the sector. Nonetheless, with a positive trajectory assumed for our primary markets, the Government is confident that the TCI economy will continue to improve.

According to the Turks and Caicos Islands (TCI) Department of Strategic Policy and Planning Department (SPPD) there was a 3.4 percent growth for the TCI economy in 2013. This growth is underpinned by a recovery in the tourism and construction sectors with spillovers into the wholesale and retail sectors. The department cautions, however, that actual growth will depend on the strength of the recovery in the US and the success of the Government of the Turks and Caicos Islands in finding ways of diversifying the economy. While there is no official forecast for the period 2014-2017 from SPPD, the Government adopted a 3½ percent growth for revenue and an average growth rate of 3% in expenditure for the period covered by this revised FSPS.

Although the Turks and Caicos economy experienced a slight decline of 2.1 percent in 2012, evidence shows that the economy is stable and though fragile, has recovered from the disastrous 19.6 percent decline in 2009, which was partly reflective of the state of the world economy at that time.



Adjusting for indirect taxes and subsidies, GDP in constant market prices was estimated to have decreased by 2.1 percent to \$540.6 million in 2012, but was expected to grow by 3.4 percent to \$558.9 million in 2013.

It is the TCIG's fervent desire to increase our competitiveness ranking within the regional market to unlock TCI's growth potential.

POLICY ADJUSTMENTS – FY 2013/14

Revenue Enhancement Strategies

The Government is committed to improving the lives of the populace of the Turks and Caicos Islands, thereby increasing the revenue stream of the TCIG. In an effort to bolster revenue, some tax measures were increased effective October and November 2013 as per the details in table 1 below.

Table 1- Revenue Enhancement Strategies

Economic Classification	Original Rate	Revised Rate	Effective Date
Stamp duty on vehicle hire	10%	12%	1 st October 2013
Communication tax	10%	12%	1 st October 2013
Fuel Tax	\$0.75	\$0.85	1 st October 2013
Customs Processing Fees	6%	7.5%	1 st November 2013

Similarly, the Government commissioned a Blue Ribbon Committee, with the main objective to identify sustainable, broad-based tax measures. During the Committee's period of deliberation the planned implementation of the general services tax, temporary driver's license and communication on cable and internet proffered in last year's FSPS were postponed, to avoid influencing the work of the committee.

Although, the implementation was delayed the potential revenue loss of \$1.7 million is being recovered through the increase rate for Customs Processing Fees, from 6% to 7.5%.

Revenue Performance

The actual recurrent revenue for 2013/14 is \$200.3 million compared to the original estimate of \$189.4, an increase of \$10.9 million or about 5.8%. This is due primarily to better than expected collections from import duties; up \$1.97 million or 3.9%, work permits up \$2.67 million or around 16.4%, stamp duty on land transactions is up by \$6.82 million or about 45.1% and accommodation tax is up by \$3.07 million or 8.1%.



The total revenue is at \$208.0 million or 2.8% below the original estimates.

Unaudited non-recurrent revenue is at \$5.8 million for 2013/14, a negative variance of \$13.4 million or 69.8% below the original budget due primarily to recovery actions resulting in mostly land and very little cash during this financial year. In addition the \$1.0 million anticipated from NIB did not materialize. Unaudited capital revenue is \$1.9 million, a shortfall of \$3.4 million or 64.4% below the original estimates, due primarily to revenue from the sale of land being less than expected for 2013/14.

Table 2- Revenue Summary

PARTICULARS	2012/2013 Audited \$0	2013/2014			
		Original Estimate \$000	Unaudited Actual \$000	Variance Fav./ (unfav.)	
				\$000	%
RECURRENT REVENUE					
Import Duties	48,582	50,735	52,699	1,964	3.9%
Hotel and Restaurant Tax	34,025	37,870	40,948	3,078	8.1%
Other Customs Duties	21,983	27,758	28,508	750	2.7%
Work Permit and Other Immigration Fees	15,376	16,213	18,877	2,664	16.4%
Stamp Duty on Land Transactions	13,928	15,124	21,944	6,820	45.1%
Business and Banking Related Receipts	7,252	8,497	7,367	(1,130)	(13.3%)
Fuel Tax	6,917	7,254	7,681	427	5.9%
Others	32,229	25,996	22,321	(3,675)	(14.1%)
TOTAL RECURRENT REVENUE	180,292	189,447	200,346	10,899	5.8%
NON-RECURRENT REVENUE					
Criminal Recovery Actions		8,000	0	(8,000)	(100.%)
Civil Recovery Actions	28,181	5,000	1,258	(3,742)	(74.8%)
Grants	13,103	4,000	8	(3,992)	(99.8%)
NFF Contribution	-	1,281	4,564	3,283	256.3%
NIB Revenue	7,500	1,000	0	(1,000)	(100.%)
TOTAL NON-RECURRENT REVENUE	48,784	19,281	5,830	(13,451)	(69.8%)
TOTAL CAPITAL RECEIPTS	11,161	5,261	1,873	(3,388)	(64.4%)
TOTAL REVENUE AND CAPITAL RECEIPTS	240,237	213,989	208,048	(5,941)	(2.8%)



Expenditure Performance

The Government continues to take definitive steps to control expenditure in a prudent and rational manner. Efficient management strategies are being implemented to reduce operating expenditure.

Unaudited expenditure was 182.4 million, 17.3 million below the revised estimates or 8.7%. Recurrent expenditure is \$154.5 million for the financial year, a positive variance of \$11.3 million or 6.8% below the original estimates, due primarily to saving in personnel costs and other expenses, which is offset by increases in the NHIB and hospital charges of \$2.9 million.

Non-recurrent expenditure is \$18.1 million or 6% increase over the original estimates, due primarily to additional expenses related to civil recovery actions.

Capital expenditure is \$9.7 million or 42.1% below the original estimates, due to many projects either commencing later than anticipated or not starting in the financial year.

PARTICULARS	FY2012/13	FY2013/14			
	Actual	Estimate	Unaudited Actual	Variance	
	April -March \$000	April -March \$000	April -March \$000	\$000	%
Personnel Costs	57,292	69,586	64,648	4,938	7.1%
NHIB and Hospital Charges	42,502	42,238	45,154	(2,916)	(6.9%)
Subventions	6,440	6,521	6,190	331	5.1%
Maintenance	6,400	6,547	6,276	271	4.1%
Property Rentals	4,980	5,326	5,624	(298)	(5.6%)
Grants and Contributions	3,406	3,608	3,493	115	3.2%
Other Expenses	25,559	32,027	23,186	8,841	27.6%
TOTAL RECURRENT EXPENDITURE	146,579	165,853	154,575	11,282	6.8%
Civil Recovery Action Expenses	7,331	4,600	6,073	(1,473)	(32.%)
Interest Payments	7,506	7,534	7,424	110	1.5%
Criminal Recovery Action Expenses	5,968	5,000	4,638	362	7.2%
Other expenses	1,408	0	0	-	-
TOTAL NON-RECURRENT EXPENDITURE	22,213	17,134	18,135	(1,001)	(5.8%)
Capital Contribution	15,162	16,777	9,712	7,065	42.1%
TOTAL EXPENDITURE AND PAYMENTS	183,954	199,764	182,422	17,346	8.7%

FINANCIAL TARGETS – FY 2014/15

The aggregate financial targets for the Government established by Cabinet for 2014/15 and the subsequent 5 financial years are provided in Table 5 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, balance sheet and cash flow targets.

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.

New Tax Measures

Table 3 - New Tax Measures

Description	Proposed Implementation Date	Forecasted Revenue \$'000
Dormant Accounts Receipts	1st October 2014	1,000
Increase in Business Licences	1st July 2014	875
Work Permit rate increase	1st July 2014	1,350
Total Revenue from New Tax Measures		3,225

Table 3 illustrates the revenues that are expected to be generated from the new measures suggested to date by the Blue Ribbon Committee.

The new measures include first year receipts of \$1 million from dormant bank accounts. The restructuring of the business license, beginning July 1, 2014, should result in receipts of up to \$1.35 million, revision of work permit fees beginning July 1, 2014 will generate \$1.35 million.



Table 4- Aggregate Financial Targets

FINANCIAL MEASURES	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Unaudited Actual \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
OPERATING TARGETS						
Recurrent Revenue	200,346	212,483	217,590	225,597	233,493	241,665
Non-Recurrent Revenue	7,703	6,811	6,216	9,100	5,100	5,100
Total Revenue	208,049	219,294	223,805	234,697	238,593	246,765
Recurrent Expenditure	154,575	173,903	170,456	175,309	180,568	185,985
Non-Recurrent Expenditure	18,135	13,721	10,840	8,310	4,343	3,494
Total Operating Expenditure	172,710	187,624	181,296	183,618	184,911	189,479
Surplus Before Capital Programme	35,338	31,670	42,509	51,078	53,681	57,286
Capital Development Projects	(9,712)	(12,829)	(11,010)	(10,536)	(10,853)	(11,178)
Net Operating Surplus	25,626	18,841	31,499	40,542	42,829	46,108
BALANCE SHEET TARGETS						
Net Government Debt	263,266	238,090	199,632	152,582	97,551	44,891
CASH FLOW TARGETS						
Opening Cash Balance	2,756	7,528	8,181	14,981	24,976	37,215
Net Operating Cash Surplus	25,626	18,841	31,499	40,542	42,829	46,108
Other Net Cash Inflows	5,720	2,019	2,185	1,102	852	802
Debt Repayment	(9,404)	(6,763)	(183,507)	(16,650)	(16,442)	(14,932)
Sinking Fund Transfers - In	(17,171)	(13,443)	(22,377)	(15,000)	(15,000)	(15,000)
Sinking Fund Transfers - Out	-	-	94,000	-	-	-
New Borrowing	-	-	85,000	-	-	-
Closing Cash Balance	7,528	8,181	14,981	24,976	37,215	54,193
Closing Sinking Fund Balance	58,180	71,623	-	15,000	30,000	45,000

Recurrent Revenue

Recurrent revenues are expected to increase at a moderate rate of about 3.5% from 2015/16 onwards. The forecast increase of about 6.1% for 2014/15 is due to the new revenue measures adopted by Cabinet as a result of the Government’s deliberate policy interventions. The new initiative is expected to increase revenue by an additional \$3.2 million, above the growth expected increased economic activities.

Non-Recurrent Revenue

Non-recurrent revenue primarily includes civil recovery, receipts from land sales, in addition to grant funds from EU and others. Its sharp decline in financial year 2014/15 is mainly due to transfer of funds from the National Forfeiture Fund (NFF), which has contributed \$4.56 million to the Consolidated Fund in fiscal year 2013/14.



Total Revenue

According to Table 5, total revenue in 2014/15 is estimated at \$219.3 million or about 5.4% above 2013/14 unaudited actual, \$223.8 million in 2015/16 or 2.06% above 2014/15, and \$234.3 million or 4.87% above 2016/17, and steadily increasing in subsequent years.

Recurrent Expenditure

Total recurrent expenditure is estimated to increase by \$19.0 million or 12.5% in 2014/15 from 2013/14, and moderately thereafter. According to Table 5, recurrent expenditure is expected to fall to \$170.3 million in 2015/16, due to reduce cost for the SIPT related legal aid, and increase to \$175.1 million in 2016/17.

The major contributors to the projected increase in recurrent expenditure includes an additional \$5.0 million provided for the full year effect of new hires in 2013/14 and approved new hires in 2014/15; \$0.5 million in subvention for the Tourist Board and An amount of \$5.0 million was also provided for contingency funding. However, there were also some notable reductions in recurrent expenditure estimates for items such as NHIB contributions; reduced by \$1.5 million.

Non-Recurrent Expenditure

Non-recurrent expenditure primarily includes civil recovery, SIPT and interest payments. The gradual reduction in non-recurrent expenditure is mainly due to the civil recovery and SIPT programmes anticipated to end in 2016/17. The forecast assumes that civil recovery and SIPT programmes which is actually 10.6 million in 2013/14 will reduce to \$6.6 million in 2014/15; \$4.1 million in 2015/16; and finally to \$3.1 million for year ending March 2017. Development fund expenditure is \$13.5.

Total Operating Expenditure

Total operating expenses are estimated at \$188.0 million in 2014/15, a net increase by \$16.6 million or 8.8% from 2013/14, and moderately thereafter. According to Table 3, total expenditure is expected to fall to \$181.1.3 million in 2015/16 and increase to \$183.2 million in 2016/17. These targets are consistent with the Government's goal to be more efficient and less costly in delivering world class services to the public.

Operating Surplus

Operating surpluses before capital expenditure are targeted throughout the period as is required by the Framework Document. Net operating surplus is estimated at \$18.8 million in 2014/15 or 8.59% of total revenue; \$31.4 million in 2015/16 or 14.07% of total revenue, and \$40.5 million in 2016/17 or about 17.27% of total revenue.

Balance Sheet Targets

The balance sheet reports the assets and liabilities of 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, however new fixed asset management software will be installed in 2014/15, which will result in the appropriate maintenance of a 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 7 years.

The country's net debt decreased from \$263.3 million at the end of fiscal 2013/14 to a balance of \$238.1 million at the end of 2014/15; and is proposed to decrease to \$199.6 million in 2015/16 with a debt repayment of \$197.8 million and the new debt of \$85 million.

Cash Flow Targets

According to Table 5, net operating cash flows before transfer to the Sinking Fund are targeted to decrease from \$21.9 million in 2013/14 to \$14.1 million in 2014/15 and to \$25.0 million by 2016/17. These operating cash flows will enable the Government to fully fund the repayment of the principal on outstanding debt and contribute to the Sinking Fund as agreed in the Framework Document.

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

Sinking Fund transfers of amounts above \$2 million at year end was \$17.2 million for 2013/14, instead of the agreed 11.1 million, this has resulted in a balance of \$58.2 million in the Sinking Fund at the end of financial year 2013/14. As such, we have reforecast 2014/15 sinking fund transfer to \$13.4 instead of previously agreed \$18.4 million and \$22.3 million in 2014/15 which will allow us to meet our agreed target of \$94 million by the end of 2015/16. The accumulated amounts in the Sinking Fund will assist with the repayment of the \$170 million bond in 2015/16. The Government also decided to set aside about \$15 million per annum as a reserve fund starting in 2016/17.

Liquid Cash Reserves, which is net of the Sinking Fund, is at \$14.9 million in 2015/16, the equivalent to 32 days of planned expenditure, \$25.0 million or 83 days in 2016/17 and \$37.3 million or 136 days by the end of 2017/18. 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 2017/18 and sustained thereafter.



Compliance with Principles of Responsible Financial Management

The compliance targets set out in the Principles of Responsible Financial Management are shown in table 6 below. It 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 5- Compliance with Principles of Responsible Financial Management

Table 4
Compliance with Principles of Responsible Financial Management

PRINCIPLES	DEGREE OF COMPLIANCE
<p>Operating Surplus: should be positive all years</p> <p>Operating Surplus = Total Operating revenue - Total Operating expenditure</p>	<p>Complies in all years</p> <p>2013/14: \$25.60 million 2014/15: \$18.84million 2015/16: \$31.50 million 2016/17: \$40.54million 2017/18: \$42.83million 2018/19: \$46.11 million</p>
<p>Debt Service: 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>Complies by the end of fiscal 2016/17</p> <p>2013/14: 17% 2014/15: 12.9% 2015/16: 15.5% 2016/17: 9.7% 2017/18: 8.9% 2018/19: 7.6%</p>
<p>Net Debt : 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>Complies in both 2015/16 and 2016/17</p> <p>2013/14: 131.4% 2014/15: 112.1% 2015/16: 91.7% 2016/17: 67.6% 2017/18: 41.8% 2018/19: 18.6%</p>
<p>Liquid Cash Reserves: 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>Complies by the end of fiscal 2017/18</p> <p>2013/14: 18 days 2014/15: 17 days 2015/16: 32 days 2016/17: 83 days 2017/18: 136 days 2018/19: 195 days</p>
<p>Financial Risks: Should be managed prudently so as to minimise risk</p>	<p>Complies in all years</p> <p>Insurance coverage exist for key assets and major potential liabilities. Hurricane and other natural disaster preparedness strategy in place</p>



CONCLUSION

This Fiscal and Strategic Policy Statement (FSPS) established the policy and financial framework upon which the 2014/15 budget has been prepared. It outlines the Government's medium term strategy to support the overarching goal of sustainable growth and development, for the people of TCI.

The aim is to increase the fiscal surplus, while providing the financial resources required to reduce the public debt in a responsible manner; at the same time continuing to pursue prudent expenditure management practices.

Notwithstanding the challenges in the global, regional and local economy, the medium term policies outlined in this FSPS will:

- 1) Chart a path to sustainable economic prosperity;
- 2) Contribute to strengthening the family unit;
- 3) Institutionalize and maintain good governance;
- 4) Enforce immigration, labor, and border control policy;
- 5) Educate and empower all citizens and resident at every stage of development;
- 6) Strengthen the disaster management program;
- 7) Result in greater presence and development of culture and national pride;
- 8) Result in enhanced transportation and communication services;
- 9) Ensure the provision of high quality healthcare services that is reliable, accessible, affordable, and sustainable;
- 10) And ensure sustainable use of our natural resources and utilities.

The achievement of the strategic targets presented in the FSPS will be intentionally managed in a manner that will result in the commitments agreed with the Secretary of State being attained and preserved.