



TURKS AND CAICOS ISLANDS GOVERNMENT

2015/16 FISCAL AND STRATEGIC POLICY STATEMENT PAPER



FISCAL AND STRATEGIC POLICY STATEMENT (FSPS) 2015/16

TURKS AND CAICOS ISLANDS GOVERNMENT



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Fiscal Strategy and Economic Outlook

OVERVIEW

The Government of the Turks and Caicos Islands (TCI), medium term fiscal strategy is to achieve budget surpluses over the economic cycle. The strategy is underpinned by the following broad policies:

- Chart a path to economic prosperity;
- strengthen the family unit;
- institutionalize and maintain good governance;
- enforce immigration, labor, and border control policy;
- educate and empower all at every stage of development;
- strengthen the disaster management program;
- result in greater presence and development of culture and national pride;
- result in transportation and communication enhancement;
- ensure provision of a reliable, accessible, affordable, and sustainable high quality healthcare;
- and ensure sustainable use of the natural resources and utilities.

These policies will result in a stronger more competitive economy with higher productivity and greater workforce participations. Through continuation of sound and prudent fiscal discipline over the government's coffer and revised legislative policies we will continue to attract private investment (foreign direct investment) to drive job creation and boost economic growth and development. A major task of this government is to continue to reduce the debt to GDP ratio.

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Strengthening the balance sheet by improving the net financial worth over time is also a major focus. This will assist the government to respond to external shocks and force majeure given the susceptible geographical boundary; whilst at the same time attracting lower debt interest costs.

The strategic focus for the fiscal year 2015/16 will result in prioritized allocation for:

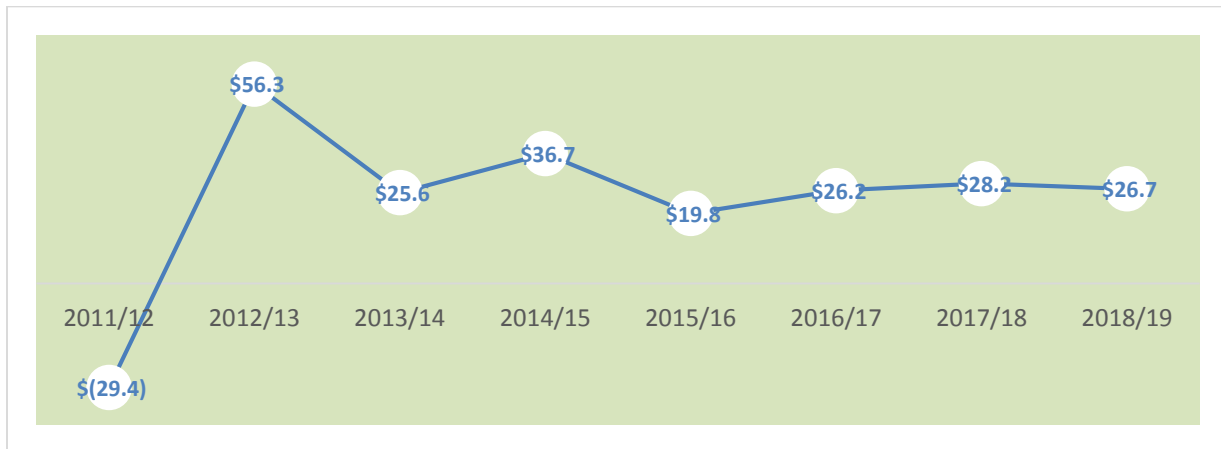
- Environmental protection
- Environmental cleanliness
- Marketing and promotion of the family islands as tourist destinations
- Cultural and heritage celebration
- Youth development
- Government information service
- Tertiary education – scholarship allocation
- Monitoring the existing PPP with InterHealth Canada

The deficit inherited by this government for the fiscal year 2011/12 was \$29.4 million. In the first few months of the government's existence in 2012/13, the deficit was transformed to a budget surplus of \$56.3 million. In the 2013/14 financial year we returned a surplus budget of \$25.6 million. The forecast outturn for 2014/15 is also expecting to return a surplus of \$36.7 million, up from the approved budget figure of \$18.8 million. The surplus will mean a reduction in government debt from \$337.5 million in 2012/13 to \$193.5 million in 2015-16. The government is budgeting to have a cash surplus of \$19.8 million or 2.35 percent of GDP in 2015/16 and \$26.2 million or 2.98 percent in 2016/17.

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Figure 1- Operating Surplus before Sinking Fund Contribution



Source: Table prepared by the Budget Office

The government policy of stabilizing and then reducing the debt will strengthen TCIG's balance sheet. It is the intent to replenish the fiscal balances to ensure that we are able to respond to future economic challenges.



ECONOMIC OUTLOOK

Outlook for the International Economy

Global economic growth is expected to increase gradually in 2014 and 2015 with continuing signs of broad-based improvement in both advanced and emerging markets. Growth in international trade flows is expected to pick up moderately. Most primary commodities prices are projected to be flat, although any unexpected supply-side shocks could push some of these prices higher and compromise growth prospects.

The International Monetary Fund (IMF) in its World Economic Outlook (WEO) 2014 has hypothesized that global activity has gained momentum. High income economies such as the US, Canada, UK and Europe are expected to grow on average by 2.4 percent during the period 2014-2016 when compared to an average growth of 1.5 percent in 2013. They have projected global growth at 3.6 percent in 2014, 3.9 percent in 2015, and 4.0 percent in 2016.

Figure 2- International Assumptions

	Actual	Estimate	Forecast		
	2013	2014	2015	2016	2017
World Growth	3	3.6	3.9	4	3.9
US	1.9	2.8	3	3	2.9
Canada	2	2.3	2.4	2.4	2.2
UK	1.8	2.9	2.5	2.4	2.3
European Union	0.2	1.6	1.8	1.9	1.9
Caribbean Growth					
Tourism dependent	0.7	1.4	1.9	2.0	2.0
Commodity dependent	3.2	3.2	3.2	3.2	3.2
Exchange rate (ECCB/USD)	2.7	2.7	2.7	2.7	2.7

Source: IMF World Economic Outlook, April 2014; IMF Regional Economic Outlook, April 2014

Within the advanced economies, the major trading partner, the U.S. which contracted during the first quarter due to severe weather, is expected to register growth of around 2.1 percent in 2014, a marginal increase from 1.9 percent in 2013.



This new projection is slightly down from the original forecast of 2.8 percent projected late last year. The US economy is projected to strengthen further in 2015 to a rate of 3 percent. Although, increasing slightly during the last month, the expansion in the U.S. economy has led to a significant reduction in the rate of unemployment in that country.

The Canadian economy is expected to grow in 2014 at a rate of 2.3% which when compared to the 2013 figures shows an increase of 0.3 percentage point.

The European Union is on target to grow by 1.4 percent this year. China and India are expected to continue registering above-average real growth through to 2015, though at rates somewhat lower than in the recent past. Brazil is expecting a growth rate of 1.5 percent. It is also anticipated that the European Union will be entering a path of recovery. Growth is projected to strengthen to 1.4 percent in 2014 and 1.8 percent in 2015 (IMF, 2014).

Outlook for the Caribbean Region

The IMF further forecasts that the average growth rate of the tourism dependent economies within the Caribbean is expected to grow by 1.4 percent in 2014, 1.9 percent in 2015 and 2.0 percent in 2016. On the other hand Caribbean commodity dependent countries are expected to experience a stable growth rate of 3.2 percent over the period 2013-2017. The Caribbean region, Anguilla is expecting a growth rate of 0.94 percent, Montserrat 1.33 percent, St. Kitts and Nevis a growth rate of 3.62 percent, Antigua and Barbuda 2.48 percent and St. Vincent and the Grenadines 1.87 percent. These figures show that the economies of the region and the world are on a more stable footing than it was a few years ago.

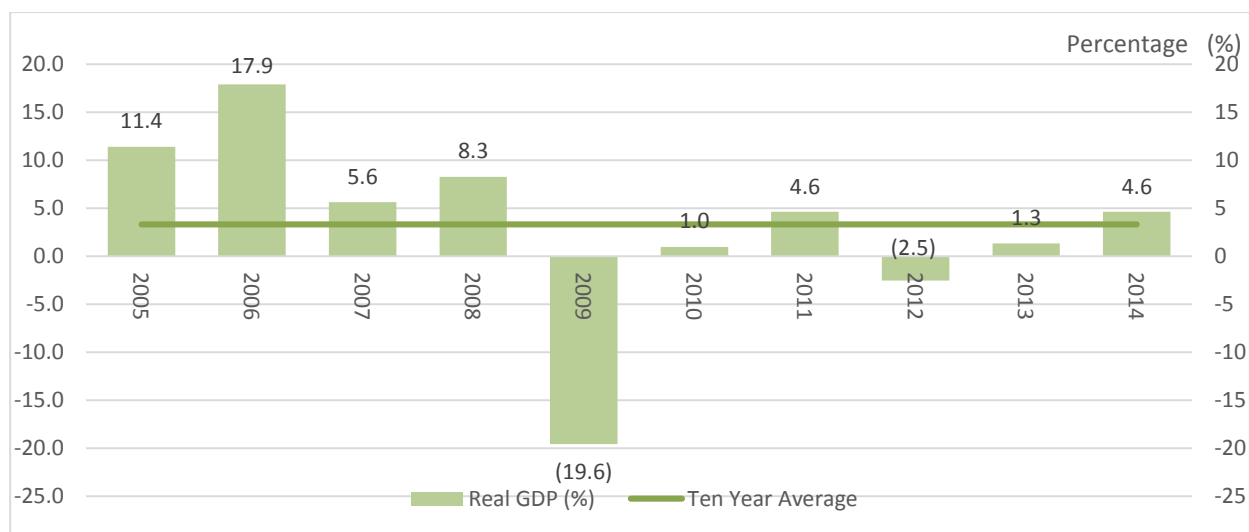


As tourism is the major income earner for the Caribbean it is useful to monitor the impact of any further decision that may be made by the Cuban Government to open their doors to widespread tourists arrivals.

Outlook for the Domestic Economy

The economy of the Turks and Caicos Islands is showing remarkable signs of improvement. Based on current trends, real GDP growth in 2014 is forecast at around 4.6 per cent with a moderate recovery in tourism, following real GDP growth of 1.3 percent in 2013 as seen in figure 3. Although the growth in 2013 was much weaker than forecast the economy is stable and future projections show signs of continuous positive growth as people adjust to new standards of living and become more comfortable with their purchasing power; the reallocation of scarce resources; lowering of unemployment rate and new industries emerging to take the lead in contributing to the growth of the Turks and Caicos islands economy.

Figure 3- Real GDP Growth



Source: Data Provided by the SPPD

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Economic growth is expected to be strengthened further in 2014 and 2015, underpinned by a recovery in stay over tourism and construction activity with spillovers into the wholesale and retail sectors. However, actual growth will depend on the strength of the recovery in the United States and the commitment of the government of the Turks and Caicos Islands to find ways of diversifying the economy, therefore making it less reliant on the tourism sector.

Average GDP growth over the period 2005 – 2014 is approximately 3.4 percent. Real GDP growth in the Turks and Caicos Islands on average is expected to be in the region of 3 percent over the next 3 years. The recovery in tourism is based on the ongoing cyclical expansion in major source markets, in particular the USA. The tourism sector is recovering, after a contraction in 2013 of 0.4 percent, with stay-over arrivals up by 30 percent during the first quarter of 2014 when compared to the corresponding period of 2013. Cruise ship passenger arrivals recorded robust growth of 46 percent which equates to 172,888 passengers during the first quarter of 2014 compared with the same period of 2013.

Growth is also expected in the construction sector as well as other sectors. The Hotel and Restaurants sector of the GDP is expected to grow by 6.1 per cent in 2014, contributing significantly to the estimated 4.6 per cent projected growth in the overall GDP. This economic turnaround is compared with a 0.1 per cent contraction in this sector in 2013.

Construction activity is expected to increase by approximately 4 percent in 2014 and should see further growth in 2015 and 2016, propelled by foreign direct investment in large-scale tourism related and other projects, as well as the revitalization of stalled projects and other new private sector projects.



These will be complemented by increased public sector spending on capital works, which include a number of road works throughout the Turks and Caicos Islands, the European Union Hurricane Ike restoration construction works, projects funded from the Carnival Infrastructure fund, as well as other government projects.

However, domestic private construction will remain weak, as a result of the unemployment and low wages earned by private individuals. Overall mortgage commitments and unemployment gives the indication that the challenges facing domestic private construction are expected to last into the short term but should improve in 2015 and 2016 as the unemployment rate is projected to be lower.

Development Projects will likely continue to boost employment levels and local income. However, the modest US recovery (major source of TCI tourist arrivals) will continue to temper the rebound in the Turks and Caicos Islands. Unemployment levels in the USA will have a negative impact on the TCI tourism sector. This underscores the need for greater diversification by the government and the TCI becoming less reliant on tourism as the major contributor to GDP.

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 tourism sector. The government is currently taking steps to boost competitiveness in the tourism and financial sectors and improve the business climate of the economy so that the prospect for robust growth can be strengthened.



Unlike the period 2008 to 2012 which was one of great uncertainty, stability has been mainly restored and the Turks and Caicos Islands now have: relatively healthy public finances, with the government having a more predictable planning horizon.

Although there are no official estimates available for unemployment, SPPD estimates that unemployment is in the region of 15% as seen in table 1, which is much lower than the 17 percent recorded during the census of 2012 and is on a down ward trend, since it hit its highest recorded level in 2012. Forecast for inflation is expected to be within the region of 2.5 to 3 percent over the next two years.

Merchandise imports to the Turks and Caicos Islands increased by 14.8 percent during the first half of 2014 when compared to the same period last year. Imports were valued at \$187.2 million for the period when compared to \$163 million in 2013. Exports from the Turks and Caicos Islands during this period were valued at \$3.2 million when compared to \$2.3 million during the first half of 2013. This resulted in a merchandise trade deficit of approximately \$183.9 million during the first six months of 2014. This was approximately 14.4 percent or \$23.2 million above the deficit recorded during the corresponding period of 2013. SPPD has forecast that import volumes should grow by more than 20% in 2014 and 2015. However, with a less diversified group of exports, prospects for growth are much smaller.

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Figure 4- Domestic Macroeconomic Assumptions

	Actual	Estimate	Forecast		
	2013	2014	2015	2016	2017
Nominal GDP (\$m)	736,376	796,759	840,000	880,000	920,000
Nominal GDP Growth (%)	2.9	8.2	5.4	4.8	4.5
GDP Deflator					
Real GDP (%)	2.8	3.5	3.2	3.0	2.5
CPI (%)	2.5	2.0	2.0	2.0	2.0
Population	31.5	33.0	34.0	35.0	36.8
Nominal GDP per capita (\$)	23,377	24,144	24,706	25,143	25,000
Value of Imports (\$)	338.9	372.8	410.1	430.6	452.1
Exports (\$)	5.9	6.2	6.8	7.5	8.2
Balance of Trade	-333.0	-366.6	-403.3	-423.1	-443.9
Foreign Direct Investment (\$m)	430,000	250,000	200,000	200,000	200,000
Unemployment (%)	17	15	13	12	12

Source: Data Provided by the SPPD Unit

Given the projected growth in imports as a result of projected growth in the tourism and construction sectors of the TCI economy and the lack of a more diversified group of exports, it is likely that the trade imbalance will continue to increase in the foreseeable future.

Downside Risks

Despite the positive sentiment on global economic growth prospects and the TCI positive growth outlook, the TCI is always mindful that there are a range of downside risks which can lead to growth prospects in the Turks and Caicos Islands not materializing. Economic performances and an increase in unemployment in the USA and major source markets can affect the Turks and Caicos economy negatively. The availability of external financing for public and private sector projects may hinder growth in the construction industry impacting negatively on the flow of foreign direct investment into the Turks and Caicos Islands.



There is always the risk of an unforeseen global financial or macroeconomic shock which triggers another economic downturn. Other growth-constraining factors should be considered; in particular, fuel costs, tourism confidence and the global public health concerns. Inherently, the threat of hurricanes during the period June to November which can lead to flight cancellations and hotel closures.

Despite the many risks, the TCI is poised to manage those risks by continued strengthening of the macroeconomic policy making framework; the development of public sector investment programs, within the framework of a development strategy for the medium term and by enhancing private sector development. Nonetheless, with a positive trajectory assumed for the primary markets, the Strategic Policy and Planning Department is confident that the TCI economy will continue to improve and experience positive economic growth over the next few years.



FISCAL STRATEGY

Government Fiscal Strategy

The government's fiscal strategy is consistent with the framework document that was signed between the UK government and the TCI's government. The policy sets out that new spending requests must be offset by reductions in spending elsewhere within the budget. Additional allocations granted through new spending requests, that are approved must have direct economic benefit to the citizenry of the TCIs. The infrastructure development package is designed to support economic growth of all islands. The government has also redirected government spending to quality investments to boost productivity and participation. In this fiscal year the government funded infrastructure development projects will cost \$11.0 million. The strategic focus for the fiscal year 2015/16 will result in prioritized allocation for:

- Environmental protection
- Environmental cleanliness
- Marketing and promotion of the family islands as tourist destinations
- Cultural and heritage celebration
- Youth development
- Government information service
- Tertiary education - scholarship allocation
- Monitoring of the existing PPP with InterHealth Canada



Strong Fiscal Discipline

The existing strategy of putting aside a portion of the operating surplus to reduce government debt reflects the commitment to maintain the strong fiscal discipline required to pay down the debt. This is a necessary part of reducing the government's share of the economy over time in order to free up resources for private investment which will create jobs and boost economic growth; and allow Turks and Caicos Islanders to live within their means. This will enable the government to deliver a substantial surplus of \$19.8 million in this fiscal year.

We are far advanced in reducing the debt to GDP ratio from 29.9 percent in 2014/15 to 23.0 percent in 2015/16 and 18.3 percent of GDP in 2016/17, before returning to 13.2 percent in 2017/18. Net interest payments annually will remain below 1.0 percent of GDP.

Table 1- Net worth, net financial worth, net debt and net interest payments

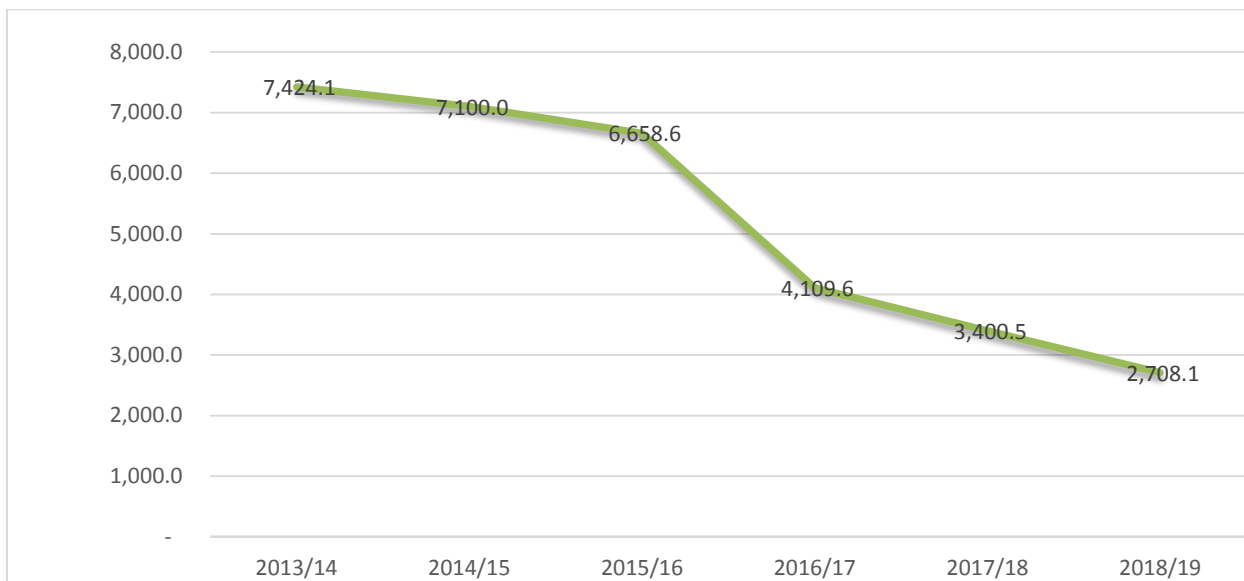
	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$b	\$b
Net debt(\$b)	238,090	193,548	161,290	121,146	88,170
Per cent of GDP	29.88%	23.04%	18.33%	13.17%	0.00%
Net Interest payments	7,424	6,659	4,110	3,401	2,708
Per cent of GDP	0.93%	0.79%	0.47%	0.37%	-
GDP	796,759	840,000	880,000	920,000	

Table prepared by the Budget Office; Format adapted from the Australian Medium Term Framework 2014/15

GDP Data Provided by SPPD



Figure 5- Projected Debt Financing Expenses



Source: Prepared by the Budget Office

Reducing interest expenses is a major priority of this government and we are determined to reduce the impact that debt servicing can have on the overall budget process. Figure 5 above shows the projected debt service charges leading into 2018/19. This will be achievable as the TCI has a credit rating of BBB+, which should result in the interest rate being manageable.



FISCAL OUTLOOK

Budget Aggregates - Aggregate Financial Targets

The aggregate financial targets established by Cabinet is the basis upon which the 2015/16 budget and the financial targets for 2016/17 – 18/19. This is a planning guide for the government and will be updated in future years as the government priority changes or the financial position of the Islands improves.

Table 2- Turks & Caicos Islands General Government Sector Budget Aggregates

	Actual	Estimates			Projections		Totals(a)
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Recurrent Revenue	200,346	212,483	223,237	224,200	226,948	226,737	1,113,604
Per cent of GDP	27.21%	26.67%	26.58%	25.48%	24.67%	-	
Recurrent Expenses	(154,575)	(173,903)	(187,858)	(185,305)	(185,305)	(185,305)	(917,675)
Per cent of GDP	20.99%	21.83%	22.36%	21.06%	20.14%	-	
Underlying cash balance	45,771	38,580	35,379	38,895	41,643	41,432	195,929
Per cent of GDP	6.22%	4.84%	4.21%	4.42%	4.53%	-	
Total Revenue	208,049	219,294	229,452	229,300	228,948	226,737	1,133,730
Per cent of GDP	28.25%	27.52%	27.32%	26.06%	24.89%	-	
Total Expenses	(172,710)	(187,624)	(198,674)	(192,514)	(188,705)	(188,013)	(955,531)
Per cent of GDP	23.45%	23.55%	23.65%	21.88%	20.51%	-	
Net operating balance	35,339	31,670	30,778	36,785	40,243	38,724	178,200
Net capital investment	(9,712)	(12,829)	(11,010)	(10,536)	(12,000)	(12,000)	(58,376)
Fiscal balance	25,627	18,840	19,768	26,249	28,243	26,724	119,824
Per cent of GDP	3.48%	2.36%	2.35%	2.98%	3.07%	-	
GDP	736,376	796,759	840,000	880,000	920,000		

Table prepared by the Budget Office; Format adapted from the Australian Medium Term Framework 2014/15; GDP Data provided by the SPPD Unit

Total revenue in 2015/16 is 27.3 percent of GDP and recurrent expenditure accounting for 23.7 percent. Net Capital Investment is \$ 11.0 million and net operating surplus before transfer to the sinking fund is \$ 19.8 million, 2.4 percent of GDP.



Policy Decisions/Expectations

Since the approval of the 2013/14 FSPS, several policy decisions have resulted in increase in government receipts. In October and November of 2013, the existing revenue streams listed below were adjusted to increase government receipts.

Figure 6- Increase to Specific Revenue Streams

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

Source: Table prepared by the Budget Office

There were several other revenue measures that were postulated such as a 3% payroll tax, introduction of an immigration bill that would result in increased work permit fees, introduction of a dormant account bill that would increase government revenue. The dormant account bill was passed in October 2014, and the receipts are being anticipated in fiscal year 2015/16. All other measures mentioned above failed to advance into law because of legislative decisions.

Freight and Insurance Tax (FIT) currently being levied at 7.5 percent is being proposed to be eliminated from the revenue streams to take effect in the 2015/16 budget cycle. This measure is to reduce the tax burden on the citizenry of the Turks and Caicos Islands. Revenue loss from this policy decision is projected at \$2 million. In addition, the existing business licence revenue fees will be reduced effective April 1, 2015, to stimulate Small and Medium Enterprises (SME) development and reduce the cost of business in TCI. It is also being postulated as a measure to ensure that the capital investment market attracts foreign direct investors, to reduce business operating inefficiencies.



Excess net revenue from both Airport Authority and Ports Authority will be retained by the respective agencies to invest in development projects in South Caicos Airport and Ports Dock in Providenciales respectively.

Table 3- Fiscal Balance -Budget Aggregates

	Actual	Estimates			Projections		Total(a)
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	
Underlying cash balance (\$m)	45,771	38,580	35,379	38,895	41,643	41,432	195,929
Per cent of GDP	6.22%	4.84%	4.21%	4.42%	4.53%	0.00%	
Fiscal balance (\$m)	25,627	18,840	19,768	26,249	28,243	26,724	119,824
Per cent of GDP	3.48%	2.36%	2.35%	2.98%	3.07%	0.00%	

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18

Table prepared by the Budget Office; Format adapted from the Australian Medium Term Framework 2014/15

An underlying cash balance, which is the net recurrent cash flow, is projected at \$35.4 million or 4.2 percent of GDP in 2015/16. It is expected to continue improve into 2017-18 to a surplus of \$ 41.6 million or 4.5 percent of GDP. Fiscal balance which is the net cash flow after capital expenditure is projected at \$19.8 million or 2.4 percent of GDP for 2015/16. This is expected to continue improve into 2017-18 to a surplus of \$28.2 million or 3. 1 percent of GDP.

The recurrent receipts estimates are expected to be approximately \$7.0 million higher in 2015/16 than was estimated in the 2013/14 FSPS. This is \$ 5.6 million lower than the forecast outturn for 2014/15. Since, the 2013/14 FSPS total receipts have been revised up by \$23.0 million. In 2015/16 recurrent revenue is estimated at \$223.2 million and non-recurrent revenue is \$6.2 million. Total revenue is \$229.5 million or 27.3 percent of GDP.



GOVERNMENT FISCAL STRATEGY

The strategy of the government underpins those established in the framework document of 2012/13. The primary focus is to remain compliant with the Principles of Responsible Financial Management. The major components are listed in five (5) strategies.

Strategy 1 - Controlling Government Expenditure

The government continues to implement strategies to control public expenditure in a prudent and rational manner. The strategic initiatives and continued commitment to fiscal prudence have been strongly demonstrated through several cost containment measures including: curtailing local and overseas travel, the implementation of a wage freeze, as well as, deferring the hiring of non-essential staff. Actual expenditure falls below budget expenditure in 2013/14 and is forecast to fall below budget in 2014/15. The targets outlined in the table below shows the operating expenditure targets for the next 4 fiscal years.

Figure 7- Expenditure Targets

Recurrent Expenditure	Actual 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Total Personnel Costs	59,303	64,421	72,313	72,313	72,313	72,313
Pension and Gratuity	4,918	5,751	5,751	5,751	5,751	5,751
Transfers to NHIB	20,625	19,688	19,388	19,388	19,388	19,388
Hospital Provisional Charges	24,529	23,713	23,713	23,713	23,713	23,713
Subventions	6,648	7,931	10,001	9,531	9,531	9,531
Rental of Assets	5,624	5,384	5,812	5,812	5,812	5,812
Other expenditure - Contingency	5,000	4,705	5,000	5,000	5,000	5,000
Other expenditure	27,928	42,309	45,880	43,797	43,797	43,797
Total Recurrent Expenditure	154,575	173,903	187,858	185,305	185,305	185,305
<i>Annual per cent recurrent expenditure increase</i>		12.50%	8.02%	-1.36%	0.00%	0.00%
Recurrent Expenditure	Actual 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Civil Recovery	6,073	2,200	1,158	1,100	-	-
SIPT recovery	4,638	4,421	3,000	2,000	-	-
Debt service, interest and fees	7,424	7,100	6,659	4,110	3,401	2,708
Total Non-Recurrent Expenditure	18,135	13,721	10,817	7,210	3,401	2,708
Total Operating Expenditure	172,710	187,624	198,674	192,514	188,705	188,013

Source: Table prepared by the Budget Office



In 2015/16, recurrent expenditure growth rate will be 10.27 percent over the forecast outturn for 2014/15. This is due primarily to a government decision to implement a salary grade review that has been outstanding since 2012 and adjustment of Ministry ceilings for inflation. It has become necessary to implement the salary grade review as it is becoming increasingly difficult to attract and retain qualified and competent staff in front line services. In addition, there is government prioritized expenditure in the form of new spending of approximately \$5.5 million.

Staff Costs, Pension and Gratuity

Costs relating to personnel, pension and gratuity is estimated at 41.6 percent of recurrent expenditure in 2015/16, which will be 12 percent higher than the allocation for the previous year. The additional provision is to implement a salary regarding exercise that has been outstanding since 2012 and to recruit additional teachers for the Clement Howell High School.

Hospital Related Charges

Subvention to NHIB and the Hospital charges will account for an additional 22.9 percent of the recurrent expenditure in 2015/16. This is a slight reduction when compared to allocation for 2014/15 as we anticipate the NHIP will continue to improve their operational efficiencies.

Subvention

Subvention to other statutory bodies accounts for 5.3 percent of the recurrent budget. There is an increase in allocation to the tourist board to continue with their marketing efforts.



Other Recurrent Expenditure

Included in the 2015/16 budget is a 3 percent increase to the recurrent expenditure to cushion the impact of the inflation rate. Allocation to SIPT and Civil recovery expenditure have been reduced as we anticipate a decline in activities relating to these matters. A general contingency provision of \$ 5 million or 2.79% of recurrent revenue is embedded in the expenditure targets of each year.

Strategy 2 - Management of Public Debt

The UK Government finalized a US\$260 million loan guarantee package to cover a period of government operations ending in 2016. The 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 existing framework document has specific debt reduction targets to be achieved within specific time frame. Net debt as a ratio to annual operating revenue must not exceed a maximum of 110 percent by 2015/16. Also, net debt as a percentage of annual operating revenue must not exceed 80 percent by 2018/19, while maintaining debt service at a maximum of 10 percent of annual operating revenue and liquid assets at least 25 percent of annual operating expenditure.

In accordance with the Public Finance Management (PFM) Ordinance 2012, the Sinking Fund has been established, for the purpose of paying down the public debt. Cash for the Sinking Fund is from civil recovery and budget surplus. 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. Specific initiatives have been implemented to encourage foreign direct investments as domestic capital is limited. The outstanding debt on the loan guarantee is currently US\$170 million.



Although, at this time, there is no specific requirement for the government to continue to maintain the Sinking Fund post February 2016, the government has decided that it will continue to maintain the Fund with further annual transfers of \$12.0 million per year from operating surplus. Total government debt at the end of the financial year 2013/14 was \$ 329.0 million. Table 4, shows the government's summarized debt accounts.

The debt is forecast to reduce to \$ 199.6 million including the new loan of \$ 70 million, as the bond repayment of \$ 170 million is paid out in February 2016. Net Debt, which is the total government debt less sinking fund accumulation and cash balances is forecast to reduce to \$ 193.5 million in 2015/16 and \$ 88.2 million in 2018/19. The Scotia Term Loan of \$ 9 million was repaid in the fiscal year 2014/15. The Airport Authority will complete payment on the expansion loan in 2017/18.

Table 4- Government Debt Schedule

GOVERNMENT DEBT	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Citibank	3,125	2,292	1,459	626	-	-
CDB Loans	2,699	2,347	2,018	1,689	1,360	1,031
RBTT Loans	4,472	1,667	1,111	555	-	-
HSBC/RBTT Loans	170,000	170,000	-	-	-	-
Scotia Term Loan	9,000	9,000	-	-	-	-
TC Bank Loan	7,674	6,607	5,540	4,473	3,406	2,339
New Borrowing	-	-	70,000	60,000	50,000	40,000
Imputed PPP Hospital debt outstanding	110,756	107,980	104,886	101,440	95,690	89,940
TCIAA (Adjusted to FFD 20% weighting)	10,780	9,240	7,560	5,600	-	-
TCInvest (Net)	10,468	8,762	7,040	5,318	3,596	1,874
Total Government Debt	328,974	317,895	199,614	179,701	154,052	135,184
Net Debt	263,266	229,275	193,548	161,290	121,146	88,170
Core Government Debt	141,730	112,055	87,168	60,661	34,362	9,244

Table prepared by the Budget Office

The TCI Government intends to independently refinance \$70 million in February 2016, when the US\$ 170 million bond matures.



As part of the process TCIG engaged Standards & Poor's Rating Agency to assess the ratings of the TCI. The long-term rating accorded is BBB+.

The sinking fund is forecast to accumulate a total of \$100 million by February of 2015/16. Plans are advanced with the refinancing process; it is the intention to have discussions with domestic financial institutions as well as international capital markets to obtain the lowest interest rate possible.

The acquisition of new financing of \$70 million, is estimated at an interest rate of 4.5 per cent annually; amortized and repayable over 7 years from operating surplus. Table 5, shows further details on the principal amount with sensitivity to interest rates at 4 and 5.5% percent.

Table 5-New Loan Amortization

Data Table: Sensitivity of the Interest Component to the Interest Rate/Year							
Input Values for	Output Formula: interest Component						
4.50%	3.9	3.4	2.9	2.4	1.8	1.3	0.6
4%	2.8	2.4	2.1	1.7	1.3	0.9	0.4
5.5%	3.9	3.4	2.9	2.4	1.8	1.3	0.6
Data Table: Sensitivity of the Principal Component to the Interest Rate/Year							
Input Values for	Output Formula: Principal Component						
4.50%	8.5	8.9	9.4	9.9	10.5	11.1	11.7
4%	8.9	9.2	9.6	10.0	10.4	10.8	11.2
5.5%	8.5	8.9	9.4	9.9	10.5	11.1	11.7
Data Table: Sensitivity of the Principal Component to the Interest Rate/Year							
Input Values for	Output Formula: Payment						
4.50%	12.3	12.3	12.3	12.3	12.3	12.3	12.3
4%	11.7	11.7	11.7	11.7	11.7	11.7	11.7
5.5%	12.3	12.3	12.3	12.3	12.3	12.3	12.3

Source: Table prepared by the Budget Office



Strategy 3 - Revenue Enhancement

The government has recognized the importance of broadening the tax base of the TCI to reduce the susceptibility to world economic uncertainties and the vulnerability of the nascent tourism industry to external shocks.

Tourism Related Revenue

For the 2014/15 budget cycle, the major tourism related receipts are forecast to return approximately \$16 million above the approved budget forecast. This is attributable to the extended winter season in the primary market (United States), increased marketing efforts and the largest hotel remaining open during the summer months of September and October. Cruise ship passengers also increased over same period last year by 26.9% percent in the first half of the fiscal year.

The unprecedented growth that was experienced in 2014/15, underscores the fact that there has been increased confidence in the economy. However, for 2015/16 factors such limited increase in airline seating, limited additional rooms being added to the major tourism island and the susceptibility because of the geographical boundary resulted in a conservative revenue forecast. Table 6, is an illustrative sensitivity of the budget to a further 1 or 3 percent +/- revenue growth rate in the major tourism related revenue streams.

Table 6- Tourism Related Revenue Sensitivity

Tourism Related Streams	Forecast Outturn	Target Growth Rate 1.5%	+1% Revenue Growth Rate	-1% Revenue Growth Rate	+3.5% Revenue Growth Rate	-3.5% Revenue Growth Rate
	2014/15	2015/16	2015/16	2015/16	2015/16	2015/16
Import Duty	57,501	58,364	58,939	57,789	60,376	54,626
Hotel & Restaurant Tax	53,873	54,681	55,220	54,142	56,567	51,179
Customs Processing Fee	28,248	28,672	28,955	28,390	29,661	26,836
Total Major Tourism Related Receipts	139,623	141,717	143,113	140,321	146,604	132,641



Import duty

Import duty accounts for 26.1 percent of the 15/16 recurrent revenue. This is 1.5 percent increase over the forecast outturn of 14/15.

Accommodation Tax (Hotel and Restaurant Tax)

Accommodation Tax is 24.5 percent of the 15/16 recurrent revenue. This is 1.5 percent increase over the forecast outturn of 14/15.

Customs Processing Fee

Customs processing fee is being levied at 7.5 percent. It will contribute 12.8 percent of the recurrent revenue.

Stamp Duty on Land Transactions

Stamp duty on land transactions is projected to return 8.2 percent of the recurrent revenue budget. This is an extremely difficult area to predict the growth rate with certainty because of the unpredictable nature of the real estate industry.

Table 7- Revenue Forecast

Recurrent Revenue	Actual 2013/14	Forecast Outturn 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Import Duty	52,699	57,501	58,364	58,364	58,364	58,364
Hotel & Restaurant Tax	40,948	53,873	54,681	54,681	54,681	54,681
Customs Processing Fee	22,573	28,248	28,672	28,672	28,672	28,672
Stamp Duty on land transactions	21,944	18,326	18,200	18,200	18,200	18,200
Work Permits and Residency Fees	18,877	20,856	18,949	18,949	18,949	18,949
Fuel Tax	7,681	8,449	8,576	8,576	8,576	8,576
Business License Renewal	1,879	3,316	1,000	1,000	1,000	1,000
Airport Authority transfer	-	-	1,000	3,000	5,000	3,000
Other recurrent revenues	33,744	34,925	34,925	34,925	34,925	34,925
Total Recurrent Revenue	200,346	228,867	223,237	224,200	226,948	226,737
<i>MOF annual per cent revenue increase</i>		14.24%	-2.46%	0.43%	1.23%	-0.09%
Non-Recurrent Revenue	Actual 2013/14	Forecast Outturn 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Land Sale Receipts	1,822	1,081	1,100	1,100	-	-
NIB Revenue	-	-	-	-	-	-
EU Grants & Other Grants	8	4,088	5,000	4,000	2,000	-
Civil Recovery Program	1,258	1,500	-	-	-	-
SIPT Recovery	-	-	-	-	-	-
Dormant Bank Accounts	-	-	-	-	-	-
Other Receipts	4,615	29	116	-	-	-
Total Revenue	7,703	6,698	6,216	5,100	2,000	-
Total Revenue	208,049	235,565	229,452	229,300	228,948	226,737

Table prepared by the Budget Office; Format adapted from the Australian Medium Term Framework 2014/15



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 realize this goal. Quarterly, financial reports from Statutory Bodies are submitted to the Ministry of Finance for review and an urgent action is taken if intervention is required.

Strategy 5 - Public Private Partnerships

The fifth element of the government's fiscal strategy relates to the need for ongoing development of the country's infrastructure in order to support economic development. 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 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 capitalized 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.

The government continues to seek partnership with qualified third party entities for the development of large capital projects, subject to prior approval of the SOS.

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STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)

Operating Surplus

The results of the fiscal year ended March 31st 2014 presents an operating surplus \$24.0 million compared to a budgeted surplus of \$19.8 million, an outturn that was 21.0 percent better than expected.

Table 8 -Operating Surplus

	Actual	Budget	Prior Year	Budget		Prior Year	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	%	\$ 000's	%
Recurrent Revenue	200,495.2	198,447.3	180,455.8	2,048.0	1%	20,039.5	11%
Recurrent Expenditure	154,935.8	161,575.5	147,982.3	6,639.6	4%	(6,953.6)	(5%)
Net Recurrent Surplus/(Deficit)	45,559.4	36,871.8	32,473.5	8,687.6	24%	13,085.9	40%
Non-Recurrent Revenue	6,307.0	11,542.0	59,781.6	(5,235.0)	(45%)	(53,474.6)	(89%)
Non-Recurrent Expenditure	27,867.9	28,648.0	35,966.8	780.1	3%	8,099.0	23%
Operating Surplus	23,998.5	19,765.8	56,288.3	4,232.7	21.4%	(32,289.8)	(57%)

Total revenue for the year amounted to \$206.8 million, which was \$3.2 million or 2 percent below the budget estimates and \$33.4 or 14 percent million below last year's results, however this significant variance year after year is primarily due to large non-recurrent receipts in the previous financial year. Total government expenditure for the year was \$182.8 million, which compared favourably with both the budget estimates and prior year's results.

The year's outturn was \$7.4 million or 4 percent below budget estimates and \$1.1 million or 0.6 percent below the results for the prior year.

Revenue Performance

Recurrent revenue for the twelve months was \$200.5 million, compared to a budget of \$198.4 million, a positive variance of \$2.0 million or 1 percent. Recurrent revenues also out-performed prior year's receipts significantly by \$20.0 million or 11 percent.



Import duties

Import duties accounted for 26.3 percent of recurrent revenues. It was \$2.0 million above budget estimates and \$4.1 million improvement over the results for 2012/13.

Hotel & Restaurant Tax (Accommodation Tax)

Hotel and Restaurant Tax accounted for 20.4 percent of recurrent revenues. It was \$40.9 million for the year. It exceeded budgetary targets by \$3.1 million or 8 percent and 2012/13 actuals by 20 percent. The tax rate was increased from 11 percent to 12 percent during the financial year.

Customs Processing Fees

Customs Processing Fees was 22.6 million or 11.3 percent of recurrent revenues for the year. It exceeded the budget estimates by \$2.8 million in 2013/14 and \$3.6 million in 2012/13. This was mainly due to the government policy decision to increase the rate from 6 percent to 7.5 percent in the middle of the fiscal year.

Stamp Duty on Land Transactions

Stamp Duty on Land Transactions receipts for the year was \$21.9 million or 11 percent of the recurrent budget. It exceeded the budget estimates for 2014/15 by \$6.8 million the 2012/13 estimates by \$8.0 million. This is an indication of increased activity in the real estate industry, and augers well for continued recovery in the sector. This revenue stream is very difficult to forecast because of the nature of it.

Work Permits & Residency Fees

Work permit and Residency receipts totaled \$13.3 million for the year, accounting for 7 percent of recurrent revenues. It was \$1.7 million or 14.5 percent above budget estimates for 13/14 and \$2.4 million or 22 percent above the 2012/2013.



Fuel Tax

Fuel Tax returned receipts of \$7.7 million and was above budget estimates by \$0.4 million or 6.0 percent; when compared to the previous year it was \$0.8 million or 11 percent. There was a government policy decision to increase the rate by 10 cents in 2013.

Other Recurrent Receipts

Other recurrent receipts were \$41.3 million. It was 14.7 million or 26 percent below budget estimates and \$5.8 million or 12 percent below budget estimates for 2012/2013 receipts.

Non Recurrent Revenues

Accounted for \$6.3 million or 3 percent of total revenues collected and was 45 percent below budget. It was \$53.5 million or 89 percent below receipts for 2012/13. Of the total \$6.3 million collected, \$3.3 million or 52 percent came from contribution from the National Forfeiture Fund, while \$1.1 million and \$1.8 million came from civil recoveries and land sales respectively. It is extremely difficult to forecast receipts for these line items due to the nature of the cases that fall under these lines.

FISCAL AND STRATEGIC POLICY STATEMENT (FSPS) 2015/16

TURKS AND CAICOS ISLANDS GOVERNMENT



Table 9- Revenue Summary

RECURRENT REVENUES	2013-14 Actual	2013-14 Estimates	2012-13 Actual	Actual 2012-13 Vs Estimates 2013-14		Actual 2013-14 vs Actual 2012-13	
	US \$000	US \$000	US \$000	US \$000	%	US \$000	%
Import Duty	52,702	50,735	48,582	1,967	4%	4,120	8%
Hotel & Restaurant Tax	40,948	37,869	34,025	3,079	8%	6,923	20%
Customs Processing Fee	22,574	19,821	18,967	2,753	14%	3,607	19%
Stamp Duty on Land Transactions	21,944	15,124	13,927	6,820	45%	8,017	58%
Work Permits and Residency Fees	13,321	11,639	10,913	1,682	14%	2,408	22%
Fuel Tax	7,681	7,254	6,917	427	6%	764	11%
Other Revenues	41,324	56,004	47,124	(14,680)	(26%)	(5,800)	(12%)
Total Recurrent Revenues	200,495	198,447	180,456	2,048	1%	20,039	11%

NON-RECURRENT REVENUES	2013-14 Actual	2013-14 Estimates	FY2012-13 Actual	Actual 2012-13 Vs Estimates 2013-14		Actual 2013-14 vs Actual 2012-13	
	US \$000	US \$000	US \$000	US \$000	%	US \$000	%
Civil Recovery Income	1,144	5,000	28,181	(3,856)	(77%)	(27,037)	(96%)
Land Sales	1,822	3,000	11,161	(1,178)	(39%)	(9,340)	(84%)
Revenue from Grants	59	1,446	12,940	(1,387)	(96%)	(12,881)	(100%)
National Forfeiture fund Contributions	3,283	2,096	-	1,187	57%	3,283	0%
Sale of Shares	-	-	7,500	-	0%	(7,500)	(100%)
Total Non-Recurrent Revenues	6,307	11,542	59,782	(5,235)	(45%)	(53,475)	(89%)

Total Revenues	206,802	209,989	240,237	(3,187)	(2%)	(33,435)	(14%)
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Expenditure Performance

Total government expenditure for the fiscal year 2013/14 was \$182.8 million, which compared favourably with both the budget estimates and prior year's results. It was \$7.4 Million or 4 percent below budget estimates and \$1.1 million or 1 percent below the results for the prior year.

Recurrent Expenditures, increased by \$7.0 million or 5 percent against 2012/13. It was \$ 6.6 million or 4 percent below budget estimates.

Personnel Costs

Personnel Costs for the year, accounted for 42 percent of recurrent expenditure. It totaled \$64.6 million. This amount was \$0.8 million or 1 percent below budget estimates and \$7.3 million or 13 percent above 2012/13 costs. The major contributor to this negative variance against last year's costs is the full effect of the 10 percent reinstatement on salaries and wages. The delay in recruitment of some critical vacancies also attributed to this.



Transfers to the National Health Insurance Board (NHIB) subvention accounted for 13 percent of recurrent expenditures. The outturn for 2013/14 was \$ 20.6 million which was marginally below budget and \$ 2.4 million or 13 percent above 2012/13, primarily due to increase subventions to NHIB for the financial year.

Hospital Provision Charges, which accounted for 16 percent of recurrent expenditure, totaled \$ 24.5 million for the year which were \$ 0.2 million or 1 percent below budget while being \$ 0.2 million or 1 percent above last year's outturn. Year to date costs were below budget and last year's outturn by \$ 0.3 million or 5 percent and \$ 0.2 million or 4 percent respectively.

Rental of Assets

Rental of Assets cost totaled \$5.6 million for the year, which was 2 percent below budget estimates and \$0.6 million or 13 percent above 2012/13, due to saving from previous year's repair and occupation of government owned facilities.

Other Recurrent Expenditure totals for the year were \$33.4 million, which was \$5.1 million or 15 percent below budget estimates and \$3.4 million or 9 percent below last year's receipts.

Non-recurrent expenditure

Non-recurrent expenditure for the year totaled \$27.9 million. This amount was \$0.8 million or 3 percent below budget estimates and \$8.1 million or 23 percent below the results of the prior year. Debt servicing accounted for 26 percent, while 22 percent and 17 percent were spent on civil recovery and Special Investigation Prosecution Team (SIPT) expenses respectively.

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TURKS AND CAICOS ISLANDS GOVERNMENT



Table 10- Expenditure Summary

RECURRENT EXPENDITURE	2013-14 Actual	2013-14 Estimates	2012-13 Actual	Actual 2012-13 vs Estimates 2013-14		Actual 2013-14 vs Actual 2012-13	
	US \$000	US \$000	US \$000	US \$000	%	US \$000	%
Total Personnel Costs	64,619	65,433	57,292	(815)	(1%)	7,327	13%
Transfers to NHIB	20,625	20,718	18,207	(93)	(0%)	2,418	13%
Hospital Provisional Charges	24,529	24,720	24,295	(191)	(1%)	234	1%
Subventions	6,188	6,517	6,407	(329)	(5%)	(218)	(3%)
Rental of Assets	5,615	5,711	4,980	(97)	(2%)	634	13%
Other Expenses	33,360	38,476	36,801	(5,116)	(13%)	(3,442)	(9%)
Total Recurrent Expenditure	154,936	161,575	147,982	(6,640)	(4%)	6,954	5%

NON-RECURRENT EXPENDITURE	2013-14 Actual	2013-14 Estimates	2012-13 Actual	Actual 2012-13 Vs Estimates 2013-14		Actual 2013-14 vs Actual 2012-13	
	US \$000	US \$000	US \$000	US \$000	%	US \$000	%
Capital Expenditure	9,711	9,711	15,162	-	0%	(5,451)	(36%)
Special Investigation Prosecution Team	4,663	4,850	5,968	(187)	(4%)	(1,305)	(22%)
Civil Recovery	6,073	6,393	7,331	(320)	(5%)	(1,258)	(17%)
Interest on Loans	7,421	7,694	7,505	(273)	(4%)	(85)	(1%)
Total Other Expenditure	27,868	28,648	35,967	(780)	(3%)	(8,099)	(23%)

Total Expenditure	182,804	190,223	183,949	(7,420)	(4%)	(1,145)	(1%)
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Capital Expenditure

Capital expenditure of \$9.7 million was 36.0 percent below the previous year outturn of \$15.2 million.

Contingent Liabilities

Estimates of quantifiable commitments and contingent liabilities stood at US\$26,722,034 as at the end of March 2014. The largest item being amounts medical bills due to Southern Health Network of approximately \$15 million.

FISCAL AND STRATEGIC POLICY STATEMENT (FSPS) 2015/16

TURKS AND CAICOS ISLANDS GOVERNMENT



Table 11- Contingent Liability at March 31, 2014

The information below is compiled from returns provided by Accounting Officers.			
COMMITMENTS AND CONTINGENT LIABILITIES	DESCRIPTION	AMOUNT \$	AMOUNT \$
Office of the Governor	Anticipated cost of Transport & Installation of Equipment for Internal Audit		300
Office of the Attorney General	Anticipated court settlements	120,000	
	Provision for refunds where government sold or leased properties in conflict with the National Parks Ordinance.	305,582	
	Compensation for compulsory acquisition for the PLS Airport redevelopment project.	1,721,900	
	Compensation for compulsory acquisition for the expansion of the North Caicos Airport	708,280	
	Various other Litigation Matters	1,680,000	
Total Office of Attorney General			4,535,762
Total Ministry of Finance, Trade & Investment	Remaining cost of the Digicel contract		5,992,756
Ministry of Health and Human Services	Reconciliation & Windstorm (ICL Contract)	998,594	
	Professional & Consultancy services	182,750	
	Medical bills for Southern Health Network	14,976,000	
	Other	35,872	
Total Ministry of Health and Human Services			16,193,216
Total Commitments and Contingent Liabilities			26,722,034



AGGREGATE FINANCIAL TARGETS

The aggregate targets listed for core government listed below were established by Cabinet for the 2015/16 fiscal year and the four subsequent forward years to deliver on the agreement between the government and the Secretary of State. The targets fall into three categories: operating, balance sheet and cash flow.

Table 12- Aggregate Financial Targets for Core Government

FINANCIAL MEASURES	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19
	Unaudited Actual \$'000s	Budget \$'000s	Forecast Outturn \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
OPERATING TARGETS							
Recurrent Revenue	200,346	212,483	228,867	223,237	224,200	226,948	226,737
Non-Recurrent Revenue	7,703	6,811	6,698	6,216	5,100	2,000	-
Total Revenue	208,049	219,294	235,565	229,452	229,300	228,948	226,737
Recurrent Expenditure	154,575	173,903	170,453	187,858	185,305	185,305	185,305
Non-Recurrent Expenditure	18,135	13,721	13,971	10,817	7,210	3,401	2,708
Total Operating Expenditure	172,710	187,624	184,424	198,674	192,514	188,705	188,013
Surplus Before Capital Programme	35,339	31,670	51,141	30,778	36,785	40,243	38,724
Capital Development Projects	(9,712)	(12,829)	(14,485)	(11,010)	(10,536)	(12,000)	(12,000)
Net Operating Surplus	25,627	18,840	36,656	19,768	26,249	28,243	26,724
BALANCE SHEET TARGETS							
Net Government Debt	263,266	238,090	229,275	193,548	161,290	121,146	88,170
CASH FLOW TARGETS							
Opening Cash Balance	2,756	7,528	7,528	8,568	6,066	6,410	8,906
Net Operating Cash Surplus	25,627	18,840	36,656	19,768	26,249	28,243	26,724
Other Net Cash Inflows	5,720	2,019	2,019	2,185	602	552	502
Debt Repayment	(9,404)	(6,763)	(15,763)	(174,507)	(14,507)	(14,299)	(13,118)
Sinking Fund Transfers - In	(17,171)	(13,443)	(30,872)	(19,948)	(12,000)	(12,000)	(12,000)
Sinking Fund Transfers - Out	-	-	9,000	100,000	-	-	-
New Borrowing	-	-	-	70,000	-	-	-
Closing Cash Balance	7,528	8,182	8,568	6,066	6,410	8,906	11,014
Closing Sinking Fund Balance	58,180	71,623	80,052	-	12,000	24,000	36,000

Table prepared by the Budget Office;

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 11, total revenue in 2015/16 is forecast below the 2014/15 level by 3.0 percent. It remains consistent in the forward years as we have adopted the rolling forward estimate budgeting method.



This will allow for inflation to be considered in the year that it occurs. No further new revenue initiatives through government policies have been assumed for the forward years.

Total expenditure is forecast at \$ 209.7 million. This is an increase of \$10.8 million or 5.4 percent over the forecast outturn of 2014/15 and the forward years of 16/17 -18/19. Included in total expenditure is allocation of \$11.0 million for capital expenditure in 2015/16 and \$10.5 million in 16/17 in subsequent years the allocation increases to \$12 million. These allocation will be used to fund essential social and economic infrastructure projects.

Net operating surplus is forecast at \$19.8 million in 2015/16 or 8.6 percent of recurrent revenue; \$26.2 million in 2016/17 or 11.5 percent of recurrent revenue, and \$28.2 million in 2017/18 or about 12.3 percent of recurrent revenue and \$26.7 or 11.8 percent of recurrent revenue in 2018/19.

Balance Sheet Targets

Core government assets and liabilities are reported as balance sheet targets. Fixed assets are not currently recorded in the government accounts. The government is forecasting new borrowings of \$70 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 4.5 percent per annum, amortized and repayable over 7 years.

Net debt is forecast to reduce to \$193.5 million at the end of 2015/16. \$161.3 million in 2016/17 to \$121.1 million in 2017/18 and \$88.1 million in 2018/19.



Cash Flow Targets

Net operating cash flow before transfer to the Sinking Fund in 2015/16 is forecast at \$19.8 million, \$26.2 million in 2016/17, \$28.2 million by 2017/18 and \$ 26.7 million in 2018/19. These operating cash flows will enable the government to fully fund its planned development programs and repay the principal on outstanding debt.

Sinking Fund

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. The sinking fund is forecast to accumulate \$100 million by the end of February 2015/16. This will offset a portion of the existing \$170 million bond that will mature at the same time. Whilst at this time, it is not mandatory for the government to continue to maintain the sinking fund, government has decided that it will continue to make a deposit of \$12.0 million of operating surplus annually from 2016/17.

Debt Repayment

Debt repayment is the principal repaid on existing debt obligations. In 2015/16 repayment is forecast as \$174,507, of which the \$170 million bond is included. Debt repayment of the new loan of \$70 million will begin in 2016/17. Total principal repayment is forecast at \$14.5 million in 2016/17, which includes the new loan of \$ 70 million; \$14.3 in 2017/18 and \$13.1 million in 2018/19.



Compliance with Principles of Responsible Financial Management

Table 12 below, 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 13 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>	Complies in all years	
	2013/14	25,627
	2014/15	36,656
	2015/16	19,768
	2016/17	26,249
	2017/18	28,243
	2018/19	26,724
<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>	Complies by the end of Fiscal year 2016/17	
	2013/14	17.0%
	2014/15	23.5%
	2015/16	16.6%
	2016/17	8.3%
	2017/18	7.8%
	2018/19	7.0%
<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>	Complies in 2014/15 and 2016/17	
	2013/14	131.4%
	2014/15	100.2%
	2015/16	86.7%
	2016/17	71.9%
	2017/18	53.4%
	2018/19	38.9%
<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>	Complies by the end of Fiscal year 18/19	
	(DAYS)	
	2013/14	18
	2014/15	18
	2015/16	12
	2016/17	36
	2017/18	65
2018/19	93	
<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>	

Table prepared by the Budget Office;



Liquid Cash Reserves

Liquid cash reserves is the net cash flow after the sinking fund transfer. The compliance target requires that it is a minimum of 90 days planned expenditure by the fiscal year 2018/19. The forecast is to have 93 days of planned expenditure as at fiscal year 2018/19.

Government Operating Surplus

The compliance target set for operating surplus is that it is to be positive in all years. The forecast is for it to remain positive in all fiscal years from 2015/16 – 2018/19 years.

Debt Service

The Debt Service 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 percent or less, at the end of 2016/17 as agreed in the Framework Document.

Government Net Debt

Government Debt is all public sector debt and those statutory body debt that has been guaranteed by the government, less unencumbered cash balances, as a share of recurrent revenue. The compliance target is for net debt to be no more than 110 percent of core revenue by 2015/16 and 80 percent by 2018/19. The targets are forecast to be achieved in 2014/15 and 2016/17 respectively.



CONCLUSION

This medium term framework document outlines the fiscal strategy for the period 2015-16 to 2018-19. It is the basis upon which the 2015-16 budget will be prepared. It postulates that sustainable economic growth is the major focus of this government. It further outlines the government's continued commitment to ensure that there is tighter and better fiscal management. Whilst at the same time it postulating new strategies to improving the quality of life of all citizenry of the Turks and Caicos Islands.

The financial targets set out in this FSPS will allow for the funding of various programmes that will progress the key policy initiatives of the government. In particular, the targets provide for delivery of a capital development programme that includes continued work on schools, health care facilities and other infrastructure.



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