

Turks & Caicos Islands

2015-16 Second Quarter

Financial Report

July to September 2015



*Prepared by: The office of the Accountant General
October 23, 2015*

FOREWORD

The second quarter of FY2015/16 Financial Report (Unaudited) presents a summary of the results of operations of the Government of the Turks and Caicos Islands for the three months ended September 30, 2015. The report has been prepared in adherence to the Public Finance Management Ordinance 2012 (Section 46. 01) which requires that the Accountant General prepares and submits unaudited budget report within 28 days after the quarter end.

The preparation and publication of this report stem from Government's commitment to transparent reporting of the Turks and Caicos Islands Government's (TCIG) finances, contributing to the overall accountability arrangement and an improved quality of governance & decision making.

This enables the Government to monitor more closely the usage of public funds and the associated risks and challenges, so that where corrective measures may be needed to be undertaken, they can be done much earlier than later. Likewise, the public, financial institutions and other stakeholders are able to monitor the finances of the Government to be assured that financial decisions are made in accordance with prudent financial management.

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Arnold Ainsley (Mr)

Accountant General

October 23rd, 2015

FISCAL SUMMARY

For the six months ended September 30, 2015

| (Figures in US\$'000) | Quarter 2 2015/16 | | | Variance | | | | Year to Date | | | Variance | | | |
|------------------------------|-------------------|------------------|-----------------|-----------------|---------------|------------------|--------------|-----------------|-----------------|-----------------|-----------------|-------------|------------------|--------------|
| | Actual | Budget | Prior Year | Budget | | Prior Year | | Actual | Budget | Prior Year | Budget | | Prior Year | |
| | \$ 000's | \$ 000's | \$ 000's | \$ 000's | % | \$ 000's | % | \$ 000's | \$ 000's | \$ 000's | \$ 000's | % | \$ 000's | % |
| Recurrent Revenue | 60,629.0 | 50,696.5 | 56,834.1 | 9,932.5 | 20% | 3,794.9 | 7% | 129,940.0 | 116,379.3 | 122,384.2 | 13,560.7 | 12% | 7,555.9 | 6% |
| Recurrent Expenditure | 44,942.7 | 48,213.9 | 34,736.9 | 3,271.3 | 7% | (10,205.8) | (29%) | 85,019.8 | 100,577.7 | 73,465.0 | 15,557.9 | 15% | (11,554.8) | (16%) |
| Net Recurrent Surplus | 15,686.3 | 2,482.6 | 22,097.2 | 13,203.8 | 532% | (6,410.9) | (29%) | 44,920.3 | 15,801.6 | 48,919.2 | 29,118.6 | 184% | (3,998.9) | (8%) |
| Non-Recurrent Revenue | 58.5 | 275.0 | 176.9 | (216.5) | (79%) | (118.4) | (67%) | 146.9 | 665.5 | 5,872.1 | (518.6) | (78%) | (5,725.2) | (97%) |
| Non-Recurrent Expenditure | 3,553.7 | 4,697.3 | 6,211.4 | 1,143.6 | 24% | 2,657.7 | 43% | 5,653.0 | 6,043.5 | 7,583.2 | 390.5 | 6% | 1,930.2 | 25% |
| Operating Surplus | 12,191.1 | (1,939.7) | 16,062.8 | 14,130.9 | (729%) | (3,871.6) | (24%) | 39,414.1 | 10,423.6 | 47,208.1 | 28,990.5 | 278% | (7,793.9) | (17%) |

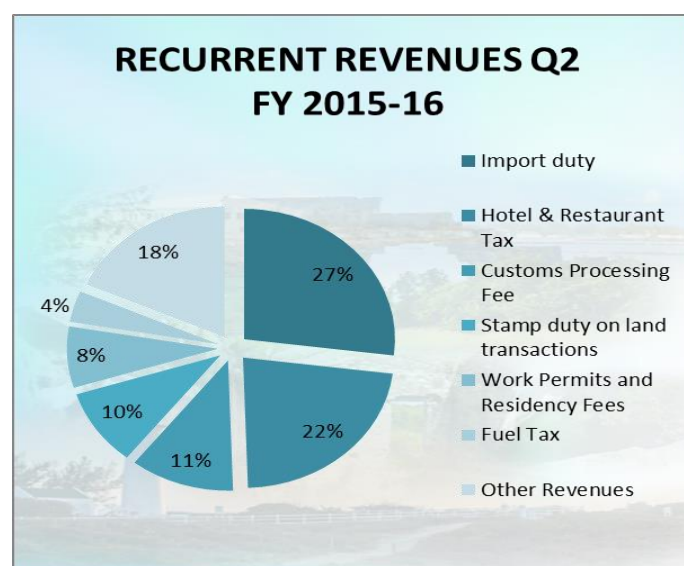
Second quarter surplus for the period ended September 30, 2015 was \$12.2 million, \$14.1 million higher than expected, primarily due to lower than expected expenditure and sustained strength of key revenue areas. It is anticipated that some of the expenditure shortfall will be absorbed as the year progresses.

Recurrent revenue for the second quarter was \$60.6 million, \$9.9 million or 20% higher than expected and 7% above last year's outturn of \$56.8 million, due to strong performance in the tourism and real estate sectors.

Recurrent expenditure for the second quarter was \$44.9 million, an increase of \$3.3 million or 7% from the 3 months estimate and \$10.2 million above the prior expenses, due mainly to lower than expected operating costs which should be incurred as the year progresses.

Non-recurrent expenditure of \$3.5 million came in 24% or \$1.1 million below the budget, while being below last year's outturn by 43% or \$2.7 million, due to a reduction in expenditure for civil recoveries.

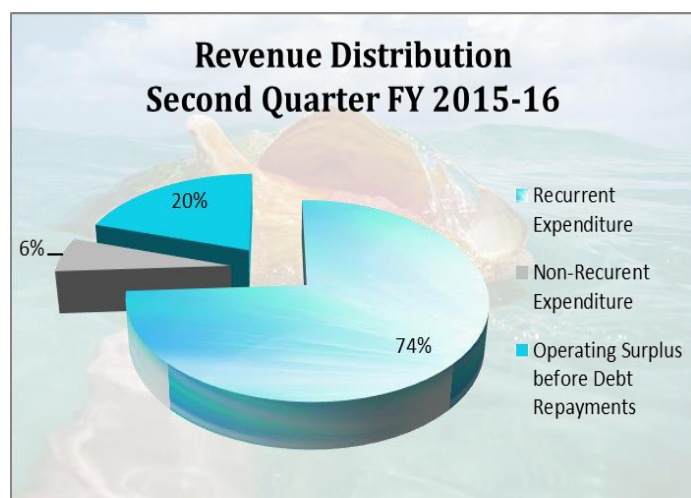
Year to date surplus for the six months ended September 30, 2015 was \$39.4 million, \$29.0 million higher than expected and \$7.8 million or 17% below last year turnout for the same period.



Recurrent revenue for the six months period was \$129.9 million, \$13.6 million or 12% higher than expected and 6% above last year's outturn of \$122.4 million, due to continued strong performance in the real estate sectors and a better than expected tourist arrivals for the summer months.

Recurrent expenditure for the six months period was \$85.0 million, \$15.6 million or 15% below the budget estimates and \$11.6 million above the prior expenses, due mainly to lower than expected personnel and other operating expenses.

Non-recurrent expenditure of \$5.7 million came in 6% or \$0.4 million below the budget, while being below last year's outturn by 25% or \$1.9 million.



REVENUE & EXPENDITURE

Total Second Quarter Revenue - \$60.7 million

| Revenue | Quarter 2 2015/16 | | |
|---------------------------------|-------------------|---------------|---------------|
| | Actual | Budget | Prior Year |
| <i>(Figures in US\$'000)</i> | | | |
| Import duty | 16,358 | 14,565 | 13,953 |
| Hotel & Restaurant Tax | 13,637 | 11,281 | 11,115 |
| Customs Processing Fee | 6,776 | 6,855 | 6,888 |
| Stamp duty on land transactions | 5,764 | 2,200 | 4,350 |
| Work Permits and Residency Fees | 4,606 | 3,845 | 4,270 |
| Other Revenues | 13,488 | 11,950 | 16,259 |
| Total Recurrent Revenue | 60,629 | 50,696 | 56,834 |
| Nonrecurrent Revenue | 59 | 275 | 177 |
| Total Revenue | 60,688 | 50,971 | 57,011 |

Recurrent revenue for the second quarter of \$60.6 million was derived primarily from Import Duties of \$16.4 million, which came in a significant 12% above the budgeted outturn and 27% of revenue, and Hotel and Restaurant Tax which was 21% above the budget, while contributing 22% of revenue.

Customs Processing Fee made up 11% of recurrent revenues coming in at \$6.8 million, while \$5.8 million from Stamp Duty on Land Transactions and \$4.6 from Work Permits & Residency Fees together accounted for 28% of recurrent revenues.

Total Second Quarter Expenditure - \$48.5 million

| Expenditure | Quarter 2 2015/16 | | |
|------------------------------------|-------------------|---------------|---------------|
| | Actual | Budget | Prior Year |
| <i>(Figures in US\$'000)</i> | | | |
| Personnel Costs | 18,740 | 21,203 | 16,656 |
| Transfers to NHIB | 4,422 | 4,842 | 3,219 |
| Hospital Provisional Charges | 5,898 | 5,678 | 3,146 |
| Subventions | 2,681 | 2,791 | 2,392 |
| Rental of Assets | 1,258 | 1,274 | 1,174 |
| Other Recurrent Expenditure | 11,945 | 12,426 | 8,150 |
| Total Recurrent Expenditure | 44,943 | 48,214 | 34,737 |
| Nonrecurrent Expenditure | 3,554 | 4,697 | 6,211 |
| Total Expenditure | 48,496 | 52,911 | 40,948 |

Recurrent expenditure for the second quarter of \$44.9 million was due largely to Personnel costs of \$18.7 million, which was \$2.5 million or 12% below budget and accounted for 42% of expenditure, while being \$2.1 million or 13% above prior year's cost due mainly to the effects of the pay & grading review starting April 1, 2015.

Transfers to NHIB and Hospital Provisional Charges together accounted for 23% of total expenditure, while Subventions and Rental of Assets accounted for 6% and 3% of expenditure respectively.

Total Year to Date Revenue - \$130.1 million.

| Revenue | Year to Date | | |
|---------------------------------|----------------|----------------|----------------|
| | Actual | Budget | Prior Year |
| Import duty | 33,029 | 29,966 | 28,728 |
| Hotel & Restaurant Tax | 31,188 | 26,310 | 26,120 |
| Customs Processing Fee | 13,684 | 14,622 | 14,136 |
| Stamp duty on land transactions | 14,994 | 7,837 | 12,026 |
| Work Permits and Residency Fees | 8,981 | 7,691 | 8,762 |
| Other Revenues | 28,065 | 29,954 | 32,613 |
| Total Recurrent Revenue | 129,940 | 116,379 | 122,384 |
| Nonrecurrent Revenue | 147 | 666 | 5,872 |
| Total Revenue | 130,087 | 117,045 | 128,256 |

Total recurrent revenue to date of \$129.9 million recorded a favourable variance \$13.6 million or 12% when compared to the budgeted amount of \$116.4 million and a positive variance of \$7.6 million or 6% when compared to the results of the same period last year.

The significant variances are primarily due to an unexpected recurrent revenue performance, all of which are above both budgeted outturn and that of last year.

Total Year to Date Expenditure - \$90.7 million

| Expenditure | Year to Date | | |
|------------------------------------|---------------|----------------|---------------|
| | Actual | Budget | Prior Year |
| Personnel Costs | 36,639 | 41,565 | 33,419 |
| Transfers to NHIB | 9,318 | 9,687 | 8,202 |
| Hospital Provisional Charges | 11,132 | 12,357 | 9,727 |
| Subventions | 4,677 | 4,965 | 4,189 |
| Rental of Assets | 2,441 | 2,690 | 2,288 |
| Other Recurrent Expenditure | 20,812 | 29,314 | 15,638 |
| Total Recurrent Expenditure | 85,020 | 100,578 | 73,465 |
| Nonrecurrent Expenditure | 5,653 | 6,044 | 7,583 |
| Total Expenditure | 90,673 | 106,621 | 81,048 |

Total expenditure of \$90.7 million was \$15.9 million or 15% below the budgeted amount of \$106.6 million and \$9.6 million or 12% above the results of the same period last year.

Non-recurrent expenditure to date totalled \$5.7 million which was \$0.4 million or 6% below the budgeted amount of \$6.0 million and 25% or \$1.9 million below last year's outturn.

It is anticipated that some of the expenditure shortfall will be absorbed as the year progresses.

REVENUE & EXPENDITURE BY MINISTRY

REVENUE

(Figures in US\$'000)

| | 2015-16 Budget | Quarter 2 | | | | Year to Date | | | |
|--|-------------------|---------------|---------------|--------------|------------|----------------|----------------|---------------|------------|
| | | Actual | Budget | Variance | | Actual | Budget | Variance | |
| Police | 102 | 9 | 9 | 0 | 4% | 18 | 19 | (1) | (6%) |
| Attorney General's Chambers | 19,559 | 5,976 | 2,549 | 3,428 | 135% | 15,450 | 8,439 | 7,011 | 83% |
| Judiciary | 1,050 | 262 | 267 | (5) | (2%) | 553 | 508 | 44 | 9% |
| Statutory Charges | 1,216 | 59 | 275 | (216) | (79%) | 147 | 666 | (519) | (78%) |
| Border Control & Employment | 19,948 | 6,545 | 5,172 | 1,373 | 27% | 12,892 | 10,438 | 2,455 | 24% |
| Finance Trade & Investment | 185,611 | 45,123 | 40,313 | 4,810 | 12% | 96,096 | 91,534 | 4,561 | 5% |
| Education Youth Sports & Culture | 399 | 143 | 98 | 45 | 45% | 186 | 197 | (11) | (5%) |
| Home Affairs, Transportation & Communication | 3,780 | 844 | 674 | 170 | 25% | 1,658 | 1,373 | 286 | 21% |
| Infrastructure Housing & Planning | 1,488 | 281 | 368 | (87) | (24%) | 561 | 766 | (205) | (27%) |
| Tourism Environment Heritage & Culture | 4,627 | 1,371 | 1,160 | 212 | 18% | 2,374 | 2,933 | (558) | (19%) |
| Health Agriculture & Human Services | 345 | 74 | 86 | (13) | (15%) | 152 | 173 | (21) | (12%) |
| TOTAL RECEIPTS | 238,125 | 60,688 | 50,971 | 9,716 | 19% | 130,087 | 117,045 | 13,042 | 11% |

EXPENDITURE

(Figures in US\$'000)

| | 2015-16 Budget | Quarter 2 | | | | Year to Date | | | |
|---|-------------------|---------------|----------------|---------------|-------------|---------------|----------------|---------------|-------------|
| | | Actual | Budget | Variance | | Actual | Budget | Variance | |
| Governor's Office | 4,251 | 826 | 1,052 | 225 | 21% | 1,672 | 2,175 | 502 | 23% |
| Police | 20,714 | 4,727 | 7,405 | 2,678 | 36% | 9,863 | 12,994 | 3,131 | 24% |
| Attorney General's Chambers | 8,864 | 2,131 | 2,156 | 26 | 1% | 3,962 | 5,045 | 1,082 | 21% |
| Judiciary | 6,481 | 1,300 | 1,433 | 132 | 9% | 2,886 | 3,083 | 198 | 6% |
| Statutory Charges | 16,241 | 4,425 | 4,614 | 189 | 4% | 6,541 | 6,766 | 224 | 3% |
| Border Control & Employment | 6,632 | 1,365 | 1,661 | 296 | 18% | 2,681 | 3,393 | 711 | 21% |
| Finance Trade & Investment | 15,211 | 4,103 | 3,916 | (187) | (5%) | 7,164 | 8,126 | 961 | 12% |
| Deputy Governor's Office | 2,144 | 447 | 537 | 91 | 17% | 1,024 | 1,118 | 94 | 8% |
| Education Youth Sports & Culture | 26,737 | 6,395 | 6,680 | 285 | 4% | 11,781 | 13,559 | 1,779 | 13% |
| Director of Public Prosecutions | 2,256 | 1,173 | 570 | (604) | (106%) | 1,462 | 1,269 | (193) | (15%) |
| Home Affairs Transportation & Communication | 9,389 | 1,948 | 2,495 | 547 | 22% | 3,904 | 5,373 | 1,469 | 27% |
| Infrastructure Housing & Planning | 14,711 | 3,900 | 3,573 | (327) | (9%) | 7,234 | 8,290 | 1,056 | 13% |
| Tourism Environment Heritage & Culture | 6,469 | 1,557 | 1,646 | 89 | 5% | 2,799 | 3,293 | 494 | 15% |
| Health Agriculture & Human Services | 57,229 | 13,244 | 13,997 | 753 | 5% | 25,956 | 29,468 | 3,512 | 12% |
| House of Assembly | 2,816 | 604 | 691 | 88 | 13% | 1,051 | 1,440 | 388 | 27% |
| Office of The Premier & District Administration | 2,273 | 350 | 484 | 134 | 28% | 691 | 1,231 | 539 | 44% |
| TOTAL PAYMENTS | 202,417 | 48,496 | 52,911 | 4,415 | 8% | 90,673 | 106,621 | 15,948 | 15% |
| OPERATING SURPLUS | 35,707 | 12,192 | (1,940) | 14,131 | 729% | 39,414 | 10,424 | 28,991 | 278% |

Program expenditure saw a slow start for first six months of financial year 2015-16. All ministries expenditure outturn came in less than estimated for the year to date, except for Director of Public Prosecution, which will be corrected in the second half of fiscal 2015/16. This significant under expenditure was the major contributor in the operating surplus for the year to date being more than 278% or \$29.0 million over the budgeted amount.

Increases in expenditure are however expected in the third quarter, which should offset some of this early first half gains.

CASH FLOW

| (Figures in US\$'000) | Quarter 2 2015/16 | | | Variance | | | | Year to Date | | | Variance | | | |
|---------------------------|-------------------|------------------|----------------|-----------------|---------------|----------------|------------|-----------------|------------------|-----------------|-----------------|----------------|----------------|-----------|
| | Actual | Budget | Prior Year | Budget | | Prior Year | | Actual | Budget | Prior Year | Budget | | Prior Year | |
| Cash Flow from Operations | 12,191.1 | (1,939.7) | 16,062.8 | 14,130.9 | (729%) | (3,871.6) | (24%) | 39,414.1 | 10,423.6 | 47,208.1 | 28,990.5 | 278% | (7,793.9) | (17%) |
| Less: | | | | | | | | | | | | | | |
| Capital Contributions | (2,390.8) | (5,575.7) | (891.3) | 3,184.9 | (57%) | (1,499.5) | 168% | (4,366.3) | (11,151.4) | (2,031.8) | 6,785.0 | (61%) | (2,334.5) | 115% |
| Debt Repayments | (1,215.9) | (806.7) | (11,306.7) | (409.2) | 51% | 10,090.8 | (89%) | (2,704.3) | (1,869.0) | (13,443.5) | (835.2) | 45% | 10,739.2 | (80%) |
| Bond Inflows | - | - | 160.5 | - | - | (160.5) | (100%) | 183.6 | (169.3) | 592.2 | 352.9 | (208%) | (408.6) | (69%) |
| Transfers from/(to) NFF | (.0) | - | (6,805.8) | (.0) | - | 6,805.8 | (100%) | (.1) | - | (10,845.8) | (.1) | - | 10,845.8 | (100%) |
| Transfers to Sinking Fund | - | - | 9,000.0 | - | - | (9,000.0) | - | - | - | 9,000.0 | - | - | (9,000.0) | - |
| Net Workin Capital | 646.5 | - | - | 646.5 | - | 646.5 | - | 3,527.8 | - | 2,862.4 | 3,527.8 | - | 665.4 | 23% |
| Net Cash Flows | 9,231.0 | (8,322.1) | 6,219.5 | 17,553.1 | (211%) | 3,011.5 | 48% | 36,054.9 | (2,766.1) | 33,341.6 | 38,821.0 | (1403%) | 2,713.4 | 8% |

The underlying cash balance at the end of the first half was \$36.1 million, which was \$38.8 million over projected net cash deficit of \$2.8 million and \$2.7 million above the results for the same period last year.

To enhance the government's treasury management, an amount of \$32.0 million is currently placed in an on-call money market account at Scotiabank (Turks and Caicos), which is earning interest at a rate of 0.4% per annum. The cash flow forecast for ensuing month indicates that flows should remain positive and there will be no need to draw on the credit facility.

OUTSTANDING PUBLIC DEBT

(Figures in US\$'000)

| Debt Type | Opening | As At September 30, 2015 | |
|--------------------------------------|------------------|--------------------------|-----------------------|
| | 01-Apr-15 | Principal Repayment | Outstanding Principal |
| RBTT Bonds 2016 - Guaranteed | 170,000.0 | - | 170,000.0 |
| Other TCIG Bank Loans - Unsecured | 12,914.3 | (1,476.7) | 11,437.6 |
| TCInvest Loans - Unsecured | 8,823.9 | (1,227.6) | 7,596.4 |
| Total Outstanding Public Debt | 191,738.2 | (2,704.3) | 189,034.0 |

Total outstanding debt as of September 30, 2015 was \$189.0 million, as shown in the adjacent table. Total debt repayments for the year to date were \$2.7 million.

The guaranteed loans are secured by a United Kingdom/DFID guarantee in the amount of \$260 million.

All loan principal and interest payments are up to date as of September 30, 2015.

SINKING FUND

The Sinking Fund balance as at the end of the second quarter stood at \$110.0 million, with \$60.0 million invested in a term deposit at Scotiabank (Turks and Caicos) and \$50.0 million at CIBC First Caribbean International Bank. Both term deposits will mature in February 2016, in time for the repayment of the principal amount outstanding on the \$170.0 million Bond. Net public debt outstanding at the end of the second quarter is therefore about \$79.0 million, when the Sinking Fund is taken into consideration.

NATIONAL FORFEITURE FUND

The National Forfeiture Fund had a balance of \$1.8 million at September 30, 2015. No funds were collected through the criminal recovery process for the first half the year.

DEVELOPMENT FUND

The total amount spent on capital projects in the first half of FY2015-16 was \$4.4 million. This was funded by capital contributions totalling the same amount provided by the Consolidated Fund. This outturn represented a \$6.8 million or 61% shortfall from the budgeted amount of \$11.2 million while being \$2.3 million above last year's expenditure of \$2.0 million.

FISCAL OUTLOOK

The performance in the first six months continues to record encouraging results for fiscal 2015/16. Improvements in the performance of both revenue and expenditure when compared to the budget estimates and last year's results remain a positive outcome in the case of revenue but a work in progress in the case of under-expenditure.

Recurrent revenue outturn for the six months period was notably above the budgeted amount by \$13.6 million, which resulted in the forecast being revised from the original budget of \$238 million and the first forecast of \$244 million to \$250 million for the fiscal 2015/16. The government will continue to monitor economic and revenue developments and will provide further forecast in future fiscal updates.

Managing growth in program spending while achieving value for money and more efficient and effective public services remains a key component of the government's fiscal plan. Even though recurrent expenditure is below budget by \$15.6 million, appropriate compliance measures will continue to be enforced, and both the Public Finance Management and the Public Procurement Ordinances are being emphasized.

The Government remains committed to its objective of building a stronger economy through fiscal discipline and is keen to increase surpluses, which will assist with paying down public debt and fund initiatives aimed at creating new investments and more job opportunities.

Except for the usual increases in both recurrent and capital expenditure anticipated during the second half, there are no adverse conditions or major foreseeable challenges that should significantly change the current forecast for more revenue than originally estimated and less than budgeted expenditure for the full financial year ending March 31, 2016.