

FISCAL AND STRATEGIC POLICY STATEMENT

2016/17-2019/20



**TURKS AND CAICOS ISLANDS
GOVERNMENT**



TURKS AND CAICOS ISLANDS

FISCAL AND STRATEGIC POLICY STATEMENT (FSPS) 2016/17-2019/20

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Fiscal Strategy and Economic Outlook

OVERVIEW

The Medium Term Fiscal Strategy for 2016-17 to 2019-20 is primarily focused on identifying strategies to build a prosperous future for residents and citizens. Major focus is placed on job creation, economic growth and development and providing opportunities for the vulnerable population. The economic trajectory of the Turks and Caicos Islands (TCI) continues to strengthen with households, local entrepreneurs and foreign direct investors (FDIs) positioned to benefit.

The Government of the Turks and Caicos Islands (TCI), medium term fiscal strategy is to continue to attain budget surpluses over the economic cycle. Spending prioritization is centered on:

- supporting inclusive and sustainable growth and development;
- continuing to promote and maintain good governance;
- strengthening the family unit;
- modernizing immigration, labor, and border control systems;
- improving educational outcomes;
- strengthening disaster management;
- improved focus on the development of culture and national pride;
- improve and enhance the delivery of health care;
- enhance environmental sustainability;
- improve macroeconomic policies and development planning;
- enhance infrastructure development;
- and support for Medium-Small and Micro Enterprises (MSME)

These strategies will result in greater workforce participations, a stronger more competitive economy, and a more equitable society. They are indicative of TCIG's commitment to fiscal discipline and operational efficiencies in order to build economic resilience.

This medium term fiscal strategy paper is prepared on the premise that the government will independently refinance the residual balance on the \$170 million bond that will mature in February 2016.

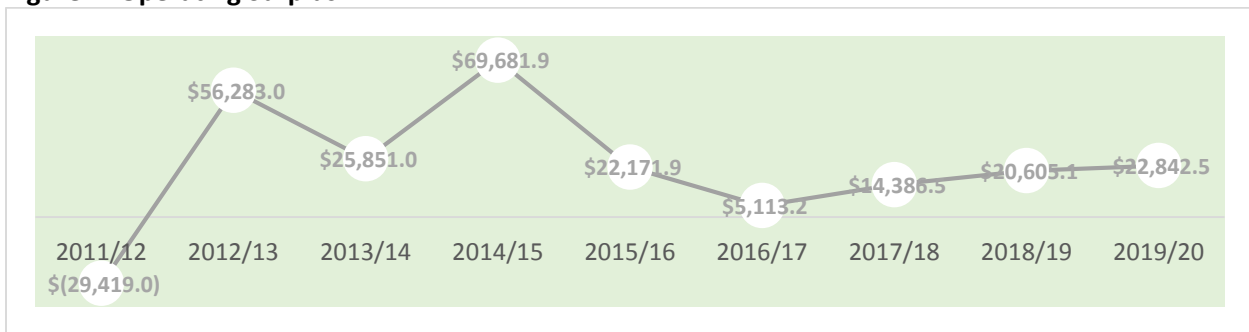


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Going forward, the focus will be on generating annual operating surpluses. The 2015/16 is forecast to end with operating surplus of \$22.1m. In 2016/17, operating surplus will be \$5.1 million as the government makes concerted efforts to invest in major economic development projects. For 2017/18 and beyond it is projected to steadily increase to \$14.3 million, 2018/19 - \$20.6 million and 2019/20 - \$22.8 million. The operating surplus will allow the government to make transfer from the Consolidated Fund to a Sovereign Wealth Fund (the details of how the SWF will be managed and operated are being worked through), to ensure that they can effectively respond to future economic shocks.

Maintaining debt service obligations is also a key priority for the government; Net Government Debt is forecast to reduce from \$157.6 million in 2015/16 to \$142.2 in 2016/17 and to further reduce to \$59.9 million by 2019/20.

Figure 1- Operating Surplus



Source: prepared by the Budget Office



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ECONOMIC OUTLOOK

Outlook for the International Economy

According to the IMF July, 2015 edition of the world economic outlook update, global economic growth is expected to increase by 3.3% in 2015 which is slightly lower than the growth experienced in 2014. This growth is expected to strengthen further to 3.8% in 2016. The advanced economies should gradually pickup while the emerging markets and developing economies is expected to slow down.

The IMF attributes the continued growth slowdown in emerging market economies to factors such as “lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors.” This new projection is slightly down from the original forecast of 2.8% projected late last year. Among the advanced economies, which the IMF expects to grow by 2.1% this year when compared to 1.8% in 2014, the United States economy is projected to strengthen in 2015 by 2.5% and further in 2016 to a rate of 3%. The Canadian economy is expected to grow in 2015 at a rate of 1.5% which when compared to the 2014 figures shows a decline of 0.9percentage point. This forecast was revised down from the earlier forecast because of “unanticipated weakness” in North America. The United Kingdom economy is expected to grow by 2.4% in 2015 and by 2.2% in 2016.

Figure 2- International Assumptions

	Actual	Estimate	Forecast	
	2013	2014	2015	2016
World Growth	3.4	3.4	3.3	3.8
US	1.4	1.8	2.1	2.4
Canada	2.0	2.4	1.5	2.1
UK	1.7	2.9	2.4	2.2
Euro Zone	-0.4	0.8	1.5	1.7
Caribbean Growth				
Tourism dependent	0.7	1.4	1.9	2.0
Commodity dependent	3.2	3.2	3.2	3.2
Exchange rate (ECCB/USD)	2.7	1.7	1.9	2.4

Source: IMF World Economic Outlook, July 2015; IMF Regional Economic Outlook, July 2015



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Among the emerging markets and Developing Economies, economic growth is projected to slow down to 4.2% in 2015, compared to 4.6% in 2014. According to the IMF, “commodity prices are expected to take a toll on these nations.” China and India are expected to continue registering above-average real growth through to 2016, though at rates somewhat lower than in the recent past. The economy of China is expected to grow by 6.8%, which is 0.6percentage points less than the growth experienced in 2014. China’s economic growth is expected to slow down even further in 2016. The continued economic slowdown in China, which will have an impact on the future prices of commodities, poses continuous risk to the Caribbean region. India’s economy is expected to grow by 7.5%. However, Russia’s economy is expected to decline by 3.4% in 2015 and is projected to strengthen slightly in 2016.

The European Union is on target to grow by 1.5% this year. Germany is expecting a growth rate of 1.6%. It is also anticipated that the European Union will continue on a path of recovery. Growth is projected to strengthen to 1.7% in 2016. (IMF, 2015).

The IMF further forecasts that the average growth rate of the tourism dependent economies within the Caribbean is 1.9% in 2015 and will strengthen further by 2.4% in 2016.

Outlook for the Domestic Economy

In an analysis of the Turks and Caicos Island’s current economic performance, the Strategic Policy and Planning Department forecast that the island’s economic growth in real terms would increase by 4.1 % in 2015, having expanded by almost 5.0% in 2014. Both rates besting the 5-year 2010-2014 average of 1.7%. Following recessionary years in 2009 and 2012, the Turks and Caicos Islands economy is now set to experience three years of stable and robust economic growth, with future growth averaging 3.5% over the next three years.



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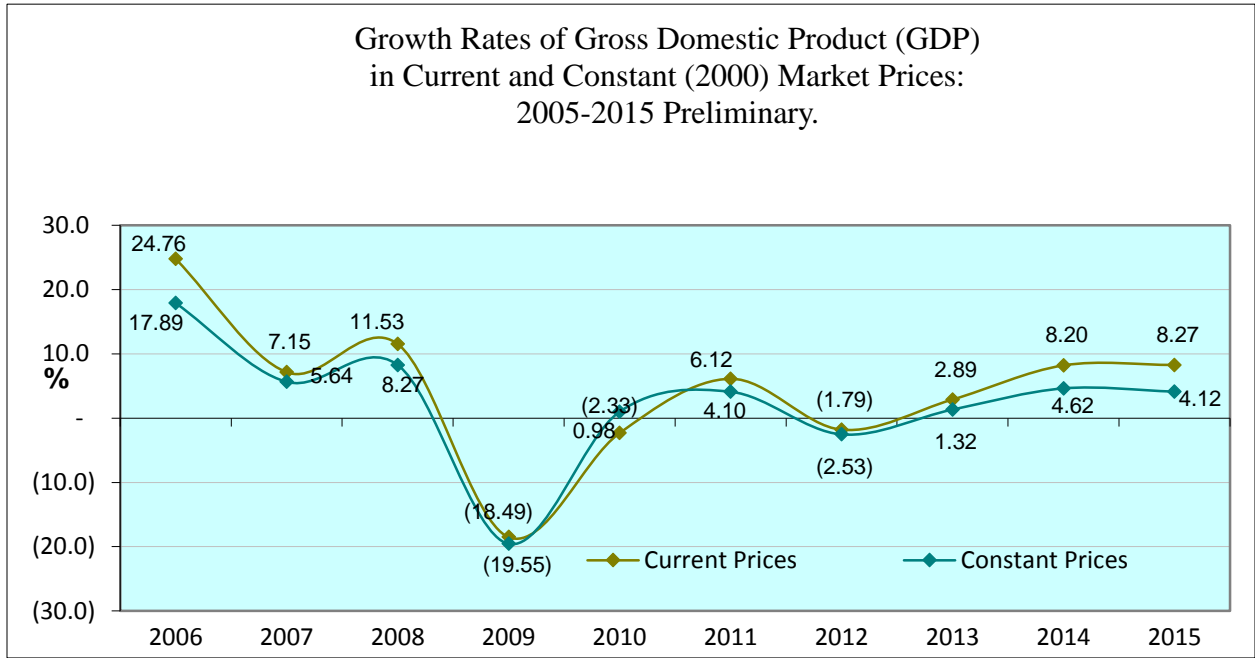


Figure 3-Growth Rates of GDP
Source: Data Provided by the SPPD

Strategic Planning & Policy Department (SPPD) has forecast that based on the current economic climate, unemployment will continue to decline over the next few years. The unemployment rate, which is currently estimated to be less than 11%, is substantially lower than the 17% in 2012, which was calculated from data obtained during the census. This suggests increased participation in the economy's growth by increasing numbers of residents. The Government's consolidation of its fiscal initiatives produced increasing surpluses, the results of which were further reflected by reductions in corresponding debt statistics. The growth of the Turks and Caicos Islands economy over the years points to the importance of external influences on domestic economic activity. The Worldwide recession in 2009 had an adverse effect on the Turks and Caicos Islands economy. However, as seen in figure 3 above, the Turks and Caicos Islands economy has rebounded and has since achieved three years of sustained economic growth. This means that the local economy is firmly set on the path to sustainable growth, led by the tourism sector in which the TCI has a demonstrated comparative advantage over the competition, in terms of quality, productivity and the strength of the local brand.



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Figure 4- Domestic Macroeconomic Assumptions

	Actual	Estimate	Estimate	Forecast	Forecast
	2013	2014	2015	2016	2017
Nominal GDP (bill. US\$)	0.74	0.80	0.86	0.91	0.96
Nominal GDP Growth (%)	2.9	8.2	8.3	4.8	4.5
GDP Deflator					
Real GDP (%)	1.3	4.6	4.1	5.4	2.8
CPI (%)	2.5	2.3	2.3	2.0	2.0
Population	33.7	35.2	36.7	35.0	36.8
Nominal GDP per capita (\$)	21,866	22,656	24,049	24,949	25,902
Value of Imports (\$)	345.0	414.1	425.8	435.6	452.1
Exports (\$)	5.9	6.9	7.1	7.5	8.2
Balance of Trade	-339.1	-407.6	-418.7	-428.1	-443.9
Foreign Direct Investment (\$m)	430,000	250,000	200,000	200,000	200,000
Unemployment (%)	15	12	11	10	10

Source: Data Provided by the SPPD

Unlike the period 2008 to 2012, which was one of great uncertainty, stability has been restored and the Turks and Caicos Islands now have a stable macroeconomic environment, relatively healthy public finances, with the government having a more predictable planning horizon. The maintenance of a stable macroeconomic environment is an important aspect of the future growth and development prospects of the TCI. Hence, the government has been focusing on short-run macroeconomic management, which will complement its long-run development policy initiatives. This stable macroeconomic environment involves maintaining fiscal surpluses, working towards low levels of internal and external debt and low rates of inflation. The inflation rate is currently estimated at around 2.3% in 2015, which is the same as the inflation rate recorded in 2014. This macroeconomic environment would enable the Government to achieve its long-term objectives of sustainable economic growth, low rates of unemployment, and the reduction/eradication of poverty and provision of effective services. The macroeconomic performance of the Turks and Caicos Islands over the years and going forward can be examined through two basic aggregates: real gross domestic product (GDP) and real GDP per capital. Both indicators suggest that the Turks and Caicos Islands have made significant advances over the period 2009 to 2015. Real GDP increased from \$522.8 million in 2009 to \$ 594.1million in 2015, which represents, an average annual growth rate of 2.19%. Real GDP per capital increased from \$14,522 in 2009 to \$16,194 in 2015, representing an average annual growth rate of 1.9%.



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**Levels of Real GDP and Real GDP per
Capital, 2009 - 2015.**

Year	Real GDP \$m	Real GDP Per Capital (\$)
2009	522.80	14,522
2010	527.90	15,302
2011	552.30	16,487
2012	538.30	16,719
2013	545.40	16,196
2014	570.60	16,226
2015	594.10	16,194

Figure 5-Levels of Real GDP and Real GDP per Capita

The differential in the growth rates between real GDP and real GDP per capita indicate that the population growth rate was higher than the GDP growth rate over the period. The higher population growth reflects the significant increase in immigration, which is the main driver of population growth in the Turks and Caicos Islands. The economy of the Turks and Caicos Islands is relatively small in comparison to other economies. Its human resource base is narrow, natural resources are extremely limited and its domestic market over the years has been restrictive. A narrow human resource base implies that human resource bottlenecks arise in several areas of economic activity. The narrow range of local skills usually means that a small number of persons have to carry out a wide range of functions. Because of this the TCI rely on immigration (that is, the issuing of work permits) to alleviate the human resource deficit problem. With increased inward investment and the stability, which the economy now enjoys, a resulting factor will be increased immigration going forward.

Construction activity is expected to decline slightly in 2015 as some of the major projects in the pipeline have experienced delays and did not get started but 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, projects funded from the Carnival Infrastructure Fund, as well as other government projects. The real estate sector is forecast to grow by 3.3% this year and should see continuous growth over the next 5 years. The Agriculture and Fishing sector is expecting growth of 6.5% and is forecasting larger growth increases in future years.



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Tourism

The tourism sector, one of the main pillars of the local economy “has made a major turnaround.” Stay-over arrivals increased by 8.8 % during the first 5 months of this year and is forecast to increase by more than 10% this year and even larger increases in future years, as more rooms are added to the hotel stock. This sector has witnessed significant growth and change over the last few years and is the major contributing sector to the Turks and Caicos GDP. SPPD is forecasting that the hotel and restaurant sector will grow by approximately 4.5% this year and more than 5% in 2015 and 2016. The government through the Tourist Board and in collaboration with the private sector is seeking to promote the sector by engaging in trade shows and through the granting of fiscal incentives (e.g., Development concessions). The promotional activities of the different agencies and private enterprises in the past have resulted in a significant degree of market diversification. Although the major stay-over tourist comes mainly from the United States over the years there have been an increase number of tourist coming from destinations such as Canada and South America. Cruise ship tourist arrivals have witnessed a significant increase in 2014 but has declined by 5.3% for the first 7 months of this year.

Trade

The Turks and Caicos Islands Merchandise imports totaled approximately \$208 million for the first half of 2015, representing an increase of \$16.3 million or 8.5% when compared to the same period last year. Exports from the Turks and Caicos Islands during this period were valued at \$2.1 million when compared to \$3.8 million during the first half of 2014. This resulted in an overall merchandise trade balance of approximately -\$205.9 million during the first half of 2015 and the worsening of the overall trade balance by more than 10.4% or \$9.6 million.

The increase in the trade deficit is mainly as a result of the \$1.2 million decline in the value of exports when compared to the \$16.3 million increase in the value of Imports. Given the current growth that is taking place in the tourism sector, the attraction of direct investment, the projected growth in the construction sector 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. The rising imports however, could be looked at in a positive light. As a country with high value of imports, the increase in imports may also be reflecting the uptick in activity taking place in the TCI economy, showing that Turks and Caicos consumers are buying and developing more. Food and live animals were the second largest source imports during the first half of this year, amounting to \$42 million, or 20.2% of imports. Machinery and Transport Equipment were by far the largest expenditure, amounting to \$58.2 million, or 28.0% of total imports. This is also reflected in motor vehicle license fees and duties from imports, which increased by 14.0% and 15.4% respectively.



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Given the performance of Merchandise Trade during the first half of this year, SPPD is forecasting that imports will increase by more than 22% for the 2015 calendar year.

Downside Risks

Despite the positive sentiment on global economic growth prospects and the TCI growth outlook, the TCI is always mindful that there are ranges of downside risks, which can lead to growth prospects in the Turks and Caicos Islands not materializing. 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. Economic performances and an increase in unemployment in the USA and major source markets can affect the Turks and Caicos economy negatively. This underscores the need for greater diversification by the government and the TCI becoming less reliant on tourism as the major contributor to GDP. The availability of external financing for public and private sector projects may hinder growth in the construction industry affecting 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, global terrorism 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 SPPD is confident that the TCI economy will continue to improve and experience positive economic growth over the next few years.



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FISCAL OUTLOOK

Budget Aggregates

The aggregate financial targets is the basis upon which the 2016/17 budget and the financial outlook for 2017/18 – 19/20 have been prepared. 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 1: Turks & Caicos Islands Government general government sector budget aggregates

	Actual	Forecast	Estimate	Projections			Totals
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Recurrent Revenue	246,513	243,736	250,255	260,255	270,980	279,109	1,550,847
Per cent of GDP	30.81%	28.34%	27.50%	27.11%	27.10%	-	
Recurrent Expenses	(161,533)	(191,737)	(208,149)	(208,446)	(213,657)	(218,998)	(1,040,987)
Per cent of GDP	20.19%	22.30%	22.87%	21.71%	21.37%	-	
Underlying cash balance	91,470	58,959	47,206	51,809	57,323	60,111	509,860
Per cent of GDP	11.43%	6.86%	5.19%	5.40%	5.73%	-	
Total Revenue	253,003	250,696	255,355	260,255	270,980	279,109	1,569,397
Per cent of GDP	31.63%	29.15%	28.06%	27.11%	27.10%		
Total Expenses	(175,421)	(202,433)	(216,741)	(211,368)	(215,875)	(221,267)	(1,067,683)
Per cent of GDP	21.93%	23.54%	23.82%	22.02%	21.59%	-	
Net operating balance	77,582	48,264	38,613	48,887	55,105	57,842	501,714
Net capital investment	(7,900)	(26,092)	(33,500)	(34,500)	(34,500)	(35,000)	(163,592)
Fiscal balance	69,682	22,172	5,113	14,387	20,605	22,842	85,119
Per cent of GDP	8.71%	2.58%	0.56%	1.50%	2.06%	-	
GDP	800,000	860,000	910,000	960,000	1,000,000	-	

Table prepared by the Budget Office; GDP Data provided by the SPPD Unit

Recurrent revenue for 2016/17 is 27.5% of GDP and total revenue in 2016/17 is 28.06% of GDP. Recurrent Expenditure is 22.87% of GDP whilst total expenditure is 23.82%. Net Capital Investment for 2016-2019 is \$137.5 million. \$33.5 million has been allocated for 2016/17, \$34.5 million for 2017/18 and 2018/19 and \$35.0 million for 2019/20. An estimated \$10 million annually in 2016/17 & 2017/18 will be invested in a Sovereign Wealth Fund. Net operating surplus after Capital Expenditure for 2016/17, before new borrowing of \$20 million and transfer into the Sovereign Wealth Fund is \$5.1 million.



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Table 2: Fiscal Balance Budget aggregates

	Actual 2014-15	Forecast 2015-16	Estimate 2016-17	2017-18	Projections 2018-19 2019-20		Total(a)
Underlying cash							
balance (\$m)	91,470	58,959	47,206	51,808	57,322	60,110	275,405
Per cent of GDP	7.37%	5.49%	5.69%	5.97%	6.01%		
Fiscal balance (\$m)	69,682	22,172	5,113	14,386	20,604	22,842	85,116
Per cent of GDP	2.77%	0.59%	1.58%	2.15%	2.28%		
(a) Total is equal to the sum of amounts from 2014-15 to 2019-20							
GDP	800,000	860,000	910,000	960,000	1,000,000		

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 \$47.2 million or 5.7% of GDP in 2016/17. It is expected to continue to improve into 2017-18 to a surplus of \$51.8 million or 6.0% of GDP. Fiscal balance, which is the net cash flow after capital expenditure, is projected at \$5.1 million or 1.58% of GDP for 2016/17. This is expected to continue to improve into 2017-18 to a surplus of \$14.3 million or 2.2% of GDP.

Recurrent receipts estimates are expected to be approximately \$22.0 million higher in 2016/17 than was estimated in the 2015/16 FSPS. It is \$6.5 million higher than the projected outturn for 2015/16. Recurrent revenue for 2016/17 is estimated at \$250.3 million and non-recurrent revenue is \$5.1 million. Total revenue is \$255.4 million or 28.0% of GDP.

Table 3: Net worth, net financial worth, net debt and net interest payments

	Forecast 2015-16	Estimates 2016-17	2017-18	Projections 2018-19 2019-20	
	\$m	\$m	\$m	\$m	\$m
Net debt(\$m)	153,489	142,268	115,929	89,074	59,981
Per cent of GDP	17.85%	15.63%	12.08%	8.91%	
Net Interest payments	6,537	2,893	2,923	2,218	2,269
Per cent of GDP	0.76%	0.32%	0.30%	0.22%	-
GDP	860,000	910,000	960,000	1,000,000	

Table prepared by the Budget Office; GDP Data Provided by SPPD

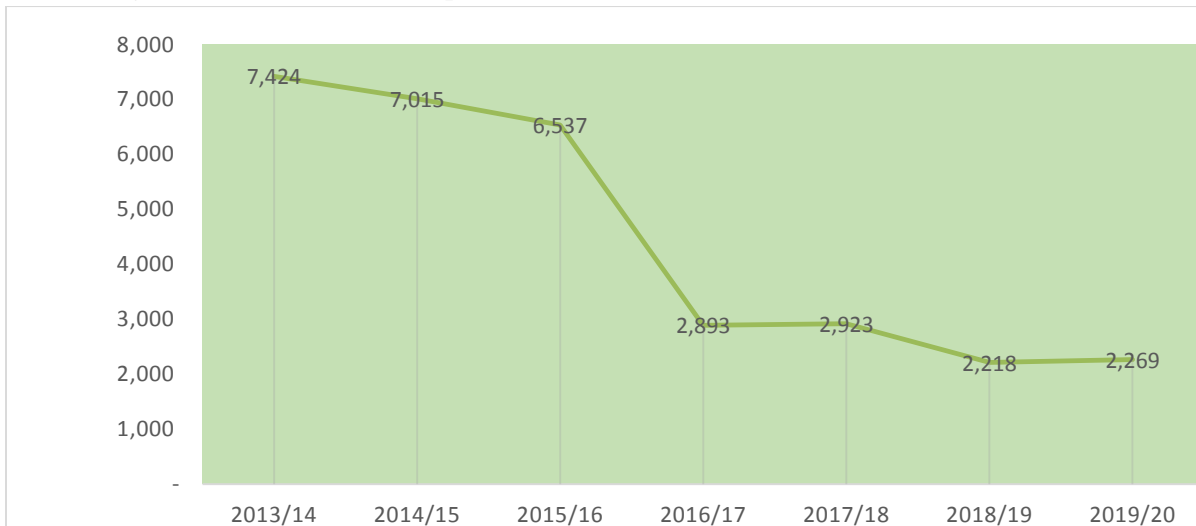


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Reducing interest expenses is a major priority of the government; net interest payments annually is projected to remain below 1.0% of GDP. Interest payments as a percentage of the recurrent revenue is expected to reduce from 2.7% in 2014/15 to 1.13% in 2016/17, 0.81% in 2019/20. Figure 6 below shows the projected debt service charges leading into 2019/20.

Figure 6 Projected Debt Financing Expenses



Source: Prepared by the Budget Office



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Policy Decisions/Expectations

Since 2013, several policy decisions to boost economic growth and development have been implemented. The table below provides details of the major policy decisions that have been implemented to increase government receipts or to eliminate bureaucracies within government operations.

Figure 7- Policy Impact of 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%	7.50%	1 st November 2013
Freight and Insurance	7.50%	Eliminated	1st April 2015
Business Licences		Reduced by 50%	1st April 2015
Duty Free Royalties	10%	4.5%	1st November 2015

Source: Prepared by the Budget Office

Several 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 Accounts Bill that would increase government revenue. The Dormant Account Bill was passed in October 2014, and the government receipts are being anticipated to start in the 2015/16 budget cycle. The Immigration Bill has been passed by the legislatures in September 2015. The payroll tax was defeated in the House of Assembly.

The government has no immediate plan to introduce new revenue streams.



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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

Long term fiscal sustainability is critical to private investments and job creations. The government continues to implement measures to remain on a path of sustainable fiscal trajectory. Strong fiscal discipline has freed up resources for infrastructural development. The strategic initiatives and continued commitment to fiscal prudence have been strongly demonstrated through several public financial management regulations that have been implemented over the last five (5) years. The Public Expenditure & Financial Accountability (PEFA) completed in the first quarter of 2015 underscores the success to date at fiscal discipline. The medium targets assume that recurrent expenditure will increase annually by 2.5%. Maintaining fiscal discipline and operational efficiencies will remain a key priority of government.

Table 4: Operating Expenditure

Forecast Operating Expenditure							
	Actual 2014/15	Approved 2015/16	Forecast 2015/16	Estimate 2016/17	Projections 2017/18	Projections 2018/19	Projections 2019/20
Recurrent Expenditure							
Total Personnel Costs	60,879	75,263	72,502	77,733	79,676	81,668	83,710
Pension and Gratuity	6,985	5,751	5,012	6,326	6,484	6,646	6,813
Transfers to NHIB	19,687	19,367	19,367	19,851	20,348	20,856	21,378
Hospital Provisional Charges	23,235	23,713	23,713	24,306	24,914	25,537	26,175
Subventions	8,168	9,931	10,261	10,909	11,182	11,461	11,748
Rental of Assets	4,924	5,586	5,586	5,725	5,868	6,015	6,165
Other expenditure	37,655	51,989	55,296	63,298	59,974	61,473	63,010
Total Recurrent Expenditure	161,533	191,600	191,737	208,149	208,446	213,657	218,998
<i>Annual per cent recurrent expenditure increase</i>			18.70%	8.56%	0.14%	2.50%	2.50%
	Actual 2014/15	Approved 2015/16	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
Recurrent Expenditure							
Civil Recovery	2,222	1,158	1,158	1,100	-	-	-
SIPT recovery	4,651	3,000	3,000	4,600	-	-	-
Debt service, interest and fees	7,015	6,660	6,537	2,893	2,923	2,218	2,269
Total Non-Recurrent Expenditure	13,888	10,818	10,695	8,593	2,923	2,218	2,269
Total Operating Expenditure	175,421	202,418	202,433	216,741	211,368	215,875	221,267

Source: Table prepared by the Budget Office



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Operating expenditure forecast for 2015/16 is \$202.4 million. In 2016/17 expenditure target is \$216.7 million, \$14.3 million or 7.1% above the 2015/16 projections. In 2016/17, recurrent expenditure growth rate will be 8.6% over the forecast outturn for 2015/16. Operating expenditure in 2017/18 -2019/20 is \$ 211.3, \$215.9, \$221.3 million respectively.

Staff Costs

Personnel costs accounts for \$77.7 million or 37.0% of recurrent expenditure in 2016/17. Provision has been made for costs relating to salaries, wages and allowances to be incrementally increased by 2.5% annually from 2016/17 -2019/20. These include additional staffing costs of \$1.8 million for citizen security, improved customer service at Immigration and Border Control, policy and project management strengthening. \$1.5 million in staff costs has been relocated to other expenditure to facilitate a policy decision to outsourcing cleaning services within the public sector.

Pension and Gratuity

The Pension and Gratuity allocations have been increased by 0.5 million to facilitate an overall increase to pensioners and to make provision of an ex-gratia award to retired unestablished public servants (wage) that were retired/made redundant during the downsizing exercise of 2012. In 2017/18 and beyond an annual increase of 2.5% is projected.

Hospital Related Charges

Subvention to NHIB and the hospital related charges will increase by approximately \$1.0 million annually to \$44.1 million. The increase is provisional on a health service on a reconciliation exercise that will be carried out in 2015/16. Hospital related charges will account for 22% of the annual budget.

Subvention

For the 2016/17 financial year, \$11.2 million or 5% of the budget will be allocated for subvention to other government agencies. In addition to the standard 2.5% increase, there will be prioritized allocations to the Ministry of Tourism for the National Trust and the Tourist Board to assist with continuous marketing of the family islands and improved focus on the development of cultural and national pride.

Other Recurrent Expenditure

Allocation classified as Other Recurrent Expenditure includes: Interest Payments of \$2.9 million, General Maintenance costs of \$7.5 million, Utility cost – \$4.5 million, Local Travel - \$2.0 million. A further, \$8.6 million has been allocated for the Special Investigation and Prosecution Team (SIPT) programme and legal aide costs. A general contingency provision of \$ 5.0 million or 2.0%



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of recurrent revenue is embedded in the expenditure targets of each year. A \$ 6 million allocation for contingent liabilities relating to the health care costs has been included. Allocation has been prioritized for MSME.

Capital Expenditure

Capital investment for 2016-2019 is \$137.5 million. \$ 33.5 million has been allocated for 2016/17, \$34.5 million for 2017/18 and 2018/19 and \$35.0 million for 2019/20. TCIG is working with the Caribbean Development Bank(CDB) with a view to accessing technical support to manage this investment program. Capacity building and transportation infrastructure are two areas that will be prioritized over the medium term.

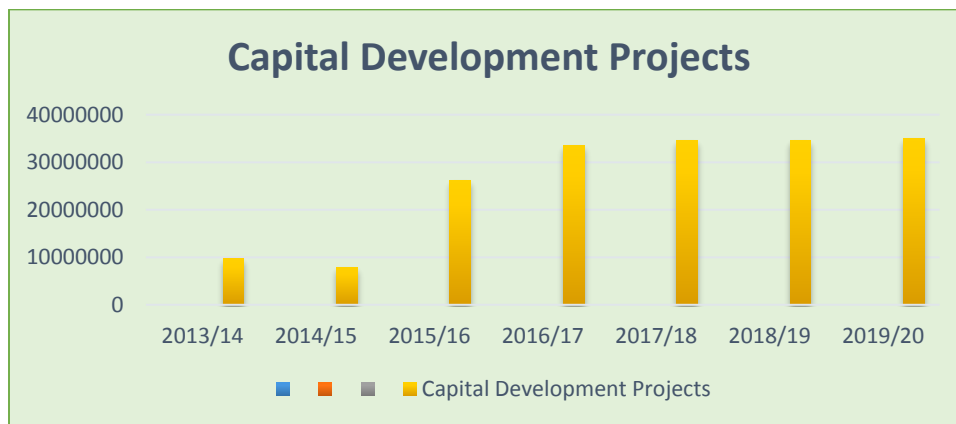


Figure 8- Capital Ex. - 7 years

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



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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 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 a specific time frame. Net debt as a ratio to annual operating revenue must not exceed a maximum of 110% by 2015/16. Also, net debt as percentage of annual operating revenue must not exceed 80% by 2018/19, while maintaining debt service at a maximum of 10% of annual operating revenue and liquid assets at least 25% of annual operating expenditure.

In accordance with the Public Finance Management (PFM) Ordinance 2012, the Sinking Fund was established, for the purpose of paying down the public debt. Cash for the Sinking Fund was from civil recovery and budget surpluses.

The government recognizes the significance of managing public debt in order to keep it at credible and sustainable levels.

A Revised Framework Document along the lines of the existing one but taking into account the existing financial situation in the islands is being prepared to coincide with the maturation of the \$170 million bond, and will be made available to the successful lender when agreed by the Secretary of State and accepted by resolution in the House of Assembly.



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Table 5- Government Debt Schedule

GOVERNMENT DEBT	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Citibank	3,125	2,292	1,459	626	-	-	-
CDB Loans	2,700	2,348	2,019	1,697	1,375	1,053	731
RBTT Loans	4,472	1,667	1,111	555	-	-	-
HSBC/RBTT Loans	170,000	170,000	-	-	-	-	-
Scotia Term Loan	9,000	-	-	-	-	-	-
TC Bank Loan	7,674	6,608	5,541	4,474	3,407	2,340	-
New Borrowing	-	-	35,000	55,000	63,000	49,000	42,000
Imputed PPP Hospital debt outstanding	110,756	107,980	104,886	101,440	95,690	89,940	84,190
TCIAA (Adjusted to FFD 20% weighting)	10,780	9,240	7,560	5,600	-	-	1,273
TCInvest (Net)	10,468	8,824	7,218	5,689	4,583	3,477	-
Total Government Debt	328,975	308,959	164,794	175,081	168,055	145,810	128,194
Net Debt	258,017	182,832	157,569	142,268	115,929	89,074	59,981
Core Government Debt	136,481	65,612	52,348	46,041	38,365	19,870	

Table prepared by the Budget Office

The outstanding debt on the loan guarantee is currently US\$170 million. The sinking fund at the date of bond maturity in February 2016 is forecast at \$140 million. As such, the government will be seeking to refinance an amount of \$35 million to pay out the debt and retain a minimum working capital. Equally, the obligation to retain a portion of the operating surplus for transfer into the sinking fund will expire in February 2016, but the government is proposing to invest a portion of the net surpluses into a Sovereign Wealth Fund (ie subject to its approval by the HOA). The state owned wealth fund will be set aside for future generations as well as assist with reduction in the volatility of the government revenue in the boom-bust cycles that could have adverse effects on government spending. The indicative estimates show, Core Government Debt, which is total debt less, sink fund accumulation less liquid cash reserves \$ 46.0m - 2016/17, \$38.3 m - 2017/18 reducing to \$20.0m in 2018/19.

To further develop the capital infrastructure of the islands the government will borrow, \$20 million annually effective 2016/17 for three (3) consecutive years to carry out major infrastructure development. The annual interest rate is estimated at 3.5% annually; amortized and repayable over 10 years from operating surplus. Tables 6a and 6b below show further details on the principal amounts with sensitivity to interest rates at 3.5, 4.0 and 4.5%.



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Table 6a - New US\$35 Million Loan Amortization

Loan Amount \$'M	35			
Number of years	3.5			
Year	2016-17	2017-18	2018-19	2019-20
Input Values for Principal Balance	Output Formula: Principal Balance			
3.50%	35.0	25.4	15.5	5.3
4.00%	35.0	25.5	15.6	5.3
4.50%	35.0	25.5	15.7	5.3
Data Table: Sensitivity of the Interest Component to the Interest Rate/Year				
Input Values for	Output Formula: interest Component			
3.50%	1.2	0.9	0.5	0.2
4.00%	1.4	1.0	0.6	0.2
4.50%	1.6	1.1	0.7	0.2
Data Table: Sensitivity of the Principal Component to the Interest Rate/Year				
Input Values for	Output Formula: Principal Component			
3.50%	9.6	9.9	10.3	10.6
4.00%	9.5	9.9	10.3	10.7
4.50%	9.5	9.9	10.3	10.8
Data Table: Sensitivity of the Principal and Interest Component to the Interest Rate/Year				
Input Values for	Output Formula: Payment			
3.50%	10.8	10.8	10.8	10.8
4.00%	10.9	10.9	10.9	10.9
4.50%	11.0	11.0	11.0	11.0

Source: Table prepared by the Budget Office

Table 6b - New US\$20 Million Development Loans Amortization

Loan Amount \$'M	20			
Number of years	10			
Year	2016-17	2017-18	2018-19	2019-20
Input Values for Principal Balance	Output Formula: Principal Balance			
3.50%	20.0	38.3	55.0	50.3
4.00%	20.0	38.3	55.1	50.6
4.50%	20.0	38.4	55.3	50.8
Data Table: Sensitivity of the Interest Component to the Interest Rate/Year				
Input Values for	Output Formula: interest Component			
3.50%	0.7	1.3	1.9	1.8
4.00%	0.8	1.5	2.2	2.0
4.50%	0.9	1.7	2.5	2.3
Data Table: Sensitivity of the Principal Component to the Interest Rate/Year				
Input Values for	Output Formula: Principal Component			
3.50%	1.7	3.3	4.7	4.3
4.00%	1.7	3.2	4.6	4.2
4.50%	1.6	3.1	4.5	4.1
Data Table: Sensitivity of the Principal and Interest Component to the Interest Rate/Year				
Input Values for	Output Formula: Payment			
3.50%	2.4	4.6	6.6	6.1
4.00%	2.5	4.7	6.8	6.2
4.50%	2.5	4.8	7.0	6.4

Source: Table prepared by the Budget Office



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Strategy 3 - Revenue Enhancement

The government over the last three years have rationalized the tax structure aimed at enhancing revenue collections including enforcement of compliance. The economic trajectory of the last three years is expected to continue into 2016/17. SPPD has projected that the economy will experience a further positive growth of 3.5% in 2016, which accentuates that the economic growth being experience is on a sustainable path. The government receipts are forecast at a conservative growth rate of 3% for the medium term, because of the volatility of the government revenue streams to external shocks and susceptibility of the geographical boundary to force majeure. For the 2016/17 budget cycle, the government will continue to place special emphasis on tax and revenue compliance as no new revenue streams will be introduced.

Tourism Related Receipts

For the 2016/17 budget cycle, the major tourism related receipts are projected to return \$ 157.7 million which is 62.2% of recurrent revenue or approximately \$5.5 million above the revised budget forecast for 2015/16. Table 7, below illustrates the 2016/17 forecast target at a sensitivity rate of 2-5% growth rate.

Table 7- Tourism Related Revenue Sensitivity

	2015/16	2016/17	2016/17	2016/17	2016/17	2016/17
	Forecast Outturn	Growth Rate 2%	Target Growth Rate 3.0%	Growth Rate 4%	Growth Rate 4.5%	Growth Rate 5%
Tourism Related Streams						
Import Duty	65,621	66,934	67,590	68,246	68,574	68,902
Hotel & Restaurant Tax	59,492	60,682	61,277	61,871	62,169	62,466
Customs Processing Fee	28,032	28,592	28,873	29,153	29,293	29,433
Total Tourism Related Receipts	153,145	156,208	157,739	159,271	160,036	160,802

in '\$000

Import duty

Import duty is forecast at \$67.5 million is to account for the largest percentage of government receipts at 27.0% of recurrent revenue for 2016/17. This is a 3.0% increase over the forecast outturn of 2015/16.



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Accommodation Tax (Hotel and Restaurant Tax)

Hotel and Restaurant Tax currently levied at 12%, is forecast at \$61.2 million or 25% of the 2016/17 recurrent receipts.

Customs Processing Fee

Customs processing fee is being levied at 7.5% is forecast at \$28.9 million. It will contribute 12% of the recurrent receipts in 2016/17.

Stamp Duty on Land Transactions

Stamp duty on land transactions is projected to return 10% of the recurrent revenue budget in 2016/17 - \$ 23.7 million. This is an extremely difficult area to predict the growth rate with certainty because of the unpredictable nature of the real estate industry. Throughout the year it will be monitored periodically and reforecast according to economic activities.

Table 8-Revenue Targets

	Actual 2014/15	Forecast Outturn 2015/16	Estimate 2016/17	Projection 2017/18	Projection 2018/19	Projection 2019/20
Recurrent Revenue						
Import Duty	61,572	65,621	67,590	69,618	71,706	73,857
Hotel & Restaurant Tax	51,850	59,492	61,277	63,115	65,008	66,959
Customs Processing Fee	28,646	28,032	28,873	29,739	30,631	31,550
Stamp Duty on land transactions	25,826	23,084	23,776	24,489	25,224	25,981
Work Permits and Residency Fees	20,797	21,347	21,987	22,647	23,326	24,026
Fuel Tax	8,685	8,170	8,415	8,668	8,928	9,196
Other recurrent revenues	49,138	37,991	38,337	41,980	46,156	47,541
Total Recurrent Revenue	246,513	243,736	250,255	260,255	270,980	279,109
<i>MOF annual per cent revenue increase</i>		-1.13%	2.67%	4.00%	4.12%	3.00%
Non-Recurrent Revenue						
Land Sale Receipts	1,253	960	1,100	-	-	-
EU Grants and Other Grants	4,137	2,500	4,000	-	-	-
Civil Recovery Program	1,100	-	-	-	-	-
Other Capital Receipts	-	3,500	-	-	-	-
	6,490	6,960	5,100	-	-	-
Total Revenue	253,003	250,696	255,355	260,255	270,980	279,109

Table prepared by the Budget Office



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Strategy 4 - Financial Improvement of Statutory Authorities and Government Companies

The fourth element of the government's fiscal strategy is to minimize 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 urgent actions are taken if interventions are needed.

There is a statutory requirement for Turks and Caicos Airport Authority and Port's Authority to turnover net surplus to government annually. However, effective the 2015/16 Budget Cycle, the government has made a decision to allow these Statutory Bodies to invest net excess revenues into the South Caicos Airport Redevelopment project and the Providenciales South Dock respectively. These arrangements will be in effect over a three (3) year period.

Strategy 5 - Public Private Partnerships

The fifth element of the government's fiscal strategy relates to the need for on-going 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 explore opportunities for public private partnerships.



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STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)

Operating Results

Table 9- Operating Results

<i>figures in US\$'000</i>	FY2014-15 Actual	FY2014-15 Budget	FY2013-14 Actual	FY2014-15 Actual vs Budget		Actual FY2014-15 vs FY2013-14	
Recurrent Revenue	246,462	212,483	200,494	33,979	16%	45,968	23%
Recurrent Expenditure	161,534	177,346	154,936	15,812	9% ✓	(6,597)	(4%)
Net Recurrent Surplus	84,929	35,137	45,558	49,792	142%	39,371	86%
Non-Recurrent Revenue	6,492	6,811	6,308	(318)	(5%)	184	3%
Non-Recurrent Expenditure	13,887	14,268	18,157	381	3%	4,269	24%
Operating Surplus	77,533	27,680	33,709	49,853	180.1%	43,824	130%

Overall the government's operating performance continued. Operating results for the fiscal year showed an operating surplus of \$77.5 million (2014: \$33.7 million), being a positive variance of \$49.9 million or 180% above the budgeted amount of \$27.8 million, before net transfers to the sinking fund of \$51.8 million (2014: \$17.2 million), capital expenditure of \$7.9 million (2014: \$9.7 million) and debt repayment of \$15.8 million (2014: \$7.5 million). Recurrent revenue outturn for the year was very impressive coming in 16% ahead of budget and 23% above last year's outturn. Recurrent expenditure for the year was 9% below budget estimates and 4% up from the prior year's results.

The overall revenue performance was due to increased economic activities and the best tourist arrival ever recorded, along with gradual improvements in the real estate market and enhanced compliance and audit review measures employed by the Revenue Department.

The government also continued to provide training to the public sector that resulted in increased awareness and reinforcement of the requirements of both the Public Finance Management and the Public Procurement Ordinances, while the Treasury maintained a key role in implementing and monitoring expenditure controls to ensure that revenue growth exceeded expenditure growth to support increasing budget surpluses, as projected in the budget.



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Revenue Performance

Turks and Caicos Islands Government revenues for the 2014-15 fiscal year totalled \$253.0 million (2014:\$206.8 million). This represented an increase of \$46.2 million or 22% from fiscal year 2013-14 and was \$33.7 million or 15% ahead of the budget estimates for the year.

Total revenue for FY2014-15 included \$61.6 million or 24% derived from import duties. Hotel and Restaurant tax also made up 21% of revenues coming in at \$51.9 million, while \$28.6 million from customs processing fees, \$25.8 million from stamp duty on land transactions and \$17.7 million from work permits and residency fees together accounted for 28% of revenues.

Table 10- Revenue

figures in US\$'000

Recurrent Revenue	FY2014-15	FY2014-15	FY2013-14	FY2014-15		Actual FY2014-15 vs	
	Actual	Estimates	Actual	Actual vs Budget		FY2013-14	
Import Duty	61,572	53,659	52,702	7,912	15%	8,870	17%
Hotel and Restaurant Tax	51,850	43,125	40,948	8,724	20%	10,901	27%
Customs Processing Fee	28,646	26,619	22,574	2,027	8%	6,072	27%
Stamp Duty on Land Transactions	25,826	18,000	21,944	7,826	43%	3,881	18%
Work Permits and Residency Fees	17,698	13,950	13,321	3,748	27%	4,377	33%
Fuel Tax	8,685	8,321	7,681	364	4%	1,004	13%
Other Revenues	52,185	48,809	41,324	3,377	7%	10,861	26%
Total Recurrent Revenues	246,462	212,483	200,494	33,979	14%	45,968	23%

figures in US\$'000

Non-Recurrent Revenues	FY2014-15	FY2014-15	FY2013-14	FY2014-15		Actual FY2013-14 vs	
	Actual	Estimates	Actual	Actual vs Budget		FY2012-13	
Civil Recovery Income	1,100	1,500	1,144	(400)	(27%)	(44)	(4%)
Land Sales	1,253	1,100	1,822	153	14%	(569)	(31%)
Revenue from Grants	4,139	4,211	59	(72)	(2%)	4,080	6911%
National Forfeiture fund Contributions	-	-	3,283	-	-	(3,283)	-
Total Non-Recurrent Revenues	6,492	6,811	6,308	(319)	(5%)	184	3%

252,954	219,294	206,802	33,660	15%	46,151	22%
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Recurrent Revenues for the year totalled \$246.5 million (2014:\$200.5 million), an increase of \$46.0 million over last year's outturn and \$33.0 million over the budget estimates.

Total duties (excluding stamp duty) collected for the year were \$103.6 million (2014:\$87.3 million). This represented an increase of \$16.3 million or 19% over last year's results and \$10.9 million over budget estimates as result of increased activity in the economy. Total duties includes Import Duties of \$61.6 million, an \$8.9 million or 17% increase from last year and \$7.9 million or 15% above budget. Customs Processing Fees saw an increase of 27% or \$6.1 million over last year's results while Fuel Tax increased by 13% when compared to last year and 4% over budget.

Hotel and Restaurant Tax were up \$10.9 million over last year's results and \$8.7 million over the budget, Overall taxes on transactions was 18% above budget and 34% above last year's results. The significant variances are primarily due to the tourist season recorded. Taxes on domestic goods and transactions were \$8.2 million higher than budget and \$4.2 million above last year's results, largely owing to positive movements in the real estate industry resulting in Stamp Duty on Land Transactions being \$7.8 million or 44% above budgeted outturn and \$3.9 million or 18% over last year's outturn.

Fees, fines and permits increased \$5.1 million or 21% when compared to last year's results and came in \$4.4 million or 18% above budget. The major contributor being Work Permits and Residency Fees which saw an improvement of \$4.4 million or 33% from last year's results and came in \$3.7 million or 27% ahead of budget. This outturn is attributed to higher demand and a major effort to collect overdue amounts.

Other Revenues collected for the year totalled \$52.2 million (2014: \$41.3 million) which was 6% above the budgeted amount and 26% above last year's outturn.

Non-recurrent revenue for the year totalled \$6.5 million (2014:\$6.3 million), up 3% from last year's results while being 5% below budget. The major contributor to this amount was Revenue from Grants which consisted of a \$4.1 million European Union grant received during the month of April 2014 for budgetary support. Land Sales receipts were \$1.3 million, which was 14% above the budgeted outturn and 31% below last year's results while Civil Recovery Income was 4% below last year's receipts and fell short of the budget by 27%.



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Expenditure Performance

Turks and Caicos Islands Government expenditure before capital for the 2014-15 fiscal year totalled \$175.4 million (2014: \$173.1 million). This represented a slight increase of \$2.3 million or 1% above fiscal 2013-14 and \$16.2 million or 8% below the budget estimates for the year.

The total spent during FY2014-15 included \$67.9 million or 39% was for Personnel Costs. Hospital Provisional Charges totalling \$23.2 million and made up 13% of expenditure while Medical Treatments and Transfers to NHIB in the amount of \$19.7 million accounted for a further 11%.

Table 11- Expenditure Performance

figures in US\$'000

RECURRENT EXPENDITURE	FY2014-15 Actual	FY2014-15 Estimates	FY2013-14 Actual	FY2014-15 Actual vs Budget		Actual FY2014-15 vs FY2013-14	
Total Personnel Costs	67,864	71,150	64,619	3,286	5%	(3,246)	(5%)
Transfers to NHIB	19,687	19,688	20,625	1	0%	938	5%
Hospital Provisional Charges	23,235	23,713	24,529	479	2%	1,294	5%
Subventions	8,168	8,185	6,188	17	0%	(1,979)	(32%)
Maintenance Expenses	7,229	7,415	6,275	186	3%	(954)	(15%)
Other Expenses	35,350	47,195	32,700	11,845	25%	(2,650)	(8%)
Total Recurrent Expenditure	161,534	177,346	154,936	15,812	10%	(6,597)	(4%)

figures in US\$'000

NON-RECURRENT EXPENDITURE	FY2014-15 Actual	FY2014-15 Estimates	FY2013-14 Actual	FY2014-15 Actual vs Budget		Actual FY2014-15 vs FY2013-14	
Special Investigation Prosecution Team	4,651	4,718	4,663	67	1%	12	0%
Civil Recovery	2,222	2,450	6,073	228	9%	3,851	63%
Finance Cost	7,015	7,100	7,421	85	1%	406	5%
Total Non-Recurrent Expenditure	13,887	14,268	18,157	381	3%	4,269	24%

175,421	191,614	173,093	16,193.0	8%	(2,328)	(1%)
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Recurrent expenditure of \$161.5 million for the year accounted for 92% of total expenditure before capital investment and was up 4% or \$6.6 million from last year's results and below budget estimates by \$15.8 million or 10%.



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Almost all expenditure heads were below estimates for the year; the major contributors being Personnel Costs which stood at \$67.9 million for the year, which was below the budget by \$3.3 million or 5%, as a result of delays in the recruitment process, while there was an increase of \$3.2 million or 5% over the prior year results. Medical Treatment & Transfers to NHIB for the year totalled \$19.7 million of which transfer to NHIB accounted for \$19.5 million.

This amount was on par with budget while being \$0.9 million below last year's results. Hospital Provision Charges for the year of \$23.2 million was \$0.5 million or 2% below the budgeted amount and \$1.3 million below the prior year's outturn.

Subventions totalled \$8.2 million representing a \$2.0 million or 32% increase from last year's cost of \$6.2 million, while being on par with the budget. The year over year increase was due to new budgetary allocations to the Tourist Board to cover the cost of increase marketing to Brazil and other countries and also to support the promotion of TCI in association with Beaches Resort and Spa. Maintenance cost was \$7.2 million for the year, representing a 15% or \$1.0 million increase over last year's outturn, while being \$0.2 million or 3% below the budgeted amount, mainly due to timing differences associated with the award of contracts and the start of maintenance work on government assets.

Other recurrent expenditure for the year totalled \$35.4 million (2014: \$32.7 million) which saw an increase of \$2.7 million of 8% from last year's results, while \$11.8 million or 34% below the budgeted amount.

Rental Costs for the FY 2014-15 saw a decrease of 12% when compared to last year's results and were down 3% when compared to the budget. This is mainly attributed to savings realized as result of renovations to government owned buildings enabling them to be occupied, as a result, further savings are anticipated in future years. Utility Expenses for the year totalled \$4.1 million. This resulted in a positive variance of \$0.7 million when compared to the budgeted amount while resulting in a 7% or \$0.3 million negative variance when compared to last year's results, due in part to delays in processing invoices, which was addressed in the last quarter with the assistance of finance managers/officers following up with ministries and departments to ensure that payment were processed on a more timely basis.

Grants and Contributions totalled \$3.6 million for the year of which \$2.2 million was spent on scholarships. This amount represents a 1% increase over last year's results while being 14% or \$0.6 million below the budgeted amount.



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Professional and Consultancy Services totalled \$2.1 million, which was 11% below the budgeted amount while being 1% above last year's outturn. The budget anticipated that both Attorney General Chambers and Director of Public Prosecutions would have utilized the services of more consultants during the financial year.

The total amount spent Recurrent Sub Programmes and Projects for the year was \$2.0 million, a \$1.0 million or 100% increase from last year's results, while being 14% below the budgeted amount of \$2.4 million.

Other Expenditure items totalled \$18.7 million for the financial year. These costs were up \$14.5 million when compared to last year's outturn while being \$10.7 million or 36% below the budget estimates.

Non-recurrent expenditure for the year of \$13.9 million (2014:18.2 million) was down \$4.3 million or 24% from last year's outturn while being 3% below budget estimates. SIPT expenses totalling \$4.7 million of this amount, while being on par with last year's results and marginally below the budgeted amount. Civil Recovery expenses of \$2.2 million were \$3.9 million or 63% below last year's outturn while being 9% below budget estimates. Finance cost associated with TCIG's public debt totalled \$7.0 million for the year, which was marginally below the budgeted amount while being 5% below last year's outturn.

Capital Expenditure

The total amount spent on capital projects for the year was \$7.9 million, which was funded primarily by capital contributions totalling the same amount provided by the Consolidated Fund. This outturn came in 46% below the budgeted amount of \$14.5 million and 19% below last year's expenditure of \$9.7 million. Unused allocations of \$6.6 million were carried forward to the 2015/16 budget.

Public Sector Borrowings

The Turks and Caicos Islands Government's outstanding debt including statutory bodies as at March 31, 2015 was \$241.8 million. Total principal debt repayments for the year was \$23.2 million, including the early repayment of \$9.0 million due to Scotiabank.



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The total debt of \$241.8 million at 31st March 2015 includes an amount of \$170 million for Bonds issued under the guarantee arrangement with the UK Government. The guaranteed loans are secured by a United Kingdom/DFID guarantee in the amount of \$260 million. These bonds were issued in April 2011 to be repaid in February 2016.

Table 12- Outstanding Public Borrowing

Statement of Outstanding Public Debt	Outstanding Balance 01-Apr-14 US\$'000	Repayment During 2014/15 US\$'000	Outstanding Balance 31-Mar-15 US\$'000
Financial Liabilities - Borrowings			
Unsecured			
Caribbean Development Bank	9,951	1,283	8,668
Citibank Trinidad and Tobago	3,125	833	2,292
RBC Royal Bank	4,472	2,805	1,667
TCI Bank Limited	7,675	1,067	6,608
European Investment Bank (EIB)	974	325	649
National Insurance Board (NIB)	2,347	493	1,854
Total unsecured debts	28,544	6,806	21,738
Secured			
Scotiabank (Turks and Caicos) Limited	9,000	9,000	-
HSBC Bank USA	170,000	-	170,000
Total secured debts	179,000	9,000	170,000
Total outstanding public debts	207,544	15,806	191,738
Statutory Body loans			
TCI Airport Authority	57,400	7,350	50,050
Total outstanding public debts	264,944	23,156	241,788

Commitments and Contingent Liabilities

Estimates of quantifiable commitments and contingent liabilities stood at US\$1.1 billion as at the end of March 2015. The largest item includes the estimated long term commitment of \$412.8 million based on the terms of the unitary component of the ICL hospital contract, and estimates of future payments for the clinical portion of the contract which amounts to \$599.0 million as at March 31, 2015. Estimated liability for providing pension benefits attributable to years of past service for TCIG public service as at March 31, 2015 was \$80.1 million.



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AGGREGATE FINANCIAL TARGETS

The aggregate financial targets for core government operations, listed below have been established by Cabinet for the 2016/17 fiscal year and the three 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 13
Aggregate Financial Targets for Core Government

FINANCIAL MEASURES	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20
	Unaudited Actual \$'000s	Budget \$'000s	Unaudited Actual \$'000s	Target \$'000s	Forecast Outturn \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
OPERATING TARGETS									
Recurrent Revenue	200,563	212,483	246,513	228,309	243,736	250,255	260,255	270,980	279,109
Non-Recurrent Revenue	7,703	6,811	6,490	9,816	6,960	5,100	-	-	-
Total Revenue	208,266	219,294	253,003	238,125	250,696	255,355	260,255	270,980	279,109
Recurrent Expenditure	154,568	173,903	161,533	191,600	191,737	208,149	208,446	213,657	218,998
Non-Recurrent Expenditure	18,135	13,721	13,888	10,818	10,695	8,593	2,923	2,218	2,269
Total Operating Expenditure	172,703	187,624	175,421	202,418	202,433	216,741	211,368	215,875	221,267
Surplus Before Capital Programme	35,563	31,670	77,582	35,707	48,264	38,613	48,887	55,105	57,842
Capital Development Projects	(9,712)	(12,829)	(7,900)	(22,403)	(26,092)	(33,500)	(34,500)	(34,500)	(35,000)
Net Operating Surplus	25,851	18,840	69,682	13,304	22,172	5,113	14,387	20,605	22,842
BALANCE SHEET TARGETS									
Net Government Debt	258,017	223,903	182,832	157,569	153,489	142,268	115,929	89,074	59,981
CASH FLOW TARGETS									
Opening Cash Balance	7,780	12,777	12,777	16,127	16,127	11,305	10,813	18,126	20,736
Net Operating Cash Surplus	25,851	18,840	69,682	13,304	22,172	5,113	14,387	20,605	22,842
Other Net Cash Inflows	5,720	2,019	1,293	2,185	2,397	702	602	500	500
Debt Repayment	(9,403)	(6,762)	(15,806)	(174,391)	(174,391)	(16,307)	(17,676)	(18,495)	(13,495)
Sinking Fund Transfers - In	(17,171)	(13,443)	(60,819)	(19,148)	(19,148)	-	-	-	-
Sinking Fund Transfers - Out	-	-	9,000	129,148	129,148	-	-	-	-
Sovereign Wealth Fund	-	-	-	-	-	(10,000)	(10,000)	(20,000)	(10,000)
New Borrowing	-	-	-	40,000	35,000	20,000	20,000	20,000	-
Closing Cash Balance	12,777	13,432	16,127	7,225	11,305	10,813	18,126	20,736	20,583

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 12, total revenue in 2016/17 is forecast at \$255.3 million; \$5 million above the forecast outturn for 2015/16 and \$17.0 million above the approved budget of 2015/16. No new revenue initiatives have been assumed for the future years and the estimated growth rate is compounded at 3%.



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Total expenditure is forecast at \$250.2 million, an increase of \$21.7 million or 9.0% over the forecast outturn of 2015/16. The annual expenditure growth rate is forecast at 2.5%. Included in total expenditure is allocation of \$33.5 million for capital expenditure in 2016/17 and \$34.5 million in 16/17 in subsequent years the allocation increases to \$34.5 million.

Net Operating Surplus is forecast at \$5.1 million in 2016/17 or 2.0% of Recurrent Revenue; \$14.3 million in 2017/18 or 5.5% of recurrent revenue, and \$20.6 million in 2018/19 or about 7.6% of recurrent revenue and \$22.8 million or 8.2% of recurrent revenue in 2019/20.

Asset and Liability Targets

Core government assets and liabilities are reported as targets. Fixed assets are not currently recorded in the government accounts. The government is forecasting new borrowings of \$35 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 3.5% per annum, amortized and repayable over 3.5 years. The projections include an infrastructure borrowing of \$20.0 million annually for three (3) years at a rate of 3.5% amortized over 10 years. Net debt is forecast to reduce to \$142.2 million at the end of 2016/17, \$115.9 million in 2017/18 to \$89.1 million in 2018/19 and \$59.9 million in 2019/20.

Cash Flow Targets

Net operating cash surplus before transfer to the Sovereign Wealth Fund and new borrowing for infrastructure development in 2016/17 is forecast at \$5.13 million, \$14.3 million in 2017/18, \$20.6 million by 2018/19 and \$ 22.8 million in 2019/20. These operating cash flows will enable the government to fully fund its planned development programs and repay the principal on outstanding debt.

Sinking Fund/ Sovereign Wealth Fund (SWF)

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. It is not mandatory for the government to continue to maintain the sinking fund beyond February 2016, however the government has started discussions about implementing a Sovereign Wealth Fund. Details of the operation and management of the Fund are being worked through however; a broad estimate of \$10.0 million from operating surplus annually will be transferred to the Fund.



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Debt Repayment

Debt repayment is the principal repaid on existing debt obligations. Debt repayment of the new loan of \$35 million refinanced as part of the 170 million bond will begin in 2016/17 along with the new infrastructure loans of \$20 million annually for three years. Total principal repayment is forecast at \$16.3 million in 2016/17, \$17.7 million in 2017/18 and \$18.4 million in 2018/19 and \$13.5 million in 2019/20.

Compliance with Principles of Responsible Financial Management

Table 14 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 14 Compliance with Principles of Responsible Financial Management

Table 14: Compliance with Principles of Responsible Financial Management		
PRINCIPLES	DEGREE OF COMPLIANCE	
Operating Surplus: should be positive all years Operating Surplus = Total Operating revenue - Total Operating expenditure	Complies in all years	
	2013/14	25,851
	2014/15	69,682
	2015/16	22,172
	2016/17	5,113
	2017/18	14,387
	2018/19	20,605
Debt Service: Debt servicing cost for the year should be no more than 10% of core revenue by the end of fiscal 2018/19 (Debt servicing = interest + principal repayments + other debt related expenses + transfers to the Sinking Fund)	Complies by the end of Fiscal year 2016/17	
	2013/14	17.0%
	2014/15	33.9%
	2015/16	14.7%
	2016/17	7.7%
	2017/18	7.9%
	2018/19	7.6%
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 (Net debt = Government debt balances + weighted outstanding balance of statutory entities guaranteed debt - government cash balances)	Complies in 2014/15 and 2014/15	
	2013/14	128.6%
	2014/15	74.2%
	2015/16	63.0%
	2016/17	56.8%
	2017/18	44.5%
	2018/19	32.9%
Liquid Cash Reserves: Should be no less than 90 days of estimated expenditure by the end of financial year 2018/19 At least 90 days in 2018/19: Liquid cash reserves = government cash balances + Sovereign Wealth Fund	Complies by the end of Fiscal year 18/19	
	(DAYS)	
	2013/14	30
	2014/15	36
	2015/16	22
	2016/17	36
	2017/18	67
Financial Risks: Should be managed prudently so as to minimise risk	Complies in all years	
	Insurance coverage exist for key assets and major potential liabilities. Hurricane and other natural disaster preparedness strategy in place	

Table prepared by the Budget Office



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Liquid Cash Reserves

Liquid cash reserves is including the Sovereign Wealth Fund, assuming that fund will be easily converted to cash. 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 104 days of planned expenditure as at fiscal year 2018/19. If the investment portfolio of the SWF is changed to long-term, then the liquid cash reserves will change accordingly.

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 – 2019/20 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% 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 debts that have 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% of core revenue by 2015/16 and 80% by 2018/19. The targets were achieved in 2014/15.



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CONCLUSION

The fiscal policy paper identifies the parameters upon which the financial targets for 2016-17 to 2019-20 have been prepared. It is the basis upon which the 2016/17 revenue and expenditure estimates will be prepared. The major focus of the government for the four-year period is on critical infrastructural development that will ultimately build a prosperous future for residents and citizens, tax and revenue compliance and entrepreneurial advancement. Sustaining economic growth has been prioritized to ensure job creation, and provide opportunities for the vulnerable population.