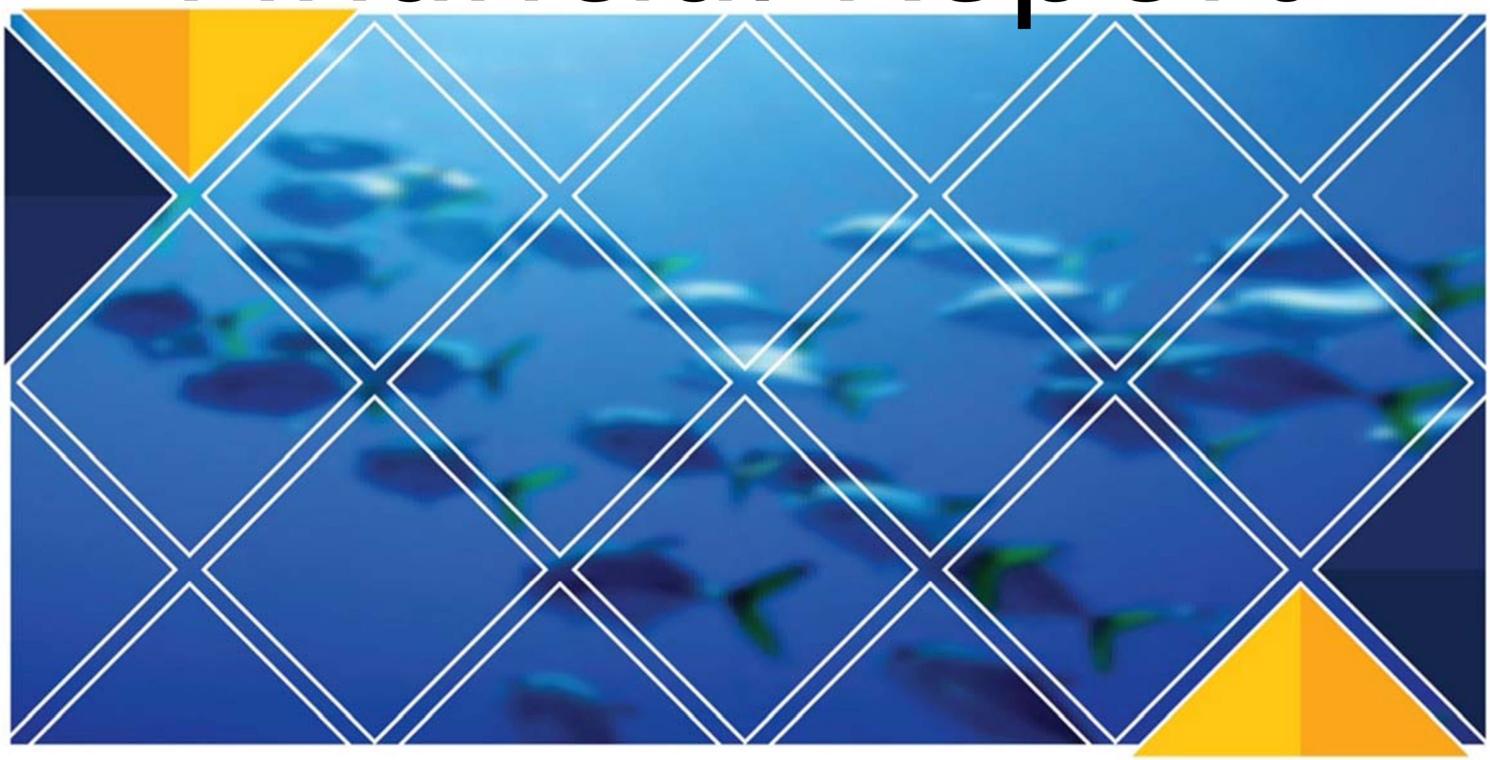
Turks & Caicos Islands

2016-17 First Quarter

Financial Report



April to June 2016

Prepared by: The office of the Accountant General

July 20th 2016

FOREWORD

The first quarter of FY2016/17 Financial Report (Unaudited) presents a summary of the results of operations of the Government of the Turks and Caicos Islands for the first three months of this financial year 2016-15. 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.

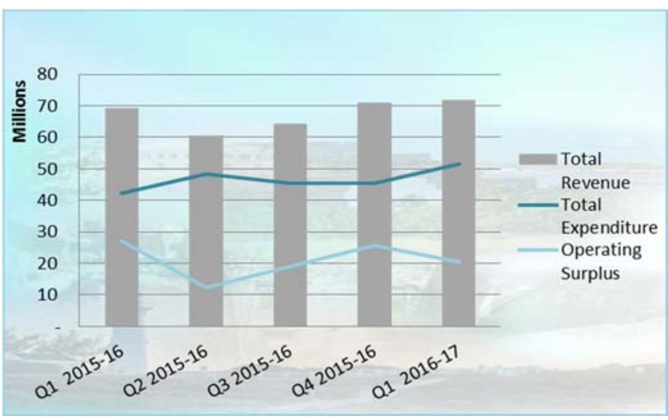
FISCAL SUMMARY

For the three months ended June 30, 2016

(Figures in US$'000)

	2016-17 Budget	3 Month Estimate	3 Month Actual	Change from Estimate	% Change
Revenue	255,649	68,988	71,953	2,965 ↑	5%
Expenditure					
Recurrent	202,669	54,888	49,695	5,194 ↓	22%
Non-Recurrent	13,091	2,422	1,836	586 ↓	4%
Total Expenditure	215,760	57,311	51,531	5,779 ↓	10%
Operating Surplus	**39,889**	**11,677**	**20,422**	**8,744** ↑	**75%**
Capital Contributions	36,479	9,120	4,995	4,125 ↓	45%
Net Surplus after Capital Contributions	**3,410**	**2,557**	**15,426**	**18,460** ↑	**722%**

The **operating surplus** for the first three months of 2016-17 was $11.7 million, $8.7 million or 75% higher than expected, primarily due to lower than expected expenditure and sustained strength of key revenue areas. It is anticipated that the current under-expenditure will be absorbed as the year progresses.



Revenue for the first three months was $72.0 million, up $3.0 million or 4% from the budgeted amount.

Overall Taxes on goods and transactions was 9% higher than budget, largely owing to positive movements in the real estate industry resulting in stamp duties on land transactions being $1.8 million or 20% above budgeted outturn and communication tax receipts being $1.0 million ahead of the budgeted amount, while accommodation was just marginally ahead of the budgeted amount by 1%.

Duties for the first quarter were 3% higher than expected with its major player Import duties coming in a marginal 2% ahead of the budgeted outturn.

Fees Fines & Permits were down 37. This was mainly due to Work Permits & Residency Fees being $1.8 million or 37% below budget as a result of a moratorium being in place as training takes place for the new legislation that was recently introduced. It is expected to normalize as the year progresses.

Expenditure for the first three months was $51.5 million, down $5.8 million from the 3 month estimate, due mainly to lower than expected operating costs which shall be incurred as the year progresses.

Operating expenditure was lower than estimates by $11.5 million. While mostly all expenditure heads were below estimates, the major contributors to this was personnel cost which was down $1.9 million and maintenance cost which was down $1.4 million due to timing differences associated with the award of contracts and the start of maintenance work on government assets.

Grants and Contributions expenditure was 39% lower than estimated mainly due continuing student scholarship payments for new awardees for the up-coming school year not being finalized, resulting in no payments being made. Expenditure should be reflected on par with budget by the third quarter.

Capital Investment during the first three months of 2016-16 was $5.0 million, $4.1 million or 45% lower than estimated. Major contributors to this amount were Land acquisition, works done to the Long Bay &

Helena Jones Robinson High schools, and also road development cost.

REVENUE & EXPENDITURE

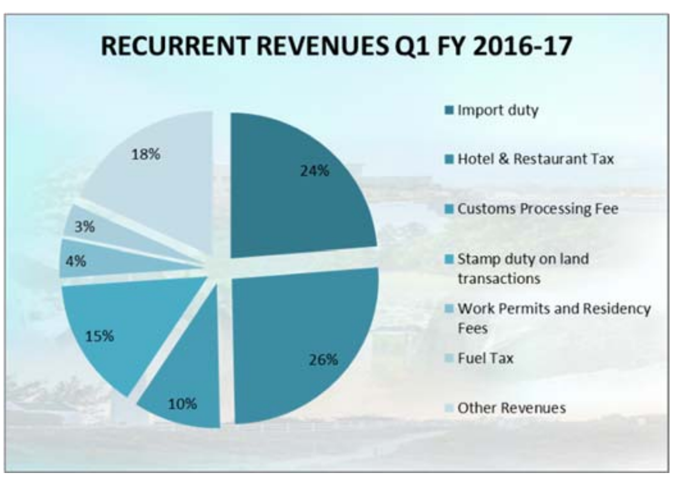
Revenue Results - April to June 2016

Revenue	Quarter 1 2016/17		
(Figures in US$'000)	Actual	Budget	Prior Year
Import duty	17,072	16,775	16,450
Hotel & Restaurant Tax	18,637	18,409	19,468
Customs Processing Fee	6,940	7,051	6,531
Stamp duty on land transactions	10,524	8,742	10,832
Work Permits and Residency Fees	3,088	3,900	4,884
Other Revenues	15,675	13,924	16,618
Total Recurrent Revenue	**71,935**	**68,800**	**74,782**
Nonrecurrent Revenue	18	188	104
Total Revenue	**71,953**	**68,988**	**74,886**

Recurrent Revenue for the first three months was $71.9 million, $3.0 million or 4% higher than expected. This favourable variance is largely owing to positive movements in the real estate industry resulting in stamp duties on land transactions being $1.8 million or 20% above budgeted outturn.

Of the total collected during the first quarter of FY2016-17, $18.6 million or 26% was derived from Hotel and Restaurant tax. Import Duties also made up 24% of recurrent revenues coming in at $17.1 million, while $6.9 million from Customs Processing Fee, $10.5 million from Stamp Duty on Land Transactions, $3.1 from Work Permits & Residency Fees and $2.6 million from Fuel Tax together accounted for 33% of recurrent revenues.

Other revenues of $13.1 were $1.1 million above the budgeted amount of $12.0 million.



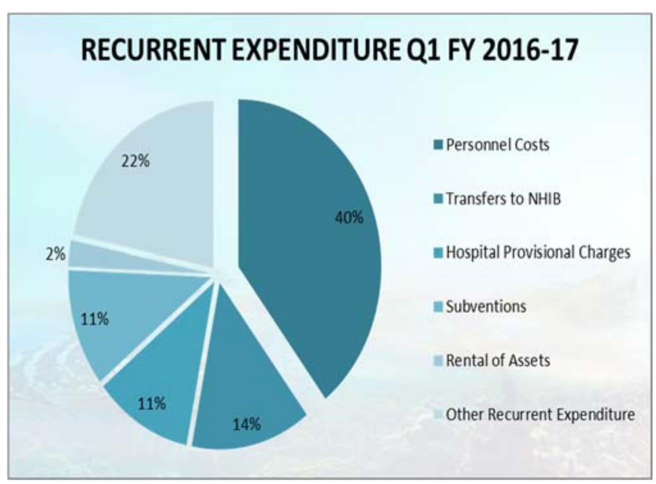
Expenditure Results - April to June 2016

Expenditure	Quarter 1 2016/17		
(Figures in US$'000)	Actual	Budget	Prior Year
Personnel Costs	19,662	21,592	17,900
Transfers to NHIB	6,744	5,152	4,896
Hospital Provisional Charges	5,503	6,061	5,234
Subventions	5,697	3,035	1,996
Rental of Assets	1,247	1,485	1,183
Other Recurrent Expenditure	10,842	17,565	8,884
Total Recurrent Expenditure	**49,695**	**54,888**	**40,093**
Nonrecurrent Expenditure	1,836	2,422	2,083
Total Expenditure	**51,531**	**57,311**	**42,176**

Recurrent Expenditure for the first three months was $49.7 million, a decrease of $5.2 million from the 3 month estimate due mainly to lower than expected operating costs.

Personnel costs, which accounted for 40% of expenditure which stood at $19.7 million for the quarter, was $1.9 behind budget while being up $1.8 million from prior year's cost largely owing to the recent strides in filling vacant positions. Transfers to NHIB and Hospital Provisional Charges together accounted for 25% of total expenditure, while Subventions and Rental of Assets accounted for 11% and 3% of expenditure respectively.

Other recurrent expenditure of $10.8 million accounted for a further 22% of total expenditure and came in $6.7 million or 38% below the budget.



REVENUE & EXPENDITURE BY MINISTRY

REVENUE

(Figures in US$'000)

		2016-17	Quarter 1			
		Budget	Actual	Budget	Variance	
03	Police	**97**	9	-	9	-
04	Attorney General's Chambers	**24,720**	10,818	9,012	1,806	20%
05	Judiciary	**1,133**	245	271	(26)	(10%)
14	Statutory Charges	**750**	79	188	(108)	(58%)
16	Border Control & Employment	**23,506**	5,025	5,534	(510)	(9%)
54	Finance Trade & Investment	**194,516**	52,913	51,708	1,205	2%
59	Home Affairs Transportation & Communication	**4,083**	922	735	187	25%
61	Tourism Environment Heritage & Culture	**4,728**	1,199	1,071	128	12%
62	Health Agriculture & Human Services	**339**	78	78	(1)	(1%)
TOTAL RECEIPTS		**255,649**	**71,953**	**68,988**	**2,965**	**4%**

EXPENDITURE

(Figures in US$'000)

		2016-17	Quarter 1			
		Budget	Actual	Budget	Variance	
01	Governor's Office	**5,369**	956	1,479	523	35%
03	Police	**24,854**	5,592	5,779	187	3%
04	Attorney General's Chambers	**6,720**	1,212	1,932	719	37%
05	Judiciary	**7,663**	2,447	2,581	134	5%
14	Statutory Charges	**13,891**	2,426	3,720	1,294	35%
16	Border Control & Employment	**7,634**	1,413	2,054	642	31%
54	Finance Trade & Investment	**18,624**	4,208	5,418	1,210	22%
56	Deputy Governor's Office	**2,256**	585	664	79	12%
57	Education Youth Sports & Culture	**27,714**	6,112	7,228	1,116	15%
58	Director of Public Prosecutions	**1,489**	313	375	62	16%
59	Home Affairs Transportation & Communication	**10,179**	2,178	2,592	413	16%
60	Infrastructure Housing & Planning	**15,678**	3,339	4,618	1,279	28%
61	Tourism Environment Heritage & Culture	**7,185**	4,268	1,705	(2,564)	-150%
62	Health Agriculture & Human Services	**61,046**	15,370	15,702	331	2%
63	House of Assembly	**3,048**	673	788	116	15%
64	Office of The Premier & District Administration	**2,409**	439	677	238	35%
TOTAL PAYMENTS		**215,760**	**51,531**	**57,311**	**5,779**	**10%**
OPERATING SURPLUS		**39,889**	**20,422**	**11,677**	**8,744**	**75%**

Program expenditure saw a slow start for first three months of financial year 2016-17. All ministries, with the exception of Tourism, expenditure outturn came in significantly less than estimated, resulting in a variance for the first three months of $5.8 million or 10% below budget. This under expenditure was the major contributor in the operating surplus for the period being 75% or $8.7 million over the budgeted amount. Increases in expenditure and a slight reduction in revenues however are expected in the second quarter, which will offset some of this early gain.

CASH FLOW

(Figures in US$'000)	Quarter 1 2016/17			Variance				Year to Date			Variance			
	Actual	Budget	Prior Year	Budget		Prior Year		Actual	Budget	Prior Year	Budget		Prior Year	
Cash Flow from Operations	**20,421.6**	**11,677.1**	**32,709.7**	**8,744.4**	**75%**	**(12,288.2)**	**(38%)**	**20,421.6**	**11,677.1**	**32,709.7**	**8,744.4**	**75%**	**(12,288.2)**	**(38%)**
Less:														
Capital Contributions	(4,995.2)	(9,119.8)	(1,975.7)	4,124.6	(45%)	(3,019.5)	153%	(4,995.2)	(9,119.8)	(1,975.7)	4,124.6	(45%)	(3,019.5)	153%
Debt Repayments	(2,895.7)	(554.2)	(1,488.4)	(2,341.6)	423%	(1,407.3)	95%	(2,895.7)	(554.2)	(1,488.4)	(2,341.6)	423%	(1,407.3)	95%
Borrowing								-	-	-				
Bond Inflows	183.6	160.5	183.6	23.1	14%	(.0)	(0%)	183.6	160.5	183.6	23.1	14%	(.0)	(0%)
Transfers from/(to) NFF	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Working Capital	3,378.2	-	2,862.4	3,378.2	-	515.8	18%	3,378.2	-	2,862.4	3,378.2	-	515.8	18%
Net Cash Flows	**16,092.5**	**2,163.7**	**32,291.7**	**13,928.8**	**644%**	**(16,199.2)**	**(50%)**	**16,092.5**	**2,163.7**	**32,291.7**	**13,928.8**	**644%**	**(16,199.2)**	**(50%)**

The underlying cash balance at the end of the first quarter was $16.1 million, $13.9 million over projected net cash flow of $2.2 million while being $16.2 million down from the results for the same period last year.

To enhance the government's treasury management, an amount of $30.1 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.

OUTSTANDING PUBLIC DEBT

(Figures in US$'000)	Opening	As At June 30, 2016	
Debt Type	**1-Apr-16**	**Principal Repayment**	**Outstanding Principal**
Other TCIG Bank Loans - Unsecured	43,129.4	(3,072.1)	40,057.2
TCInvest Loans - Unsecured	1,151.7	(31.9)	1,119.8
Total Outstanding Public Debt	**44,281.1**	**(3,104.1)**	**41,177.0**

Total outstanding public debt as of June 30, 2016, was $41.2 million. Total debt repayments for the financial year were $3.1 million.

All loan principal and interest payments are up to date as of June 30, 2016.

DEVELOPMENT FUND

The total amount spent on capital projects in the first quarter of FY2016-17 was $5.0 million. This was funded by capital contributions totaling the same amount provided by the Consolidated Fund. This outturn represented a $4.1 million or 45% shortfall from the budgeted amount of $9.1 million while being $3.0 million above last year's expenditure of $2.0 million. Driving capital expenditure will be a key focus as the year progresses.

NATIONAL FORFEITURE FUND

The National Forfeiture Fund had a balance of $5.6 million at June 30, 2016.

FISCAL OUTLOOK

The performance in the first quarter depicts a promising start for the fiscal 2016/17. There are already some improvements in the performance of both revenue and expenditure when compared to the budget estimates and last year's results.

Recurrent revenue outturn for the quarter has been notable coming in above budgeted amount. The government will continue to monitor economic and revenue developments and will provide further forecast in future fiscal updates. It is too early however, to determine whether or not the current level of revenue surpluses and under expenditure will continue throughout the financial year, until the results of the summer months are known, when revenue is traditionally lower. Expenditure forecasting remains a problem and efforts are being made to better profile this based on historical trends and known events.

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. Appropriate compliance measures will continue to be enforced, and both the Public Finance Management and the Public Procurement Ordinances will also be reinforced.

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 reduction in revenue collection expected during the second quarter, there are no adverse conditions or major foreseeable challenges that should significantly change the current forecast for better than originally budgeted revenue and expenditure performances for the financial year.