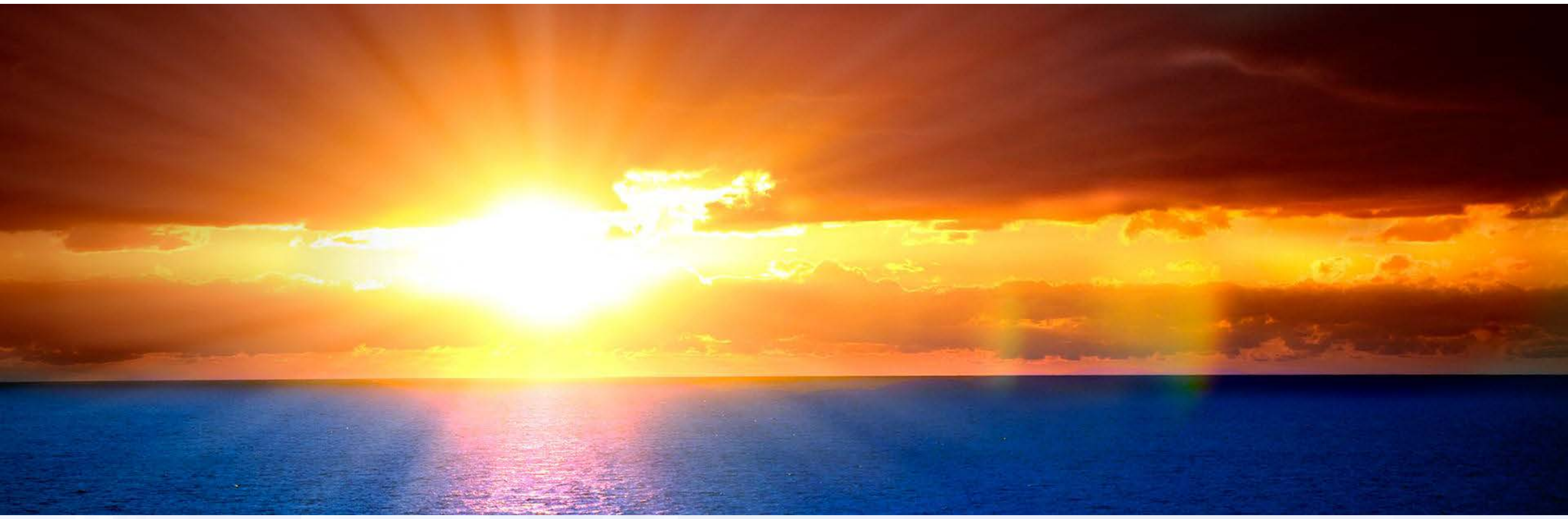


2016-17 Third Quarter

Financial Report

October to December 2016

Prepared by the Office of the Accountant General

January 17, 2017

Information presented in this Third Quarter Financial Report is not audited

FOREWORD

The third 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 third quarter of financial year 2016-17. 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 Report now includes additional details on the Development Fund to better reflect the recent amendment to the Public Financial Management Ordinance.

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.

Millicent Hughes

Accountant General

SUMMARY

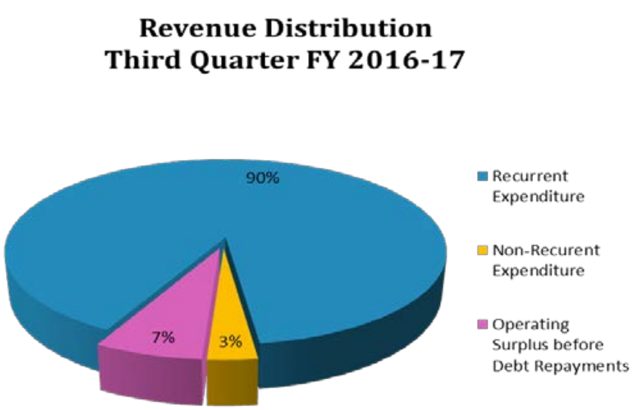
	Q3			Variance				Year to Date			Variance			
	Actual	Budget	Prior Year	Budget		Prior Year		Actual	Budget	Prior Year	Budget		Prior Year	
	$ 000's	$ 000's	$ 000's	$ 000's	%	$ 000's	%	$ 000's	$ 000's	$ 000's	$ 000's	%	$ 000's	%
Recurrent Revenue	55,782.7	53,881.0	59,328.1	1,901.7	4%	(3,545.4)	(6%)	191,658.5	182,954.2	189,268.2	8,704.2	5%	2,390.3	1%
Recurrent Expenditure	50,439.0	54,436.0	44,090.2	3,997.0	7%	(6,348.8)	(14%)	144,679.1	165,397.1	128,935.5	20,718.0	13%	(15,743.6)	(12%)
Net Recurrent Surplus	**5,343.7**	**(555.0)**	**15,237.9**	**5,898.7**	**(1063%)**	**(9,894.2)**	**(65%)**	**46,979.4**	**17,557.2**	**60,332.7**	**29,422.2**	**168%**	**(13,353.3)**	**(22%)**
Non-Recurrent Revenue	179.7	187.5	5,105.1	(7.8)	(4%)	(4,925.4)	0%	714.9	562.5	5,252.0	152.4	27%	(4,537.1)	(86%)
Non-Recurrent Expenditure	1,747.7	1,488.5	1,326.9	(259.2)	(17%)	(420.8)	0%	5,288.6	9,007.8	7,154.5	3,719.3	41%	1,865.9	26%
Operating Surplus	**3,775.7**	**(1,856.0)**	**19,016.1**	**5,631.7**	**(303%)**	**(15,240.4)**	**(80%)**	**42,405.8**	**9,111.8**	**58,430.2**	**33,293.9**	**365%**	**(16,024.4)**	**(27%)**

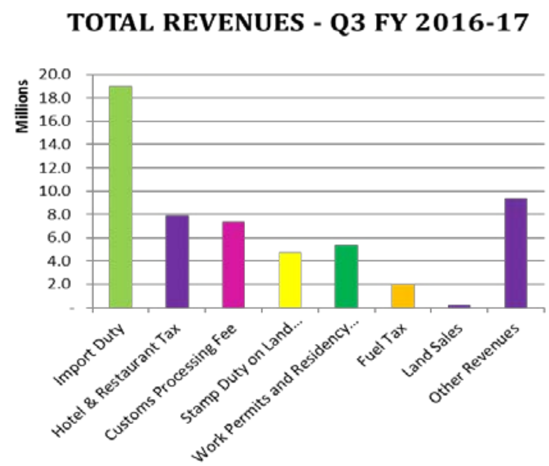
The unaudited result for the third quarter of the fiscal year showed an operating surplus of $3.8 million, this result in a favorable variance of $5.6 million over the budgeted deficit of $1.9 million and a favorable variance of $15.2 million over last year's surplus of $19.0 million.

Recurrent Revenue outturn for the quarter was $55.8 million, which was 4% above the budgeted amount of $53.9 million and 6% below last year's outturn of $59.3 million, due to strong performance in the tourism and real estate sectors.

Recurrent expenditure, which came in at $50.4 million was 7% or $4.0 million below budget estimates while being $6.3 million or 14% above the outturn of $44.1 million for the same quarter last year.

Non-recurrent expenditure of $1.7 million was 17% or $0.3 million above budget and also above last year's outturn by $0.4 million.





Year to date results showed an operating surplus of $42.4 million, which resulted in a positive variance of $33.3 million over the budgeted surplus of $9.1 million but $16.0 million below last year's surplus of $58.4 million.

Year to date Recurrent Revenue outturn was $191.7 million, which was $8.7 million or 5% above the budgeted outturn of $183.0 million and $2.4 million or 1% above the results of the same quarter last year.

Year to date Recurrent Expenditure outturn totaled $144.7 million, which resulted in a favorable variance of $20.7 million or 13% when compared to budgeted outturn of $165.4 million while being 12% above results of the same period last year.

REVENUE & EXPENDITURE

Revenue & Expenditure - October to December 2016

Revenue outturn for the Third Quarter - $56.0 million.

REVENUE	Q3		
	Actual	Budget	Last Year
	$000	$000	$000
Import Duty	19,032.1	17,657.3	17,709.1
Hotel & Restaurant Tax	7,908.7	8,044.1	7,607.1
Customs Processing Fee	7,378.0	8,000.9	7,420.9
Stamp Duty on Land Transactions	4,708.4	3,850.0	4,284.9
Fees	5,363.2	4,597.1	4,910.6
Fuel Tax	1,992.3	1,841.9	2,020.9
Other Revenues	9,400.0	9,889.8	15,374.7
Total Recurrent Revenue	**55,782.7**	**53,881.0**	**59,328.1**
NonRecurrent Revenue	179.7	187.5	5,105.1
Total Revenue	**55,962.4**	**54,068.5**	**64,433.2**

The six major revenue heads accounted for over 83% of revenue collected for the quarter.

34% or $19.0 million of the total collected during the third quarter was derived from Import Duties which came in 8% above the budgeted outturn. Customs Processing Fee accounted for 13% of revenues coming in at $7.4 million, while $7.9 million from Hotel & Restaurant Tax, $4.7 million from Stamp Duty on Land Transactions and $5.4 from Work Permits & Residency Fees together accounted for 32% of revenue.

EXPENDITURE	Q3		
	Actual	Budget	Last Year
	$000	$000	$000
Total Personnel Costs	20,308.1	20,939.4	18,689.3
Transfers to NHIB	8,199.1	11,225.9	4,826.8
Hospital Provisional Charges	4,171.9	1,987.3	4,723.6
Subventions	3,060.3	3,304.5	1,820.9
Rental of Assets	1,178.4	734.6	1,190.4
Other Expenses	13,521.2	16,244.4	12,839.2
Total Recurrent Expenditure	**50,439.0**	**54,436.0**	**44,090.2**
NonRecurrent Expenditure	1,747.7	1,488.5	1,326.9
TOTAL EXPENDITURE	**52,186.7**	**55,924.5**	**45,417.1**

Total Expenditure for the Third Quarter $52.2 million.

Personnel costs, which accounted for 39% of total expenditure stood at $20.3 million for the quarter which was 3% below the budgeted amount, due mainly to delays in recruitment, while being 9% above last year's outturn. Transfers to NHIB and Hospital Provisional Charges together accounted for a further 24% of total expenditure.

<u>Revenue & Expenditure – Year to Date</u>

Year to Date Revenue outturn - $192.4 million.

REVENUE	Year To Date		
	Actual	Budget	Last Year
	$000	$000	$000
Import Duty	52,497.6	50,750.6	50,737.8
Hotel & Restaurant Tax	40,676.2	39,414.8	38,795.1
Customs Processing Fee	21,572.4	22,031.2	21,104.6
Stamp Duty on Land Transactions	23,461.9	17,862.0	19,279.1
Fees	13,314.7	13,397.1	13,891.5
Fuel Tax	7,096.6	6,122.9	6,468.6
Other Revenues	33,039.1	33,375.7	38,991.5
Total Recurrent Revenue	**191,658.5**	**182,954.2**	**189,268.2**
NonRecurrent Revenue	714.9	562.5	5,252.0
Total Revenue	**192,373.4**	**183,516.7**	**194,520.2**

Total revenue to date showed a favorable variance $8.9 million or 5% when compared to the budgeted outturn of $183.5 million and an unfavorable variance of $2.1 million or 1% when compared to the results of the same period last year.

All of the major revenue heads are reflecting the trend which shows a high probability of exceeding their budgeted figures for the year with the exception of Custom Processing fees and Work Permit and Residency Fees which are under the budgeted amounts by 2% and a marginal 1% respectively.

EXPENDITURE	Year To Date		
	Actual	Budget	Last Year
	$000	$000	$000
Total Personnel Costs	60,102.6	64,269.3	55,328.4
Transfers to NHIB	18,380.8	21,529.5	14,145.1
Hospital Provisional Charges	14,890.2	15,693.3	15,855.1
Subventions	9,754.4	9,777.7	6,498.2
Rental of Assets	3,719.0	3,691.7	3,751.5
Other Expenses	37,832.2	50,435.5	33,357.2
Total Recurrent Expenditure	**144,679.1**	**165,397.1**	**128,935.5**
NonRecurrent Expenditure	5,288.6	9,007.8	7,154.5
TOTAL EXPENDITURE	**149,967.6**	**174,404.9**	**136,089.9**

Year to date Expenditure outturn - $150.0 million.

Year to date expenditure outturn was $150.1 million or 14% below the budgeted outturn of $174.4 million and $13.9 million above the results of the same period last year.

Non-recurrent expenditure to date totaled $5.3 million which was 41% below the budgeted outturn of $9.0 million and 26% or $1.9 million below last year's outturn.

REVENUE & EXPENDITURE BY MINISTRY

(All figures in US$'000)	2016-17 Budget $'000	Q3 Actual $'000	Q3 Budget $'000	Q3 Variance $'000	Q3 Variance %	Year to Date Actual $'000	Year to Date Budget $'000	Year to Date Variance $'000	Year to Date Variance %
CASH INFLOWS									
03 Police	97	1	-	1	0%	11	-	11	0%
04 Attorney General's Chambers	24,720	4,992	4,087	906	22%	24,282	18,249	6,033	33%
05 Judiciary	1,133	225	277	(53)	(19%)	620	836	(217)	(26%)
14 Statutory Charges	750	180	188	(8)	(4%)	777	563	214	38%
16 Border Control & Employment	23,506	7,237	6,171	1,066	17%	19,321	18,034	1,286	7%
54 Finance Trade & Investment	194,516	40,628	40,166	461	1%	139,242	137,757	1,485	1%
57 Education Youth Sports & Culture	409	213	210	3	2%	329	363	(34)	(9%)
59 Home Affairs Transportation & Communication	4,083	1,192	1,358	(166)	(12%)	2,869	2,794	75	3%
60 Infrastructure Housing & Planning	1,368	187	314	(127)	(40%)	1,088	1,050	39	4%
61 Tourism Environment Heritage & Culture	4,728	1,037	1,227	(190)	(15%)	3,605	3,647	(41)	(1%)
62 Health Agriculture & Human Services	339	71	71	(0)	(1%)	229	225	4	2%
TOTAL RECEIPTS	**255,649**	**55,962**	**54,069**	**1,894**	**4%**	**192,373**	**183,517**	**8,857**	5%
PAYMENTS									
01 Governor's Office	5,369	1,252	1,436	184	13%	3,234	4,313	1,078	25%
03 Police	24,854	6,090	6,288	197	3%	17,811	20,262	2,451	12%
04 Attorney General's Chambers	6,720	1,509	1,408	(100)	(7%)	4,046	5,092	1,047	21%
05 Judiciary	7,663	2,193	4,084	1,891	46%	6,459	9,436	2,978	32%
14 Statutory Charges	13,891	3,211	3,612	401	11%	7,986	11,040	3,053	28%
16 Border Control & Employment	7,634	1,625	1,643	18	1%	4,762	5,596	834	15%
54 Finance Trade & Investment	18,624	3,182	4,043	862	21%	11,836	14,050	2,214	16%
56 Deputy Governor's Office	2,256	537	540	3	1%	1,782	1,797	15	1%
57 Education Youth Sports & Culture	27,714	7,209	6,840	(368)	(5%)	20,370	21,483	1,113	5%
58 Director of Public Prosecutions	1,489	275	291	16	5%	851	1,124	273	24%
59 Home Affairs Transportation & Communication	10,179	2,574	2,759	185	7%	7,253	8,187	933	11%
60 Infrastructure Housing & Planning	15,678	4,062	4,494	433	10%	11,654	13,659	2,005	15%
61 Tourism Environment Heritage & Culture	7,185	1,677	1,801	124	7%	5,328	5,762	434	8%
62 Health Agriculture & Human Services	61,046	15,817	16,810	993	6%	43,212	49,799	6,588	13%
63 House of Assembly	3,048	452	712	260	37%	1,808	2,302	494	21%
64 Office of The Premier & District Administration	2,409	521	629	107	17%	1,575	1,969	394	20%
TOTAL PAYMENTS BEFORE CAPITAL	**215,760**	**52,187**	**57,392**	**5,205**	**9%**	**149,968**	**175,872**	**25,904**	**15%**
OPERATING SURPLUS/(DEFICIT)	**39,889**	**3,776**	**(3,323)**	**(7,099)**	**214%**	**42,406**	**7,645**	**34,761**	**455%**

Program expenditure saw sluggish expenditure for first nine months of financial year 2016-17. The outturn for all ministries was less than estimated for the year to date. This significant under expenditure was the major contributor in the operating surplus for the year to date being more than 455% or $34.8 million over the budgeted amount.

Increases in expenditure are however expected in the fourth quarter, which should offset some of the surplus realized in the first nine months of the financial year.

CASH FLOW

	Q3			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	%
Cash Flow from Operations	**3,775.7**	**(1,856.0)**	**19,016.1**	**5,631.7**	**(303%)**	**(15,240.4)**	**(80%)**	**42,405.8**	**9,111.8**	**58,430.2**	**33,293.9**	**365%**	**(16,024.4)**	**(27%)**
Less:														
Capital Contributions	(3,906.1)	(1,050.0)	(3,849.9)	(2,856.1)	272%	(56.2)	1%	(13,981.7)	(30,546.7)	(8,216.4)	16,565.0	(54%)	(5,765.2)	70%
Debt Repayments	(3,104.1)	-	(7,154.4)	(3,104.1)	-	4,050.2	-	(9,056.7)	(1,749.9)	(9,442.0)	(7,306.8)	-	385.3	(4%)
Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Inflows	183.6	-	183.6	183.6	-	(.0)	-	367.2	160.5	367.2	206.7	-	(.0)	-
Transfers from/(to) NFF	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Working Capital	2,180.8	-	(726.3)	2,180.8	-	2,907.1	(400%)	5,392.6	-	2,862.4	5,392.6	-	2,530.1	88%
Net Cash Flow	**(870.2)**	**(2,906.0)**	**7,469.1**	**2,035.8**	**(70%)**	**(8,339.3)**	**(112%)**	**25,127.2**	**(23,024.3)**	**44,001.5**	**48,151.5**	**(209%)**	**(18,874.3)**	**(43%)**

The third quarter of FY2016-17 recorded a negative net cash flow of $0.9 million which was better than the projected negative net cash flow of $2.9 million, and $8.3 million less than the same period last year which had a positive cash flow of $7.5 million. Year to date Net Cash flow was $25.1 million which results in a favorable variance of $48.2 million over the projected deficit amount of $23.0 million.

To enhance the government's treasury management, an amount of $30.6 million is currently placed in an on-call money market account at The Bank of Nova Scotia (Turks and Caicos), which is earning interest at a rate of 0.4% per annum. The net cash flow forecast for ensuing months remains positive, and there is no anticipated need to access any the credit facility for the remainder of the financial year.

OUTSTANDING PUBLIC DEBT

Public Debt	Opening	As At December 31, 2016	
Debt Type	**01-Apr-16**	**Principal Repayment**	**Outstanding Principal**
	$ 000's	**$ 000's**	**$ 000's**
Other TCIG Bank Loans - Unsecured	43,129.4	(8,960.9)	34,168.4
TCInvest Loans - Unsecured	1,151.7	(95.8)	1,056.0
Total Outstanding Public Debt	**44,281.1**	**(9,056.7)**	**35,224.4**

The Turks and Caicos Government's outstanding debt as of December 31, 2016 is $35.2 million, as shown in the adjacent table. Total debt repayments for the year to date were $9.1 million.

All loan principal and interest payments are up to date as of December 31, 2016. It is not anticipated that there will be need to make any drawdowns for the remainder of the financial year

NATIONAL FORFEITURE FUND

The National Forfeiture Fund had a balance of $5.2 million at the end of December 2016. No funds were collected through the criminal recovery process for the first three quarters of the financial year.

DEVELOPMENT FUND

The Development Fund has been adjusted to reflect the legislative changes included in the recent amendment to the Public Financial Management Ordinance. Funds are transferred from the Consolidated Fund to the Development Fund when the funds are committed, that is the contract is noted by the Cabinet. The balance on the Development Fund shows unspent portion of those commitments.

The total amount spent on capital projects in the third quarter of FY2016-17 was $3.9 million. Year to date capital expenditure was $14.0 million which was mainly funded from the Consolidated Fund. This outturn came in 54% below the budgeted amount of $36.7 million and $5.8 million above last year's expenditure of $8.2 million.

DEVELOPMENT FUND SUMMARY	EXPENDITURE	APPROVED CONTRACT	AVAILABLE	
			FOR YEAR	CUMULATIVE
2014	7,900.3	9,751.8	1,851.5	1,851.5
2015	11,539.0	16,830.5	5,291.5	7,142.9
DEC 2016	13,981.7	11,781.7	(2,199.9)	4,943.0
	33,420.9	**38,363.9**	**4,943.0**	

The available expenditure for the rest of the year, based on the approved contract value of $11.8 million is $4.9 million. The budgeted expenditure for the year is $36.7 million.

FINANCIAL OUTLOOK

The performance in the third quarter continues to depict a promising result for the financial year as a whole. Revenue performance has exceeded expectations while expenditure still remains fairly below budget. The unaudited financial analysis presents a fiscal surplus of US $42.4 million generated by the Government from its operations during first nine months ending 31st December 2016 and net cash inflow of $25.1 million.

Recurrent revenue outturn for the quarter has been above both the budget and last year's outturn. Recurrent expenditure for the quarter was also favorable, at 7% below budget estimates. This is as a result of enhanced compliance measures and continued reinforcement of both Public Finance Management and the Public Procurement Ordinances, but also reflects the inability to fill vacancies in the Public Sector.

Capital expenditure is lagging behind expectations with approved contracts reflecting approximately one-third of the annual budget. It is however expected that there will be additional expenditure in the final quarter; it is uncertain whether it will be possible for contracts to be approved in the 4th quarter to the extent of utilizing the budget for the year.

The Government remains committed to prudent fiscal management, ensuring improvements in revenue collection and that expenditure control measures continue to enhance its financial performance, while at the same time providing value for money, more efficient and effective public services.