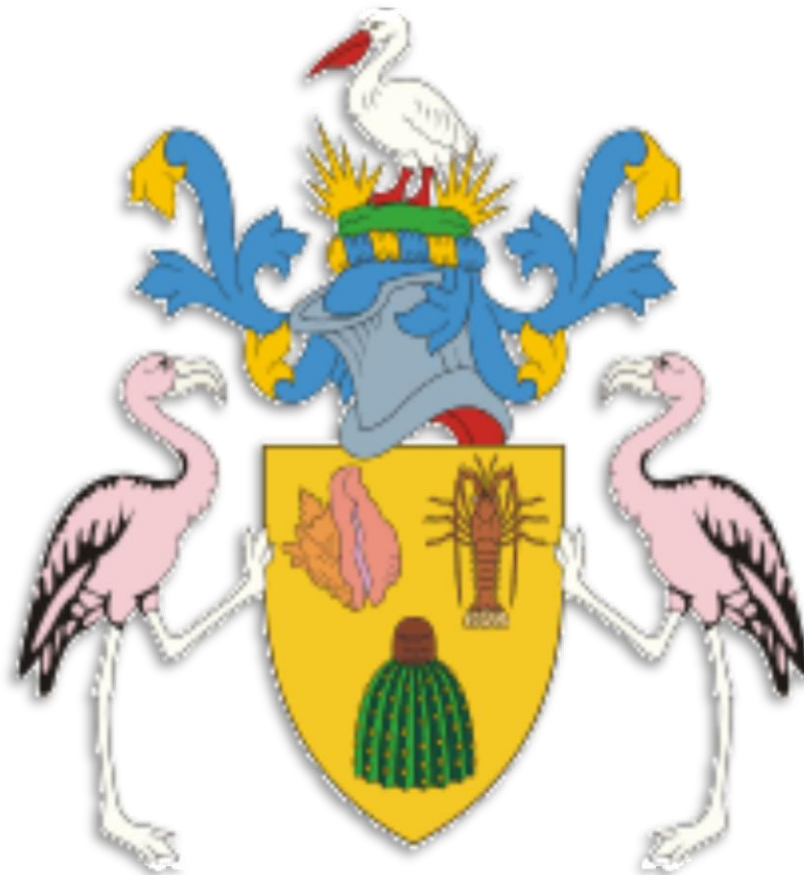


FISCAL AND STRATEGIC POLICY STATEMENT 2017-2021



TURKS AND CAICOS ISLANDS GOVERNMENT

Prepared by the Ministry of Finance, Investment and Trade
Hibiscus Square, Grand Turk
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FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2017- 2021

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FISCAL STRATEGY OVERVIEW

The Fiscal Strategic Policy Statement (FSPS) was established in the 2012 Framework Document between the Governments of the United Kingdom (UK) and the Turks and Caicos Islands (TCI). The policy document establishes the parameters for the budget and forward years and sets out the budget preparation basis and guidance for Ministries, Departments, and Agencies (MDAs).

On December 19, 2016, a new political administration was elected to the Government of the TCI. The Government has indicated its full commitment to continue on the path of good governance and fiscal prudence. The Government is equally committed to build economic resilience, economic expansion, and identifying a sustainable growth trajectory to create employment and provide opportunities for the vulnerable population that will ultimately result in a prosperous future for residents and citizens.

The TCI is a tourism-dependent archipelago; its medium term fiscal strategy is underpinned by budget surpluses, controlling government expenditure, management of public debt, revenue enhancement, financial improvement of state-owned agencies, public and private partnerships.

The 2017-2021 fiscal strategy and strategic spending priorities will support modernizing the infrastructure and transportation system of all Islands, poverty alleviation, citizenship and community empowerment, youth development, educational transformation and training, improved health outcomes, national security (border protection and citizen security) and good governance.

The continued thrust on generating annual operating surpluses is a major priority of the Government. The 2016/17 fiscal year is forecast to close with an operating surplus of \$42.3 million as a result of greater than expected revenue and lower than expected expenditure for the recurrent and capital accounts. In 2017/18, Government receipts are forecast at \$274.0 million and Government expenditure at \$267.9 million. Operating surplus is planned at \$6.0 million for the fiscal year; it is projected to steadily increase to \$11.9 million and \$24.6 million in 2018/19 and 2019/20 respectively. Planned capital expenditure for the year is \$38.3 million, this is critical as the Government makes concerted efforts to improve its performance of investment in major development projects. The operating surplus will allow the government to meet debt obligations and transfer surplus funds from the Consolidated Fund to the Sovereign Wealth Fund (SWF).

The planned results show that the debt sustainability ratios agreed between the governments of the TCI and UK would be in compliance at the end of the fiscal year 2016-17.



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ECONOMIC OUTLOOK

International Economy

According to the International Monetary Fund (IMF) January 2017 edition of the ‘World Economic Outlook Update’, global economic growth is expected to slow to 3.1% in 2016 which is slightly lower than the growth experienced in 2015 of 3.2%. The growth in the emerging markets and developing economies over the advanced economies are believed to be the primary factor leading to the projected outlook over the period 2017-2018. As those conditions in the emerging markets and developing economies, normalize after having undergone some macroeconomic strains. Growth in developing economies is estimated at 4.1% in 2016, but is projected to increase to 4.5% in 2017, with a further increase of 4.8% in 2018.

The IMF attributes the continued growth slowdown in emerging market and developing economies to factors such as “slowdown in China, whose spillovers are magnified by its lower reliance on import- and resource-intensive investment; commodity exporters’ continued adjustment to lower revenues; spillovers from persistently weak demand in advanced economies; and domestic strife, political discord, and geopolitical tensions in several countries.” The outlook for advanced economies as predicted by the IMF would see an improvement on the estimates of 1.6% in 2016 to 1.9% in 2017, and 2.0% in 2018.

Of the advanced economies, it is predicted that the United States after rebounding from a 1.0% decline in growth for the period 2015-2016 is likely to experience a 2.3% growth in 2017 and 2.5% in 2018. This forecast has some uncertainty, as there may be changes in policy under the incoming administration.

The Canadian economy was expected to grow in 2015 at a rate of 1.5%; however, the revised estimate recorded for 2015 showed a decline by 0.6 percentage point. The Canadian economy recorded an estimated growth 0.9% in 2015 and it was estimated to grow by 1.3% in 2016. Projected growth for the period 2017 and 2018 are 1.9% and 2.0% respectively.

The United Kingdom economy is expected to grow by 2.4% in 2015. The United Kingdom estimate was revised downwards to 2.2% in 2015, 2.0% in 2016; it is projected to decline further to 1.5% in 2017 and 1.4% in 2018. The likely impact of growth on this economy will depend on the United Kingdom’s smooth exit from the European Union.

The Euro Area revised estimate for 2015 was 2.0%. It is estimated that for 2016 there would be a decline to 1.7% with a projected further decrease to 1.6% in 2017. 2018 will remain stable at



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1.6%. Germany is expecting a growth rate of 1.7% in 2016, which is an increase from their 2015 estimate of 1.5%. It is projected that in 2017 and 2018 the growth rate will remain stable at 1.5%.

Table 1- Economic Assumptions

	Actuals	Forecast	Estimates	Projections
	2015	2016	2017	2018
World Growth	3.2	3.1	3.4	3.6
US	2.6	1.6	2.3	2.5
Canada	0.9	1.3	1.9	2
UK	2.2	2.0	1.5	1.4
Euro Area	2.0	1.7	1.6	1.6
Latin America and the Caribbean	0.1	-0.7	1.2	2.1
Tourism dependent	1.6	1.9	2.3	
Commodity exporters	0.5	-1.4	2.4	
Eastern Caribbean Currency Union	2.3	2.2	2.6	

Source: IMF World Economic Outlook, January 2017; IMF Regional Economic Outlook, October 2016

Among the emerging markets and developing economies, economic growth was projected to slow down to 4.2% in 2015, compared to 4.6% in 2014 in the July 2015 IMF report. However, according to the IMF, updated report for January 2017 “commodity prices and inflation 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 6.9%, which is 0.1 percentage point above the 2015-revised estimate. China’s economic growth is expected to slow down even further in 2016 at 6.3%, with a further projected decline in 2017 and 2018 at 6.5% and 6.0% respectively. 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 revised growth for 2015 was 7.6% and is estimated to decline to 6.6% in 2016 with projections for increased growth in 2017 and 2018 at 7.2% and 7.7% respectively. However, Russia’s economy according to the revised estimates for 2015 continued to show negative growth of declined by 3.7% and is expected to continue this growth pattern in 2016 at 0.6%. It is projected that their economic outlook will strengthen in 2017 at 1.1% and 2018 at 1.2%. The IMF further estimated that the average growth rate of the tourism dependent economies within the Caribbean was 1.6% in 2015 and 1.9% in 2016. It is forecast that this growth will increase to 2.3% in 2017.



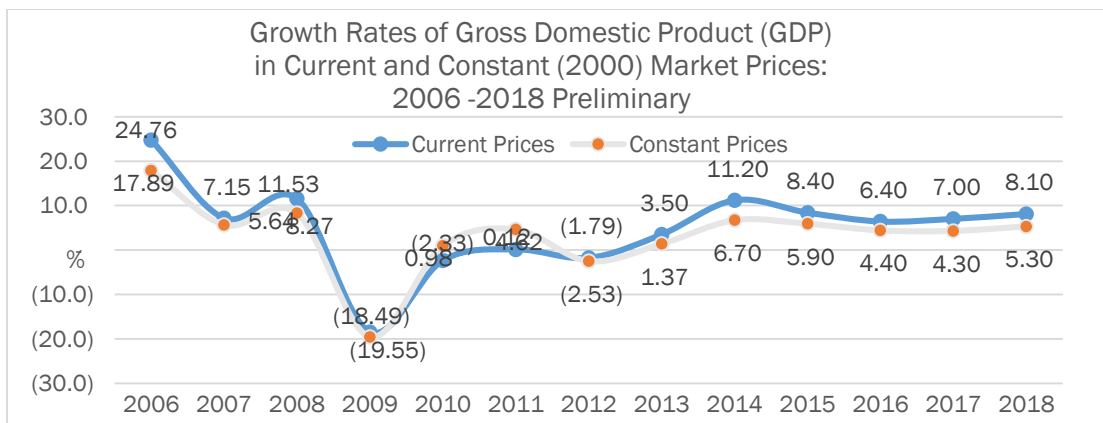
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Domestic Economy

The TCI continues to see strong economic growth in the tourism sector; however, growth in the near future is constraint as existing accommodations have reached capacity. The immediate thrust to complement the growth agenda will be enabled through foreign direct investments (FDIs). The Invest Turks and Caicos Unit has reported that there are several ventures in active development, with at least two developers set to commence construction on major resort projects in Providenciales. Further, the Government is encouraged by the increased number of enquiries from experienced developers for resort development projects.

In an analysis of the TCI’s current economic performance, the Strategic Policy and Planning Department (SPPD) forecast that the Island’s economic growth in real terms would increase by 4.2% in 2017, having expanded by almost 6.0% in 2015. Both rates improving against the 5-year 2011- 2015 average of 3.7%. Following recessionary years in 2009 and 2012, the TCI’s economy is now set to experience stable and robust economic growth, with future growth forecast to average approximately 4% over the next few years.

Table 2-Growth Rate of GDP in Current Constant Market Price



Source: SPPD

The Strategic Planning & Policy Department has forecasted 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 10%, is substantially lower than 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 reform produced increasing surpluses, the results of which were further



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reflected by reductions in corresponding debt statistics. The growth of the TCI's economy over the years' points to the importance of external influences on domestic economic activity. The Worldwide recession of 2009 had an adverse effect on the economy of the TCI. However, as seen in table 2 above, the TCI's economy has rebounded and has since achieved four years of sustained economic growth. This is a clear indication 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.

Table 3- Domestic Macroeconomic Assumptions

	Actuals	Actuals	Forecast	Estimate	Projections
	2014	2015	2016	2017	2018
Nominal GDP (bill. US\$)	0.82	0.89	0.95	1.02	1.1
Nominal GDP Growth (%)	11.2	8.4	6.4	7	8.1
Real GDP (%)	6.7	5.9	4.4	4.3	5.3
CPI (%)	2.3	2.3	2.2	2	2
Population	35.2	36.9	38.2	39.8	41.3
Nominal GDP per capita (\$)	22,656	24,049	24,949	25,902	26,565
Value of Imports (\$)	406.3	406.7	389.3	408.8	429.2
Exports (\$)	6.5	4.6	4.5	4.2	4.6
Balance of Trade	-407.6	-405	-384.8	-404.6	-424.6
Foreign Direct Investment (\$m)	250,000	200,000	200,000	200,000	200,000
Unemployment (%)	12	11	10	8	7

Source: SPPD

Unlike the period 2008 to 2012, which was one of great uncertainty, the Turks and Caicos Islands now have a stable macroeconomic environment and relatively healthy public finances. As a result, the government now have 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 continues to focus on short-run macroeconomic management, which complements its long-run development policy initiatives. This stable macroeconomic environment involves maintaining fiscal surpluses, low levels of internal and external debt and low rates of inflation. The inflation rate was estimated at around 2.2% in 2016, slightly lower than the inflation rate recorded in 2015. SPPD is forecasting an inflation rate of around 2.0% in 2017 and 2018. The macroeconomic performance of the TCI over the years and going forward can be examined through two basic aggregates: real gross domestic product (GDP)



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and real GDP per capita. Both indicators suggest that the TCI has made significant advances over the period 2009 to 2015. Real GDP increased from \$522.8 million in 2009 to \$644.0 million in 2016, which represents, an average annual growth rate of 3.4%. Real GDP per capita increased from \$14,522 in 2009 to \$16,844 in 2016, representing an average annual growth rate of 2.3%.

Table 4- Levels of Real GDP and Real GDP Per Capita

Year	Real GDP \$m	Real GDP Per Capita (\$)
2009	522.80	14,522
2010	527.90	15,302
2011	552.30	16,487
2012	538.30	16,719
2013	545.70	16,203
2014	582.30	16,557
2015	616.90	16,737
2016	644.00	16,988
2017	671.53	16,878
2018	707.01	17,090

Source: SPPD

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 TCI. The economy of the TCI 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

Construction activity is expected to increase slightly in 2017 and is projected to show steady growth over the next few years. This sector will be propelled by foreign direct investment in large-



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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 TCI, projects funded from the Carnival Infrastructure Fund, as well as other government projects. The real estate sector is forecast to grow by 3.4% in 2017 and should see continuous growth over the next 5 years.

Agriculture and Fishing

The Agriculture and Fishing sector is expecting growth of 5.7% and is forecasting larger growth increases in future years.

Tourism

The tourism sector, the main pillar of the local economy “has made a major turnaround.” Stay-over arrivals increased by more than 10% during the first 6 months of 2016 when compared to the same period in 2015. It is forecasted that there will be an even larger increase in future years, as more rooms are added to the hotel stock. This sector continues to be the major contributing sector to the Turks and Caicos GDP. SPPD is forecasting that the hotel and restaurant sector, which grew by approximately 4.0% in 2016, will grow by approximately 6% in 2017. The Government through the Tourist Board and in collaboration with the private sector is seeking to promote the sector by engaging the stakeholders 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 most of the major stay-over tourist comes mainly from the United States, over the years there have been an increase number of tourist coming from other destinations such as Canada and South America. Cruise ship visitor arrivals have witnessed a decline in 2016 but the Government is taking steps to boost this sector, which will help in ensuring increases in future years.

Trade

The Turks and Caicos Islands Merchandise imports totaled approximately \$389.3 million in 2016, representing a decline of \$20.4 million or 5% when compared to the same period in 2015. Exports from the TCI during this period were valued at \$4.5 million when compared to \$4.6 million during the in 2015. This resulted in an overall merchandise trade balance of approximately -\$384.8 million in 2016 and the lowering of the overall trade balance by more than 5.0% or \$20.2 million. The decrease in the trade deficit is because of the \$20.4 million decrease in the value of Imports. Given the forecast growth in the tourism sector, the attraction of foreign direct investment, the



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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 near future.

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 TCI not materializing. Development Projects will likely continue to boost employment levels and local income. However, any external shock in the US economy (major source of TCI tourist arrivals) will have a negative impact on the TCI's economy. 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 the Government and the TCI becoming less reliant on tourism as the major contributor to GDP and enhancing its diversification strategy. 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 TCI. In addition, persistent increases in criminal activities can have a negative impact on the tourism sector and as a consequence a decline in the overall economy.

There is always the risk of unforeseen global financial or macroeconomic shocks, which triggers another economic downturn. Inherently, the threat of hurricanes during the period June to November, which can lead to flight cancellations and hotel closures. Despite the many risks, TCI is poised to manage these risks by continued strengthening of the macroeconomic policy making framework; the further development of public sector investment programs, within the framework of a development strategy for the medium term and enhanced private sector development. Nonetheless, with a positive trajectory assumed for the primary markets, 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 2017/18 budget and the financial outlook for 2018/19 – 20/21 will be 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 5- Central Government's Budget Aggregates

	Actual	Forecast	Estimate	Projections			Totals
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Recurrent Revenue	256,110	261,666	269,471	277,555	285,882	294,458	1,645,142
Per cent of GDP	32.01%	27.84%	27.50%	26.95%	26.72%		
Recurrent Expenses	(185,481)	(194,229)	(224,252)	(229,854)	(235,596)	294,458	(774,955)
Per cent of GDP	23.19%	20.66%	22.88%	22.32%	22.02%		
Underlying cash balance	70,628	67,438	45,218	47,701	50,285	588,916	870,187
Per cent of GDP	8.83%	7.17%	4.61%	4.63%	4.70%		
Total Revenue	265,152	265,816	273,971	282,255	291,282	294,458	1,763,903
Per cent of GDP	33.14%	28.28%	27.96%	27.40%	27.22%		
Total Expenses	(196,806)	(200,531)	(229,599)	(231,172)	(236,416)	(241,731)	(1,336,254)
Per cent of GDP	24.60%	21.33%	23.43%	22.44%	22.09%		
Net operating balance	68,346	65,286	44,372	51,083	54,865	52,728	427,649
Net capital investment	(26,405)	(22,946)	(38,325)	(39,141)	(30,225)	(25,000)	(182,041)
Fiscal balance	41,941	42,340	6,047	11,942	24,640	27,728	154,638
Per cent of GDP	5.24%	4.50%	0.62%	1.16%	2.30%		
GDP	800,000	940,000	980,000	1,030,000	1,070,000		

Source: GDP SPPD Table: Budget Office

Recurrent receipts of \$269.5 million or 27.5% of GDP are expected to be approximately \$7.8 million higher in 2017/18 than the forecast outturn for 2016-17 and \$18.5 million above the original estimates for 2016-17. Non-recurrent revenue is \$4.5 million. Total revenue is \$274.0 million or 28.0% of GDP. The forward years' outlook is compounded by 3%.

Recurrent expenditures of \$ 224.3 million or 22.88% of GDP are expected to be approximately \$30.0 million higher in 2017/18 than the forecast outturn for 2016-17 and \$16.9 million above the original estimates for 2016-17. Total expenditures are \$229.6 million or 23.43% of GDP. Recurrent expenditures growth are planned at 3%. Recurrent expenditure in 2018/19 -2020/21 is \$ 230.2, \$236.4, \$241.7 million respectively. Net Capital Investment for 2015-2020 is \$182.0 million. \$38.3 million has been allocated for 2017/18, \$39.1 2018/19 and \$30.2 million for 2019/20.



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Table 6- Net Worth, Net Financial Worth, Net Debt and Net Interest Payments

	Actual	Forecast	Estimates	Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
		\$m	\$m	\$m	\$m	\$m
Net debt(\$m)	134,503	86,390	72,223	52,262	19,702	
Per cent of GDP	16.81%	9.19%	7.37%	5.07%	1.84%	
Net Interest payments	2,468	1,285	1,346	1,318	820	424
Per cent of GDP	0.31%	0.14%	0.14%	0.13%	0.08%	-
GDP	800,000	940,000	980,000	1,030,000	1,070,000	-

Source: Budget Office

The Government in its thrust to promote good governance, prudence and accountability will maintain the debt service obligations whilst keeping debt service charges at less than 10% of core revenue; Net Government Debt is forecast to reduce from \$86.4 million in 2016/17; \$72.2 million in 2017/18; \$52.2 million by 2018/19 and \$19.7 million in 2019-20. Starting in 2016-17, Core Government Debt will remain positive throughout the years. The debt service as a percentage of GDP continues to decline and is expected to remain below 1%.

Table 7-Fiscal Balance Budget Aggregates

	Actual	Forecast	Estimate	Projections			Total(a)
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
Underlying cash balance (\$m)	70,628	67,438	45,393	47,876	50,460	588,916	870,712
Per cent of GDP	8.83%	7.17%	4.63%	4.65%	4.72%		
Fiscal balance (\$m)	41,941	42,340	6,047	11,942	24,640	27,728	154,638
Per cent of GDP	5.24%	4.50%	0.62%	1.16%	2.30%		
(a) Total is equal to the sum of amounts from 2015-16 to 2020-21							
GDP	800,000	940,000	980,000	1,030,000	1,070,000		

Source: Budget Office

An underlying cash balance, which is the net recurrent cash flow, is projected at \$45.4 million or 4.6% of GDP in 2017/18. It is expected to continue to improve into 2018-19 to a surplus of \$47.9 million or 4.5% of GDP; 2019-20 -50.5 million or 4.72% of GDP.

Fiscal balance/Operating Surplus, which is the net cash flow after capital expenditure, is projected at \$6.0 million or .06% of GDP for 2017/18. This is expected to continue to improve into 2018-19 to a surplus of \$11.9 million or 1.16% of GDP. In 2019/20, the fiscal balance is planned at \$24.7 million or 2.3% of GDP.



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The operating surplus will allow the government to transfer surplus funds from the Consolidated Fund to a Sovereign Wealth Fund (SWF). A SWF legislation has been drafted for Cabinet and House of Assembly Approval. Details of the operation and management of the Fund are being worked through whilst an indicative estimate of \$8.0 million annually will be transferred to the Fund in 2017-18. An estimated \$46 million will be invested in the Sovereign Wealth Fund (SWF) over five years from 2016-2021. The (SWF) 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.



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GOVERNMENT’S FISCAL STRATEGY

The Government’s fiscal strategies are in keeping with the Framework Document signed between the governments of the United Kingdom and the Turks and Caicos Islands in October 2012. Residents and visitors security, job creation, border control, foreign direct investments and opportunities for the more vulnerable population are the major focus of the Government. The primary focus is to remain compliant with the Principles of Responsible Financial Management that have been outlined in the Framework Document. 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 new Government is committed to implement measures to remain on a path of sustainable fiscal trajectory. 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 years. The Public Expenditure & Financial Accountability (PEFA) completed in the first quarter of 2015 underscores the success to date at fiscal discipline.

The medium term targets assume that recurrent expenditure will increase annually by 2.5%. Maintaining fiscal discipline and operational efficiencies will remain a key priority of Government for example, the thrust to reduce the health care costs through a consultancy review of the existing PPP.

Table 8-Baseline Budget Ceiling

	2017-18	2018-19	2019-20
	Budget Ceiling	Forward Estimates	Forward Estimates
Baseline Recurrent Expenditure			
Budget and Forward Estimates (rolled forward from 2016/17 budget document)	241,681,648	241,898,138	241,898,138
+ Forward Year Impact of 2016/17 Post-Budget Decisions	13,537,244		
+ Adjustment of inflation (2016/17 budget prices)	-	-	-
+ Adjustment of New Spending Requests Approval	12,704,672	15,175,271	15,941,760
2015 /16 BASELINE BUDGET CEILING	267,923,564	257,073,409	257,839,898

Source: Budget Office



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New spending approved for the 2017-18 fiscal year is \$26.2 million. \$13.5 million are forward year impact of Supplement Appropriation Bills 1-4; \$8.7 million are for new initiatives awarded from the new spending priorities agreed by Cabinet.

Table 9-Budget Allocations by Ministry

RECURRENT EXPENDITURE ALLOCATIONS					
	2017/18	2017/18	2017-18	2018/19	2019/20
	Baseline Budget Ceiling R/F from 2016-17	Approved New Spend	Revised Based Line Ceiling	Forward Estimates	Forward Estimates
Baseline Recurrent Expenditure					
	in '000	in '000	in '000	in '000	in '000
Office of the Governor	4,869	1,366	6,236	1,366	1,366
Police	19,679	5,486	25,164	1,486	1,486
Attorney General's Chambers	5,829	294	6,123	234	234
Judiciary	3,663	5,789	9,451	-	-
Statutory Charges	48,984	3,825	52,809	4,525	5,225
Ministry of Border Control and Employment Services	7,662	264	7,926	264	264
Ministry of Finance, Trade and Investments	18,863	966	19,828	997	997
Office of the Deputy Governor	2,257	116	2,373	116	116
Ministry of Education, Youth, Sport & Library Services	27,991	1,485	29,476	1,822	1,822
DPP Office	1,489	82	1,571	82	82
Ministry of Home Affairs Transportation & Communication	10,179	800	10,979	800	800
Ministry of Infrastructure, Housing & Planning	15,678	552	16,230	552	552
Ministry of Tourism, Heritage & Culture	7,187	291	7,478	291	291
Ministry of Health, Agriculture and Human Services	61,896	4,522	66,418	2,722	2,722
House of Assembly	3,048	404	3,452	404	404
Office of the Premier and District Administrations	2,409	-	2,409	-	-
Approved New Spending		26,242	26,242	15,660	16,360
BASELINE RECURRENT BUDGET CEILING	241,682	26,242	267,923	15,660	16,360

Source: Budget Office

The Ministry of Health will account for \$66.4 million or 24.8% of the national expenditure, with education \$29.5 million or 11.0%; Police - \$25.2 million or 9.4%; Finance \$19.8 million –7.4% and good governance \$6.2 million or 2.3%. The allocations by ministry are indicative and may be subject to minor adjustments as the budget progresses.

2016-17 total expenditure before capital is forecast at \$200.5 million. In 2017/18 the operating expenditure target is \$229.6 million, \$29.1 million or 14.50% above the 2016/17 projections. In 2017/18, recurrent expenditure growth rate will be 15.46% over the forecast outturn for 2016/17. The forecast is reduced due to late recruitments of some vacancies and delay in the performance of development programmes.



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Table 10-Operating Expenditure

Recurrent Expenditure	Actual 2015/16	Approved 2016/17	Forecast 2016/17	Estimate 2017/18	Projections 2018/19	Projections 2019/20	Projections 2020/21
Total Personnel Costs	69,673	81,128	75,533	86,746	88,915	91,138	93,416
Pension and Gratuity	5,485	5,779	5,563	5,779	5,924	6,072	6,224
Transfers to NHIB (Overseas Treatment and Subventions)	19,449	20,505	26,274	26,580	27,244	27,925	28,623
Hospital Provisional Charges	23,713	24,245	19,708	20,171	20,676	21,193	21,722
Subventions (Less NHIB)	9,664	12,313	10,797	14,196	14,551	14,915	15,288
Rental of Assets	5,084	5,832	4,653	5,518	5,656	5,798	5,942
Other expenditure	52,413	57,416	51,700	65,262	66,889	68,557	70,091
Total Recurrent Expenditure	185,481	207,220	194,229	224,252	229,854	235,596	241,307
<i>Annual per cent recurrent expenditure increase</i>			4.72%	15.46%	2.50%	2.50%	2.42%
Non-Recurrent Expenditure	Actual 2014/15	Approved 2015/16	Forecast 2015/16	Forecast 2016/17	Projections 2017/18	Projections 2018/19	Projections 2019/20
Civil Recovery	1,101	900	893	-	-	-	-
SIPT Exp.	3,599	5,175	4,124	4,000	-	-	-
Debt service, interest and fees	6,625	2,468	1,285	1,346	1,318	820	424
Total Non-Recurrent Expenditure	11,325	8,543	6,302	5,346	1,318	820	424
Total Operating Expenditure	196,806	215,762	200,531	229,599	231,172	236,416	241,731

Source: Budget Office

Staff Costs

Personnel costs will account for \$86.7 million or 39.0% of recurrent expenditure in 2017/18. These include additional staffing costs of \$4.5 million to create a further 83 critical positions. The breakdown is as follows:

- 18 new staff for the Royal Turks & Caicos Islands Police Force to enhance the crime fighting and citizen's security portfolio;
- 19 new staffing positions in 2017/18 for the Ministry of Education; Long Bay High School Phase 3 will account for 16 of the new staffing positions;
- 15 new staffing positions for the Ministry of Health portfolio with an aim at strengthening primary health care renewal programme; and
- 10 new staff for the Ministry of Finance; Customs Department will obtain five new posts to re-enact the Canine Unit and improve on revenue compliance.

Pension and Gratuity

The Pension and Gratuity allocations for 2017-18 accounts for \$5.8 m or 2.6% of total revenue. It is assumed that at least two former politicians will attain pensionable age in this fiscal year.



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Hospital Related Charges –Subvention to NHIB and Treatment Abroad Programme

Subvention to the National Health Insurance Board (NHIB) to subsidize the treatment abroad programme, utility charges for the two major hospitals, health care costs for juvenile and the indigent population is \$26.6 million; Hospitals related charges are \$20.2 million. A provision of \$1.8 million for medical contingency has been made. Hospital related charges would account for 21% of the annual budget.

Subvention (Net NHIB)

For the 2017/18 financial year, \$14.2 million or 6% of the budget will be allocated for subvention to other government agencies. The Community College will receive an additional allocation of \$0.5 million; Audit fees for Statutory Bodies financial audits of \$1.2 million have been included in the subvention for the National Audit Office. This has also been factored into the TCIG revenue and has a cost neutral impact on the projected surplus.

Special Investigation and Prosecution Team (SIPT)

Costs relating to the ongoing corruption trials will account for a further \$9.8 million of the national budget. Charges for the prosecution team is \$ 4.0 million and legal aide costs \$5.8 million.

Other Recurrent Expenditure

Allocation classified as Other Recurrent Expenditure includes: Interest Payments of \$1.3 million, General Maintenance costs of \$9.7 million, Utility costs – \$4.3 million, Travel expenses - \$4.0 million, Social Welfare -\$1.8 million. A general contingency provision of \$ 5.0 million or 2.0% of recurrent revenue is embedded in the expenditure targets of each year.

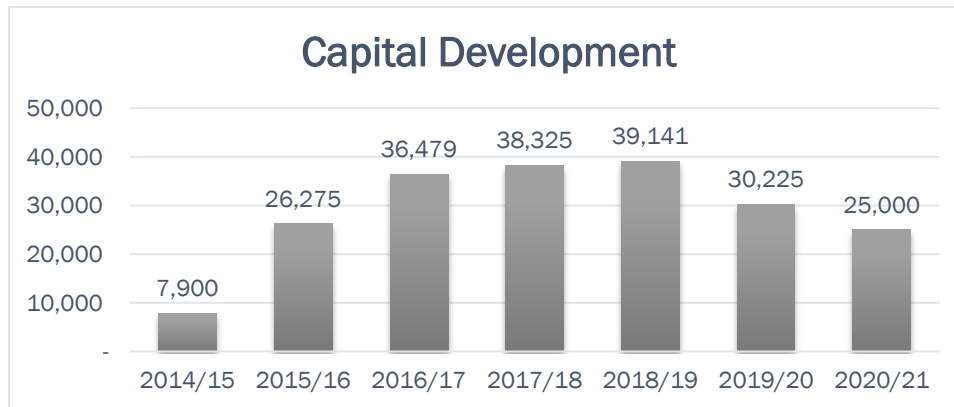
Capital Expenditure

Over the years, strong fiscal discipline has release additional funds for infrastructural development. Capital investment for 2014-2021 is \$203.3 million. \$ 38.3 million has been allocated for 2017/18, \$39.2 million for 2018/19 and for 2019/20 and 2020/21 \$30.2 million and \$25.0 million respectively. TCIG is working with the Caribbean Development Bank (CDB) with a view to accessing technical support to manage the investment program. Capacity building and transportation infrastructure are two areas that will be prioritized over the medium term.



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Figure 1 - Capital Expenditure – 7 Years



Strategy 2 - Management of Public Debt

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) which has been agreed with the Secretary of State, states that unless in exceptional circumstances, different arrangements are agreed in writing between TCIG and the Secretary of State, TCIG will borrow only to fund capital expenditure where: (i) The proposed project is forecasted 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 should give preference to borrowing from concessional lenders to ensure that the lender's expertise is brought to projects.

Further, according to the FFD, the level of debt must be affordable and consistent with the delivery of macroeconomic and fiscal sustainability and financial stability in the short, medium and long term. To this end, the TCIG must: (i) comply with certain borrowing limits within specified dates specified; (ii) remain in compliance with the borrowing limits subsequent to the dates specified or such earlier date by which compliance is achieved; and (iii) put in place arrangements to repay loan principal.



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The existing framework document has specific debt reduction targets to be achieved within specific period. Net debt as a ratio to annual operating revenue must not exceed a maximum of 110% by 2015/16. In addition, 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.

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

Table 11-Government Debt Schedule at Yearend

GOVERNMENT DEBT	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Citibank	2,292	1,459	626	-	-	-	-
CDB Loans	3,619	3,169	2,719	2,269	1,819	1,369	919
CDB Loans 2015-16		5,000	4,000	3,000	2,000	1,000	
RBTT Loans	1,667	1,111	555	-	-		-
HSBC/RBTT Loans	170,000	-	-	-	-	-	-
Scotia Term Loan	9,000	-	-	-	-	-	-
TC Bank Loan	6,608	5,541	4,474	3,407	2,340	1,273	206
Commerical Loan 2017-18				14,286	8,572	2,858	
Commerical Loan 2018-19					14,286	8,572	2,858
RBC	-	28,000	20,000	12,000	4,000	-	
Government Debt	193,186	44,280	32,374	34,962	33,017	15,072	3,983
Imputed PPP Hospital debt outstanding	107,980	104,886	101,440	95,690	89,940	84,190	78,440
TCIAA (Adjusted to FFD 20% weighting)	10,010	8,400	6,628	4,861	3,093	1,326	-
TCInvest (Net)	10,468						
Total Government Debt	321,644	157,566	140,442	135,513	126,050	100,588	82,423
Net Debt	185,219	134,503	86,390	72,223	52,262	19,702	-15,504
Core Government Debt	66,949	21,007	-1,604	-21,678	-28,327	-40,772	-65,814

Source: Budget Office

To further develop the capital infrastructure of the Islands the previous Government planned to borrow, \$20 million annually effective 2016/17 for three (3) consecutive years to carry out major infrastructure development. However, due to greater than expected revenue performance in 2016/17 and slower than expected project completion the Government although making the necessary arrangements for the first two tranches of loan, did not draw down the allocations for 2016/17. The Government intends to carry on with the borrowing arrangements of \$20 million annually commencing in 2017/18. The annual interest rate is estimated at 3.5%, amortized and repayable over 42 months. The indicative estimates show, that by 2016-17 cash reserves will be higher than the core Government debt despite restricting balances for the SWF and the Development Fund.



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Strategy 3 - Revenue Enhancement

Policy Decisions on Revenue

The revenue streams were revised in 2013. Business Licences and Duty Free Royalties were adjusted downwards in 2015. The Government has indicated that it will conduct a comprehensive review of the cost of living and the cost of doing business in the TCI together with a full review of the existing tax structure and will take measures to reduce costs in order to ensure that the Islands retain a competitive edge.

In the 2017/18 financial year, the Government has approved the introduction of administrative charges for printing of Citizen Status Cards recognizing \$700,000 in revenue. In the 2017/18 budget year, there will be improved focus on enforcement and compliance. Particularly, the Compliance Unit of the Revenue Department will be concentrating on regulating the growing vacation rental by owner sector, to derive increased revenue. Further, in the short to medium term, other areas of focus will include:

- a review of the maritime and aviation industry to establish relevant fees and charges
- review the financial services sector to identify new and improved product offers and
- given the geographical outlay of the islands to the North American, the option of medical tourism will be explored.

SPPD has projected that the economy will experience a further growth of 4.2% in 2017, which accentuates that the economic growth being experienced is on a sustainable path. The Government receipts are forecast at a lower rate of 3% for the medium term, to mitigate against the risks of volatility of the Government revenue streams to external shocks and the susceptibility of the geographical boundary to force majeure. Standard and Poor's Rating Agency as cited as revenue growth constraint as existing accommodations have been operating at maximum capacity during peak periods and near capacity during off peak periods. The immediate focus is to complement the growth agenda through foreign direct investments (FDIs) and cruise-ship arrivals.

The Financing Agreement for the European Development Fund 11 (EDF 11) was signed on February 24, 2017. The agreed funding of €14.6 million is approved to support the reform of the education sector, in order to:

- maintain full access to school age population;
- enhance quality of secondary education curriculum with increased use of it;
- increase proportion of qualified public primary teachers;
- improve the response of the education offer to the labour market demand; and
- develop and implement new high school TVET (CVQ) courses in priority sectors of activity.



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Tourism Related Receipts

Table 12-Tourism Related Revenue Sensitivity

	2016/17	2017/18	2017/18	2017/18	2017/18	2017/18
Tourism Related Streams	Forecast	Growth	Target	Growth	Growth	Growth
	Outturn	Rate 3%	Growth	Rate 4%	Rate 4.5%	Rate 5%
			Rate 3.5%			
Import Duty	69,322	71,402	71,749	72,095	72,442	72,789
Hotel & Restaurant Tax	61,814	63,668	63,978	64,287	64,596	64,905
Customs Processing Fee	28,889	29,756	29,900	30,045	30,189	30,333
Total Tourism Related Receipts	160,025	164,826	165,626	166,426	167,227	168,027

\$ '000

Source: Budget Office

For the 2017/18 budget cycle, the major tourism related receipts are projected to return \$164.8 million, which is 61.1% of recurrent revenue or approximately \$4.8 million above the revised budget forecast for 2016/17. Table 12, above illustrates the 2016/17 forecast target at a sensitivity rate of 3-5%.

Table 13- Revenue Targets

	Actual	Approved	Forecast	Estimate	Per.	Projections	Projections	Projections
Recurrent Revenue	2015/16	2016/17	2016/17	2017/18	R/R	2018/19	2019/20	2020/21
Import Duty	67,331	67,590	69,322	71,475	26.5%	73,619	75,828	78,103
Hotel & Restaurant Tax	58,187	61,277	61,814	63,668	23.6%	65,578	67,546	69,572
Customs Processing Fee	27,995	28,889	28,785	29,648	11.0%	30,538	31,454	32,397
Stamp Duty on land transactions	26,846	23,776	30,409	29,409	10.9%	30,291	31,200	32,135
Work Permits and Residency Fees	26,174	23,506	25,637	27,556	10.2%	28,383	29,234	30,111
Fuel Tax	9,030	8,415	9,390	9,672	3.6%	9,962	10,261	10,569
Business Licences	2,142	1,622	2,025	2,085	0.8%	2,148	2,212	2,279
Other recurrent revenues	38,405	35,825	34,285	35,958	13.3%	37,036	38,148	39,292
Total Recurrent Revenue	256,110	250,899	261,666	269,471	100.0%	277,555	285,882	294,458
<i>MOF annual per cent revenue increase</i>			2.17%	2.98%	0.0%	3.00%	3.00%	3.00%
Non-Recurrent Revenue	Actual	Approved	Forecast	Estimate	Per.	Projections	Projections	Projections
	2015/16	2016/17	2016/17	2017/18	R/R	2018/19	2019/20	2020/21
Land Sale Receipts	589	750	750	500		-	-	-
EU Grants and Other Grants	4,953	4,000	3,400	4,000		4,700	5,400	-
Civil Recovery Program	1,100	-	-	-		-	-	-
Other Capital Receipts	-	116	-	-		-	-	-
Total Non-Recurrent Revenue	6,642	4,866	4,150	4,500		4,700	5,400	-
Total Revenue	262,752	255,764	265,816	273,971		282,255	291,282	294,458

Source: 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 reduce expenditure within Statutory Boards and Government and reduce the level of operational and capital support required from core Government over the next six (6) 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, Financial Services Commission, Telecommunications Commission and Port's Authority to remit proportions of their net surplus to Government annually. However, during the 2015/16 Budget Cycle, the Government made a decision to allow the Airport's Authority to retain their portion of the excess revenue to support the South Caicos Airport Redevelopment project. The Port's Authority also obtained permission to invest their excess revenue in the Providenciales South Dock. These arrangements are in effect for three (3) and two (2) years respectively. The Financial Services Commission has also indicated that they will be unable to remit any revenue in 2017/18.

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. A contract management unit has been established to monitor the existing PPP with InterHealth Canada. No new PPS are being proposed for 2017/18 although the Government may be exploring opportunities. Requirements of the framework document are acknowledged.



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STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)

Operating Results 2014/15 and 2015-16

Table 14-Operating Results

<i>figures in US\$'000</i>	2015/16	2015/16	2014/15	FY 2015/16		FY 2015/16 vs. 2014/15	
	Actual	Revised	Prior Year	Variance			
		Budget		Actual vs.	Actual vs. Prior		
Recurrent Revenue	258,347	231,909	246,460	26,438	11%	11,886	5%
Recurrent Expenditure	191,762	203,932	168,548	- 12,169	6%	(23,214)	(14%)
Net Recurrent Surplus	66,584	27,978	77,912	38,607	138%	(11,328)	(15%)
Non-Recurrent Revenue	5,539	6,216	6,492	(677)	(11%)	(953)	(15%)
Non-Recurrent Expenditure	4,820	4,704	6,873	(116)	(2%)	2,053	30%
Operating Surplus	67,303	29,489	77,532	37,813	128%	(10,228)	-13%

Source: National Treasury

Overall TCIG’s operating performance continued similar to improvements seen in recent years. Operating results for the fiscal year 2015/16 showed an operating surplus of \$67.3 million (2014-15: \$77.5 million); being a positive variance of \$37.8 million or 128% above the budgeted amount of \$29.5 million, before capital expenditure of \$11.5 million (2015: \$7.9 million) and debt repayment of \$180.5 million (2015: \$15.8 million). Recurrent revenue outturn for the year 2015-16 was 11% ahead of budget and 5% above the prior year’s outturn. Recurrent expenditure for the year 2015-16 was 6% below budget estimates while being 14% above the prior year’s results.

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

TCIG also continued to provide training to the public sector resulting in increased awareness and reinforcement of the requirements of both the Public Finance Management and the Public Procurement Ordinances. 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.



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Revenue Performance

TCIG revenues for the 2015-16 fiscal year totalled \$263.9 million (2014-15: \$253.0 million). This represented an increase of \$10.9 million or 4% from fiscal year 2014-15 and was \$25.8 million or 11% ahead of the budget estimates for the year.

Total revenue for the 2015-16 fiscal year included \$67.3 million or 26% derived from import duties. Hotel and restaurant tax made up 22% of revenues totalling \$58.2 million for the year, while \$28.0 million was generated from customs processing fees, \$26.8 million from stamp duty on land transactions and \$18.1 million from work permits and residency fees, which together accounted for 28% of revenues.

Table 15- Revenue

figures in US\$'000							
Recurrent Revenue	FY2015-16	FY2015-16	FY2014-15	FY2015-16		Actual FY2015-16 vs	
	Actual	Budget	Actual	Actual vs Budget	%	FY2014-15	%
Import Duty	67,317	59,977	61,572	7,340	12%	5,746	9%
Hotel and Restaurant Tax	58,187	54,681	51,850	3,506	6%	6,338	12%
Customs Processing Fee	27,988	28,672	28,646	(684)	-2%	(658)	-2%
Stamp Duty on Land Transactions	26,850	18,537	25,826	8,313	45%	1,024	4%
Work Permits and Residency Fees	18,132	15,000	17,698	3,132	21%	434	2%
Fuel Tax	9,030	8,576	8,685	454	5%	344	4%
Other Revenues	50,842	46,466	52,185	4,375	9%	(1,344)	-3%
Total Recurrent Revenues	258,347	231,909	246,460	26,438	10%	11,886	5%

figures in US\$'000							
Non-Recurrent Revenues	FY2015-16	FY2015-16	FY2014-15	FY2015-16		Actual FY2015-16 vs	
	Actual	Budget	Actual	Actual vs Budget	%	FY2014-15	%
Revenue from Grants	4,953	5,116	4,139	(162)	(3%)	814	20%
Land Sales	586	1,100	1,253	(514)	(47%)	(668)	(53%)
Civil Recovery Income	-	-	1,100	-	-	(1,100)	(100%)
Total Non-Recurrent Revenues	5,539	6,216	6,492	(678)	(11%)	(953)	-15%

Source: National Treasury

Recurrent Revenues for the year 2015-16 totalled \$258.3 million (2014-15: \$246.5 million), an increase of \$11.9 million over last year's outturn and \$26.5 million over the budget estimates.

Total duties (excluding stamp duty) collected for the year 2015-16 were \$106.1 million (2014-15: \$103.6 million). This represented an increase of \$2.5 million or 2% over last year's results and \$7.0 million over budget estimates because of increased activity in the economy. Total duties include Import Duties of \$67.3 million; a \$5.7 million or 9% increase from last year and was \$7.3 million, or 12%, above budget. Customs Processing Fees on the other hand, saw a decrease of 2%



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or \$0.7 million from last year's results while Fuel Tax increased by 4% when compared to last year and was 5% over budget.

Taxes on goods and services were \$8.2 million higher than budgeted and \$4.2 million above last year's results, largely owing to better than expected tourism volumes for the year and positive movements in the real estate industry. As a result, Hotel and Restaurant Tax increased by \$6.3 million over last year's results and \$3.5 million over the budget. Stamp Duty on Land Transactions was \$8.3 million or 45% above budgeted outturn and \$1.0 million or 4% over last year's outturn.

Fees, fines and permits increased by \$2.6 or 11% when compared to last year's results and came in \$5.6 million or 26% above budget. The major contributor was Work Permits and Residency Fees, which was \$3.1 million or 21% ahead of budget while recognizing a 2% increase over last year's results. This outturn is attributed to higher demand and a major effort to collect overdue amounts.

Other Revenues collected for the year 2015-16 totalled \$50.8 million (2015: \$52.2 million) which was 9% above the budgeted amount while being 3% below last year's outturn.

Non-recurrent revenue for the year totalled \$5.5 million (2015: \$6.5 million), up 20% from last year's results while being 3% below budget. The major contributor to this amount was Revenue from Grants, which consisted of a \$4.9 million European Union grant received during the month of April 2015 for budgetary support. Land Sales receipts were \$0.6 million, which was 47% below the budgeted outturn and 53% below last year's results.

Expenditure Performance

TCIG's expenditure before capital for the 2015/16 fiscal year totalled \$196.5 million (2015: \$175.4 million). This represented an increase of \$21.2 million or 12% above fiscal year 2014/15 while being \$12.1 million or 6% below the budget estimates for the year.

The total spent during the 2015-16 fiscal year included \$75.3 million or 38% for Personnel Costs. Hospital Provisional Charges totalled \$23.7 million and made up 12% of expenditure while Medical Treatments and Transfers to NHIB totalled \$19.5 million accounting for a further 10%.



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Table 16- Expenditure Performance

figures in US\$'000							
RECURRENT EXPENDITURE	FY2015-16	FY2015-16	FY2014-15	FY2015-16		Actual FY2015-16	
	Actual	Budget	Actual	Actual vs Budget		vs FY2014-15	
Total Personnel Costs	75,252	79,777	67,864	4,525	6%	(7,387)	(11%)
Hospital Provisional Charges	23,666	23,666	23,235	-	0%	(431)	(2%)
Medical Treatment & Transfers to NHIB	19,516	19,503	19,687	(12)	0%	172	1%
Subventions	9,664	10,380	8,168	716	7%	(1,496)	(18%)
Maintenance Expenses	8,194	8,537	7,229	343	4%	(964)	(13%)
Finance Cost	6,634	6,660	7,015	26	0%	381	5%
Other Expenses	48,838	55,409	35,350	6,571	12%	(13,488)	(38%)
Total Recurrent Expenditure	191,762	203,932	168,548	12,169	6%	(23,214)	(14%)

figures in US\$'000							
NON-RECURRENT EXPENDITURE	FY2015-16	FY2015-16	FY2014-15	FY2015-16		Actual FY2015-16	
	Actual	Budget	Actual	Actual vs Budget		vs FY2014-15	
Special Investigation Prosecution Team (SIPT)	3,718	3,600	4,651	(118)	-3%	932	20%
Civil Recovery	1,101	1,104	2,222	3	0%	1,121	50%
Total Non-Recurrent Expenditure	4,820	4,704	6,873	(116)	-2%	2,053	30%

Source: National Treasury

Recurrent expenditure of \$191.8 million (2014-15: \$168.5 million) for the year 2015/16 accounted for 98% of total expenditure before capital investment and was up 14% or \$23.2 million from last year's results but was below budget estimates by \$12.2 million, or 6%.

Almost all expenditure heads were below estimates for the year, the major contributors being Personnel Costs which stood at \$75.3 million for the year, being below budget by \$4.5 million or 6%, as a result of delays in the recruitment process, while there was an increase of \$7.4 million or 11% over the prior year results.

Medical Treatment & Transfers to NHIB for the year totalled \$19.5 million of which transfers to NHIB accounted for \$19.2 million. This amount was on par with budget while being a marginal 1% below last year's results. Hospital Provisional Charges for the year of \$23.7 million was on par with the budgeted amount and \$0.4 million above the prior year's outturn.

Subventions totalled \$9.7 million representing a \$1.5 million or 18% increase from last year's cost of \$8.2 million, while being 7% below the budget. The year over year increase was due to new budgetary allocations to the newly established Invest Turks and Caicos. Maintenance costs were \$8.2 million for the year 2015/16, representing a 13% or \$1.0 million increase over last year's outturn, while being \$0.3 million or 4% below the budgeted amount, mainly due to timing differences associated with the award of contracts and the start of maintenance work on



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government assets. Finance cost associated with TCIG's public debt totalled \$6.6 million for the year, which was marginally below the budgeted amount while being 5% below last year's outturn.

Other recurrent expenditure for the year 2015-16 totalled \$48.8 million (2014-15: \$35.4 million) which saw an increase of \$13.5 million or 38% from last year's results, while being \$6.6 million or 12% below the budgeted amount. Professional and Consultancy Services totalled \$7.1 million, which was 6% or \$0.4 million above the budgeted amount while being \$5.0 above last year's outturn. The over expenditure is due to the unexpected use of external consultants in highly sensitive cases. Grants and Contributions totalled \$5.3 million for the year of which \$3.7 million was spent on scholarships. This amount represents a 50% increase over last year's results while being 4% or \$0.2 million below the budgeted amount.

Rental Costs for the 2015/6 fiscal year saw an increase of 3% when compared to last year's results and were 2% below the budgeted amount. Further savings are anticipated in future year as renovations take place to TCIG owned buildings enabling them to be occupied. Utility Expenses for the year totalled \$3.6 million resulting in a positive variance of \$0.6 million when compared to the budgeted amount and 11% or \$0.5 when compared to last year's results. This is 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 payments were processed on a timelier basis. The total amount spent on Office Expenses for the year was \$3.5 million, a \$1.8 or 103% increase from last year's results, while being 8% below the budgeted amount of \$3.9 million.

Other Expenditure items totalled \$24.2 million for the financial year. These costs were up \$5.2 million when compared to last year's outturn while being \$5.7 million or 19% below the budget estimates.

Non-recurrent expenditure for the year of \$4.8 million (2014-15: \$6.9 million) was down \$2.1 million or 30% from last year's outturn while being 2% above budget estimates. Of this amount, SIPT expenses accounted for \$3.7 million, which was 20% below last year's results and 3% above the budgeted amount. Civil Recovery expenses of \$1.1 million were \$1.1 million or 50% below last year's outturn while being on par with budget estimates.

Capital Expenditure

The total amount spent on capital projects for the 2015/16 fiscal year was \$11.5 million, which was funded primarily by capital contributions totalling the same amount provided by the



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Consolidated Fund. This outturn came in 57% below the budgeted amount of \$26.4 million while being 19% above last year's expenditure of \$9.7 million. Unused allocations of \$14.9 million were carried forward to the 2016/17 budget.

Public Sector Borrowings

TCIG's outstanding debt as at March 31, 2016 was \$44.3 million (2014: \$191.7 million). Total principal debt repayments for the year was \$180.5 million (2014: \$7.5 million), including the repayment of the \$170 million UK/DFID guaranteed debt. Total finance costs for the year were \$6.6 million (2015: \$7.0 million).

Table 17 Outstanding Public Debt

	Outstanding Balance April '2015	During 2015-16	Revised Balance	Repayments during 2015/16	Repayment Balance
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Unsecured					
Caribbean Development Bank	8,668	5,000	13,668	5,498	8,170
Citibank Trinidad and Tobago	2,292		2,292	834	1,458
RBC Royal Bank	1,667	28,000	29,667	556	29,111
TCI Bank Limited	6,608		6,608	1,067	5,541
European Investment Bank (EIB)	649		649	649	-
National Insurance Board (NIB)	1,854		1,854	1,854	
Total unsecured debts	21,738	33,000	54,738	10,458	44,280
Guaranteed					
HSBC Bank USA	170,000		170,000	170,000	
Total Guaranteed Debt	170,000		170,000	170,000	
Total outstanding public debts	191,738	33,000	224,738	180,458	44,280

Source: National Treasury

Commitments and Contingent Liabilities

Estimates of quantifiable commitments and contingent liabilities stood at US\$1.1 billion as at the end of March 2015. This includes an estimated long term commitment of \$964.5 million (2015: \$412.8 million) based on the terms of the unitary component of the IHC hospital contract as well as estimates for the clinical portion of the contract which amounts to \$571.1 million (2015: \$599.0 million). TCIG is subject to claims and potential claims related to breach of contract, damages to persons, property, and similar items. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted or is foreseen and no provision for claims



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is included in the Annual Statement of Public Accounts. Any resulting costs to TCIG will be recorded in the year when an amount can reasonably be determined or ordered.

The estimated liability for providing pension benefits, attributable to years of past service for the TCIG public service, as at March 31, 2016 was \$75.8 million (2015: \$80.1 million). Although actuarial assessments are required every two years, this was not done by March 31, 2016. An independent valuation is expected to be conducted by March 31, 2017. The estimated liability was therefore the prior year's assessment reduced by the payments made in the year ended March 31, 2016.



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AGGREGATE FINANCIAL TARGETS

The aggregate financial targets for core Government operations, listed below have been established by Cabinet for the 2017/18 fiscal year and the three forward years to deliver on the agreement between the governments of the TCI and the UK. The targets fall into three categories: operating, balance sheet and cash flow.

Table 18-Aggregate Financial Targets

FINANCIAL MEASURES	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21
	Unaudited actuals \$'000s	Target \$'000s	Forecast Outturn \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
OPERATING TARGETS							
Recurrent Revenue	256,110	250,899	261,666	269,471	277,555	285,882	294,458
Non-Recurrent Revenue	9,042	4,750	4,150	4,500	4,700	5,400	-
Total Revenue	265,152	255,649	265,816	273,971	282,255	291,282	294,458
Recurrent Expenditure	185,481	207,220	194,229	224,252	229,854	235,596	241,307
Non-Recurrent Expenditure	11,325	8,543	6,302	5,346	1,318	820	424
Total Operating Expenditure	196,806	215,762	200,531	229,599	231,172	236,416	241,731
Surplus Before Capital Programme	68,346	39,886	65,286	44,372	51,083	54,865	52,728
Capital Development Projects	(26,405)	(36,479)	(22,946)	(38,325)	(39,141)	(30,225)	(25,000)
Net Operating Surplus	41,941	3,407	42,340	6,047	11,942	24,640	27,728
BALANCE SHEET TARGETS							
Net Government Debt	134,503	106,464	86,390	72,223	52,262	19,702	(15,504)
CASH FLOW TARGETS							
Opening Cash Balance	16,035	23,273	23,273	46,051	47,289	47,788	44,884
Net Operating Cash Surplus	41,941	3,407	42,340	6,047	11,942	24,640	27,728
Other Net Cash Inflows	2,396	702	344	602	502	402	402
Debt Repayment	(180,125)	(13,405)	(11,905)	(17,412)	(21,946)	(17,946)	(11,088)
Sinking Fund Transfers In	(27,000)	-	-	-	-	-	-
Sinking Fund Transfers - Out	137,026	-	-	-	-	-	-
Sovereign Wealth Fund-In	-	(8,000)	(8,000)	(8,000)	(10,000)	(10,000)	(10,000)
New Borrowing	33,000	20,000	-	20,000	20,000	-	-
Closing Cash Balance	23,273	25,977	46,051	47,289	47,788	44,884	51,926
Closing Sinking Fund Balance/ SWF Balances	-	-	8,000	16,000	26,000	36,000	46,000

Source: Budget Office

Operating Targets

The operating targets reflect the three main areas from the operating statement: operating revenue, operating expenses and operating surplus. The surplus is the key operating measure.

According to table 18, total revenue in 2017/18 is forecast at \$274.0 million - \$8.1 million above the forecast outturn for 2016/17 and \$18.3 million above the approved budget of 2016/17. No new revenue initiatives have been assumed for the future years and the estimated growth rate is compounded at 3% over the forecast outturn.



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Total expenditure is forecast at \$267.9 million, an increase of \$44.5 million or 18.0% over the forecast outturn of 2016/17. Included in total expenditure is allocation of \$38.3 million for capital expenditure in 2017/18, \$39.2 million in 2018/19 in \$30.2 million and \$25.0 million in 2019-20.

Net operating surplus is forecast at \$6.0 million in 2017/18 or 2.2% of recurrent revenue - \$11.9 million in 2018/19 or 4.3% of recurrent revenue, and \$24.6 million in 2019/20 or about 8.6% of recurrent revenue and \$27.8 million or 9.4% of recurrent revenue in 2020/21.

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 infrastructure borrowing of \$20.0 million annually for three (3) years at a rate of 3.5% amortized over 3.5 years. Net debt is forecast to reduce to \$86.4 million at the end of 2016/17, \$72.2 million in 2017/18 to \$52.3 million in 2018/19 and \$19.7 million in 2019/20.

Cash Flow Targets

Net operating cash surplus before transfer to the SWF and new borrowing for infrastructure development in 2017/18 is forecast at \$6.0 million, \$11.9 million in 2018/19, \$24.6 million by 2019/20 and \$ 27.8 million in 2020/21. These operating cash flows will enable the Government to fully fund its planned development programs and repay the principal on outstanding debt.

Debt Repayment

Government debt at the end of the fiscal year 2017-18 is forecast at \$32.3 million, this balance mainly reflects the residual balances from the \$33m refinancing loan of 2015/16. In 2017/18 and 2018/19, it is expected that two tranches of \$20 million commercial bank loans will be borrowed for Infrastructure Development. Total principal repayment is forecast at, \$17.4 million in 2017/18 and \$22.0 million in 2018/19 and \$17.9 million in 2019/20. The key assumptions underpinning the calculations is that draw down of new loans will occur in April 2017. In the event that the drawdown of new \$20 million infrastructure loan is delayed then the indicative figures will be adjusted accordingly. This would reduce the debt service charges.



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COMPLIANCE WITH PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT

Table 19 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. The forecast projection is compliance to be met in all areas ending financial year 2016-17.

Table 19- 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	69,633
	2015/16	41,941
	2016/17	3,407
	2017/18	6,047
	2018/19	11,942
	2019/20	24,640
	2020/21	11,942
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	20.1%
	2016/17	6.3%
	2017/18	7.0%
	2018/19	8.4%
	2019/20	6.6%
	2020/21	3.9%
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	129.9%
	2014/15	75.2%
	2015/16	52.5%
	2016/17	42.4%
	2017/18	26.8%
	2018/19	18.8%
	2019/20	6.9%
	2020/21	-5.3%
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 balance	Complies by the end of Fiscal year 16/17	
	(DAYS)	
	2013/14	30
	2014/15	36
	2015/16	46
	2016/17	102
	2017/18	103
	2018/19	117
	2019/20	125
2020/21	148	
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	

Source: Budget Office



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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 – 2020/21 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 SWF each year. 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.

Liquid Cash Reserves

Liquid cash reserves is including the SWF, assuming that Fund will be easily converted to cash. The compliance target requires that it is a minimum of ninety (90) days planned expenditure by the fiscal year 2018/19. The forecast is to have one hundred and two (102) days of planned expenditure as at fiscal year 2016-17. If the investment portfolio of the SWF is changed to long-term, then the liquid cash reserves will change accordingly.