

FISCAL AND STRATEGIC POLICY STATEMENT 2018-2022



Prepared by the Ministry of Finance, Investment and Trade
Hibiscus Square, Grand Turk
May 2018



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Contents

FISCAL STRATEGY OVERVIEW.....	2
ECONOMIC OUTLOOK.....	5
International Economy.....	5
Domestic Economy.....	7
AGGREGATE FINANCIAL TARGETS.....	14
Operating Targets.....	14
Asset and Liability Targets.....	15
Cash Flow Targets.....	15
Debt Repayment.....	15
COMPLIANCE WITH PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT....	16
Government Operating Surplus.....	17
Debt Service.....	17
Government Net Debt.....	17
Liquid Cash Reserves.....	17
FISCAL OUTLOOK.....	18
Budget Aggregates.....	18
Strategy 1 - Controlling Government Expenditure.....	22
Strategy 2 - Management of Public Debt.....	30
Strategy 3 - Revenue Enhancement Strategy.....	32
Strategy 4 - Financial Improvement of Statutory Authorities and Government Companies....	34
Strategy 5 - Public Private Partnerships.....	36
STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years).....	37
Operating Surplus.....	37
Revenue Performance.....	38
Expenditure Performance.....	40
Public Sector Borrowings.....	42
Contingent Liabilities.....	43



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

FISCAL STRATEGY OVERVIEW

The 2012 Framework Document between the Governments of the United Kingdom (UK) and the Turks and Caicos Islands (TCI) outlines the requirement for a Fiscal Strategic Policy Statement (FSPS) to be prepared annually. The policy paper should be underpinned by budget surpluses, controlling Government expenditure, management of public debt, revenue enhancement, financial improvement of state-owned agencies, and public and private partnerships. The paper should also establish the parameters for the budget and three forward years and sets out the budget preparation basis and guidance for Ministries, Departments, and Agencies (MDAs). The TCI is a tourism-dependent archipelago. The Government is focused on developing the Country, to secure a better quality of life for all citizens, residents and future generations. The current fiscal policy aim is to support economic growth and full recovery from the adverse impact of Hurricanes Irma and Maria without compromising fiscal sustainability and the attainment of fiscal management targets. At this juncture, the Turks & Caicos Islands Government (TCIG) will restrain the growth in recurrent expenditure/fixed costs, while expanding capital expenditure.

In September 2017, the Islands were severely affected by two tropical cyclones (Hurricanes Irma and Maria) with wind speeds exceeding 175 mph and 125 mph respectively. The damage sustained were mainly due to excessive rainfall, strong winds and storm surges. The productive sectors, specifically tourism, were the most severely affected, accounting for most of the damage and losses sustained by the Country. There was also moderate damage which occurred throughout the Country, particularly, affecting the private subsectors of housing and tourism. The total damage is estimated at US\$ 289.6 million, of which 17 percent is public and 83 percent private. Losses are estimated to be US\$ 230.4 million, with the public sector sustaining approximately 5 per cent of the losses.

The 2017/18 fiscal year closed with an operating surplus of \$45.3million before debt repayment of \$12.6 million. The recurrent revenue fell below the original budget by \$11.0 million due to lower revenue intake during the final two Quarters of the fiscal year as a result of the impact of the two hurricanes. This was mitigated by an insurance payout of \$15.2 million. Recurrent and capital expenditures continued the trend of falling below the revised budget. Proposed borrowing of \$20.0 million to support the 2017/18 Capital Expenditure (Capex) programme was deferred. Consequently, the Capex was reduced and reprioritized to focus mainly on the post-hurricane recovery needs of the Islands.

¹ European Union-Assessment of the Effects and Impacts of Hurricanes Irma and Maria (2018)



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

The swift actions of the Government (immediate short-term policies to support imported labour, refurbishment, immigration, imports and marketing support for tourism) and the private sector immediately following the tropical cyclones, resulted in over ninety (90) percent of accommodations being rebranded and reopened for the winter tourist season – most of which are currently operating at maximum capacity. This contributed to the containment of the loss of revenue for FY 2017/18 and will augur well for the prospects for FY 2018/19.

The Government is far advanced in developing a Vision 2040 Document and the first Medium Term Development Strategy (MTDS) for achieving the outcomes that will be embedded in the Vision Document. The medium term fiscal strategy seeks to build on the impressive growth trajectory of the Islands over the last five (5) years. The one overarching goal that will be pursued by the Government is a high quality of life enjoyed by citizens, residents and future generations. The five (5) high level outcomes or sustainable development dimensions (SDDs) are:

- Robust and Climate Resilient Infrastructure- SDD 1;
- A socially cohesive society – SDD 2;
- Healthy natural environment, heritage and cultural assets - SDD 3;
- Citizen security – SDD 4; and
- Good governance – SDD 5

The strategic focus is on the economic recovery of the Islands, whilst simultaneously pursuing the sustainable development dimensions (SDDs). Spending priorities will focus on restoring the education sector, strengthening primary healthcare, border protection and security, correctional services, project execution and delivery, gender and social development.

In 2018/19, Government receipts are forecast at \$279.6 million and Government expenditure at \$290.0 million. The Government has committed \$37.1 million of new funding for the capital investment plan to improve the resilience, connectedness and flexibility of the Islands. The \$37.1 million, is in addition to the \$19.3 million of funded projects for 2017-18 that are in progress and would have roll forward into 2018/19; these projects are all expected to be delivered in 2018/19.

An operating deficit of \$10.4 million is anticipated for the fiscal year, this is primarily due to the bolstering of the Development Fund to address the economic recovery programme. The operating deficit will be funded from previous years' cash reserves; Operating Surplus of \$16.5 million and \$23.6 million in 2019/20 and 2020/21 respectively. The operating surplus will allow the Government to meet its debt obligations.



**TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022**

No new debt is being forecast for the 2018/19 fiscal year.

The initial transfer of \$8 million to the National Wealth Fund is forecast to be appropriated in 2018/19; however, future transfers to the Fund will be determined after the close of each fiscal year in accordance with the legislation.

Planned results show that the majority of the debt sustainability ratios agreed between the governments of the TCI and UK would remain in compliance throughout 2018/19 and the immediate forward years. In 2018/19, the Government is proposing to operate a deficit budget to allow for allocation of resources to the economic recovery programme, after the two tropical cyclones.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

ECONOMIC OUTLOOK

International Economy

Global economic activity is projected to accelerate in 2018 by 3.9 percent. This will be led by increased output growth in the advanced economies as well as the emerging and developing economies.

“Global economic activity continues to firm up. Global output is estimated to have grown by 3.7 percent in 2017, which is 0.1 percentage point faster than projected in the fall and ½ percentage point higher than in 2016. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage point to 3.9 percent. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. The stronger momentum experienced in 2017 is expected to carry into 2018 and 2019, with global growth revised up to 3.9 percent for both years (0.2 percentage point higher relative to the fall forecasts²).”

Table 1- International Economic Assumptions

	Estimate	Estimate	Projections	
	2016	2017	2018	2019
World Growth	3.2	3.7	3.9	3.9
US	1.5	2.3	2.7	2.5
Canada	1.4	3.0	2.3	2.0
UK	1.9	1.7	1.5	1.5
China	6.7	6.8	6.6	6.4
Euro Area	1.8	2.4	2.2	2.0
Latin America and the Caribbean	-0.7	1.3	1.9	2.6
Emerging Markets and Developing Economies	4.4	4.7	4.9	5.0
Low-income Developing Countries	3.6	4.7	5.2	5.3

Source: IMF World Economic Outlook, January 2018;

Prepared by: Statistics Department

Growth in the 3rd Quarter of 2017 was higher than projected among advanced economies - Notably in Germany, Korea, Japan and the United States. The stronger 3rd-Quarter performance than anticipated was also felt among key emerging market and developing economies. These include: Brazil, China, and South Africa. The IMF attributes the growth, to a pickup in investment, particularly among advanced economies, and increased manufacturing output in Asia in the run up

² IMF World Economic Outlook, January 2018



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

to the launch of new smartphone models. “Purchasing managers’ indices indicate firm manufacturing activity ahead, consistent with strong consumer confidence pointing to healthy final demand”.

The growth forecast for the United States, the main trading partner of the Turks and Caicos Islands, has been revised by the IMF given that this economy performed better than expected in 2017. The assumption of the forecast is that the tax revenues decline from the US tax reform, in the short term will not be offset by spending cuts. It is anticipated that the US tax reform will stimulate near-term activity in the United States. Imports is expected to increase as a result of stronger domestic demand, resulting in the widening of the current account deficit. The U.S. growth forecast has therefore been raised from 2.3 percent to 2.7 percent in 2018, and from 1.9 percent to 2.5 percent in 2019.

The United Kingdom economy is expected to grow by 1.5 percent in 2018 and 2019 compared with 1.7 percent during 2017. The likely impact of growth on this economy will depend on the United Kingdom’s smooth exit from the European Union. The Canadian economy, which is estimated to have grown by 3 percent in 2017, is forecast to grow by 2.3 percent and 2.0 percent in 2018 and 2019 respectively.

The economy of China is expected to grow by 6.6 percent in 2018, which is 0.2 percentage point below the 2017 estimate. China’s economic growth is expected to slow down even further in 2019 at 6.4 percent. 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 estimated growth for 2017 was 6.7 percent, a decline by 0.4 percentage points from the estimated growth of 7.1 percent in 2016. It is projected to increase by 7.4 percent and 7.8 percent in 2018 and 2019 respectively. Russia’s economy according to the revised estimates for 2017 grew by 1.8 percent in 2017 and is expected to experience minimal growth of 1.7 percent and 1.5 percent in 2018 and 2019 respectively.

Economic activity in emerging and developing markets will accelerate slightly in 2018 and 2019. However, there are marked differences across regions. In emerging and developing Europe, activity in 2018 and 2019 is projected to remain stronger than previously anticipated. The revisions take into account a favourable external environment, with easy financial conditions and stronger export demand from the euro area.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

In Latin America and the Caribbean, the recovery is expected to strengthen, with growth of 1.9 percent in 2018 and 2.6 percent in 2019 compared with growth of 1.3 percent in 2017. In low-income developing countries growth is expected to reach 5.2 percent in 2018 and 5.3 percent in 2019 up from 4.7 percent in 2017.

Risks to this medium-term global economic outlook are leaning to the downside as reflected by factors such as tightening global financial conditions, inward looking policy plans including protectionism, and noneconomic factors such as geopolitical tensions around the world.

Domestic Economy

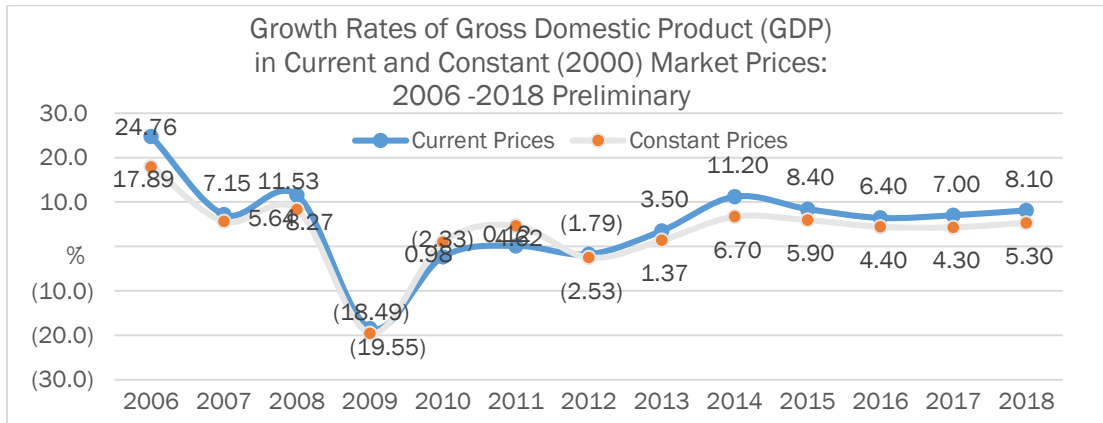
Although, the Statistics Department had earlier forecasted a growth of approximately 4 percent in 2017, the Department's preliminary data suggests that in the aftermath of Hurricanes Irma and Maria, real GDP contracted by 1.5 percent in the Turks and Caicos Islands in 2017, after an expansion of more than 4 percent in 2016. Inflationary pressures also increased slightly rising to 2.1 percent in 2017. Up until the end of August, the TCI economy showed signs of growth, supported by the hotels and restaurant, construction, real estate, transport, storage and communication sectors. In September 2017, Hurricanes Irma and Maria caused severe damage to the TCI destroying homes, infrastructure and commercial and public property. Hence, the TCI's economic capacity was severely affected, causing a real GDP contraction for the entire year.

In an analysis of the TCI's current economic performance, the Statistics Department forecast that the Island's economic growth in real terms would increase by 2.5 percent in 2018, having contracted by 1.5 percent in 2017. Following recessionary years in 2009 and 2012, the TCI's economy was set to experience stable and robust economic growth, with future growth forecast to average approximately 3 percent yearly over the medium to long term. However, that growth momentum was broken during 2017, because of the two Hurricanes which resulted in visitor arrivals being lower while there were significant delays in planned private sector investment as well as a reprioritization in the Government public sector investment programme for the Government which was done in order to achieve its fiscal targets.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

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



Source: Statistics Department

The growth of the TCI’s economy over the years’ points to the importance of external influences on domestic economic activity. However, as seen in table 2 above, the TCI’s economy is expected to rebound and is set to achieve sustained economic growth going forward. The local economy is expected to be firmly back on the path to sustainable growth, led by the tourism sector. We will continue with efforts to sustain TCI’s international competitiveness in the tourism industry and the segments of the industry. The TCI brand of tourism remains strong but efforts will continue to improve its quality and to keep it ahead of the competition.

Table 3- Domestic Macroeconomic Assumptions

	Actuals	Actuals	Forecast	Estimate	Projections	Projections
	2014	2015	2016	2017	2018	2019
Nominal GDP (bill. US\$)	0.82	0.89	0.96	1.02	1.09	1.09
Nominal GDP Growth (%)	11.2	8.4	6.4	1.3	6.2	6.6
Real GDP (%)	6.7	5.9	4.4	-1.5	2.5	3.2
CPI (%)	2.3	2.2	2.0	2.1	2.1	2.1
Population	35.2	36.7	37.9	39.8	41.4	43.0
Nominal GDP per capita (\$)	22,656	24,049	25,075	24,184	24,694	25,352
Value of Imports (\$)	406.3	409.7	389.3	432.6	454.2	476.9
Exports (\$)	6.5	4.6	4.5	2.3	2.5	3.0
Balance of Trade	-407.6	-405	-384.8	-430.3	-451.7	-473.9
Foreign Direct Investment (\$m)	250,000	200,000	200,000	200,000	200,000	200,000
Unemployment (%)	12	11	7	6	7	7

Source: Statistics Department



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

The Statistics Department has forecasted that based on the current economic climate, unemployment which stood at 6 percent in 2017 will increase slightly in 2018 to 7 percent and continue to decline over the next few years. The unemployment rate, which is currently estimated to be less than 7 percent, is substantially lower than the 18 percent, which was calculated from data obtained during the Census in 2012. This suggests increased participation in the economy's growth by increasing numbers of residents. Moreover, the Government's consolidation of its fiscal reform produced increasing surpluses, the results of which were further reflected by reductions in corresponding debt statistics.

Unlike the period 2008 to 2012, which was one of great uncertainty and despite the passage of two Hurricanes during the month of September 2017, the Turks and Caicos Islands now has a stable macroeconomic environment and relatively healthy public finances. As a result, the Government now has a more predictable planning horizon. The maintenance of a stable macroeconomic environment is a necessary condition for the future growth and development of the TCI. Hence, the Government continues to focus on short-run macroeconomic management, which complements its long-run development policy initiatives. Towards maintaining a stable macroeconomic environment, we will pursue fiscal surpluses, low levels of internal and external debt and build reserves. Largely driven by external influences, and in particular inflation in the USA our most important trading partner, the rates of inflation are estimated at around 2.1% in 2017, slightly lower than the inflation rate recorded in 2016. The Statistics Department is forecasting an inflation rate of around 2.1 percent in 2018 and 2019. This expectation re-enforces the other elements for macro-economic stability.

Further analysis of the performance of the TCI economy over the years and going forward through the two basic aggregates - real gross domestic product (GDP) and real GDP per capita, yields additional insights. Both indicators suggest that the TCI has made significant advances over the period 2009 to 2016. Real GDP increased from \$522.8 million in 2009 to \$644.0 million in 2016, which represents, an average annual growth rate of approximately 3.0 percent. Although real GDP is estimated to have declined by 1.5 percent in 2017, it is forecast to increase by 2.5 percent in 2018. Real GDP per capita increased from \$14,522 in 2009 to \$16,844 in 2016, representing an average annual growth rate of approximately 2.0 percent. Real GDP per capita is forecast to decline by 1.5 percent in 2018 to \$15,706 as the population increases.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

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	16,992
2017	634.40	15,941
2018	650.20	15,706
2019	671.20	15,609

Source: Statistics Department

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 must carry out a wide range of functions. Because of this, the TCI rely on immigration (facilitated by 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 increased slightly in 2017, it is projected to show significant growth in 2018 and steady growth going forward. The rebuilding activities started in 2017 and will increase significantly in 2018 as persons and businesses repair their properties destroyed by Hurricanes Irma and Maria. Therefore, because of increases in both public and private sector spending



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

domestic demand will increase. Private investments will increase as more businesses and individuals engage in reconstruction activity following the Hurricanes. The construction sector will also be propelled by foreign direct investment in large-scale tourism related and other projects, as well as the revitalization of stalled projects and other new private sector projects from local investment. These will be complemented going forward by increased public sector spending on capital works, which will include rebuilding old schools, building new schools, several road works throughout the TCI, repairing other Government buildings which were badly damaged or destroyed by the Hurricanes. Projects are being funded from the Carnival Infrastructure Fund as well as other Government projects. The real estate sector is also forecasted to grow in 2018 and contribute to increased construction activity. The sector should see continuous growth over the next 3 years.

Agriculture and Fishing

Although the Agriculture and Fishing sector experienced a decline in 2017 as fishermen were not able to engage in fishing activities during some period of bad weather. The Statistics Department is forecasting growth in 2018 of 2 percent and is forecasting continuous growth in future years.

Tourism

Despite making a major “turnaround” in 2016, the hotel and restaurant sector, the main pillar of the local economy contracted in 2017. This was mainly because of Hurricanes Irma and Maria which forced the complete closure of major properties and the cancellations of flight to the Turks and Caicos Islands during the months of September to December 2017. The decline in the hotels and restaurants sector reflects a drop in the number of stay-over visitors, mitigated by an increase in the cost of a room night. The number of stay-over visitors decreased in 2017, partly because of the closure of major properties such as Beaches and Club Med for several months. It is forecasted that there will be an even larger increase in future years, as more rooms are added to the hotel stock.

The tourism sector continues to be the major contributing sector to the TCI’s GDP, at approximately 38 percent. SPPD is forecasting that the hotel and restaurant sector, which grew by approximately 4.0 percent in 2016 and declined significantly in 2017, will return to a positive growth of approximately 3 percent in 2018. The Government through the Tourist Board and in collaboration with the private sector made tremendous strides in the aftermath of the Hurricane of informing potential visitors that the TCI is “open and ready for business.” TCIG is also seeking



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

to promote the expansion of the sector going forward by engaging stakeholders through the granting of fiscal incentives (e.g., Development concessions) for the expansion of the room stock. 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 tourists come mainly from the United States, over the years there have been an increased number of tourists coming from other destinations such as Canada and South America. Despite not having any cruise ship calls for the months of September and October, cruise ship visitor arrivals witnessed only a slight decline of 2.6 percent in 2017. For the period January to August 2017, cruise ship visitors increased by 15 percent over the same period in 2016. This sector however is forecast to experience growth in 2018. The Government is taking steps to boost this sector, which will help in continuous increase in future years.

Trade

The Turks and Caicos Islands Merchandise imports totaled approximately \$432.6 million in 2017, representing an increase of \$43.3 million or 11.1 percent when compared to the same period in 2016. Exports from the TCI during this period were valued at \$2.3 million when compared to \$4.5 million during the same period in 2016. This resulted in an overall merchandise trade deficit of approximately \$430.3 million in 2017 and an increase in the overall trade deficit balance by more than 5.0 percent or \$20.2 million. The increase in the trade deficit is mainly because of the \$43.3 million increase in the value of imports. In 2018 exports are not expected to change significantly. By contrast, imports will rise as a result of an increase in demand for construction materials and services for the reconstruction of the Turks and Caicos Islands. Imports purchase of construction materials and more durable goods by persons covered by insurance will moderate the decline in private consumption. The decline in private consumption will be caused by the forecast increase in unemployment, which is expected to rise by 1 percentage point to 7 percent in 2018. Given the forecast growth in the tourism sector, the attraction of foreign direct investment, the projected growth in the construction sector of the TCI economy and the lack of a more diversified group of exports; it is likely that the trade imbalance will continue to increase in 2018 and going forward. Inflationary pressures are projected to remain at 2.1 percent in 2018 and 2019.

Downside Risks

Despite the positive sentiment on global economic growth prospects and the TCI positive economic outlook, the TCI is always mindful that there are a range of downside risks which can lead to growth prospects in the Turks and Caicos Islands not materializing. Poor economic performances and any increase in unemployment in the USA and other major tourism source



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

markets can affect the Turks and Caicos economy negatively. This underscores the need for greater diversification of the economy which the Government is striving towards.

The Government has not yet drawn down on external financing for public and private sector projects to help with the rebuilding and start new construction projects will hinder strong growth in the construction industry and impact negatively on the flow of foreign direct investment into the Turks and Caicos Islands. The speed and quality of the reconstruction is essential for a fast and smooth recovery. The reconstruction activities should be driven by a concerted effort of both the public and private sector with financial and technical assistance from our external development partners. It is essential that the Government find ways of improving the ease of doing business, to lower the bureaucratic burden that private sector agencies face to boost the level of private sector investment in the economy. The growth projections assume that effort will be made to build capacity within the Public Works department to be able to properly scope and mobilize government investment projects as this could have contracting impact on the economy.

There is always the risk of an unforeseen financial or macroeconomic shock that can trigger another economic downturn. In that regard, geopolitical uncertainty is on the rise, with the escalating tensions between the US and North Korea adding to the on-going concerns in the Middle East and some African countries. There is also the potential for increased instability in other regions which at times escalates. Growing threat from terrorist groups will also further compound the situation and there is always the threat of another active hurricane season, (during the period June to November) which can lead to flight cancellations, hotel closures as well as other disturbances in the economy.

The TCI will continue to strengthen the macroeconomic policy making framework as we seek to manage risk. In that regard, the strengthening of our planning framework is expected to assist us to arrive at development outcomes that are more sustainable including arriving at more diversified economic activity. Moreover, a major reason for our strong resolve to maintain low national debt and to build the Turks and Caicos National Wealth Fund (TCNWF) is for their importance in helping us manage macroeconomic risks. Nonetheless, with a positive trajectory assumed for our primary tourism source markets, the Ministry of Finance is confident that the TCI economy will continue to improve and experience positive economic growth over the next few years.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

AGGREGATE FINANCIAL TARGETS

The aggregate financial targets for core Government operations, that are listed below have been established for the 2018/19 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 5-Aggregate Financial Targets

FINANCIAL MEASURES	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21	2021/22
	Audited Actuals \$'000s	Original \$'000s	Unaudited Actuals \$'000s	Target \$'000s	Target \$'000s	Target \$'000s	Target \$'000s
OPERATING TARGETS							
Recurrent Revenue	262,951	269,471	262,099	273,097	274,297	282,526	291,002
Non-Recurrent Revenue	4,149	4,500	20,820	6,500	6,100	700	700
Total Revenue	267,100	273,971	282,919	279,597	280,397	283,226	291,702
Recurrent Expenditure	196,259	217,792	208,697	242,206	233,616	239,456	245,443
Non-Recurrent Expenditure	11,615	11,806	9,573	10,660	10,303	150	-
Total Operating Expenditure	207,873	229,599	218,270	252,866	243,919	239,606	245,443
Surplus Before Capital Programme	59,227	44,372	64,649	26,731	36,478	43,620	46,259
Capital Development Projects	(28,424)	(38,325)	(19,297)	(37,148)	(20,000)	(20,000)	(20,000)
Net Operating Surplus	30,803	6,047	45,352	(10,417)	16,478	23,620	26,259
BALANCE SHEET TARGETS	-	-	-	-	-	-	-
Net Government Debt	73,426	44,723	23,290	25,955	1,725	(29,205)	(61,449)
CASH FLOW TARGETS	-	-	-	-	-	-	-
Opening Cash Balance	27,725	47,346	47,346	78,016	57,977	68,795	90,794
Net Operating Cash Surplus	30,803	6,047	45,352	(10,417)	16,478	23,620	26,259
Other Net Cash Inflows	2,069	602	(2,089)	767	767	767	767
Debt Repayment	(11,905)	(17,412)	(12,593)	(10,389)	(6,427)	(2,389)	(688)
National Wealth Fund-In	-	(16,000)	-	-	-	-	-
New Borrowing	-	20,000	-	-	-	-	-
Closing Cash Balance	47,346	40,584	78,016	57,977	68,795	90,794	117,132
TCNWF Balances	-	16,000	-	8,000	8,000	8,000	8,000

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.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

According to table 5, total revenue in 2018/19 is forecast at \$279.7 million - \$3.3 million below unaudited actuals for 2017/18 and \$5.6 million above the approved budget of 2017/18.

Total expenditure is forecast at \$290.0 million, an increase of \$52.5 million or 22.1 percent over the unaudited outturn or \$22.0 million or 0.8 percent above the approved budget of 2017/18. Included in total expenditure is allocation of \$37.1 million for capital expenditure starting in 2018/19 and \$8 million to be transferred to the National Wealth Fund.

Net operating deficit is forecast at \$10.4 million in 2018/19 or 3.8 percent of recurrent revenue; operating surplus of \$16.5 million in 2019/20 or 6.0 percent of recurrent revenue, and \$23.6 million in 2020/21 or about 8.4 percent of recurrent revenue and \$26.3 million or 9.0 percent of recurrent revenue in 2021/22.

Asset and Liability Targets

Core Government assets and liabilities are reported as targets. Fixed assets are not currently recorded in the Government accounts. Net debt is \$23.1 million at the end of 2017/18, \$26.0 million in 2018/19 and \$1.7 million in 2019/20.

Cash Flow Targets

Net operating deficit before debt repayment is forecast at \$10.4 million in 2018/19; The operating deficit will be funded from previous years' cash reserves. Operating surplus of \$16.5 million in 2019/20, \$23.6 million by 2020/21 and \$ 26.3 million in 2020/21. These operating cash flows will enable the Government to repay the principal on outstanding debt.

Debt Repayment

Government debt at the end of the fiscal year 2017/18 is forecast at \$19.8 million, this balance mainly reflects the residual balances from the \$33m refinancing loan of 2015/16. Total principal repayment is forecast at, \$10.4 million in 2018/19 and \$6.4 million in 2019/20 and \$2.6 million in 2020/21. The key assumption underpinning the calculations is that no new loan is forecast over the next three years. Given that the Hurricane Recovery taskforce has been appointed, it is expected that in the short-term a decision will be taken on debt financing to restore key sectors.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

COMPLIANCE WITH PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT

Table 6 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 in 2018/19 with the exception of the Operating Surplus target.

Table 6- 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	67,781
	2015/16	47,395
	2016/17	30,803
	2017/18	45,352
	2018/19	(10,417)
	2019/20	16,478
	2020/21	23,619
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	20.4%
	2016/17	6.3%
	2017/18	5.2%
	2018/19	4.1%
	2019/20	2.5%
	2020/21	1.0%
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	130.6%
	2014/15	76.4%
	2015/16	44.5%
	2016/17	33.4%
	2017/18	8.8%
	2018/19	9.5%
	2019/20	0.6%
	2020/21	-10.4%
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 17/18	
	(DAYS)	
	2013/14	27
	2014/15	29
	2015/16	53
	2016/17	88
	2017/18	136
	2018/19	99
	2019/20	120
2020/21	150	
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



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Government Operating Surplus

The compliance target set for operating surplus is that it is to be positive in all years. The forecast is for an operating deficit to occur in 2018/19 and a return to operating surplus in all future 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 TCNWF each year. The Government has been compliant with the principles of responsible financial management ratio of 10 percent or less, since March 2017.

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 percent of core revenue by 2015/16 and 80 percent by 2018/19. The targets were achieved in 2014/15, and Net Government Debt is forecast to be approximately 9.4 percent of recurrent revenue at the end of the 2018/19 fiscal year.

Liquid Cash Reserves

Liquid Cash Reserves is including the TCNWF, if the Fund or a part thereof, 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 ninety-nine (99) days of planned expenditure as at fiscal year 2018/19. If the investment portfolio of the TCNWF is changed to long-term, then the liquid cash reserves will change accordingly.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

FISCAL OUTLOOK

Budget Aggregates

The aggregate financial targets are the basis upon which the 2018/19 budget and the financial outlook for 2019/20 – 2021/22 is 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. The pursuit of the strategic directions and actions that will be set out in the national planning documents soon to be completed (in the Vision 2040 document and the first Medium Term Development Strategy towards the pursuit of the outcome reflected in the Vision Document) requires us to expand revenue and expenditure if we are to progress at an acceptable desired pace. Given the aggregate financial targets, much attention will therefore have to be paid to arriving at means to increase fiscal revenue and to derive a revenue generation regime that balances the principles of efficiency, equitability and fairness. TCIG will fully consult with the all stakeholders on these matters. Additionally, much efforts will be made to facilitate optimal economic growth as part of the strategy to increase revenue.

Table 7- Central Government's Budget Aggregates

	Unaudited		Projections				Totals
	Actual	Actuals	Estimate				
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Recurrent Revenue	262,951	262,099	273,097	274,297	282,526	291,002	1,645,972
Per cent of GDP	27.39%	25.70%	25.05%	25.16%	25.92%		
Recurrent Expenses	(196,259)	(208,697)	(242,206)	(233,619)	(239,460)	(245,446)	(1,365,688)
Per cent of GDP	20.44%	20.46%	22.22%	21.43%	21.97%		
Underlying cash balance	66,692	53,402	30,891	40,678	43,066	45,555	280,285
Per cent of GDP	6.95%	5.24%	2.83%	3.73%	3.95%		
Total Revenue	267,100	282,919	279,597	280,397	283,226	291,702	1,703,057
Per cent of GDP	27.82%	27.74%	25.65%	25.72%	25.98%		
Total Expenses	(207,873)	(218,270)	(252,866)	(243,919)	(239,607)	(245,446)	(1,407,982)
Per cent of GDP	21.65%	21.40%	23.20%	22.38%	21.98%		
Net operating balance	59,227	64,649	26,731	36,478	43,619	46,255	295,074
Net capital investment	(28,424)	(19,297)	(37,148)	(20,000)	(20,000)	(20,000)	(144,868)
Fiscal balance	30,803	45,352	(10,417)	16,478	23,619	26,255	132,090
Per cent of GDP	3.21%	4.45%	-0.96%	1.51%	2.17%		
GDP	960,000	1,020,000	1,090,000	1,090,000	1,090,000		

Source: GDP Data -SPPD

Table: prepared by Budget Office



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Recurrent receipts of \$273.1 million or 25.0 percent of GDP are expected to be approximately \$11.4 million higher in 2018/19 than the unaudited outturn 2017/18 and on par with the original estimates for 2017/18. Non-recurrent revenue is \$6.5 million. Total revenue is \$279.6 million or 25.7 percent of GDP. The forward years' outlook is compounded by 3 percent.

Recurrent expenditures of \$242.2 million or 22.2 percent of GDP are expected to be approximately \$33.5 million higher in 2018/19 than the unaudited actuals 2017/18 and \$24.4 million above the original estimates for 2017/18. Total expenditures are \$252.9 million or 23.2 percent of GDP. Recurrent expenditures growth is planned at 2.5 percent. Recurrent expenditure in 2019/20 - 2021/22 is \$243.9; \$239.6; \$245.5 million respectively. Net Capital Investment for 2016-2022 is \$144.9 million. \$37.1 million has been allocated for 2018/19 and \$20m for each successive year thereafter.

Table 8- Net Worth, Net Financial Worth, Net Debt and Net Interest Payments

	Actual	Unaudited		Projections		
	2016-17	Actuals 2017-18	Estimates 2018-19	2019-20	2020-21	2021-22
		\$m	\$m	\$m	\$m	\$m
Net debt(\$m)	73,426	23,290	25,955	1,725	(29,205)	(61,449)
Per cent of GDP	7.65%	2.28%	2.38%	0.16%	-2.68%	
Net Interest payments	1,260	985	700	343	150	-
Per cent of GDP	0.13%	0.10%	0.06%	0.03%	0.01%	-
GDP	960,000	1,020,000	1,090,000	1,090,000	1,090,000	-

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 percent of core revenue; Net Government Debt is forecast to reduce to \$26.0 million in 2018/19; 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 percent.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Table 9- Summary of Turks and Caicos Islands Government General Government Sector Cash Flows

	Audited	Unaudited	Estimate	Projections		
	Actuals	Actuals		2019-20	2020-21	2021-22
	2016-17	2017-18		2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts						
Recurrent Revenue/ Operating cash receipts	262,951	262,099	273,097	274,297	282,526	291,002
Non Recurrent Receipts	4,149	20,820	6,500	6,100	700	700
Total cash receipts	267,100	282,919	279,597	280,397	283,226	291,702
Cash Payments						
Recurrent Expenditure/Operating cash payments	196,259	208,697	242,206	233,619	239,460	245,446
Non Recurrent Expenditure	11,615	9,573	10,660	10,300	147	-
Capital Expenditure	28,424	19,297	37,148	20,000	20,000	20,000
Total cash payments	236,297	237,567	290,014	263,919	259,607	265,446
Underlying cash balance	66,692	53,402	30,891	40,678	43,066	45,555
Per cent of GDP	6.95%	5.24%	2.83%	3.73%	3.95%	
Fiscal Balance	30,803	45,352	(10,417)	16,478	23,619	26,255
Per cent of GDP	3.21%	4.45%	-0.96%	1.51%	2.17%	
GDP	960,000	1,020,000	1,090,000	1,090,000	1,090,000	-

Source: Budget Office

An underlying cash balance, which is the net recurrent cash flow, is projected at \$30.9 million or 2.8 percent of GDP in 2018/19. It is expected to continue to improve into 2019-20 to a surplus of \$40.7 million or 3.7 percent of GDP; 2020/21 -\$43.0 million or 4.0 percent; 2021/22 - \$45.6 million.

Fiscal balance/Operating Deficit, which is the net cash flow after capital expenditure, is projected at \$10.4 million or 1 percent of GDP in 2018/19. It is expected to continue to improve into 2019/20 to a surplus of \$16.5 million or 1.5 percent of GDP; 2020/21 -\$23.6 million or 2.2 percent; 2021/22 - \$26.3 million.

Turks and Caicos National Wealth Fund (TCNWF)

During the 3rd Quarter of the 2017/18 fiscal year the Turks and Caicos National Wealth Fund was enacted into law under the Turks and Caicos National Wealth Fund Ordinance 2017. The Fund shall not form part of the Consolidated Fund and shall be kept in a separate account by the Accountant General. When the Fund reaches 25 percent of the gross domestic product, the operational management of the Fund shall be transferred to a body corporate to be created by statute. The Fund will be administered by the Minister in accordance with the advice and



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

recommendations received from the Board and external investment manager, from time to time. There are three components to the act: Stabilisation Fund; Infrastructure and Competitiveness Fund; and Heritage Fund.

The National Wealth Fund will be funded through: surplus revenue deposited into the Fund and assets acquired and earned from investments. The Ordinance provides for funds to be transferred to the Fund under the following guidelines:

Where in any financial year the actual revenue exceeds the estimated revenue by—

- (a) 5 percent but is less than 20 percent, then 50 percent of the excess of the revenue for that financial year shall be withdrawn from the Consolidated Fund and deposited to the Fund;
- (b) or 20 percent or more, 70 percent of the excess of the revenue for that financial year shall be withdrawn from the Consolidated Fund and deposited to the Fund.

The funds in the Stabilisation Fund may be withdrawn when the amount of funds accumulated is equal to 25 percent of the gross domestic product in the following circumstances—

- (a) where in any financial year an external economic shock or a natural disaster negatively impacts the collection of recurrent revenue so that the revenue collection falls below the level collected in the base year;
- (b) where in any financial year the amount of shortfall in recurrent revenue is more than 20 percent of the level collected in the base year;
- (c) where the fall in revenue results in a fiscal deficit; and
- (d) where any available accumulated surplus in the Consolidated Fund has been exhausted.

It is proposed that an initial sum of \$8 million will be Appropriated in the 2018/19 financial year. In future, calculations of the annual appropriations to the Wealth Fund will be appropriated at the closure of each financial year.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

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. In 2018/19, the investment plan will focus on rebuilding or replacing Government assets in the education and health sectors along with critical road infrastructure. The flagship priorities are, border control, correctional services, project execution and delivery and social welfare. There will also be a thrust to strengthen primary healthcare, which will incrementally reduce the costs for secondary health care through the Treatment Abroad Programme (TAP).

Spending priorities will be pursued subject to remaining 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 encourage private investments and job creations. The Government is committed to implement measures to remain on 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. At this juncture, the fiscal management thrust is to continue to restrain the growth of recurrent expenditure in order to allow optimal spending on infrastructure upgrade. The forward year's assumption is that recurrent expenditure will increase marginally by 2.5 percent.

Recurrent Expenditure new spend proposals from Ministries Department and Agencies for the fiscal year, totaled, \$35.0 million including, new staffing needs of 170 posts totaling \$8 million.

New requests for the ongoing corruption trials and civil recovery was \$9.6 million; increased allocation to the Ministry of Health for the Treatment Abroad Programme (TAP), plus contractual obligations for the two hospitals totals -\$10.1 million; other Ministry of Health Priorities \$4.0 million; \$2.5 million to strengthen border control and security; \$0.5 million from the Integrity Commission to improve governance; citizen security - \$1.0 million; Social Welfare \$1.1 million; Disaster Mitigation \$0.8 million; execution and delivery of infrastructure programme (staffing and minor capital support)-\$3.2 million.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Given the existing constraints on recurrent revenue streams, the fiscal space for new spending approval for the 2018/19 fiscal year is \$33.6 million. Unavoidable prioritized new spend to support existing initiatives, totaled -\$20.5 million.

- Corruption Trials - Prosecution and defense costs for the ongoing \$8.9 million
- Civil Recovery \$0.7 million;
- Health Care Costs – Treatment Abroad Program - \$7.0 million
- Health Care Costs – Contractual Obligations - \$2.5 million
- Professional Consultancy – Ministry of Finance -\$0.5 million
- CCRIFF Insurance - \$.03 million
- Repatriation -\$0.3 million
- Development Officers - \$0.2 million;

Table 10-Baseline Budget Ceiling

	2018-19	2019-20	2020-21
	Budget Ceiling	Forward Estimates	Forward Estimates
	000	000	000
Budget and Forward Estimates (rolled forward from 2017/18 budget document)	256,376	247,526	247,526
+ Forward Year Impact of 2017/18 Post-Budget Decisions	20,470	19,906	10,306
+ Forward Year Reduction in Development Fund	(1,993)	(10,225)	(10,225)
+ Adjustment of inflation (2017/18 budget prices)	-	-	-
+ Adjustment of New Spending Requests Approval	15,155	5,279	3,843
2018 /19 BASELINE BUDGET CEILING	290,007	262,486	251,450

Source: Budget Office

The remaining \$15.2 million will be allocated to fund new initiatives in the flagship priorities that are discussed below:

1. Recovery/Rebuilding Efforts

Resources allocated for this area will support the delivery of the Recovery Plan which will see the recruitment of critical staff to support the rebuilding of critical Government infrastructure inclusive of schools, government offices and shelters. The recent Climate Change Statement provides for all policies and projects to be guided by the need to rebuild better and stronger. Additional resources will be allocated to support public awareness campaigns and training of staff, registered volunteers. Resources allocated for this area will support the delivery of the Recovery Plan which will see the recruitment of critical staff to support the rebuilding of



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

critical Government infrastructure inclusive of schools, government offices and shelters. The recent Climate Change Statement provides for all policies and projects to be guided by the need to rebuild better and stronger. Additional resources will be allocated to support public awareness campaigns, training of staff and registered volunteers, the complete replenishment of hurricane stock and supplies and continued debris management.

The Ministry of Finance has engaged Caribbean Centre for Development Administration (CARICAD) to develop the recovery plan for the islands. The plan is expected to be completed by mid-June 2018.

2. Border Control and Employment Services

Border protection is critical to the protection of citizens, residents and visitors. It is recognized that the Country's social resources continue to be strained with the burden of illegal migration. There are agreements and continued dialogues with foreign governments and other regional agencies for collaboration on matters of border protection and illegal migration. Further the Ministry has signed on to the APIS Agreement and underwent training in same to assist in the achievement of its efforts in border management. The Ministry is engaged in the commissioning of an integrated border management system as a comprehensive approach to information and intelligence management for the control of immigration. Moreover, efforts are being placed to the development of a migration framework that is feasible. This framework will ensure that it benefits the Turks and Caicos Islands and the migrant population while unintended consequences are minimized, mitigated or redressed so that there is an overall net benefit to the Turks and Caicos Islands. However, these measures must be supported by well-resourced, highly-skilled and trained personnel who are well equipped to execute the mandate with which they are entrusted. The new resources are to assist the Ministry to meet the needs and expectations of the public, improving the timeliness of the issuance of documents, enhancing the management of migration including the detection, repatriation and deportation of illegal immigrants, developing local human capital, improving institutional capacity as well as improving the collection of revenue.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

3. Social Welfare and Gender Inequalities

There is the urgent need to restructure the Social Development Department to create specialist departments which will improve efficiency and better management of resources. This will also enable the development of expertise and capable interventions in critical areas and improve the Department's ability to achieve its mandate. The additional resources given to the Ministry will support the restructure of the Department and impending legislative changes, to ensure that it is better able to serve its clientele through its new Children's Unit, Welfare and Benefits Unit and Probation and Parolees Unit (the latter to assist with the rehabilitation of offenders through the implementation of 'A Chance for Change' Programme.

4. Correctional Services

The cadre at the correctional services will be increased by ten (10) staff, to allow for the ratio between prisoners and correctional officers to be reduced in line with established correctional services quality assurance standards. Additional resources will begin the Government's Strategic Plan to Upgrade HM Prison to modernize the buildings/Wings with a strong focus on rehabilitation.

5. Primary Health Care

Given the spiraling costs of secondary and tertiary health care, there will be introduced a new healthcare strategy to shift spending over time to primary health care with a stronger focus on prevention. This health care strategy will strengthen the primary health care programme. It will focus heavily in promoting and educating the population on healthy lifestyle initiatives: proper nutrition and exercise, screening to detect and prevent the transmission of certain diseases. It is hoped that with this initiative in the medium term, the costs for secondary health care will be reduced and the allocation for the primary health care programme will be increased.

6. Project Execution and Delivery

There exists capacity constraint in the ministry that is responsible to deliver the public investment plan, resulting in less than 50 percent delivery of key projects in each fiscal year over the last five (5) years. The allocations that are being awarded will assist with the recruitment of suitable, qualified staff to assist with the normal Capital Program as well as the recovery projects. Also, resources are being allocated for the continuous maintenance Government facilities based on the Government's newly introduced Maintenance Policy that supports a strategic approach to the maintenance and repairs to TCIG's assets.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Table 11-Budget Allocations by Ministry

Ministry	2018/19				% of Total Expenditure	2019/20	2020/21
	Baseline Budget Ceiling R/F from 2017-18	Post Budget Decisions	New Spend Approvals	Revised Based Line Ceiling		Forward Estimates	Forward Estimates
	'000	'000	'000	'000		'000	'000
Office of the Governor	5,984	66	1,047	7,097	2.4%	315	315
Police	21,174	3,800	100	25,074	8.6%	3,900	100
Attorney General's Chambers	5,449	700	234	6,383	2.2%	751	51
Judiciary	4,051	5,100	1	9,152	3.2%	5,101	(359)
Statutory Charges	55,484	6,255		61,739	21.3%	(742)	(912)
Ministry of Border Control and Employment Services	8,254	300	1,122	9,677	3.3%	1,146	646
Ministry of Finance, Trade and Investments	19,126	505	605	20,236	7.0%	1,198	1,198
Office of the Deputy Governor	2,373		95	2,468	0.9%	132	132
Ministry of Education, Culture, & Library Services	29,204		569	29,773	10.3%	40	40
DPP Office	1,566			1,566	0.5%	(0)	(0)
Ministry of Home Affairs Transportation & Communication	11,353		1,254	12,607	4.3%	1,052	1,052
Ministry of Infrastructure, Housing & Planning	16,510	175	582	17,267	6.0%	671	671
Ministry of Tourism and Heritage	7,067		139	7,206	2.5%	(247)	(247)
Ministry of Health, Agriculture, Sports and Human Services	63,195	9,500	717	73,412	25.3%	11,299	11,299
House of Assembly	3,125	30	22	3,177	1.1%	(99)	(99)
Office of the Premier and District Administrations	2,461		719	3,180	1.1%	733	261
BASELINE RECURRENT BUDGET CEILING	256,376	26,431	7,207	290,014	100.0%	25,251	14,149

Source: Budget Office

Allocation to the Ministry of Health, Agriculture, Sports and Human Services will account for \$73.4 million or 25.3 percent of the national expenditure; Ministry of Education, Youth, Culture and Library Services \$29.8 million or 10.3 percent; Police - \$25.1 million or 8.6 percent; Finance \$20.2 million –7.0 percent; Infrastructure - \$17.3 million or 6.0 percent; Home Affairs -\$12.6 million or 4.3 percent and Governance -\$7.0 million or 2.4 percent. **(The allocations by Ministry are indicative and may be subject to minor adjustments as the budget progresses).**

The 2017/18 unaudited expenditure before capital is \$218.2 million. In 2018/19 the operating expenditure target is \$252.9 million, \$34.60 million or 15.4 percent above the 2017/18. The unaudited outturns are due to the late recruitments of some vacancies, the under-performance of the capital expenditure and other disruptions relating to the tropical cyclones.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Table 12-Operating Expenditure

	Actual	Approved	Revised	Unaudited Actuals	Estimate	Projections	Projections	Projections
Recurrent Expenditure	2016/17	2017/18			2018/19	2019/20	2020/21	2021/22
	000	000			000	000	000	000
Total Personnel Costs	76,155	89,056	83,658	80,751	91,768	94,788	97,158	99,587
Pension and Gratuity	5,892	5,879	5,879	6,361	5,857	6,004	6,154	6,308
Transfers to NHIB	26,562	23,885	35,885	35,885	33,085	33,912	34,760	35,629
Hospital Provisional Charges	20,171	20,699	20,699	20,692	20,741	21,259	21,791	22,336
Subventions	12,924	12,039	11,024	11,523	13,585	13,913	14,261	14,618
Rental of Assets	5,057	5,000	4,955	4,682	4,850	4,971	5,095	5,223
Other expenditure	49,497	61,234	55,867	48,804	72,320	58,771	60,240	61,746
Total Recurrent Expenditure	196,259	217,792	217,968	208,697	242,206	233,619	239,460	245,446
<i>Annual per cent recurrent expenditure increase</i>				6.34%	16.06%	-3.55%	2.50%	2.50%
Non-Recurrent Expenditure	Actual	Approved	Revised	Unaudited Actuals	Estimate	Projections	Projections	Projections
	2016/17	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21	2021/22
Civil Recovery	901	900	773	729	700	700	-	-
SIPT Prosecution	4,341	4,000	3,822	3,254	3,800	3,800	-	-
SIPT Legal Aide	5,114	5,760	5,004	4,605	5,460	5,460	-	-
Debt service, interest and fees	1,260	1,146	1,146	985	700	340	147	-
Total Non-Recurrent Expenditure	11,615	11,806	10,745	9,573	10,660	10,300	147	-
Total Operating Expenditure	207,873	229,599	228,714	218,270	252,866	243,919	239,607	245,446

Source: Budget Office

Staff Costs

Personnel costs will account for \$91.8 million or 36.3 percent of total recurrent and non-recurrent expenditure and 33.6 percent of recurrent revenue in 2018/19. Key vacancies to be added in this financial year are approximately forty-seven (47). (7 Primary Health Care Officers; 3 Truancy Officers; 10 Prison Officers; 1 Hazard Mitigation Officer and 1 Geologist; 8 Officers for Social Development; 4 Border Control Task Force Officers; 2 – Senior Project Managers; 1 Communication’s Coordinator, 4 Officers for Maritime and Environmental Coastal Services; 1 Curriculum Development Officer; 2 Liaison Officers; 4 Case Workers for Border Control and Employment Services and 2 Senior Officers for the Office of the Deputy Governor).

Pension and Gratuity

The Pension and Gratuity allocations for 2018/19 accounts for \$5.9 million or 2.3 percent of total spending or 2.1 percent of recurrent revenue. Included are Civil Servant Gratuity allocation of \$0.7 million and Legislative allowances (Gratuity) for former parliamentarians \$0.2 million. The Government pension scheme was phased out in 2013. Therefore, current pension allocation of



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

\$4.8 million is to cover government pension for civil servants that retired before 2013 and retired parliamentarians. Retirement benefits for civil servants that retires after 2013 is being managed through the National Insurance Board.

Health Care Related Charges –Subvention to NHIP and Treatment Abroad Programme

The subvention of \$33.1 million to the National Health Insurance Plan (NHIP) will be used to subsidize the treatment abroad programme, utility charges for the two major hospitals, health care costs for juvenile and the indigent population. This was given in addition to Hospitals related debt obligations for the construction and equipment contract of \$21.2 million, which would account for 22.5 percent of the Recurrent and Non-Recurrent Expenditures for FY 2018/19. This is in addition to approximately \$38 million that is received in Contribution Income from the insurers on the insurance scheme.

Managing the Health Care costs remains a major focus of the Government. Strategy is to focus on the renewal of the primary health care programme and the updated health care strategy which includes the transfer of responsibility for the Department of Sport to the Ministry of Health for greater synergy in the healthy lifestyle initiative and the newly approved School Nutrition Policy. This will be supplemented with improvements in implementation of adequate internal controls over the treatment abroad programme and the hospitals contract.

An actuarial assessment is underway at the NHIP, the draft report has been issued and is currently being reviewed. The Government is aware that the continuous subsidization of the plan is unsustainable as such, it will await the results of the assessment to determine if there is the need to adjust contribution rates or to adjust the general offering of the programme.

Subvention (Net NHIP)

\$13.6 million or 5.0 percent of total budgeted expenditure will be allocated for subvention to other Government agencies, (Net NHIP).

Special Investigation and Prosecution Team (SIPT)

During the 2017/18 budget cycle it was projected that the Special Investigation and Prosecution programme would be completed by end of the fiscal year. However, the revised projection is for the cases to last an additional two (2) years. The annual costs for the prosecution and defense teams in the ongoing trials is approximately \$9.2 million or 3.4 percent of the national budget.



**TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022**

Allocations for the prosecution team is \$3.8 million and the legal aid for the defense team is \$5.5 million. Other Civil Recovery matters allocated at \$0.7 million.

Other Recurrent Expenditure

Allocation classified as Other Recurrent Expenditure includes: Debt Service Payments of \$0.7 million; General Maintenance costs of \$8.5 million; Utility costs-\$5.4 million; Travel expenses - \$4.0 million; Social Welfare -\$2.0 million. A general contingency provision of \$ 5.0 million or 1.0 percent of recurrent revenue is embedded in the expenditure targets of each year.

The budget will continue to address the following other areas of importance:

- Offering more tertiary education scholarships to students and civil servants targeted at reducing the number of imported skills into the country;
- The updating of curriculum at all levels including the growth in offerings targeted for adult education based on the findings of the Skills Audit in effort to increase skills and address skills shortage
- setting aside excess revenue for the national wealth fund to secure the future of generations;
- continue to encourage and support innovation of small business by issuing government grants to MSMEs;
- citizens' security; and
- fiscal prudence and good governance.

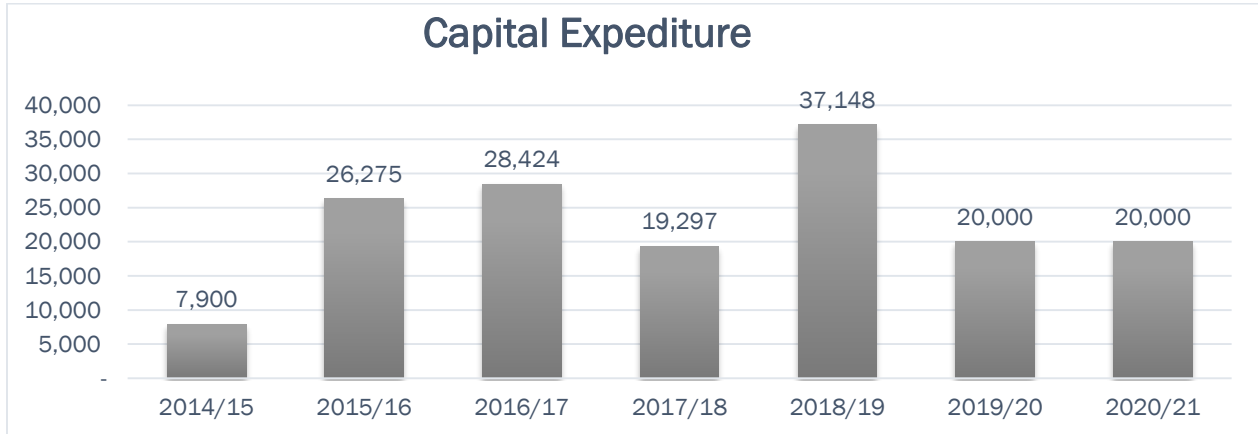
Capital Expenditure

Over the years, strong fiscal discipline has allowed the release of additional funds for infrastructural development. Capital investment for 2014-2021 is \$144.9 million. \$ 37.2 million has been allocated for 2018/19, and the \$20m for the two (2) successive years thereafter; the numbers could be adjusted as it is the Government's intention to borrow resources to supplement the investment programme. However, this initiative will be considered after the Economic Recovery Sub-committee is commissioned and adequate skills are identified on Island to deliver the investment programme annually. The immediate thrust of the investment programme is to restore key sectors that were damaged during the tropical cyclones.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Figure 1 - Capital Expenditure – 7 Years



Strategy 2 - Management of Public Debt

The Constitution sets out many 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 forecast to yield sufficient revenues to fund the additional debt service costs; or (ii) the Government can demonstrate that it has sufficient surplus operating cash flows to fund the additional debt service costs, which arise from borrowing to finance such capital expenditure. It further states that the TCIG 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 after the dates specified or such earlier date by which compliance is achieved; and (iii) put in place arrangements to repay loan principal.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

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 percent by 2015/16. In addition, net debt as percentage of annual operating revenue must not exceed 80 percent by 2018/19, while maintaining debt service at a maximum of 10 percent of annual operating revenue and liquid assets at least 25 percent of annual operating expenditure.

The Government recognizes the significance of managing public debt to keep it at credible and sustainable levels. No new debt has been forecast for the immediate future. A decision on debt will be ensued after the recovery plan for the Islands is completed.

Table 13-Government Debt Schedule at Yearend

GOVERNMENT DEBT	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
RBC 2015-2016	20,000	12,000	4,000	-	-	-
Citibank Commercial Loan	626	-	-	-	-	-
CDB Loans	2,719	1,486	1,164	804	688	-
RBTT Loans	555	-	-	-	-	-
TCI Bank	4,474	3,407	2,340	1,273	-	-
CDB 2015-2016	4,000	3,000	2,000	1,000	-	-
Government Debt	32,374	19,893	9,504	3,077	688	-
Imputed PPP Hospital debt outstanding	81,771	76,553	71,336	66,118	60,901	55,683
TCIAA (Adjusted to FFD 20% weighting)	6,628	4,861	3,093	1,326	-	-
Total Government Debt	120,773	101,307	83,933	70,521	61,589	55,683
Net Debt	73,426	23,290	25,955	1,725	(29,205)	(61,449)
Core Government Debt	(14,973)	(58,124)	(56,474)	(73,719)	(98,106)	(125,133)

Source: Budget Office



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Strategy 3 - Revenue Enhancement Strategy

Policy Decisions on Revenue

The revenue streams were revised in 2013. Business Licences and Duty-Free Royalties were adjusted downward in 2015. The two tropical cyclones that ravaged the Islands in the 2nd Quarter of 2017/18 have underscored the need for a taxation system that is less volatile and susceptible to global, regional and environmental factors, while being fair, equitable and efficient. The Government in the 2018/19 fiscal year will begin consultations to arrive at a more appropriate taxation regime.

No new revenue streams are being introduced in the 2018/19 budget year, however the Revenue Department within the Ministry of Finance, Trade and Investment, under its new leadership, will focus on enforcement and compliance strategies that will improve the yield. In the 2018/19 financial year, the focus will be on pursuing effective strategies to enhance Government revenue by collecting the right taxes at the right time. The main areas of focus will be:

- i. promoting co-operation with internal and external stakeholders to improve compliance in vacation rental by owner sector;
- ii. improving customer service and effectiveness of our compliance activities by adopting a risk-based approach to compliance; and
- iii. leveraging data and online platforms to identify non-compliant taxpayers and assist those who comply. The activities will include:
 - Launching online Application and Renewal of Business License;
 - Launching online Filing and Payment of Hotel and Tourism Tax;
 - Signing of Voluntary Collection Agreement (VCA) with Airbnb to ensure that proper taxes are collected at source and remitted by Airbnb;
 - Signing Memorandum of Understanding with Airbnb for exchange of data;
 - Establishing a risk assessment system to segment taxpayer population, automate audit file selection, and maximize tax recovered by audit activities; and
 - Increasing audit coverage by better allocating audit resources

While it is difficult to quantify additional revenues to be derived from the compliance strategies, of introducing online filing and payment systems, specific economic classifications of revenue could see 5-10 percent increase in revenue. This could translate to additional revenue of \$3.38 million to \$6.77 million based on 2018/19 projected revenues once both phases of online platforms are launched.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

With respect to vacation rental by owner sector, withholding taxes at source is expected to generate significant revenue for the Government. Finally, based on actual 2016/17 audit results 89 audits (coverage) are completed of which only one third result in tax change (33 percent change rate), yielding \$0.8 million in taxes recovered (principal).

Plans are afoot to revamp the audit programme of the Revenue Department to utilize a risk-based approach to select risky clients for audits. The aim is to select riskier files and achieve 66 percent change rate and increase audit coverage by 33 percent to 120 audits. Its projected that, additional tax of approximately \$1.28 million may be recovered because of improved operational efficiency and program effectiveness.

Advanced work has been carried out to improve the financial sector, that we hope will augur well for the future.

The SPPD is forecasting that the economy will experience real GDP growth of 2.5 percent in 2018, as the vital tourism sector rebounds from the disruption caused by the two hurricanes that impacted the islands in 2017 and as the sector continues in an upward path. The Government receipts are conservatively forecasted using the outturn for FY 2016/17 as the baseline. It is recognizing that the revenue growth could be constraint as tourism accommodations operated at maximum capacity during peak periods and near capacity during off peak periods over the last 4 years, (excepting the last quarter of 2017). TCIG will therefore focus efforts to attract foreign direct investment and local investments to expand the room stock in order to sustain economic growth and the growth in fiscal revenue. In doing so we will be guided by our vision and strategies laid out in the Vision 2040 document, the first Medium Term Development Strategy document towards realizing the goals set out in the vision document, and consistent sector strategies and plans.

Tourism Related Receipts

Table 14-Tourism Related Revenue Sensitivity

	Normal Forecast	5% Decline in arrivals/Reduction in Imports	5% Decline in arrivals/Reduction in Imports
Import Duty	70,653	63,373	72,900
Hotel & Restaurant Tax	62,466	57,299	63,330
Customs Processing Fee	30,000	26,758	29,574

In '000

Source: Budget Office



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

For the 2018/19 budget cycle, the major tourism related receipts are projected to return \$163.1 million, which is 59.7 percent of recurrent revenue. Table 14, above illustrates the 2018/19 forecast target at a sensitivity rate of +/-5 percent decline/increase in arrivals/imports.

Table 15- Revenue Targets

Recurrent Revenue	Actual 2016/17 000	Approved 2017/18 000	Unaudited Actuals 2017/18 000	Estimate 2018/19 000	Per. R/R	Projections 2019/20 000	Projections 2020/21 000	Projections 2021/22 000
Import Duty	70,053	71,475	68,042	70,653	25.9%	72,772	74,956	77,204
Hotel & Restaurant Tax	61,545	63,668	59,152	62,468	22.9%	64,342	66,273	68,261
Customs Processing Fee	29,260	29,708	33,525	30,000	11.0%	30,900	31,827	32,782
Stamp Duty on land transactions	27,684	29,409	26,554	27,000	9.9%	27,810	28,644	29,504
Work Permits and Residency Fees	25,902	26,909	23,221	26,212	9.6%	26,998	27,808	28,642
Fuel Tax	9,890	9,672	8,547	9,672	3.5%	9,962	10,261	10,569
Business Licences	2,498	2,085	2,380	2,476	0.9%	2,550	2,627	2,706
Other recurrent revenues	36,118	36,545	40,678	44,616	16.3%	38,925	40,093	41,295
Total Recurrent Revenue	262,951	269,471	262,099	273,097	100.0%	274,260	282,488	290,963
<i>MOF annual per cent revenue increase</i>			-0.32%	4.20%	0.0%	0.43%	3.00%	3.00%
Recurrent Revenue	Actual 2016/17	Approved 2017/18	Unaudited Actuals 2017/18	Estimate 2018/19	Per. R/R	Projections 2019/20	Projections 2020/21	Projections 2021/22
Land Sale Receipts	851	500	692	2,700	1.0%	700	700	700
EU Grants and Other Grants	3,298	4,000	4,843	3,800	1.4%	5,400	-	-
Hurricanes Irma and Maria CCRIF Payout	-	-	15,284	-			-	-
Total Non-Recurrent Revenue	4,149	4,500	20,820	6,500		6,100	700	700
Total Revenue	267,100	273,971	282,919	279,597		280,360	283,188	291,663

Source: Budget Office

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 Companies 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.

In the 2016/17 fiscal year, in the context of the increased demand on the Government treasury to fund "out of control" secondary health care costs, an internal audit to examine the inadequacy of the internal controls and governance structure of the National Health Insurance Plan, was



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

conducted. In 2017/18, an Audit was commissioned to ascertain the true financial position of the Programme, the findings of which will aid in the establishment of controls and policies to improve the Program. Concerned for the contingent liability and the spiraling costs, among other changes that are being considered by the Government to improve accountability, the portfolio responsibility of the National Health Insurance Plan, has been transferred to the Ministry of Finance, Investment and Trade, effective, February 1, 2018. The National Treasury, led by the Accountant General will have oversight responsibility to improve the internal controls of the entity.

Spurred by the findings from the NHIB audit, in the 3rd Quarter of the fiscal year the Government commissioned a review into the operations of all state-owned enterprises to include the self-financing entities and those supported by subventions. The aim of the review was to assess governance structures with a view to strengthening its management and oversight. The results, to include structural and systematic changes and are being discussed by the Cabinet with plans to implement, with immediate effect some of recommendations that came out of the audit.

Other contingent liabilities to Government include the national pension fund that is managed by the National Insurance Board - within the short-medium term, the entity is sufficiently solvent to cover all immediate liabilities. TCIG in the upcoming year will be amending its actuarial assessment to consider legislative allowance to former parliamentarians that have served two terms.

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 then Government decided 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. It was expected that the Airport's Authority would recommenced the remittance of excess surplus to the Consolidated Fund effective 2018/19, however due to the impact of the tropical cyclones on the airports, this may be suspended until 2019/20. The Financial Services Commission is expected to remit at minimum \$2.5 million and the Port's Authority, \$3 million in this fiscal year.



**TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022**

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 to support economic development. A Contract Management Unit has been established to monitor the existing PPP with InterHealth Canada. No new PPPs are being proposed for 2018/19. Requirements of the Framework Document are acknowledged.



**TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022**

**STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)
Operating Surplus**

Table 16-Operating Results 2015-16 and 2016-17

<i>figures in US\$'000</i>	FY2016-17 Actual	FY2016-17 Rev. Budget	FY2015-16 Actual	Actual vs Rev. Budget		Actual vs Prior Year	
Recurrent Revenue	262,951	250,899	258,346	12,052	5%	4,605	2%
Recurrent Expenditure	202,633	214,224	191,762	11,591	5%	(10,871)	(6%)
Net Recurrent Surplus	60,318	36,675	66,583	23,643	64%	(6,265)	(9%)
Non-Recurrent Revenue	4,149	4,750	5,539	(601)	(13%)	(1,390)	(25%)
Non-Recurrent Expenditure	5,241	5,463	4,820	221	4%	(422)	-9%
Operating Surplus	59,227	35,962	67,303	23,265	65%	(8,077)	-12%

Source: Accountant General's Department (AGD)

The operating performance of The Government of the Turks & Caicos Islands has continued to improve. Operating results for the fiscal year showed an operating surplus of \$59.2 million (2016: \$67.3 million), a \$23.3 million (65 percent) improvement from the \$36.0 million projected in the 2016/17 budget. This surplus is before capital expenditure of \$23.5 million (2016: \$11.5 million) and debt repayment of \$11.9 million (2016: \$180.5 million) was accounted for.

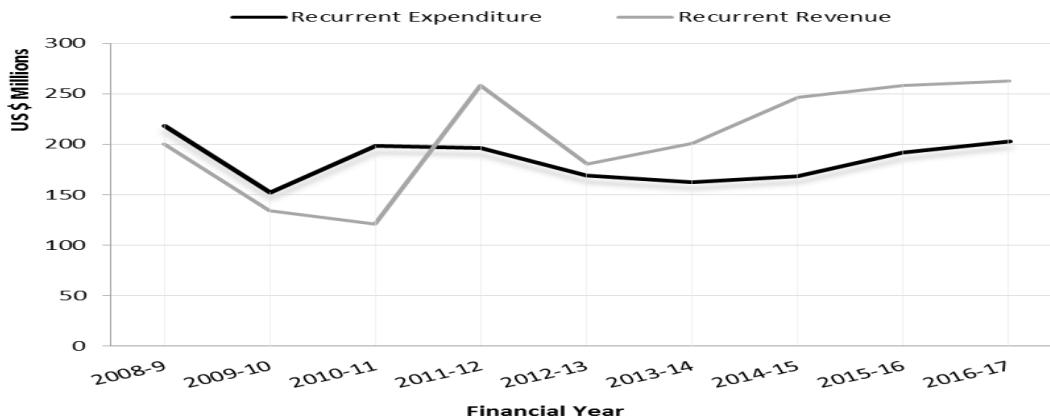


Figure 2 -Recurrent Revenue and Expenditure Source: Accountant General's Department (AGD)

The overall revenue performance was due to increased economic activities, significant improvement in the tourism market as well as improvements in the real estate market. Enhanced compliance and audit review measures employed by the Revenue Department also contributed to the performance.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

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.

Revenue Performance

Table 17- Revenue Summary

figures in US\$'000

RECURRENT REVENUES	FY2016-17 Actual	FY2016-17 Rev. Budget	FY2015-16 Actual	Actual vs Budget	Rev.	Actual vs Prior Year	Prior
Import Duty	70,053	67,590	67,317	2,463	4%	2,736	4%
Hotel and Restaurant Tax	61,544	61,277	58,187	268	0%	3,357	6%
Customs Processing Fee	29,260	28,889	27,988	371	1%	1,272	5%
Stamp Duty on Land Transactions	27,684	23,776	26,850	3,908	16%	834	3%
Work Permits and Residency Fees	17,650	17,097	18,132	553	3%	(482)	-3%
Fuel Tax	9,890	8,415	9,030	1,475	18%	861	10%
Other Revenues	46,870	43,855	50,842	3,015	7%	(3,972)	-8%
Total Recurrent Revenues	262,951	250,899	258,346	12,052	5%	4,605	2%

figures in US\$'000

NON-RECURRENT REVENUES	FY2016-17 Actual	FY2016-17 Rev. Budget	FY2015-16 Actual	Actual vs Budget	vs Rev.	Actual vs Prior Year	Prior
Revenue from Grants	3,298	4,000	4,953	(702)	(18%)	(1,655)	(33%)
Land Sales	851	750	586	101	13%	265	45%
Total Non-Recurrent Revenues	4,149	4,750	5,539	(602)	(13%)	(1,390)	-25%

Source: Accountant General's Department (AGD)

TCIG recurrent revenues for the 2016/17 fiscal year totaled \$262.9 million (2016: \$258.3 million). This represented an increase of \$4.6 million or 2 percent over fiscal year 2015/16 and was \$12.1 million or 5 percent ahead of the budget estimates for the year.

Total revenue for the 2016/17 fiscal year included \$70.1 million (26 percent) derived from import duties; \$61.5 million (23 percent) from hotel and restaurant tax; while \$29.2 million from customs processing fees, \$27.7 million from stamp duty on land transactions and \$17.6 million from work permits and residency fees together accounted for 28 percent of revenues.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Total duties (excluding stamp duty) collected for the year were \$110.8 million (2016: \$106.1 million). This represented an increase of \$4.7 million or 4 percent over last year's results and \$3.0 million over budget estimates. This was due to increased activity in the economy. Total duties include **Import Duties** of \$70.0 million; a \$2.7 million or 4 percent increase from last year which was \$2.4 million, or 4 percent, above budget. **Fuel Tax** increased by 10 percent when compared to last year and was 18 percent over budget. **Customs Processing Fees** also increased over the previous year by 5 percent or \$1.3 million but was in line with the budgeted allocation.

Taxes on goods and services were \$2.6 million higher than budgeted and \$2.2 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. **Hotel and Restaurant Tax** increased marginally over budget and over last year's results by \$3.4 million. **Stamp Duty on Land Transactions** was \$4.0 million or 16 percent above budgeted outturn and \$1.0 million or 3 percent over last year's outturn of \$26.9 million.

Fees, fines and permits of \$26.3 million decreased marginally when compared to last year's results; \$2.0 million below budget. Permits and residency fees of \$22.5 million accounted for 86 percent of the revenue with the major contributor being **Work Permits and Residency Fees** of \$17.6 million. This was \$0.6 million or 3 percent more than budget and 3 percent greater than 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 totaled \$46.9 million (2016: \$50.8 million) which was 6 percent above the budgeted amount, or 8 percent below last year's outturn.

Non-recurrent revenue for the year totaled \$4.1 million (2016: \$5.5 million), 13 percent below budget, and 25 percent less than the previous year. The major contributor to this amount was **Revenue from Grants** which included the final tranche of the 10th European Development Fund grant of \$3.3 million received during the month of March 2017 for budgetary support. **Land Sales** receipts were \$0.8 million, which was above the budgeted outturn and last year's results by 13 percent and 45 percent respectively.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Expenditure Performance

Table 18- Expenditure Summary

figures in US\$'000

RECURRENT EXPENDITURE	FY2016- 17 Actual	FY2016- 17 Rev. Budget	FY2015- 16 Actual	Actual vs Rev. Budget		Actual vs Prior Year	
Total Personnel Costs	82,047	86,216	75,252	4,169	5%	(6,795)	(9%)
Medical Treatment & Transfers to NHIB	26,562	26,580	19,516	17	0%	(7,047)	(36%)
Hospital Provisional Charges	20,171	20,171	23,666	-	0%	3,495	15%
Subventions	12,924	12,693	9,664	(231)	-2%	(3,260)	(34%)
Maintenance Expenses	8,894	9,183	8,194	289	3%	(700)	(9%)
Grants and Contributions	6,652	6,694	5,294	42	1%	(1,358)	(26%)
Other Expenses	45,384	52,687	50,177	7,304	14%	4,794	10%
Total Recurrent Expenditure	202,633	214,224	191,762	11,591	6%	(10,871)	(6%)

figures in US\$'000

NON-RECURRENT EXPENDITURE	FY2016- 17 Actual	FY2016- 17 Rev. Budget	FY2015- 16 Actual	Actual vs Rev. Budget		Actual vs Prior Year	
Special Investigation Prosecution Team (SIPT)	4,341	4,563	3,718	222	5%	(622)	-17%
Civil Recovery	901	900	1,101	(1)	0%	200	18%
Total Non-Recurrent Expenditure	5,241	5,463	4,820	221	4%	(422)	-9%

Source: Accountant General's Department (AGD)

TCIG's expenditure before capital for the 2016/17 fiscal year totaled \$208.1 million (2016: \$196.5 million). This represented an increase of \$11.6 million or 5 percent above the budget estimates for the year while being \$11.5 million or 6 percent below the previous year's outturn.

The total spent during the current fiscal year included \$82.0 million (40 percent) for **Personnel Costs**. **Medical Treatments and Transfers to NHIB** totaled \$26.6 million accounting for an additional 13 percent while **Hospital Provisional Charges** totaled \$20.1 million and made up 10 percent of expenditure.

Almost all expenditure heads were below estimates for the year, the major contributors being **Personnel Costs** of \$82.0 million which were 5 percent or \$4.2 million below budget. This was due mainly to delays in the recruitment process. It is noted however that there was an increase of \$6.8 million (9 percent) over the prior year results.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Transfers to NHIB for the year totalled \$26.3 million. **Hospital Provisional Charges** of \$20.2 million was on par with the budgeted amount but \$3.4 million less than the prior year’s outturn. Improved monitoring of the contractual arrangements resulted in the reduction in the charges when compared to the prior year, a trend which was identified early enough to be reflected in the budget for the year.

Subventions totalled \$12.3 million representing a \$2.6 million or 27 percent increase from last year’s cost of \$9.7 million, while being 3 percent below the budget. The year over year increase is due to budgetary allocations to the newly established Invest Turks and Caicos Agency.

Grants and Contributions totaled \$6.6 million for the year of which \$3.8 million was spent on scholarships.

Other recurrent expenditure for the year totaled \$45.4 million (2016: \$50.2 million) which saw an increase of \$4.8 million or 10 percent from last year’s results, while being \$7.3 million or 14 percent below the budgeted amount.

Finance cost associated with TCIG’s public debt totaled \$1.3 million for the year, which was 36 percent less than the budgeted amount while being \$5.3 million below last year’s outturn. The result represents the non-utilisation of additional borrowing during the current year as well as the repayment of debt during the previous financial year.

Non-recurrent expenditure for the year of \$5.2 million (2016: \$4.8 million) was down 4 percent from the budget estimates while being 9 percent above last year’s outturn. Of this amount **SIPT** expenses accounted for \$4.3 million, which was 17 percent more than last year’s results and 5 percent above the budgeted amount. **Civil Recovery** expenses of \$1.0 million were \$0.4 million more than last year’s outturn while being on par with budget estimates.

Current Liabilities

Table 19- Payables from Exchange Transactions

	31-Mar-17	31-Mar-16
	US \$	US \$
Accounts payable & accruals	1,520	1,849
Refundable deposits	4,016	2,375
Total payables from exchange transactions	5,536	4,224



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Source: Accountant General's Department (AGD)

Current Liabilities as at March 31, 2017 totaled \$17.2 million (2016: \$16.1 million). This comprised of payables from exchange transactions totaling \$5.5 million as well as the principal payments of the debt which is due within FY 2017/2018 in the amount of \$11.7 million (2016: \$11.9 million), seen in table 3 below.

Payables from exchange transactions are non-interest bearing and are normally settled within a maximum of one year. The balances at March 31, 2017 and March 31, 2016 primarily includes accruals for liabilities relating to claims against TCIG, payments for property related transactions and refundable deposits.

Public Sector Borrowings

Table 20- Outstanding Public Debt

Statement of Public Debt	Outstanding Balance 01-Apr-16 US\$'000	Repayment During 2016/17 US\$'000	Outstanding Balance 31-Mar-17 US\$'000	Finance Cost 2016/17 US\$'000	Current Portion 2017/18 US\$'000	Non-current Borrowings 2017/18 US\$'000
Financial Liabilities - Borrowings						
Unsecured						
Caribbean Development Bank	8,170	1,450	6,720	191	2,346	4,375
Citibank Trinidad and Tobago	1,458	833	625	100	625	-
RBC Royal Bank	29,111	8,556	20,556	559	8,556	12,000
TCI Bank Limited	5,542	1,067	4,475	410	1,067	3,408
Total unsecured debts	44,281	11,905	32,376	1,260	12,594	19,783
Total outstanding public debts	44,281	11,905	32,376	1,260	12,594	19,783

Source: Accountant General's Department (AGD)

The Government of the Turks and Caicos Islands debts includes both local and International borrowings. Government outstanding debt stood at US \$32.4 million (2016: \$44.3 million). Total principal debt repayment for the year was \$11.9 million (2016: \$180.5 million) while total finance costs for the year were \$1.3 million (2016: \$6.6 million). There were no new borrowings during the Financial Year. The reduction in the balances from \$44.2 million to \$32.4 million represents the normal amortization of the loans. TCIG continues to repay its debt on time and expects that all current borrowings will be repaid within the next three years.



TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2018- 2022

Contingent Liabilities

Estimates of quantifiable commitments and contingent liabilities stood at US\$0.9 billion as at the end of March 2017 (2016: \$1.1 billion). This amount includes an estimated long-term commitment of \$380.6 million (2016: \$393.5 million) based on the terms of the unitary component of the Inter Health Canada hospital contract as well as estimates for the equipment & clinical portion of the contract which amounts to \$515.6 million (2015: \$571.1 million). This amount also includes the estimated liability for providing pension benefits attributable to years of past service for the TCIG public service in the amount of \$94.4 million as at March 31, 2017.

TCIG is subject to claims and potential claims related to damages to persons and property, breach of contract and similar items. The value of such claims at the reporting date reflected in contingent liabilities is \$15.1 million. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted or is reasonably foreseen. Consequently, no provision for claims has been 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.