

# FISCAL AND STRATEGIC POLICY STATEMENT 2019-2023



Prepared by the Ministry of Finance, Trade and Investment  
Hibiscus Square, Grand Turk  
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**TURKS AND CAICOS ISLANDS**  
**FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)**  
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## **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 FSPS is a planning guide for the Government that is updated annually as the Government's flagship priorities change or the financial and economic position of the Islands improve. The aim is to have flexibility in response to changing economic conditions. The revision in the projections for FY 2019-20 are necessary to recognize a faster than expected recovery of the tourism sector following the tropical cyclones and expanded growth activities in the hotel and restaurant, real estate and construction sectors. In particular, construction activity is forecast to be propelled by foreign direct investment in large-scale tourism related and other projects.

The Government has developed 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 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

In the medium-term the fiscal strategy will continue to focus on credible management of government spending to ensure that there are budget surpluses over the course of the economic



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cycle whilst continuing to improve on the substantial fiscal position. Critical success factors will include boosting productivity and work force participation. The strategic focus in this fiscal year continues to be the economic recovery of the Islands, whilst simultaneously pursuing the sustainable development dimensions (SDDs) that will provide a stronger and more prosperous future for all. The aim is to continue 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. The Turks & Caicos Islands Government (TCIG) will continue to restrain the growth in recurrent expenditure/fixed costs, while expanding capital expenditure.

The 2018/19 fiscal year is forecasted to close with operating surplus of \$46.5 million before debt repayment of \$10.4 million. The recurrent revenue is forecasted to exceed the original budget expectations by \$15.2 million due to higher revenue intakes in tourism, and real estate sectors. Recurrent and Capital Expenditures are forecast to fall below the original budget by \$18.6 million and \$20.3 million respectively. The lower than expected recurrent expenditure performance is as a result of the late passage of the Appropriation Ordinance for 2018 and the challenge in identifying suitable qualified staff. There continues to be challenges in delivering the Government planned investment package.

In 2019/20, Government receipts are forecasted at \$301.0 million and Government expenditure before capital at \$254.2 million. The Government has committed a further \$39.0 million of new funding for the capital investment plan to continue to focus on the islands recovery and resilience. The \$39.0 million, is in addition to the \$36.7 million of funded projects for 2018-19 that are in progress and may roll forward into 2019-20.

An operating surplus of \$7.9 million is anticipated for the fiscal year. The operating surplus will allow the Government to meet its debt obligations. The forecast is for operating surpluses of \$31.3million, \$33.8 million and \$39.5 million in 2020-21, 2021-2022 and 2022-2023 respectively.

The Government is minded to establish a Department of Trade and a Department of Housing, subject to the approval of the Cabinet. Spending allocations have been prioritized for these departments. improving the work environment of public servants including the implementing a merit-based increment system.

New debt of \$0.673m is being forecast for the 2019-20 fiscal year.



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The Government has made an initial transfer of \$8 million to the National Wealth Fund in the 3<sup>rd</sup> Quarter of 2018-19. Future transfers to the Fund will be determined after the close of each fiscal year in accordance with the Legislation.

Planned results show that all the debt sustainability ratios agreed between the governments of the TCI and UK would remain in compliance throughout 2019-20 and the immediate forward years.



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**ECONOMIC OUTLOOK**

**International Economy**

According to the IMF in its October 2018 edition of the World Economic Outlook, global economic activity is projected to remain at 3.7 percent in 2018 and 2019. This is 0.2 percentage point below the world economic outlook forecast in April 2018. Growth in the advanced economies will remain well above trend at 2.4 percent in 2018 before softening to 2.1 percent in 2019. In regards to the forecast for 2020:

*“Global growth is expected to remain steady at 3.7 percent in 2020, as the decline in advanced economy growth with the unwinding of the US fiscal stimulus and the fading of the favourable spillovers from US demand to trading partners is offset by a pickup in emerging markets.”*

Table 1- International Assumptions

	<i>Outturn</i>		<i>Projections</i>	
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>World Growth</i>	3.7	3.9	3.7	3.7
<i>US</i>	2.2	2.9	2.5	2.5
<i>Canada</i>	3.0	2.1	2.0	2.0
<i>UK</i>	1.7	1.4	1.5	1.5
<i>China</i>	6.9	6.6	6.2	6.2
<i>Euro Area</i>	2.4	2.0	1.9	1.9
<i>Latin America and the Caribbean</i>	1.3	1.2	2.2	2.2
<i>Emerging Markets and Developing Economies</i>	4.7	4.7	4.7	4.7
<i>Low-income Developing Countries</i>	4.7	4.7	5.2	5.2

Source: IMF World Economic Outlook – October 2018



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Growth in the emerging markets and developing economies is expected to remain steady at 4.7 percent over the period 2018 -2019 and should rise modestly over the medium term.

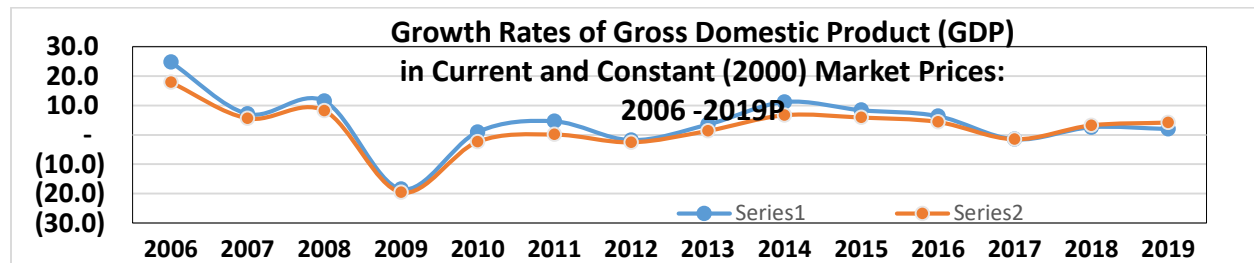
Growth in the advanced economies are projected to increase by 2.4 percent in 2018 which is marginally faster than 2017, and is expected to expand by 2.1 percent in 2019. Growth is now expected to peak at 2.9 percent in 2018 and soften to 2.5 percent in 2019 in the USA, which is the Turks and Caicos Islands major trading partner. The forecasted growth for 2019 is 0.2 percentage point down from the IMF April 2018 forecast and can be attributed to the recently introduced trade measures in the USA. However, as the fiscal stimulus begins to unwind, growth is expected to drop to 1.8 percent in 2020.

The Canadian economy is expected to grow in 2018 at a rate of 2.1 percent and 2.0 percent in 2020. In the United Kingdom, growth is projected to slow to 1.4 percent in 2018 and 1.5 percent in 2019. In the overall euro area which include the UK, growth is projected at 2.0 percent in 2018 and should gradually slow further to 1.9 percent in 2019. In the emerging and developing economies, growth is expected to remain steady at 4.7 percent in 2018-2019, and to rise modestly over the medium term. China and India are expected to grow at 7.3 and 6.6% respectively. These growth rates are lower than in the recent past. According to the IMF, growth in the Caribbean is forecasted at 4.4 percent in 2018 and 3.7 percent in 2019.

**Domestic Economy**

Preliminary projections on key economic indicators for 2018 reveal; real GDP growth of 2.6 percent, inflation is projected to increase slightly by 0.1 percentage point, to 2.2 percent in 2018, up from 2.1 percent in 2017. The real estate sector and the construction sector are all expected to contribute positively towards the economic growth for the TCI in 2018 and 2019.

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



Source: Statistics Department



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The Statistics Department, has indicated that the real GDP projection of 3.2 percent for 2018 has been revised downwards slightly to 2.5 percent, which is 0.7 percentage point below what was earlier forecasted. This revision takes into consideration the slow pace in the execution of the forecasted public and private sector construction projects in 2018. This revised growth rate is also in line with emerging market growth rates. The economy however remains stable and future projections are for continuous positive growth as projects that are currently in the pipeline begin to materialize. Thus, providing spin-off going forward for the construction sector and the tourism sector.

Growth is forecasted for the construction sector as well as other sectors. It is forecasted that the hotel and restaurant sector will expand by 3 percent, the real estate sector will expand by 3.7 percent, the agricultural and fishing sector will expand by 2 percent and transport sector will expand by 2 percent in 2019.

Construction activity is expected to increase significantly in 2018 with even further growth prospects in 2019. This activity will be propelled by foreign direct investment in large-scale tourism related and other projects.

These will be complemented by increased public sector spending on capital works, as the Government find ways of ensuring that the capital budget is executed. The capital program is currently improving and a number of large-scale capital projects are now at the contract awarding stage. This sector will be boosted by projects funded from the TCIG/Carnival Infrastructure Fund. The variation of these growth projections from the actual outturn will depend on the strength of the US economy.

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 below, despite the devastation caused by the two hurricanes in 2017, the TCI's economy has rebounded and is set to achieve sustained economic growth going forward. The local economy is back on the path to sustainable growth, led by the tourism sector. The TCI will continue its efforts to sustain the country's international competitiveness in the tourism industry and the segments of the industry. Despite all of the challenges over the years the TCI brand of tourism however remains strong but efforts will continue to improve its quality and to keep it ahead of the competition.



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Table 3- Domestic Macroeconomic Assumptions

	Actuals	Actuals	Actuals	Actuals	Forecasts	Projections
	2014	2015	2016	2017	2018	2019
Nominal GDP (bill. US\$)	0.82	0.89	0.95	0.96	1.01	1.09
Nominal GDP Growth (%)	11.2	8.4	6.4	1.3	4.7	6.6
Real GDP (%)	6.7	5.9	4.4	-1.5	2.5	3.8
CPI (%)	2.3	2.2	2.0	2.1	2.1	2.2
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	24,366	25,380
Value of Imports (\$)	406.3	409.7	389.3	432.6	454.2	499.6
Exports (\$)	6.5	4.6	4.5	2.3	6.9	7.5
Balance of Trade	-407.6	-405	-384.8	-430.3	-451.7	-492.1
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

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 2018. Real GDP is projected to have increased from \$522.8 million in 2009 to \$671.2 million in 2019, 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, 3.8 percent in 2019 and see further increases in 2020 and 2021. Real GDP per capita is projected to have increased from \$14,522 in 2009 to \$15,626 in 2019, representing an average annual growth rate of approximately 2.0 percent. Real GDP per capita is however forecasted to decline by 1.5 percent in 2018 to \$15,738 as the population increases.



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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	650.93	15,738
2019	671.20	15,626
2020	684.62	15,370

Source: Statistics Department

The differential in the growth rates between real GDP and real GDP per capita, indicate that the population growth rate was lower than the GDP growth rate over the period excepting 2017. The economy of the TCI is relatively small in comparison to other economies. The human resource base is narrow, natural resources are extremely limited and its domestic market over the years have 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 relies 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.



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## **Construction**

Construction activity increased slightly in 2018. It is projected however to show significant growth in 2019 and steady growth going forward. The rebuilding activities which started in 2017 has increased significantly in 2018, as persons and businesses repair their properties which were destroyed by the two hurricanes in 2017. This should continue in 2019 and will be complemented by other private sector developments. As a result of increases in both public and private sector spending, domestic demand should increase. Private investments will increase as more businesses and individuals continue their reconstruction activities. In addition, the Government has more than \$12 million in projects which have already been contracted and more than \$38 million in new projects for the current fiscal year, with additional projects to be added in the next fiscal year, which will greatly impact the performance of the construction industry going forward.

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. These will be complemented going forward by the increased public sector spending on capital works, which include rebuilding old schools, building new schools, a number of road works throughout the TCI, repairing other government building which were badly damaged or destroyed by the hurricanes, projects funded from the Carnival Infrastructure Fund, as well as other government projects. The real estate sector is also forecasted to grow in 2018 and should see continuous growth over the next 3 years.

Despite a forecast of a slight increase of 1 percent in the unemployment rate for 2018, employment conditions are expected to gradually improve, while inflationary pressures should continue to be well contained in the region of 2.0 to 2.3 percent over the near-term, as international oil prices remain relatively low. The Statistics Department has therefore forecasted that based on the current economic climate, unemployment which stood at 6 percent in 2017 will increase slightly in 2018 to 7 percent but will decline to 6 percent over the next few years as more employment opportunities become available in the construction sector and more of the large-scale hotel projects are completed.



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### **Agriculture and Fishing**

The Agriculture and Fishing sector experienced a decline in 2017 due to fishermen not being able to engage in much fishing activities during the month of September and other periods of bad weather. The Department of Statistics is however forecasting slight growth in this sector in 2018 and 2019.

### **Tourism**

Preliminary indications by the Tourist Board are that stay-over arrivals into the Turks and Caicos Islands increased by approximately 10 percent during the first 6 months of the fiscal year when compared with the same period in 2017. Cruise ship passenger arrivals for the first half of 2018 increased by 17.7 percent over the same period in 2017.

The tourism sector is the major contributing sector to the Turks and Caicos Islands GDP. The Statistics Department is forecasting that the hotel and restaurant sector, which grew in 2016 by 4.0 percent and declined significantly in 2017, will return to positive growth in 2018 and 2019. This sector continues to be the main pillar of the TCIs economy and made a major turnaround during the period leading up to 2016 but contracted in 2017. This decline was mainly due to Hurricanes Irma and Maria which forced the complete closure of major hotel properties and villas, along with the cancellation of flights to the Turks and Caicos Islands during the months of September to December 2017. The increase in the hotels and restaurants sector reflects an increase in the number of stay-over visitors, mitigated by an increase in the cost of a room per night. Beyond the slight increase in 2018 due largely to the recovery from the impact of the hurricanes, major increases in 2019 and future years are anticipated, as more rooms are added to the hotel stock.

### **Trade**

Preliminary data shows that the Turks and Caicos Islands Merchandise imports increased by approximately 26.9 percent during the first 9 months of 2018 when compared with the same period in 2017 and this largely associated with reconstruction and other recovery activity in the aftermath of the two hurricanes. Merchandise imports during the first 9 months totaled approximately \$365.3 million in 2018, when compared to \$287.9 million during the same period in 2017. Exports from the TCI during this period were valued at \$4.5 million when compared



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to \$1.5 million during the same period in 2017. This resulted in an overall merchandise trade deficit of approximately (\$360.7) million in 2018 and an increase in the overall trade balance. The dismal export performance reflects primarily the narrow range of goods exported from the Turks and Caicos Islands. Imports related to construction materials, on the other hand will rise as the reconstruction process continues and new projects are implemented. The value of imports increased by 24 percent for the first half of the 2018 fiscal year. This increase is led by an increase in construction material.

### **DOWNSIDE RISK**

Despite the positive sentiment on global economic growth prospects and the TCI growth outlook, the TCI is always mindful that there are ranges of downside risks, which can lead to growth prospects in the Turks and Caicos Islands not materializing. Adverse developments in the US economy (major source of TCI tourist arrivals) will have a negative impact on the economy. An increase in unemployment in the USA, along with potential “trade wars” between the USA and other major countries can affect the economy negatively. These activities may diminish the prospects for the availability of external financing for private sector projects which will hinder growth in the construction industry, affecting negatively on the flow of foreign direct investment into the Islands. In recent years there has been an increase in criminal activities which has led to the US Embassy issuing travel warnings for their citizens while visiting the TCI. Continued persistent increases in criminal activities will therefore have a negative impact on the tourism sector and will lead to a decline in the overall economic performance as a consequence.

There is always the risk of other unforeseen global financial or macroeconomic shocks, which triggers another economic downturn. Other growth-constraining factors should also surface; in particular, increase in fuel costs, global terrorism and global public health concerns. Inherently, the threat of hurricanes during the period June to November, which can lead to flight cancellations and hotel closures should also be taken into consideration. Despite the many risks, the TCI is poised to manage these risks by continued strengthening of the macroeconomic policy making framework; the further development of public sector investment programs, within the framework of a development strategy for the medium term and enhanced private sector development. Nonetheless, with a positive trajectory assumed for the primary markets we are confident that the TCI economy will continue to improve and will experience positive economic growth over the next few years.



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## **OUTLOOK FOR 2019**

Despite the two hurricanes which greatly impacted the TCI in 2017, preliminary information suggests that the domestic economy stabilized during the first half of 2018. This can be directly attributed to the fiscal measures implemented by TCIG over the past years, which has resulted in a stable and robust economy which is better able to adjust to shocks. Also, the investments and proposed investments of the private sector immediately after the hurricanes helped in restoring the production capacity of the Islands. There were several varied-scale foreign investment projects, along with ongoing rebuilding works in the aftermath of Hurricanes Irma and Maria, which bolstered activity in the construction sector. Most of the major hotel and villa properties were able to complete repairs and open in time for the 2018 tourism season. Also, the recovery process was helped for the most part by the quick settlement of insurance claims, which helped to mitigate against any further decline in the economic performance. TCI was therefore able to bounce back quickly from the two hurricanes and is once again set to experience economic growth, which is forecasted to average more than 2 percent over the next three (3) years.

The TCI recognizes the importance of maintaining a stable macroeconomic environment which is an important aspect of its future growth and development prospects. Hence, the Government will continue to focus on short-run macroeconomic management, which complements its long-run development policy initiatives.

Invest TCI which is the Investment Promotion Agency for the TCI is focused on ensuring that there is an enabling business environment in the country that allows investors to develop projects which benefit not only themselves but the whole country, and brings new employment, personal income and tax revenue prospects. Invest TCI's investment promotion policy centers not only on attracting new investment but through its aftercare program, seeks to maintain and strengthen old investments which helps in strengthening the economic structure. As a result of mechanisms put in place by invest TCI, both local and foreign investors are expected to find it more appealing to invest and are expected to start doing so accordingly. This will result in an increase in investment activities as a result of the improved confidence in the economy. Employment opportunities are also expected to increase steadily over the next few years as a result of increased demand for services provided in, among others, the tourism, construction, fisheries, and other sectors. The small and medium enterprise (SME) sector is an integral part of the economy and will play a vital role going forward. Projects and initiatives are continuously being



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carried out with the objective of further developing startups as well as established companies willing to grow their business further. The Center for Entrepreneurial Development (CED) is an example of one of these initiatives. This initiative supports local Small and Medium Enterprises (SME) and will contribute to the local GDP through import substitution or job creation in the near future. The expected result of this program would be to have SMEs that are efficiently and effectively managed, thus increasing production and contributing to further economic growth in the TCI.

As a part of the Government's overall sustainable development strategy going forward targeted sectors within the TCI economy will be stimulated. The Government is now in the process of implementing the recommendations in the National Tourism Strategic policy and strategic implementation plan, which will allow the further development of the tourism sector. Its main objective of the Strategic plan is to foster sustained increases in the tourism industry's overall contribution to the economy within the next few years and improve the competitiveness of the Islands within the region. The strategic emphasis of the plan seeks to increase tourist arrivals from other destinations, while simultaneously maintaining or increasing the number of arrivals from the United States (US) and Canada which are the main destinations currently. Other reform efforts will be led, and guided, by the Medium Term Development Strategy, which will serve as a platform to develop structural reforms that foster higher and more sustainable economic growth. There are also a number of new projects in the pipeline which is set to start over the next few years and will help to boost construction activity in the short term and activity in the tourism sector in the long term.



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**AGGREGATE FINANCIAL TARGETS**

The aggregate financial targets for core Government operations, that are listed below have been established for the 2019-20 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 Target*

FINANCIAL MEASURES	2016/17	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
	Target	Audited Actuals	Revised	Unaudited Actuals	Approved	Forecast	Estimate	Projection	Projection	Projection
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>OPERATING TARGETS</b>										
Recurrent Revenue	250,899	262,951	269,471	261,416	273,097	288,305	299,990	308,990	318,259	327,807
Non-Recurrent Revenue	4,750	4,149	4,500	20,756	6,500	10,205	1,053	1,053	1,053	1,053
<b>Total Revenue</b>	<b>255,649</b>	<b>267,100</b>	<b>273,971</b>	<b>282,173</b>	<b>279,597</b>	<b>298,510</b>	<b>301,043</b>	<b>310,042</b>	<b>319,312</b>	<b>328,860</b>
Recurrent Expenditure	207,220	196,259	217,968	208,697	239,847	221,276	243,816	248,504	255,459	259,339
Non-Recurrent Expenditure	8,543	11,615	10,745	9,573	5,542	6,444	10,336	251	53	43
<b>Total Operating Expenditure</b>	<b>215,762</b>	<b>207,873</b>	<b>228,714</b>	<b>218,270</b>	<b>245,388</b>	<b>227,720</b>	<b>254,151</b>	<b>248,755</b>	<b>255,512</b>	<b>259,382</b>
Surplus Before Capital Programme	39,886	59,227	45,257	63,903	34,209	70,790	46,892	61,287	63,800	69,478
Capital Development Projects	(36,479)	(28,424)	(20,279)	(19,297)	(36,626)	(16,301)	(39,000)	(30,000)	(30,000)	(30,000)
Transfer In -National Wealth Fund	-	-	-	-	(8,000)	(8,000)	-	-	-	-
<b>Net Operating Surplus</b>	<b>3,407</b>	<b>30,803</b>	<b>24,978</b>	<b>44,606</b>	<b>(10,417)</b>	<b>46,489</b>	<b>7,892</b>	<b>31,287</b>	<b>33,800</b>	<b>39,478</b>
<b>BALANCE SHEET TARGETS</b>	-	-	-	-	-	-	-	-	-	-
Net Government Debt	83,689	73,426	40,974	24,037	26,701	(30,057)	(44,934)	(82,764)	(122,710)	(157,833)
<b>CASH FLOW TARGETS</b>	-									
Opening Cash Balance	27,725	27,725	47,346	47,346	77,270	77,270	113,989	116,127	145,025	178,574
Net Operating Cash Surplus	3,407	30,803	24,978	44,606	(10,417)	46,489	7,892	31,287	33,800	39,478
Other Net Cash Inflows	702	2,069	602	(2,089)	767	619	-	-	-	-
Debt Repayment	(13,405)	(11,905)	(12,593)	(12,593)	(10,389)	(10,389)	(6,427)	(2,389)	(251)	(251)
New Borrowing	20,000	-	20,000	-	-	-	673	-	-	-
<b>Closing Cash Balance</b>	<b>30,429</b>	<b>47,346</b>	<b>80,333</b>	<b>77,270</b>	<b>57,231</b>	<b>113,989</b>	<b>116,127</b>	<b>145,025</b>	<b>178,574</b>	<b>217,802</b>
TCNWF Balances		-		-	8,000	8,000	8,000	8,000	8,000	8,000

Source: Prepared by the Budget Office



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### **Operating Targets**

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

According to table 5, total revenue in 2019-20 is forecast at \$301.0 million - \$2.5 million above forecast outturn for 2018-19 and \$18.9 million above the unaudited actuals of 2017-18.

Total expenditure is forecast at \$293.2 million, an increase of \$41.1 million or 16.3 percent over the forecast outturn or \$3.1 million or 1.1 percent above the approved budget of 2018-19 and \$55.6 million or 23.4 percent above the unaudited actuals for 2017-18. Included in total expenditure is allocation of \$39.0 million for capital expenditure in 2019-20.

Net operating surplus is forecast at \$7.9 million in 2019-20 or 2.6 percent of recurrent revenue; operating surplus of \$31.3 million in 2020-21 or 10.1 percent of recurrent revenue, and \$33.8 million in 2021-22 or 10.6 percent of recurrent revenue and \$39.5 million or 12.0 percent of recurrent revenue in 2022-23.

### **Asset and Liability Targets**

Core government assets and liabilities are reported as targets. Fixed assets are not currently recorded in the Government accounts. Net government debt is \$24.0 million at the end of 2017-18. It is forecast to be negative effective 2018-19.

### **Cash Flow Targets**

Net operating surplus before debt repayment is forecast at \$7.9 million in 2019-20; \$31.3 million in 2020-21, \$ 33.8 million by 2021-22 and \$ 39.5 million in 2022-23. 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 2018-19 is forecast at \$9.5 million, this balance mainly reflects the residual balances from the \$33m refinancing loan of 2015-16. Total principal repayment is forecast at, \$6.4 million in 2019-20 and \$2.4 million in 2020-21. The key



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assumption underpinning the calculations is that new debt of \$0.673m will amortized over 5 years at 4.8 percent. The loan is being proposed to complete consultancy services:

- To develop an Integrated Solid Waste Management Strategy for the islands;
- To prepare a feasibility study of Solid Waste Management Options and detailed engineering and architectural designs for the preferred infrastructure options;
- To develop a related programme of institutional strengthening and capacity building within the Environmental Health Department;
- and to conduct an independent Environmental and Social Impact Assessment (ESIA)

No new loans are being forecast for 2020-21 and beyond.



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**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 2019-20.

*Table 6- Compliance with Principles of Responsible Financial Management*

PRINCIPLES	DEGREE OF COMPLIANCE	
<b>Operating Surplus:</b> should be positive all years Operating Surplus = Total Operating revenue - Total Operating expenditure	<b>Complies in all years</b>	
	2013/14	25,851
	2014/15	67,781
	2015/16	47,395
	2016/17	30,803
	2017/18	44,606
	2018/19	46,489
	2019/20	7,892
	2020/21	31,287
	2021/22	33,800
2022/23	39,478	
<b>Debt Service:</b> 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)	<b>Complies by the end of Fiscal year 2016/17</b>	
	2013/14	17.0%
	2014/15	33.9%
	2015/16	20.4%
	2016/17	6.3%
	2017/18	5.2%
	2018/19	3.8%
	2019/20	2.3%
	2020/21	0.9%
	2021/22	0.1%
2022/23	0.1%	
<b>Net Debt :</b> 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)	<b>Complies in 2014/15 and 2014/15</b>	
	2013/14	130.6%
	2014/15	76.4%
	2015/16	44.5%
	2016/17	33.4%
	2017/18	9.2%
	2018/19	-10.4%
	2019/20	-15.0%
	2020/21	-26.8%
	2021/22	-38.6%
2022/23	-48.1%	
<b>Liquid Cash Reserves:</b> 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	<b>Complies by the end of Fiscal year 17/18</b>	
	<b>(DAYS)</b>	
	2013/14	27
	2014/15	29
	2015/16	53
	2016/17	88
	2017/18	135
	2018/19	201
	2019/20	186
	2020/21	225
2021/22	267	
2022/23	318	
<b>Financial Risks:</b> Should be managed prudently so as to minimise risk	<b>Complies in all years</b>	
Insurance coverage exist for key assets and major potential liabilities. Hurricane and other natural disaster preparedness strategy in place		

Source: Budget Office



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### **Government Operating Surplus**

The compliance target set for operating surplus is that it is to be positive in all years. The forecast is for an operating surplus in 2019-20 and the subsequent three forward 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 negative 15.0 percent of recurrent revenue at the end of the 2019-20 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 one hundred and eighty-five (186) days of planned expenditure as at fiscal year 2019-20. If, the investment portfolio of the TCNWF is changed to long-term, then the liquid cash reserves will change accordingly.



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**FISCAL OUTLOOK**

**Budget Aggregates**

The aggregate financial targets are the basis upon which the 2019-20 budget and the financial outlook for 2020-21 – 2021-23 is prepared. The forward projections are based on a set of medium-term projections which will be adjusted in future forward estimates as necessary. 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.

	Actuals	Unaudited Actuals	Approved	Forecast Outturns	Estimates	Projections			Totals
	2016-17	2017-18	2018-19		2019-20	2020-21	2021-22	2022-23	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Recurrent Revenue</b>	<b>262,951</b>	<b>261,416</b>	<b>273,097</b>	<b>288,305</b>	<b>299,990</b>	<b>308,990</b>	<b>318,259</b>	<b>327,807</b>	<b>1,739,911</b>
Per cent of GDP	27.68%	27.23%	27.04%	28.55%	27.52%	27.84%	27.67%	28.50%	
<b>Recurrent Expenses</b>	<b>(196,259)</b>	<b>(208,697)</b>	<b>(239,847)</b>	<b>(229,276)</b>	<b>(243,816)</b>	<b>(248,504)</b>	<b>(255,459)</b>	<b>(259,339)</b>	<b>(1,382,011)</b>
Per cent of GDP	20.66%	21.74%	23.75%	22.70%	22.37%	22.39%	22.21%	22.55%	
<b>Underlying cash balance</b>	<b>66,692</b>	<b>52,719</b>	<b>33,250</b>	<b>59,028</b>	<b>56,174</b>	<b>60,485</b>	<b>62,800</b>	<b>68,468</b>	<b>357,899</b>
Per cent of GDP	7.02%	5.49%	3.29%	5.84%	5.15%	5.45%	5.46%	5.95%	
<b>Total Revenue</b>	<b>267,100</b>	<b>282,173</b>	<b>279,597</b>	<b>298,510</b>	<b>301,043</b>	<b>310,042</b>	<b>319,312</b>	<b>328,860</b>	<b>-</b>
Per cent of GDP	28.12%	29.39%	27.68%	29.56%	27.62%	27.93%	27.77%	28.60%	
<b>Total Expenses</b>	<b>(207,873)</b>	<b>(218,270)</b>	<b>(245,388)</b>	<b>(227,720)</b>	<b>(254,151)</b>	<b>(248,755)</b>	<b>(255,512)</b>	<b>(259,382)</b>	<b>(1,412,282)</b>
Per cent of GDP	21.88%	22.74%	24.30%	22.55%	23.32%	22.41%	22.22%	22.55%	
<b>Net operating balance</b>	<b>59,227</b>	<b>63,903</b>	<b>34,209</b>	<b>70,790</b>	<b>46,892</b>	<b>61,287</b>	<b>63,800</b>	<b>69,478</b>	<b>365,899</b>
Net Capital investment (including NWF)	(28,424)	(19,297)	(44,626)	(24,301)	(39,000)	(30,000)	(30,000)	(30,000)	(171,022)
<b>Fiscal balance</b>	<b>30,803</b>	<b>44,606</b>	<b>(10,417)</b>	<b>46,489</b>	<b>7,892</b>	<b>31,287</b>	<b>33,800</b>	<b>39,478</b>	<b>194,877</b>
Per cent of GDP	3.24%	4.65%	-1.03%	4.60%	0.72%	2.82%	2.94%	3.43%	
<b>GDP</b>	<b>950,000</b>	<b>960,000</b>	<b>1,010,000</b>	<b>1,010,000</b>	<b>1,090,000</b>	<b>1,110,000</b>	<b>1,150,000</b>	<b>1,150,000</b>	

Source: GDP forecast for 2018-19 -2019-20 provided by SPPD and 2020-2022 by S&P  
Table Prepared by Budget Office

Recurrent receipt of \$300.0 million or 27.5 percent of GDP are expected to be approximately \$11.7 million higher in 2019-20 than the forecast outturn 2018-19 and \$38.6 million higher than the outturn for 2017-18. Non-recurrent revenue is \$1.0 million. Total revenue is \$301.0 million or 27.6 percent of GDP. The forward years' outlook is forecast to grow by 3 percent.



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Recurrent expenditure of \$243.8 million or 22.4 percent of GDP are expected to be approximately \$14.5 million higher in 2019-20 than the forecast outturn 2018-19 and \$35.1 million above the outturn for 2017-18. Total expenditures excluding capital is \$254.2 million or 23.3 percent of GDP. Recurrent expenditures growth is planned at 2.5 percent. Recurrent expenditure in 2020-21 - 2022-23 are projected at \$248.6; \$255.5; \$259.4 million respectively. Net Capital Investment for 2016-2023 is expected to amount to \$163.0 million. \$39 million has been allocated for 2019-20 and \$30 million for each successive year.

*Table 7- Net Worth, Net Financial Worth, Net Debt and Net Interest Payments*

	Actual	Unaudited Actual	Forecast Outturn	Estimate	Projection		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>Net debt</b>	<b>73,426</b>	<b>24,037</b>	<b>(30,057)</b>	<b>(44,934)</b>	<b>(82,764)</b>	<b>(122,710)</b>	<b>(157,833)</b>
Per cent of GDP	7.73%	2.50%	-2.98%	-4.12%	-7.46%	-10.67%	-13.72%
Net Interest payments	1,260	985	676	376	251	53	43
Per cent of GDP	0.13%	0.10%	0.07%	0.03%	0.02%	0.00%	0.00%
<b>GDP</b>	950,000	960,000	1,010,000	1,090,000	1,110,000	1,150,000	1,150,000

Source: GDP forecast for 2018-19 -2019-20 provided by SPPD and 2020-2022 by S&P  
 Table Prepared by 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 \$24.0 million in 2017-18; 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.



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Table 8- Summary of Turks and Caicos Islands Government General Government Sector Cash Flows

	<b>Audited Actual 2016-17 \$'000</b>	<b>Unaudited Actual 2017-18 \$'000</b>	<b>Forecast 2018-19 \$'000</b>	<b>Estimate 2019-20 \$'000</b>	<b>2020-21 \$'000</b>	<b>Projections 2021-22 \$'000</b>	<b>2022-23 \$'000</b>
Cash Receipts							
Recurrent Revenue/ Operating cash receipts	262,951	261,416	288,305	299,990	308,990	318,259	327,807
Non Recurrent Receipts	4,149	20,756	10,205	1,053	1,053	1,053	1,053
<b>Total cash receipts</b>	<b>267,100</b>	<b>282,173</b>	<b>298,510</b>	<b>301,043</b>	<b>310,042</b>	<b>319,312</b>	<b>328,860</b>
Cash Payments							
Recurrent Expenditure/Operating cash payments	196,259	208,697	221,276	243,816	248,504	255,459	259,339
Non Recurrent Expenditure	11,615	9,573	6,444	10,336	251	53	43
Capital Expenditure	28,424	19,297	24,301	39,000	30,000	30,000	30,000
<b>Total cash payments</b>	<b>236,297</b>	<b>237,567</b>	<b>252,021</b>	<b>293,151</b>	<b>278,755</b>	<b>285,512</b>	<b>289,382</b>
<b>Underlying cash balance</b>	<b>66,692</b>	<b>52,719</b>	<b>59,028</b>	<b>56,174</b>	<b>60,485</b>	<b>62,800</b>	<b>68,468</b>
Per cent of GDP	7.02%	5.49%	5.84%	5.15%	5.45%	5.46%	5.95%
<b>Fiscal Balance</b>	<b>30,803</b>	<b>44,606</b>	<b>46,489</b>	<b>7,892</b>	<b>31,287</b>	<b>33,800</b>	<b>39,478</b>
Per cent of GDP	3.24%	4.65%	4.60%	0.72%	2.82%	2.94%	3.43%
<b>GDP</b>	<b>950,000</b>	<b>960,000</b>	<b>1,010,000</b>	<b>1,090,000</b>	<b>1,110,000</b>	<b>1,150,000</b>	<b>1,150,000</b>

Source: GDP forecast for 2018-19 -2019-20 provided by SPPD and 2020-2022 by S&P

Table Prepared by Budget Office

An underlying cash balance, which is the net recurrent cash flow, is projected at \$56.2 million or 5.2 percent of GDP in 2019-20. It is expected to continue to improve into 2020-21 to a surplus of \$60.5 million or 5.5 percent of GDP; 2021-22 -\$62.8 million or 5.5 percent; 2021-22 - \$68.5 million or 6.0 percent.

Fiscal Balance/Operating Surplus which is the net cash flow after capital expenditure, is projected at \$7.9 million or 0.72 percent of GDP in 2019-20. It is expected to continue to improve into 2020-21 to a surplus of \$31.3 million or 2.8 percent of GDP; 2021-22 -\$33.8 million or 2.9 percent; 2022-23 - \$39.5 million or 3.4 percent.



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**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 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.



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An initial sum of \$8 million has been transferred into the Fund in 2018-19. In future, calculations of the annual appropriations to the Wealth Fund will be appropriated at the closure of each financial year. For 2018-19, the receipts are forecast to exceed expectations, as such a transfer to the Fund is imminent at the closure of the financial year.



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## **GOVERNMENT’S FISCAL STRATEGY**

The Government’s fiscal strategies are in keeping with the Framework Document signed between the Governments of the United Kingdom and the Turks and Caicos Islands in October 2012. Similar to 2018-19, the 2019-20 fiscal year investment plan will continue to focus on rebuilding or replacing key government assets such as a Government Complex in Providenciales, repairs to all police stations, repairs to the NJS Francis building that house the House of Assembly, repairs to the Governor’s official residence, critical road infrastructure, government fleet and furniture and fittings for government offices. The flagship priorities include: housing, trade, climate change, coastal and reef management and protection, labour protection, children with special needs and child care, youth development, improving the work environment of public servants including the implementing a merit-based increment system. Efforts on project execution and delivery will continue to be a priority.

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. 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.



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Table 9-Baseline Budget Ceiling

	2019-20	2020-21	2021-22
	Budget Ceiling	Forward Estimates	Forward Estimates
	\$'000	\$'000	\$'000
<b>Budget and Forward Estimates (rolled forward from 2018/19 budget document)</b>	<b>263,151</b>	<b>252,259</b>	<b>252,105</b>
+ Forward Year Impact of 2018/19 Post-Budget Decisions	-	-	-
+ Forward Year Increase in Development Fund	19,000	10,000	10,000
+ Adjustment of inflation (2018/19 budget prices)	2,638	2,638	2,638
+ Adjustment of New Spending Requests Approval	6,825	5,955	5,955
+ Adjustment for Merit Increment Increases	1,537	2,037	4,155
<b>BASELINE BUDGET CEILING</b>	<b>293,151</b>	<b>272,888</b>	<b>274,853</b>

Source: Budget Office

Recurrent Expenditure new spend proposals from Ministries Department and Agencies (MDAs) for the fiscal year, totaled, \$26.3 million including, new staffing needs of 179 posts totaling \$13.5million. Given the existing constraints on recurrent revenue streams, the fiscal space for new spending approval for the 2019-20 fiscal year is \$30.0 million. Table 10 above illustrates the allocations into categories. Consistent with the focus to restrain recurrent expenditure, whilst augmenting the investment plan of the islands – a further \$19m has been allocated to the Capital Expenditure programme (revised to \$39m) and \$11m to recurrent expenditure.

The recurrent expenditure allocation includes:

- \$1.5 million for the reinstatement of increment using a merit-based approach and \$1.0 million other efficiency measures within the Public Service**

During the interim period, several austerity measures were put in place to stabilize the cost of the Civil Service. Primarily, there were a 10% reduction in salaries and the freezing of increments across the public service. TCIG has since re-instated the 10% salary reduction in 2013 as well as implemented a new pay and grading structure in 2015. However, performance-based increments have been frozen for approximately 7 to 8 years. Performance-based increments are a significant tool used to motivate staff, increase staff morale and performance along with re-enforcing and rewarding satisfactory performance. Whilst the implementation logistics are being worked out and will require



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approval of the Cabinet, funding is being made available to restate incremental increases using the merit-based approach.

A further \$0.2m will be allocated to conduct an Efficiency and Productivity Audit of the Public Service with an aim to making the environment more business and service friendly as committed in the new Investment Policy Statement. This will hopefully be achieved through a full review of services offered, timelines for delivery: actual and targeted. It will assist in the introduction of service level agreements, stream lined systems and a more conducive environment in which to do business with Government.

A further \$0.8m will be allocated to improve physical working conditions for public servants in an effort to increase productivity and improved services.

2. \$2.6m has been allocated across MDAs to mitigate the increase in the general price level of goods and services in the economy over a period of time.

**The remaining \$7.8 million will be allocated to fund new initiatives in the flagship priorities that are discussed below:**

**1. Establish a Trade Department - \$0.2 million**

The Government is committed to improving the trade performance of the Islands. This undertaking is significant in the context of a number of factors that prove critical to the overall performance of the economy. Reference is made in particular to (1) a merchandise trade deficit of \$430 million for the year 2017 (Merchandise Trade Report); (2) Brexit; and (3) the decision of the UK Parliament to introduce public registers of owners of companies registered in UK Overseas Countries and Territories (UK Sanctions and Anti-Money Laundering Bill).

A number of initiatives are being developed to facilitate the growth and expansion of trade in goods and services by TCI. Thus far, the following have been initiated: (i) drafting instructions for the development of a consumer protection framework; (ii) establishment of a national Working Group for the development of a National Quality Infrastructure; (iii) draft concessions policy for micro, small and medium sized enterprises (MSMEs); (iv) sought assistance from the Cayman Islands Government on the development of a trade policy; (v) advanced the need for an effective Customs Duty Calculator to assist importers; (vi) advanced proposals to InvestTCI on improvements to the administration of the MSME Program; (vii) assisted with the development



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of a Memorandum of Understanding on Trade and Investment between the Turks and Caicos Islands and the Dominican Republic; (viii) conducted a national workshop on a National Quality Policy-Infrastructure for the Turks and Caicos Islands; and (ix) attended training sessions and meetings held by the EU-COSME programme which tackled issues related to trade and business.

Notwithstanding the above, additional initiatives are envisaged towards achieving the Government's objective to improve the trade performance of the Islands. These initiatives broadly relate to: (i) the development of a draft national concessions policy; (ii) the negotiation of bilateral trade agreements; (iii) the development of a web portal for the prospective Department of Trade, Industry and Commerce (expected to be established in 2019); (iv) the finalization of legislation to support the establishment of a consumer protection framework (ahead of the establishment of the said Department of Trade, Industry and Commerce in 2019); and (v) the submission of amendments to the Business Licensing Ordinance-Regulations to allow for the business license application form to capture data related to MSMEs.

It is considered that where support for the initiatives advanced above is given on a continuous and strategic basis, it is then that technological progress, economic growth, sustainable development and job creation for the people of the Turks and Caicos Islands will be realized.

**2. Establish a Department of Housing -\$0.6 million**

Following the Storms of 2017, the need for this Department became increasingly evident. The Housing Department is being reestablished to assist in addressing the serious housing needs throughout the Islands. More specifically it will help to formulate a Housing Policy that will seek to increase home ownership by improving access to housing through public and private ventures and will assist in keeping the housing stock in good state of repair.

**3. Gaming Commission – Cost Neutral**

The establishment of a Gaming Commission is critical to growing of and to providing improved oversight of the Industry. The new vehicle will allow for the engagement of critical skill sets in both roles ensuring enhanced revenues and stricter compliance with international standards.



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**4. Sports Commission –Cost Neutral**

A Sports Policy was created this year and the Commission is being reintroduced as this structure is found to be the best vehicle to achieve the objectives of the Policy. Sports will be an important vehicle to keep at risk and youth engaged in positive activities.

The Department of Sports since last financial year has been returned to the Ministry of Health and at a time when TCI is now seeing deaths of upwards 70% among TC Islanders due to lifestyle diseases together with rising costs in healthcare and loss of productivity among citizens. Sports will be used in the national effort to build healthier lifestyles for not just youth but adults.

5. **National Security Strategy** – There is need for a comprehensive National Security Strategy which is well underway. A further \$0.2 million is being allocated to the Joint Law Enforcement Team (JLET) to carry out activities in the furtherance of the national security strategy.
6. **Judicial Administration** - The Judicial Administration is allocated a further \$0.3 million for juror costs, legal aid and security expenses
7. **Youth Development and Culture** – A focus will continue in areas that seek to target the well - rounded development of youth. A further \$0.1 million is be allocated for the Departments of Culture and Cadets.
8. **Special Needs Policy** - \$0.04 million is being allocated for the conducting of activities under the Special Needs Policy.
9. **Climate Change and Coastal Protection** – A further \$0.1m is being allocated for immediate critical recruitments, identified through the Recovery Plan, that is in its final draft.
10. **Improvement of Repatriation and Detention Services** – A further \$0.04m is being allocated to provide additional security, CCTV, segregation of children in the Detention Centre and Photo Booth. This will result in more efficiency in the processing of detainees and the protection of children in the process.



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Table 10-Budget Allocations by Ministry

Ministries	2019/20						2020/21	2021/22
	Baseline Budget Ceiling R/F from 2018-19	Salary/Wage (Increments)	Inflationary Increases	New Spends	Revised Based Line Ceiling	% of Total Expenditure	Forward Estimates	Forward Estimates
	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000
Office of the Governor	6,299	34	86	125	6,544	2.2%	211	258
Police	25,039	266	111	400	25,817	8.8%	714	1,080
Attorney General's Chambers	6,200	61	38	-	6,299	2.1%	119	203
Judiciary	9,145	37	30	276	9,488	3.2%	355	407
Statutory Charges	35,516	-	144	21,285	56,946	19.4%	12,430	12,430
Ministry of Border Control and Employment Services	9,877	111	67	72	10,127	3.5%	286	439
Ministry of Finance, Trade and Investments	19,991	145	229	740	21,104	7.2%	1,161	1,360
Office of the Deputy Governor	2,504	29	16	344	2,893	1.0%	114	154
Ministry of Education, Culture, & Library Services	30,068	317	227	855	31,467	10.7%	1,112	1,550
DPP Office	1,566	20	8	-	1,593	0.5%	34	61
Ministry of Home Affairs Transportation & Communication	12,452	143	80	57	12,733	4.3%	327	525
Ministry of Infrastructure, Housing & Planning	17,406	119	208	1,494	19,227	6.6%	1,860	2,024
Ministry of Tourism and Heritage	7,246	45	92	119	7,502	2.6%	270	333
Ministry of Health, Agriculture, Sports and Human Services	73,623	188	1,251	57	75,120	25.6%	1,557	1,816
House of Assembly	3,026	3	9	-	3,038	1.0%	13	18
Office of the Premier and District Administrations	3,194	17	43	-	3,255	1.1%	66	90
<b>BASELINE RECURRENT BUDGET CEILING</b>	<b>263,151</b>	<b>1,537</b>	<b>2,638</b>	<b>25,825</b>	<b>293,151</b>	<b>100.0%</b>	<b>20,629</b>	<b>22,748</b>

Table 11-Operating Expenditure

Source: Budget Office

Allocation to the Ministry of Health, Agriculture, Sports and Human Services will account for \$75.1 million or 25.6 percent of the national expenditure; Ministry of Education, Youth, Culture and Library Services \$31.5 million or 10.7 percent; Police - \$25.8 million or 8.8 percent; Finance \$21.1 million –7.2 percent; Infrastructure, Housing and Planning - \$19.2 million or 6.6 percent; Home Affairs, Transportation and Communication -\$12.7 million or 4.3 percent and Governance -\$6.5 million or 2.2 percent. (The allocations by Ministry are indicative and may be subject to minor adjustments as the budget progresses).

In 2019-20 the operating expenditure target is \$254.2 million, \$26.0 million or 11.0 percent above the forecast outturn of 2018-19. The unaudited outturns are due to the late passage of the annual estimates, challenges in recruiting critical vacancies, break in the ongoing corruption trials, slower than expected draw down on the Contingency Fund, reduction in local and international travels among other factors.



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Recurrent Expenditure	Actual	Revised	Unaudited Actuals	Approved	Forecast	Estimate	Projections		
	2016/17	2017/18		2018/19		2019-20	2020/21	2021/22	2022/23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Personnel Costs	76,155	83,658	80,751	91,938	86,312	96,397	96,897	98,835	98,835
Pension and Gratuity	5,892	5,879	6,361	5,857	6,175	5,975	6,124	6,277	6,434
Transfers to NHIB	26,562	35,885	35,885	33,085	33,084	33,747	34,590	35,455	36,342
Hospital Provisional Charges	20,171	20,699	20,692	20,741	20,741	21,156	21,684	22,227	22,782
Subventions	12,924	11,024	11,523	12,883	12,883	14,167	14,521	14,884	15,256
Rental of Assets	5,057	4,955	4,682	5,233	4,844	5,539	5,677	5,819	5,965
Other expenditure	49,497	55,867	48,804	70,109	57,238	66,837	69,011	71,963	73,726
<b>Total Recurrent Expenditure</b>	<b>196,259</b>	<b>217,968</b>	<b>208,697</b>	<b>239,847</b>	<b>221,276</b>	<b>243,816</b>	<b>248,504</b>	<b>255,459</b>	<b>259,339</b>
<i>Annual per cent recurrent expenditure increase</i>				<b>6.34%</b>	<b>14.93%</b>	<b>-7.74%</b>	<b>10.19%</b>	<b>1.92%</b>	<b>2.80%</b>
<b>Non-Recurrent Expenditure</b>									
Civil Recovery	901	773	729	700	700	700	-	-	-
SIPT Prosecution	4,341	3,822	3,254	3,800	4,787	3,800	-	-	-
SIPT Legal Aide	5,114	5,004	4,605	342	281	5,460	-	-	-
Debt service, interest and fees	1,260	1,146	985	700	676	376	251	53	43
<b>Total Non-Recurrent Expenditure</b>	<b>11,615</b>	<b>10,745</b>	<b>9,573</b>	<b>5,542</b>	<b>6,444</b>	<b>10,336</b>	<b>251</b>	<b>53</b>	<b>43</b>
<b>Total Operating Expenditure</b>	<b>207,873</b>	<b>228,714</b>	<b>218,270</b>	<b>245,388</b>	<b>227,720</b>	<b>254,151</b>	<b>248,755</b>	<b>255,512</b>	<b>259,382</b>

Table 12-Expenditure by Economic Classification

Source: Budget Office

### Staff Costs

Personnel costs will account for \$96.4 million or 37.9 percent of total recurrent and non-recurrent expenditure and 32.1 percent of recurrent revenue in 2019-20. 23 new positions are being added; (6) Housing Department; (2) Ministry of Education for the Early childhood commission; (2) Labour Inspectors; (2) Probation Officers for Social Development; (2) Trade Department; (2) Budget Office; (2) Exchange of Information; (1) Statistics Department; (1) Fuel Officer; (1) Compliance Manager for HRD; (1) Coastal Engineer and (1) Reef Specialist;



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### **Pension and Gratuity**

The Pension and Gratuity allocations for 2019-20 accounts for \$6.0 million or 2.4 percent of total spending or 2.0 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 \$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 \$33.7million 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. In addition, there are Hospitals related debt obligations for the construction and equipment contract of \$21.2 million. These account for 21.6 percent of the Recurrent and Non-Recurrent Expenditures for FY 2019-20. This is in addition to approximately \$38 million that is received in Contribution Income from the insurers on the Insurance Scheme.

### **Subvention (Net NHIP)**

\$14.2 million or 5.6 percent of recurrent and non-recurrent expenditure will be allocated for subvention to other Government agencies. The Community Colleges will be given a further \$0.5 million to enhance programme delivery and approximately \$0.1m is being allocated to the Integrity Commission to rent additional office space.

### **Special Investigation and Prosecution Team (SIPT)**

Annual allocation for the prosecution and defense of the ongoing corruption trials is \$9.2 million or 3.6 percent of the national budget. Allocations for the prosecution team is \$3.8 million and the legal aid for the defense team is \$5.4 million. Other Civil Recovery matters allocated at \$0.7 million.



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### **Other Recurrent Expenditure**

Allocation classified as Other Recurrent Expenditure includes: Debt Service Payments of \$0.4 million; General Maintenance costs of \$9.0 million; Utility costs-\$5.6 million; Travel expenses - \$4.8 million; Social Welfare -\$1.8 million; Grants and Contribution \$8.2 million A general contingency provision of \$ 5.0 million or 1.7 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. Allocation that has been made available for capital investment for 2014-2021 is approximately \$188.5 million. \$ 39.0 million is being allocated for 2019-20, with the continued focus on the islands recovery and resilience; \$30 million annually for each successive year thereafter. Approximately, \$16.2 million relates to projects that span more than one fiscal year and is being rolled forward from 2018-19. The allocation details for the remaining \$22.8 million is being finalized, however, the Government is committed to include:

- Government Complex for Providenciales
- All Island Police Building Repairs



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- NJS Francis Building
- Repair of the Governors Official Residence
- Government Fleet
- Office Furniture and Equipment
- Road Repairs

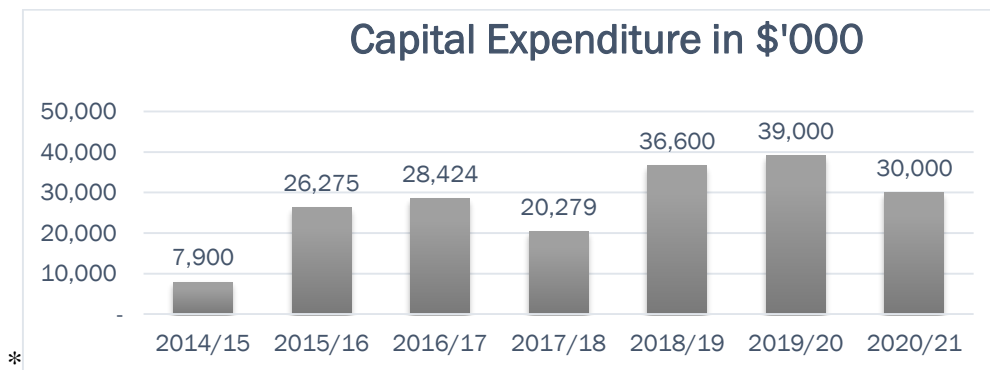


Figure 1 – Capital Expenditure – 7 Years

Source: Budget Office

\*2014-2017 – actual performance 2018-2021 approved and projections.

## 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



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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.

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. A small loan of \$673k is forecast for this financial year. The loan is being proposed to complete consultancy services:

- To develop an Integrated Solid Waste Management Strategy for the islands;
- to prepare a feasibility study of Solid Waste Management Options and detailed engineering and architectural designs for the preferred infrastructure options;
- to develop a related programme of institutional strengthening and capacity building within the Environmental Health Department;
- and to conduct an independent Environmental and Social Impact Assessment (ESIA)

The Caribbean Development Bank (CDB), is the preferred lending agency, given their experience in carrying out similar works within the Caribbean and also there is a technical assistance component to the loan. The loan is being amortized over 5 years at 4.8% with repayment to begin two years after the loan agreement is signed.

No new loans are being forecast for 2020-21 and beyond.



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<b>GOVERNMENT DEBT</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 001</b>
RBC 2015-2016	20,000	12,000	4,000	-	-	-	
Citibank Commercial Loan	626	-	-	-	-	-	
CDB Loans	2,719	1,486	1,164	804	688	572	456
RBTT Loans	555	-	-	-	-	-	-
TCI Bank	4,474	3,407	2,340	1,273	-		
New CDB Loan				673	673	538	404
CDB 2015-2016	4,000	3,000	2,000	1,000	-	-	-
<b>Government Debt</b>	<b>32,374</b>	<b>19,893</b>	<b>9,504</b>	<b>3,750</b>	<b>1,361</b>	<b>1,110</b>	<b>860</b>
Imputed PPP Hospital debt outstanding	81,771	76,553	71,336	66,118	60,901	55,683	50,466
TCIAA (Adjusted to FFD 20% weighting)	6,628	4,861	3,093	1,326	-	-	-
<b>Total Government Debt</b>	<b>120,773</b>	<b>101,307</b>	<b>83,933</b>	<b>71,193</b>	<b>62,261</b>	<b>56,793</b>	<b>51,325</b>
<b>Net Debt</b>	<b>73,426</b>	<b>24,037</b>	<b>(30,057)</b>	<b>(44,934)</b>	<b>(82,764)</b>	<b>(122,710)</b>	<b>(157,833)</b>
<b>Core Government Debt</b>	<b>120,773</b>	<b>101,307</b>	<b>83,933</b>	<b>71,193</b>	<b>62,261</b>	<b>55,865</b>	<b>59,970</b>

*Table 13-Government Debt Schedule at Yearend*

*Source: Budget Office*



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### **Strategy 3 - Revenue Enhancement Strategy**

#### **Policy Decisions on Revenue**

Revenue streams were revised in 2013 and as a result Business License fees and Duty-Free Royalties were adjusted downward in 2015. The two tropical cyclones that directly hit the Islands in the 2nd Quarter of 2017-18 have underscored the need for a taxation system that is less volatile and prone to global, regional and environmental factors, while being fair, equitable and efficient. The Government has begun consultations to arrive at a more appropriate taxation regime.

No new revenue streams were introduced in the 2018-19 budget year, however the Revenue Department within the Ministry of Finance, Trade and Investment, under its new leadership, has been focusing on enforcement and compliance strategies that are aimed at improving revenue performance. In particular, for 2018-19 financial year, the focus has been on pursuing effective strategies to enhance Government revenue by collecting the right taxes at the right time. The main areas of focus are:

- i. promoting co-operation with internal and external stakeholders to improve voluntary compliance in vacation rental by owner sector (VRBO);
- ii. improving customer service and effectiveness of our compliance activities by adopting a risk-based approach to compliance; and
- iii. leveraging data to better 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 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



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- Increasing audit coverage by better allocating audit resources

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.

In the medium-term, Islanders will be asked to invest in the development plans of the islands to boost economic growth so as to safeguard our future prosperity and medium term fiscal sustainability. TCIG will fully consult with the general public on this matters. Additionally, much efforts will be made to facilitate optimal economic growth as part of the strategy to increase revenue

The Government with the assistance of the Caribbean Regional Technical Assistance Programme (CARTAC) is exploring several options to ensure that the revenue regime that is identified balances the principles of efficiency, equitability and fairness.

Concurrently, in line with current efforts of improving operational efficiency, program effectiveness, and voluntary compliance across all tax generating sectors, Revenue Department within the Ministry of Finance, Trade and Investment has commenced preliminary work on a restructuring initiative that will transform Revenue Department into a Revenue Authority (RA). Establishing RAs had been part of a growing trend towards increased autonomy in the public sector with the intention of improving performance by removing impediments to effective and efficient management while maintaining appropriate accountability and transparency. RAs have been widely considered as possible solution to poor revenue performance, low rates of compliance, ineffective staff, and corruption. The real objective is improved revenue administration through program reforms and operational modernization. If used effectively, implementation of a RA can be a catalyst to enable broader revenue administration reforms, such as those described above, that Revenue Department is moving ahead to achieve in the medium to long term.

The Statistics Department is forecasting that the economy will experience real GDP growth of 3.8 percent in 2019. The growth is attributed to bolstered activities in the construction, real estate and hotel and restaurant sectors. It will be complemented by increased public sector spending on capital expenditure.



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No new taxes are being forecast in the 2019-20 fiscal year. However, the fiscal revenues are expected to grow by an average of 3% over the reforecast of the 2018-19 fiscal year. Hotel and Restaurant Taxes, Stamp Duty on Land Transactions and Import Duty are expected to have a 4% growth in revenue consistent with the forecast provided by the SPPD. Whilst, Customs Processing Fees and Temporary Work Permits are forecast to increase by 6% as the construction activities in the tourism sector get on the way.

The 3<sup>rd</sup> Tranche of the EU-EDF 11 in the amount of EU €5.52 million is due for disbursement in 2019-20. The 3<sup>rd</sup> Tranche is variable and is tied to specific conditions under the financing agreement. The Government has identified a potential risk that may affect the delivery date of key output and outcome performance indicators that are attached to the disbursement agreement. Given the risk identified in meeting the performance indicator, the grant receipt has been removed from the revenue projections and will be considered windfall revenue should the Government identify ways to mitigate the risk.

TCIG will continue to focus efforts on attracting 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 \$'000	5% Decline in Arrivals- Reduction in Imports \$'000	5% Increase in Arrivals- Increase in Imports \$'000
Import Duty	77,776	73,887	81,665
Hotel & Restaurant Tax	67,843	64,451	71,235
Customs Processing Fee	36,505	34,679	38,330
Total	182,123	173,017	191,230

Source: Budget Office

For the 2018-19 budget cycle, the major tourism related receipts are projected to return \$182.1 million, which is 60.7 percent of recurrent revenue. Table 14, above illustrates the 2019-20 forecast target at a sensitivity rate of +/-5 percent decline-increase in arrivals-imports.



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*Table 15-Revenue Targets*

Recurrent Revenue	Actual	Unaudited Actual	Approved Estimate	Forecast	Estimate	Per. R/R	Projection	Projection	Projection
	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	20212/23
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Import Duty	70,053	67,935	70,653	74,785	77,776	25.9%	80,109	82,512	84,988
Hotel & Restaurant Tax	61,545	59,152	62,468	65,234	67,843	22.6%	69,878	71,975	74,134
Customs Processing Fee	29,260	33,464	30,000	34,438	36,505	12.2%	37,600	38,728	39,889
Stamp Duty on Land Transactions	27,684	26,554	27,000	26,981	28,061	9.4%	28,902	29,769	30,662
Work Permits and Residency Fees	25,902	23,221	26,212	27,370	29,012	9.7%	29,883	30,779	31,702
Fuel Tax	9,890	8,547	9,672	9,789	10,181	3.4%	10,486	10,801	11,125
Business Licences	2,498	2,380	2,476	2,463	2,561	0.9%	2,638	2,717	2,799
Other Recurrent Revenues	36,118	40,163	44,616	47,245	48,052	16.0%	49,493	50,978	52,507
<b>Total Recurrent Revenue</b>	<b>262,951</b>	<b>261,416</b>	<b>273,097</b>	<b>288,305</b>	<b>299,990</b>	<b>100%</b>	<b>308,990</b>	<b>318,259</b>	<b>327,807</b>
<b>Recurrent Revenue</b>									
Land Sale Receipts	851	692	700	1,012	1,053	0.4%	1,053	1,053	1,053
EU Grants and Other Grants	3,298	4,780	3,800	6,843	-	0.0%	-	-	-
Capital Receipt	-	-	2,000	2,350	-	0.0%	-	-	-
Hurricanes Irma and Maria CCRIF Payout	-	15,284	-	-	-	0.0%	-	-	-
<b>Total Non-Recurrent Revenue</b>	<b>4,149</b>	<b>20,756</b>	<b>6,500</b>	<b>10,205</b>	<b>1,053</b>		<b>1,053</b>	<b>1,053</b>	<b>1,053</b>
<b>Total Revenue</b>	<b>267,100</b>	<b>282,173</b>	<b>279,597</b>	<b>298,510</b>	<b>301,043</b>		<b>310,042</b>	<b>319,312</b>	<b>328,860</b>

*Source: Prepared by Budget Office*



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**Strategy 4 - Financial Improvement of Statutory Authorities and Government Companies**

The fourth element of the Government’s fiscal strategy is to reduce expenditure within Statutory Boards and Government 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 (SBs) 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 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. In 2019-20 allocations are being made for two additional staff within the Ministry of Finance, to assist with the continuous monitoring of the SBs.

At the NHIP, the new three-member Executive Management Team is in place with the new members (CEO, Medical Director and CFO) assuming office during the 2<sup>nd</sup> Quarter. This period also saw changes in the composition of the Board of Directors. The four new Board members included a new Chairman and Deputy Chairman. The NHIB will continue organisational restructuring in key areas as evidenced by the ongoing recruitment and recent employment of key personnel at the executive and operational levels. These personnel include a new Executive Management Team, and ongoing recruitment for posts such as Human Resource Officer, Legal Officer, Compliance Manager, Compliance Officer, Nurse Case Managers, Claims Verification Officer and Public Relations Officer. Close collaboration and engagement of the NHIP Compliance Team with the NIB Team has commenced and is expected to be strengthened and create synergies. It is anticipated that increased field efforts and targeted interventions to reduce the delinquency as well as collect outstanding contributions will continue.



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The NHIB continues to partner with TCIG in ensuring greater oversight of the Project Agreement with InterHealth Canada-TCI Hospital as well as work with the MOH, the wider TCI community, and all stakeholders in areas such as health promotion and prevention and support Primary Healthcare Renewal in TCI.

The NHIB will continue to identify/review areas of specialized care that can be incorporated into the existing services within the TCI to reduce the number of persons who travel overseas for such services and in so doing increase efficiency. The focus for FY 18-19 is on areas of cardiology and ophthalmology, which have consistently been identified as areas that require increased on Island services due to the epidemiological profile of the TCI Population and the financial and social cost incurred.

The Draft Pharmaceutical Policy has been prepared in response to the Pharmaceutical Review completed in consultation with various stakeholders and is currently being reviewed by the National Pharmacist at the Ministry of Health, Agriculture, Sports and Human Services (MOH). It is anticipated that ongoing collaboration between NHIP and the National Pharmacist will continue to focus on the drug formulary; acquisition and piloting of new software to manage and enhance efficiency and cost effectiveness of pharmaceuticals.

The Presentation of the findings of Actuarial Review of the NHIB took place and is in the process of being finalised, pending access to critical data from TCI Hospital. NHIP has submitted this request on behalf of the Actuaries to InterHealth Canada via the MOH. The final Actuarial Review document is expected to provide information on the financial sustainability of the Plan and will inform key decisions and the way forward for NHIB. In the meantime, the Government will continue to fund the shortfall of the NHIP through a subvention.

There is a statutory requirement for Turks and Caicos Airport Authority, Financial Services Commission, Telecommunications Commission, Invest Turks and Caicos and Port's Authority to remit proportions of their net surpluses to Government annually, in 2019-20 approximately \$8.0 million is expected from SBs.

During the 2015-16 Budget Cycle, the then Government decided to allow the Airport's Authority to retain the excess surplus to support the South Caicos Airport Redevelopment project. The Airports Authority will recommence the remittance of excess surplus to the Consolidated Fund effective 2019-20, an amount of \$4.0 million is being forecast. The Financial Services



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Commission is expected to remit at minimum \$3.5 million and the Telecommunication's Commission - \$0.5 million.

The Ports Authority (TCIPA) approved a Medium Term Infrastructure Investment Plan in 2017 [MTIP]. The goal of the Plan is to maximize the contribution of the ports system to sustainable development of the TCI. The purpose of the Plan is to promote prioritized rehabilitation and modernization of port infrastructure through sustained capital investments and preventative maintenance. Specifically port infrastructure development supports domestic connectivity (rationalization of airport and sea ports). Port infrastructure addresses security concerns; ports have to the TCI have operate in accordance with the International Ship and Port Facility Security Code. Secure ports reduce the risks of disruption of shipping on which the economy of the TCI depends. Infrastructure development in Turks and Caicos Islands is consistent with the following aspect of the TCI Vision 2040 Document and the Medium Term Development Strategy: □ SDD 1 – Robust and Climate Resilient Infrastructure and □ SDD 5 – Good Governance. Financial Year 2017-18 was the first year of implementation of the Plan that is being financed from retained net revenue from past financial years that was approved by TCIG. The TCIPA resumed net-revenue transfers to TCIG in 2017-18 in accordance with Section 12 (3) of the Ports Authority Ordinance. This will reduce the amount of resources available to TCPIA to finance capital development projects. Given that the re-development of the Ports is a priority project of the Government, has decided to allow the Ports Authority to retain, the net revenue transfers to support the redevelopments.

### **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 2019-20. Requirements of the Framework Document are acknowledged.



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

Table 16 FISCAL PERFORMANCE AGAINST GDP

<i>figures in US\$'000</i>	FY2013-14		FY2014-15		FY2015-16		2016-17		2017-18	
		%GDP		%GDP		%GDP		%GDP		%GDP
Recurrent Revenue	200,494	37%	246,462	42%	258,346	42%	262,951	41%	261,416	41%
Recurrent Expenses	162,357	30%	168,549	29%	191,762	31%	202,146	31%	213,409	34%
<b>Total Revenue</b>	<b>206,802</b>	<b>38%</b>	<b>252,954</b>	<b>43%</b>	<b>263,884</b>	<b>43%</b>	<b>267,100</b>	<b>41%</b>	<b>282,172</b>	<b>44%</b>
<b>Total Expenses</b>	<b>173,093</b>	<b>32%</b>	<b>175,421</b>	<b>30%</b>	<b>196,582</b>	<b>32%</b>	<b>207,874</b>	<b>32%</b>	<b>218,858</b>	<b>34%</b>
<b>Net Operating balance</b>	<b>33,709</b>	<b>6%</b>	<b>77,533</b>	<b>13%</b>	<b>67,303</b>	<b>11%</b>	<b>59,226</b>	<b>9%</b>	<b>63,314</b>	<b>10%</b>
Capital Investment	9,712	2%	7,900	1%	11,459	2%	23,509	4%	16,058	3%
<b>Fiscal Balance</b>	<b>23,997</b>	<b>4%</b>	<b>69,632</b>	<b>12%</b>	<b>55,843</b>	<b>9%</b>	<b>35,717</b>	<b>6%</b>	<b>47,256</b>	<b>7%</b>
Net Debt	207,568	38%	191,738	33%	44,281	7%	32,376	5%	19,783	3%
Finance Cost	7,421	1%	7,015	1%	6,634	1%	1,260	0%	984	0%
<b>Underlying Cash Balance</b>	<b>6,401</b>	<b>1%</b>	<b>2,939</b>	<b>1%</b>	<b>15,728</b>	<b>3%</b>	<b>17,655</b>	<b>3%</b>	<b>36,238</b>	<b>6%</b>
*GDP at constant Market prices	545,685		582,266		616,860		644,000		634,436	
GDP at constant Market prices	740,777		823,968		893,502		950,358		962,526	

Source: Prepared by National Treasury

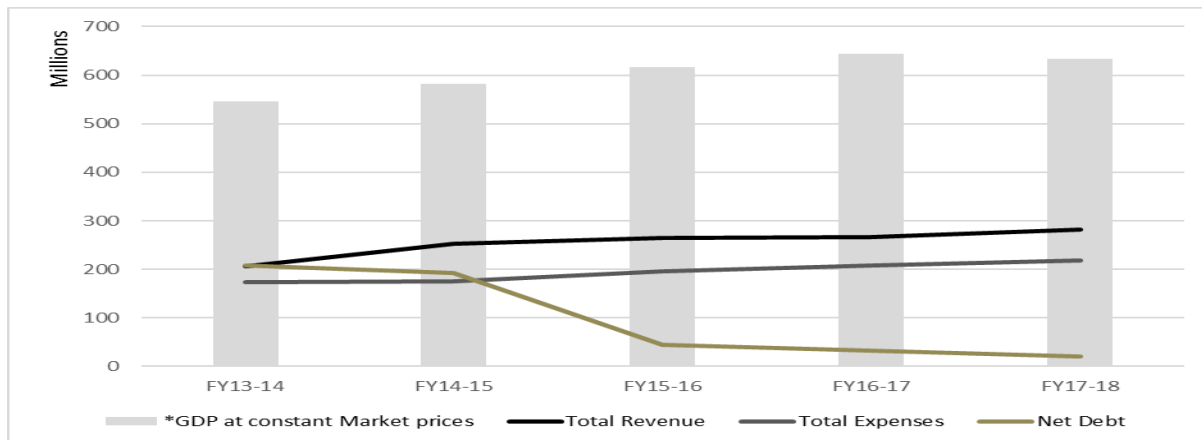


Figure 2: Performance against GDP at Constant Market Prices

Source: Prepared by National Treasury



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Table 17-Operating Results

<i>figures in US\$'000</i>	FY2017-18	FY2017-18	FY2016-17	Actual vs Rev.		Actual vs Prior	
	Actual	Rev. Budget	Actual	Budget		Year	
Recurrent Revenue	261,416	269,471	262,951	(8,055)	-3%	(1,535)	-1%
Recurrent Expenditure	213,409	223,057	202,146	9,648	4%	(11,263)	-6%
<b>Net Recurrent Surplus</b>	<b>48,007</b>	<b>46,414</b>	<b>60,805</b>	<b>1,593</b>	<b>3%</b>	<b>(12,798)</b>	<b>-21%</b>
Non-Recurrent Revenue	20,756	4,500	4,149	16,256	361%	16,607	400%
Non-Recurrent Expenditure	5,449	5,715	5,729	266	5%	279	5%
<b>Operating Surplus</b>	<b>63,314</b>	<b>45,199</b>	<b>59,226</b>	<b>18,115</b>	<b>40%</b>	<b>4,088</b>	<b>7%</b>

Source: National Treasury

The Turks & Caicos Islands experienced two major tropical cyclones Irma and Maria (Category 5 and 3 respectively) during the 2017-18 financial year in the month of September 2017. Despite this impact, the Government posted an operating surplus of \$63.3 million (2017: \$59.2 million), an improvement of \$4.0 million (7%) on the prior year's performance. Compared to the revised budget which was implemented after the passage of the hurricanes, the performance was 40% better than the \$45.2 million projected. Capital expenditure of \$16.1 million (2017: \$23.5 million) and debt repayment of \$12.6 million (2017: \$11.9 million) were also made during the year.

- **Recurrent revenue** outturn for the year was 3% ahead of budget and 1% above the prior year's outturn.
- **Recurrent expenditure** for the year was 4% below budget estimates while being 6% above the prior year's results.

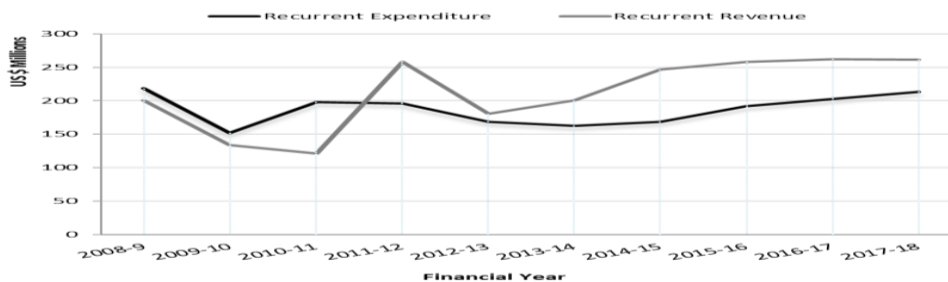


Figure 3: Recurrent Revenue & Expenditure 2008-2017

Source: National Treasury



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Measures implemented by the Government which directly impacted revenue collection included:

- i. A Customs Order granting duty free exemptions for a variety of goods, originally until December 31, 2017 and further extended twice to October 2018
- ii. An Emergency Order granting the forfeiture of Customs Processing fees for the period September to November 2017
- iii. Hurricane Relief Waiver on Fuel Tax for the period September to November 30, 2017

The major change in the expenditure is highlighted by a net reduction in capital expenditure which was refocused on the rebuilding of schools.

The lack of normal communication links in the aftermath of the hurricanes resulted in the Treasury having to decentralize its activities in addition to placing reliance on manual processes. Notwithstanding, the Treasury maintained a key role in implementing and monitoring controls to ensure that expenditure remained within budget, while facilitating the recovery process.

**Revenues Performance**

TCIG recurrent revenues for the 2017-18 fiscal year totalled \$261.4 million (2017: \$262.9 million). This represented a decrease of \$1.5 million from fiscal year 2016-17 and was \$8.0 million or 3% less than the revised estimates for the year.

Total revenue for the 2017-18 fiscal year included \$67.9 million (24%) derived from import duties; \$59.2 million (21%) from hotel and restaurant tax; while \$33.5 million from customs processing fees, \$26.5 million from stamp duty on land transactions and \$16.4 million from work permits and residency fees together accounted for 27% of revenues.

*Table 18- Recurrent Revenues*

*figures in US\$'000*

RECURRENT REVENUES	FY2017-18 Actual	FY2017-18 Rev. Budget	FY2016-17 Actual	Actual vs Rev. Budget		Actual vs Prior Year	
Import Duty	67,935	71,475	70,053	(3,540)	-5%	(2,117)	-3%
Hotel and Restaurant Tax	59,152	63,668	61,544	(4,516)	-7%	(2,392)	-4%
Customs Processing Fee	33,464	29,648	29,260	3,816	13%	4,204	14%
Stamp Duty on Land Transactions	26,554	29,409	27,684	(2,854)	-10%	(1,130)	-4%
Work Permits	16,370	18,452	17,650	(2,082)	-11%	(1,280)	-7%
Fuel Tax	8,547	9,672	9,890	(1,125)	-12%	(1,343)	-14%
Other Revenues	49,393	47,147	46,870	2,246	5%	2,523	5%
<b>Total Recurrent Revenues</b>	<b>261,416</b>	<b>269,471</b>	<b>262,951</b>	<b>(8,055)</b>	<b>-3%</b>	<b>(1,535)</b>	<b>-1%</b>

Source: National Treasury



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Total duties (excluding stamp duty) collected for the year were \$111.4 million (2017: \$110.8 million). This represented a marginal increase from last year's results and \$0.7 million less than budget estimates. This was primarily due to the impact of the hurricanes on economic activity in the islands. **Import Duties** and **Fuel Tax** were below both estimates and prior year's outturn due mainly to the revenue foregone as a result of the revenue measures instituted after the Hurricanes. Conversely **Customs Processing Fees** performed above both budget and prior year results as fees were paid on supplies on which import duties were waived.

Taxes on goods and services were \$6.7 million lower than budgeted as well as \$4.4 million below last year's results, largely owing to the shortfall in tourism volumes as a result of the Hurricanes. **Hotel and Restaurant Tax** showed a decrease of 7% and 4% respectively to budget and last year's results, a trend which was also reflected in **Stamp Duty on Land Transactions**, which was also below estimates and prior year's outturn by 10% and 4% respectively.

Fees, fines and permits of \$18.7 million increased by \$3.7 million (25%) when compared to last year's results while showing a shortfall \$1.6 million (8%) in comparison to the budgeted outturn. The major contributor to this performance was **Work Permits** of \$16.4 million. This however, was \$2.1 million (11%) less than budget and \$1.3 million (7%) less than last year's results.

Table 19-Other Recurrent Revenues

*figures in US\$'000*

OTHER RECURRENT REVENUES	FY2017-18	FY2017-18	FY2016-17	Actual vs Rev. Budget		Actual vs Prior Year	
	Actual	Rev. Budget	Actual				
Communications Tax	4,820	4,817	5,666	3	0%	(846)	-15%
Gaming Machine Tax	3,782	2,878	3,432	904	31%	351	10%
Vehicle License	3,582	3,143	3,776	438	14%	(195)	-5%
Telecommunications license	3,420	4,202	3,905	(782)	(19%)	(485)	-12%
Seaport Departure Tax	3,133	3,021	3,200	112	4%	(67)	-2%
Overtime Cost recovered	2,982	2,888	3,091	94	3%	(109)	-4%
Financial Services Commission	2,517	-	-	2,517	-	2,517	-
Business License Renewal	2,380	2,085	2,498	295	14%	(118)	-5%
Telecommunications Commission	2,063	258	500	1,806	701%	1,563	313%
Permanent Residency Fees	1,933	2,300	2,453	(368)	-16%	(520)	-21%
Revenue heads with values less than \$1.9 million	18,781	21,554	18,349	(2,773)	(13%)	432	2%
<b>Total Other Revenues</b>	<b>49,393</b>	<b>47,147</b>	<b>46,870</b>	<b>2,246</b>	<b>5%</b>	<b>2,523</b>	<b>5%</b>

Source: National Treasury

**Other Recurrent Revenues** collected for the year totalled \$49.4 million (2017: \$46.9 million) which was 5% above the budgeted amount as well as last year's outturn.



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**Telecommunications Licences** receipts of \$3.4 million (2017: \$3.9 million) were below budget by 19% or \$0.8 million primarily due to the disruptions occasioned by the hurricanes, the effects of which are still being felt at the end of the financial year.

*Table 20-Non-Recurrent Revenues*

*figures in US\$'000*

NON-RECURRENT REVENUES	FY2017- 18 Actual	FY2017- 18 Rev. Budget	FY2016- 17 Actual	Actual vs Rev. Budget		Actual vs Prior Year	
Insurance Proceeds	15,284	-	-	<i>15,284</i>	-	<i>15,284</i>	-
Revenue from Grants	4,780	4,000	3,298	780	19%	<i>1,481</i>	45%
Land Sales	692	500	851	192	38%	<i>(158)</i>	-19%
<b>Total Non-Recurrent Revenues</b>	<b>20,756</b>	<b>4,500</b>	<b>4,149</b>	<b>16,255</b>	<b>361%</b>	<b>16,607</b>	<b>400%</b>

Source: National Treasury

Non-recurrent revenue for the year totalled \$20.8 million (2017: \$4.1 million). Disaggregating the catastrophic risk insurance proceeds received in September and October as a result of higher than normal rainfall attributable to the hurricanes, the other non-recurrent revenues were 23% above the budget, and 33% more than the previous year. The major contributor to this amount was **Revenue from Grants** which included the first tranche of the 11<sup>th</sup> European Development Fund grant of \$4.8 million received during the month of September 2017 for budgetary support. **Land Sales** receipts were \$0.7 million, which exceeded the budgeted outturn by 38% reflecting the swift rebound in the economy, even while being 19% below last year's results.



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**Expenditure Performance**

TCIG’s total expenditure excluding capital for the 2017-18 fiscal year totalled \$218.8 million (2016: \$208.1 million). This represented a reduction in spending for the year of \$9.9 million or 4% from the budget estimates while being \$11.0 million or 5% above the previous year’s outturn.

*Table 21- Recurrent Expenditure*

*figures in US\$'000*

RECURRENT EXPENDITURE	FY2017-18 Actual	FY2017-18 Rev. Budget	FY2016-17 Actual	Actual vs Budget	vs Rev.	Actual vs Prior Year
Total Personnel Costs	87,099	89,538	82,045	2,438	3%	(5,055) -6%
Medical Treatment & Transfers to NHIB	35,885	35,885	26,562	()	0%	(9,323) -35%
Hospital Provisional Charges	20,692	20,699	20,171	7	0%	(520) -3%
Subventions	11,469	11,874	12,924	405	3%	1,455 11%
Maintenance Expenses	9,178	9,131	8,894	(47)	-1%	(284) -3%
Grants and Contributions	6,464	6,660	6,652	196	3%	188 3%
Other Expenses	42,622	49,270	44,898	6,648	13%	2,276 5%
<b>Total Recurrent Expenditure</b>	<b>213,409</b>	<b>223,057</b>	<b>202,146</b>	<b>9,648</b>	<b>5%</b>	<b>(11,263) -6%</b>

Source: National Treasury

With the exception of maintenance, all expenditure heads were below estimates for the year.

The total spend during the current fiscal year included \$87.1 million (40%) for **Personnel Costs**, which was \$2.4 million less than budget as a result of delays in the recruitment process, exacerbated by the passage of the hurricanes. The increase of \$5.1 million (6%) over the prior year results attests to the efforts made in filling vacant positions.

**Medical Treatments and Transfers to NHIB** totalled \$35.9 million and together with **Hospital Provisional Charges** of \$20.7 million accounted for 25% of expenditure. Combined expenditure was 38% more than the prior year’s outturn attributable mostly to the Treatment Abroad Programme, the costs of which increased significantly during the year. The Government is actively pursuing measures which it is hoped, will reduce the cost of healthcare for its citizens while maintaining or improving the delivery of care.

**Subventions** totalled \$11.5 million representing an 11% reduction from last year’s cost of \$12.9 million, while being 3% below the budget. The year over year decrease is due to budgetary allocations to the newly established Invest Turks and Caicos Agency which were partially offset by reductions to the Tourist Board for advertising the Islands.



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**Grants and Contributions** totalled \$6.5 million for the year of which \$3.9 million was spent on Scholarships, \$0.7 million in contributions to Regional Institutions, \$0.5 million on Airline Subsidies, and \$0.4 million in Grants to Private Schools.

Table 22- Other Recurrent Expenditure

*figures in US\$'000*

OTHER RECURRENT EXPENDITURE	FY2017-18 Actual	FY2017-18 Rev. Budget	FY2016-17 Actual	Actual vs Budget	Rev.	Actual vs Prior Year	Prior
Rental of Assets	4,690	4,770	5,118	80	2%	429	8%
SIPT Court Cases	4,375	4,644	4,837	269	6%	462	10%
Utilities	3,009	3,223	3,240	214	7%	231	7%
Professional and Consultancy Services	2,996	3,542	3,630	546	15%	634	17%
Local Travel and Subsistence	2,573	3,050	2,696	478	16%	123	5%
Other Recurrent Expenditure	24,980	30,041	25,377	5,061	17%	397	2%
<b>Total Other Recurrent Expenditure</b>	<b>42,622</b>	<b>49,270</b>	<b>44,898</b>	<b>6,648</b>	<b>13%</b>	<b>2,276</b>	<b>5%</b>

Source: National Treasury

Other recurrent expenditure for the year totalled \$42.6 million (2017: \$44.9 million) which was a 5% decrease below last year's results, while being \$6.7 million or 13% below the budgeted amount. Included in **Other Recurrent Expenditure** is **Finance cost** relating to TCIG's public debt. **Finance cost** totalled \$1.0 million for the year, which was 14% and 22% less than the budgeted amount and last year's outturn respectively. A portion of the savings is attributable to the early repayment of loans from the Caribbean Development Bank (CDB) to TCInvest which was done at the beginning of the fiscal year. The result also represents the non-utilisation of approved available borrowing as well as the early repayment of debt during the previous financial year.



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Table 23-Non-Recurrent Expenditure

figures in US\$'000

NON-RECURRENT EXPENDITURE	FY2017-18 Actual	FY2017-18 Rev. Budget	FY2016-17 Actual	Actual vs Budget	vs Rev.	Actual Year	vs Prior Year
Special Investigation Prosecution Team (SIPT)	3,731	3,942	4,341	211	5%	609	14%
Civil Recovery	729	773	901	44	6%	171	19%
Statutory Land Acquisition	989	1,000	487	11	1%	(501)	-103%
<b>Total Non-Recurrent Expenditure</b>	<b>5,449</b>	<b>5,715</b>	<b>5,729</b>	<b>266</b>	<b>5%</b>	<b>279</b>	<b>5%</b>

Source: National Treasury

Non-recurrent expenditure for the year of \$5.4 million (2017: \$5.7 million) was down 5% from the budget estimates as well as last year's outturn. Of this amount **SIPT** expenses accounted for \$3.7 million (68%), which was 14% less than last year's results and 5% below the budgeted amount. **Civil Recovery** expenses of \$0.7 million were 19% less than last year's outturn while being 6% below budget estimates. Statutory-compulsory land acquisitions were in line with the budget.

**Current Liabilities** comprise refundable deposits and payables from exchange transactions totaling \$6.9 million as well as the principal payments of the debt which is due within the next twelve months, that is, fiscal year 2018-19.

### Public Sector Borrowings

Table 24-Outstanding Public Debt

Outstanding Public Debt	Outstanding Balance 01-Apr-17	Repayment During 2017-18	Outstanding Balance 31-Mar-18	Finance Cost 2017-18	Current Portion 2017-18	Non-current Borrowings 2017-18
Financial Liabilities - Borrowings	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Unsecured</b>						
Caribbean Development Bank	6,720	2,346	4,375	183	1,322	3,053
Citibank Trinidad and Tobago	625	625	-	27	-	-
RBC Royal Bank	20,556	8,556	12,000	448	8,000	4,000
TCI Bank Limited	4,475	1,067	3,408	326	1,067	2,342
<b>Total unsecured debts</b>	<b>32,376</b>	<b>12,593</b>	<b>19,783</b>	<b>984</b>	<b>10,389</b>	<b>9,394</b>
<b>Total outstanding public debts</b>	<b>32,376</b>	<b>12,593</b>	<b>19,783</b>	<b>984</b>	<b>10,389</b>	<b>9,394</b>

Source: National Treasury



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TCIG's outstanding debt as at March 31, 2018 was \$19.8 million (2017: \$32.4 million). Total principal debt repayment for the year was \$12.6 million (2017: \$11.9 million) while total finance costs for the year were \$1.0 million (2017: \$1.3 million). There were no new borrowings during the financial year, neither were there any draw-downs of previously approved-negotiated borrowings. The reduction in the balances includes the early repayment of loans from the CDB; this repayment occurred in the first quarter of the fiscal year. TCIG continues to repay its debt on time and expects that all current borrowings will be repaid as scheduled.

### **Contingent Liabilities**

Estimates of quantifiable commitments and contingent liabilities at the reporting date, stood at US\$1.2 billion as at the end of March 2018. This amount includes an estimated long term commitment of \$345.5 based on the terms of the unitary component of the IHC hospital contract as well as estimates for the equipment & clinical portion of the contract which amounts to \$449.8 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 and the unfunded NIB pension liability of \$323.3 million.

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 March 31st 2018 reflected in contingent liabilities is \$15.2 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.