

FISCAL AND STRATEGIC POLICY STATEMENT 2020-2024



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TURKS AND CAICOS ISLANDS
FISCAL AND STRATEGIC POLICY STATEMENT (FSPS)
2020- 2024

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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 main purpose of the FSPS is to develop a policy paper that puts into perspective the country's macroeconomic environment, which is the basis that is used for medium term budget planning, in line with Government's strategic priorities.

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 successive years and sets out the budget preparation basis and guidance for Ministries, Departments, and Agencies (MDAs).

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

The TCI is a tourism-dependent archipelago within the Caribbean Sea. The unpredictable weather conditions that Caribbean countries have been exposed to over the last decade, have underscored the vulnerability of the Caribbean to fiscal risks and the susceptibility of the TCI to weather related events. Given the fiscal risks that are linked to climate change, the mitigating strategies of the Government in the short, medium and long term include, ensuring that public policies are carefully assessed to integrate climate change resilience and that public investments are aimed at reducing climate change risks, and building resilience, with the ultimate goal of reducing fiscal risks. The Government has embarked on key strategies that are geared towards managing climate change risks (risk mitigating strategies are further discussed in the Fiscal Risk section of this document).



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In a world of increasingly global competition, the Government recognizes that national prosperity has to be created and sustained through innovation and creativity and that a country's success is dependent on the forward-looking and dynamic nature of its firms and citizenry. Hence, it will continue to invest a major part of the annual fiscal space in human capital, quality health care, citizens' security, product development and social welfare. In so doing, it will focus on removal of structural barriers that prohibit competitiveness to unleash a sustainable macro-fiscal environment that is favourable to private sector investments and citizens' wealth creation. The TCI Government will continue to focus on strengthening of its fiscal position by improving the public finance and accountability framework.

The budget is planned against the background that no new taxes or fees are being imposed on the citizenry of the islands in the medium term. Total expenditure excluding capital has been restricted to \$279.0 million or 25.1 percent of GDP. Recurrent expenditure growth is planned at 2.5 percent for the medium term. For Capital Expenditure, \$39.0 million has been allocated for 2020-21. Approximately, \$100.0 million is planned for investment in the island's infrastructure over the next three years. Budget surpluses are planned for the medium term, 2020-2024.



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ECONOMIC OUTLOOK

International Economy

According to the International Monetary Fund (IMF) in its October 2019 edition of the World Economic Outlook (WEO), global economic activity is projected to dip to 3.0 percent in 2019 and rebound by 0.4 percentage point in 2020. This aggregated trend reflects the performance of the following economies: Canada, the United Kingdom (UK), the Euro Area, Latin America and the Caribbean and Emerging Markets and Developing economies. In regards to the projection:

“Global growth is forecast at 3.0 percent in 2019, picking up to 3.4 percent in 2020 (0.1 percentage point lower than in the April WEO projections). GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity. Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-term spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remains sluggish. The projected growth pickup in 2020 is precarious, presuming stabilization in currently stressed emerging market and developing economies and progress toward resolving trade policy differences.”

Table 1- International Economic Assumptions

	Actuals	Actuals	Projections	
	2017	2018	2019	2020
World Growth	3.8	3.6	3.0	3.4
US	2.2	2.9	2.4	2.1
Canada	3.0	1.9	1.5	1.8
UK	1.8	1.4	1.3	1.4
China	6.8	6.6	6.1	5.8
Euro Area	2.4	2.2	1.5	1.6
Latin America and the Caribbean	1.2	1.0	0.2	1.8
Emerging Markets and Developing Economies	7.4	4.5	3.9	4.6
Low- Income Developing Countries	4.7	4.9	4.9	5.1

Source: IMF World Economic Outlook – October 2019

Advanced economies are forecasted to experience growth to the tune of 1.7 percent in 2019 and 2020. This performance echoes consistent declines since 2017 and pales in comparison to the growth levels and anticipated 2020 recoveries for Emerging and Developing economies. In 2018,



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growth was better than expected for the United States of America (US) but is expected to dip to 2.4 percent in 2019 and further decline to 2.1 percent in 2020. Tumultuous trade relations between the US and China and prospect of US sanctions are deemed to be one of the instigators behind the country's worsening economic performance. This is of critical importance as the US is the major trading partner of the Turks and Caicos Islands.

The United Kingdom is expected to grow by 1.2 percent in 2019 and 1.4 percent in 2020 (0.1 percentage point higher in 2019 than forecasted in the April WEO). This slight growth is anticipated due to pre- Brexit inventory accumulation and stockpiling. The Euro area is projected to grow at 1.5 percent in 2019 and improve to 1.6 percent in 2020 due to anticipated recovery in external demand. The Canadian economy though experiencing growth is expected to be affected by the strains and uncertainties surrounding the North American Free Trade Agreement (NAFTA).

The Chinese economy is anticipated to grow by 6.1 percent in 2019 and 5.8 percent in 2020, a decline by 0.8 percentage point from 2018. The projected declines are influenced by China's intensifying trade tensions with the US and consequent confidence effects. The first quarter Gross Domestic Product (GDP) in China was stronger than forecasted but indicators for the second suggest a weakening of economic activity. This poses a risk for economic activities within the Caribbean region. Although the economy of India anticipated growth of 7.0 and 7.2 percent for the years 2019 and 2020 respectively, these projections were constrained due to reduced domestic demand and is now projected at 6.1 percent and 7.0 percent for the years 2019 and 2020 respectively.

Among the Low-Income Developing Countries, economic growth is projected to increase by 5.0 percent in 2019 which is 0.1 percentage point higher than the April 2019 WEO projection. Improvements for these countries can be realized once fiscal expenditure prioritizes debt containment and infrastructural development over poorly targeted subsidies. The IMF further estimated that the average growth rate of economies within the Caribbean would dip from 4.7 percent in 2018 to 3.3 percent in 2019. It is forecasted that this growth will slightly increase to 3.7 percent in 2020.

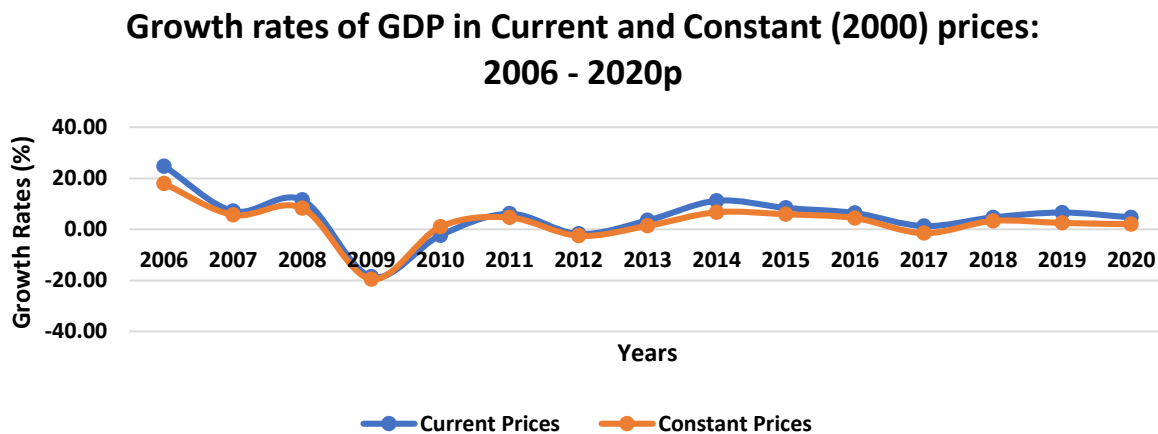


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Domestic Economy

The TCI economy remains relatively stable and future projections are for continuous positive growth as both private and public sector capital projects that are currently in the pipeline begin to materialize. The TCI Statistics Department’s preliminary projections revealed continued positive economic growth over the period 2019 to 2021. Real GDP is forecasted to grow by 3.8 percent in 2019 and to dip slightly by 0.6 percentage points in 2020 and is forecasted to remain positive in 2021. This overall positive growth is attributed to contributions from the hotel and restaurant, construction and real estate sectors.

Table 2- Growth Rate of GDP



Source: Statistics Department

The construction, hotel and restaurant and real estate sectors are all projected to increase by more than 3 percent in 2019 and 2020 and is forecasted to experience positive growth in future years. The agricultural and fishing sector is projected to improve slightly by 2 percent in 2019, whilst the transportation, storage and communication sector is forecasted to realize the same degree of growth in both 2019 and 2020. Although the growth rates for the TCI sectors are relatively low, optimism still remains, since positive growth is being realized despite the setbacks from the 2017 Hurricanes.

Construction activity will be propelled by foreign direct investment in large-scale tourism related and other projects. These projects include the Ritz Carlton which is at an advanced stage and is set to open in 2021. This project has 124 hotel rooms and 60 condos, the latter of which is being



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sold at competitive prices. Sales are ongoing which are impacting the real estate sector. These activities will be complemented by increased public sector spending on capital works as the Government find ways of ensuring the capital budget is executed. This sector is also boosted by projects funded from the TCIG/ Carnival Infrastructure Fund.

The TCI's economy is vulnerable to external shocks; this is evidenced by its trend in domestic economic activity over the last decade. The national economy continues to rebound from the devastating effects of Hurricanes Irma and Maria and is set to achieve sustained economic growth going forward. The local economy is back on the path to sustainable international competitiveness in the tourism industry as the TCI brand of tourism remains strong in the midst of economic and environmental hurdles. This is of critical importance given the importance of tourism to the national economy (see Table 3 below). The strategic efforts and investments made today are on chart to further enhance and cement the unmatched tourism product the TCI has to offer.

Table 3 Domestic Macroeconomic Assumptions – 2014 to 2020

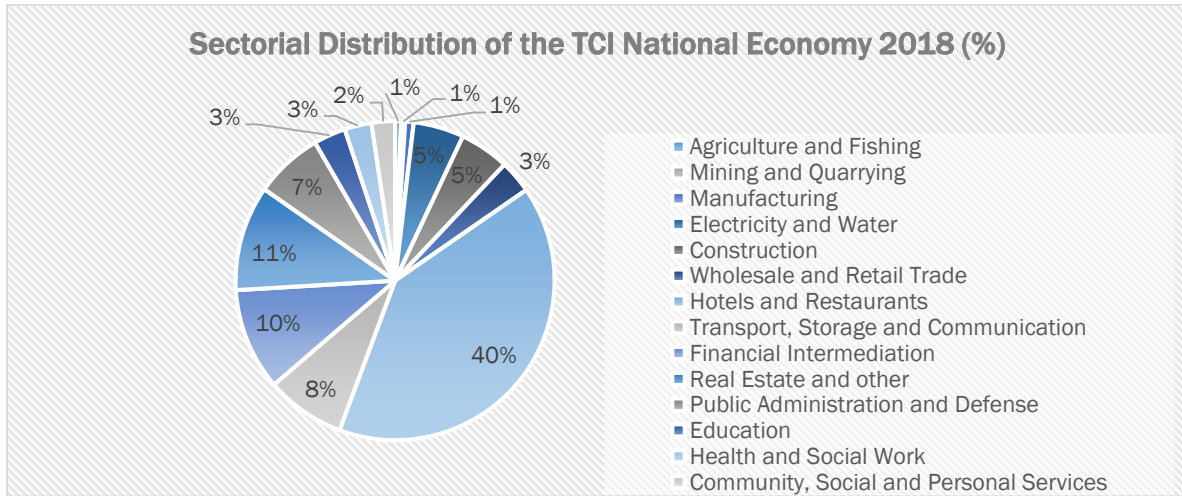
	Actuals	Actuals	Estimate	Estimate	Projections	Projections	Projections
	2014	2015	2016	2017	2018	2019	2020
Nominal GDP (bill. US\$)	0.82	0.89	0.95	0.96	1.01	1.06	1.15
Nominal GDP Growth (%)	11.2	8.4	6.4	1.3	4.7	6.6	5.4
Real GDP (%)	6.7	5.9	4.4	-1.5	3.2	3.8	3.2
CPI (%)	2.3	2.2	2	2.1	2.1	2.2	2.1
Population	35.2	36.7	37.9	39.8	41.4	43	44.5
Real GDP per capita (\$)	16,557	16,737	16,992	15,941	15,738	15,835	15,759
Value of Imports (\$MN)	406.3	409.7	389.3	432.6	483.7	499.6	529.6
Exports (\$mn)	6.5	4.6	4.5	2.3	5.8	7.5	7.7
Balance of Trade	-407.6	-405	-384.8	-430.2	-477.9	-492.1	-521.9
Foreign Direct Investment (%)	5.6	5.8	4.4	-1.0	2.5	3	2.5
Unemployment (%)	12	11	7	6	7	7	7

Source: Statistics Department



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Figure 1- Sectoral Distribution of Turks and Caicos Islands Economy



Source: Statistics Department

Table 4 illustrated below, tracked the Real GDP and Real GDP per capita performance for the period 2010 to 2020. Both indicators suggest that the TCI has made significant advances over the same period. Real GDP is projected to have increased from \$527.9 million in 2010 to a projected \$701.9 million in 2020. Since the 2017 hurricanes, the TCI has been on the mend and is forecasted to realize annual increases of 3.2 percent and 3.8 percent annually, for the periods 2019 and 2020 respectively. In the wake of strategic capital development geared towards the islands' recovery and projected large-scale development projects, further increases are anticipated for 2021 and 2022. Real GDP per capita is forecasted to have increased from \$15,302 in 2010 to a projected \$15,759 in 2020. Whilst this indicator, which seeks to depict optimum income distribution, would have generally increased over the past decade, it would have consistently declined from a high of \$16,992 in 2016 to a projected low of \$15,759 in 2020. The Statistics Department attributed this contradictory downward trend to the consistent rise in the population due to immigrants as the economy recovered.



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

Year	Real GDP \$m	Real GDP Per Capita (\$)
2010	527.9	15,302
2011	552.3	16,487
2012	538.3	16,719
2013	545.7	16,203
2014	582.3	16,557
2015	616.9	16,737
2016	644.0	16,992
2017	634.4	15,941
2018	655.0	15,738
2019	680.2	15,835
2020	701.9	15,759

Source: Statistics Department

The economy of the TCI is relatively small in comparison to other countries. 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. As a consequence, 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.

Construction

The construction sector is forecasted to grow at an average of three (3) percent over the period 2019 to 2021 and is projected to realize further growth in future years. Activities of businesses and private individuals together with continued repair of properties continue to drive the construction sector. This should continue in 2020 and will be complemented by other private sector developments. In addition, the Government has allocated \$36.6 million to capital programmes, which will focus on infrastructural development, national security, improved physical working conditions and community based projects which will greatly impact the performance of the construction industry going forward.



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Foreign direct investment is also propelling growth in the construction sector from large-scale tourism related and other small scale projects. These projects include the Ritz Carlton which is currently at an advanced stage along with other projects in the private sector. These are complemented with ongoing capital projects which include the Iris Stubbs Primary school in South Caicos, the Marjorie Basden High School, and the Enid Capron Primary School in addition to repairing other government buildings which were badly damaged or destroyed by the hurricanes in 2017.

The real estate sector performed relatively well in 2017 and 2018 and is forecasted to increase by approximately 3.7 percent in 2019 and at an average of 3 percent in 2020 and 2021.

The unemployment rate is forecasted to remain relatively stable at 7 percent over the period 2019 to 2021, while inflationary pressures should continue to be well contained in the region of 2.0 to 3.0 percent over the near-term. These forecasts are based on the current economic climate and anticipated changes within the medium term.

Agriculture and Fishing

The Agriculture and Fishing sector currently contributes less than 1.0 percent to the Turks and Caicos Islands GDP. However, this sector is projected to increase by 2.0 percent in 2019 and further growth is anticipated in 2020 and 2021. In recent years, the government has taken steps to properly police and educate fishermen about the dangers of bleaching the coral reefs and improved its enforcement efforts. This has resulted in less catching of under-sized lobsters and less illegal activities. These factors contribute to the projected increases in the fishery sector going forward.

Tourism

The tourism sector continues to be the main pillar of the TCI's economy, which realized a major turnaround during the period leading up to 2016 but contracted in 2017. This decline was as a consequence of Hurricanes Irma and Maria, which forced the complete closure of major hotel properties and villas, along with the cancellation of flights to the TCI during the period September to December 2017. Information from the Tourist Board revealed that stay-over arrivals into the TCI increased by 6.1 percent in 2018 and is forecasted to have continued growth over the next three (3) years. The Hotel and Restaurant sector is expected to continue its dominance as the major contributing sector to the TCI's GDP. The Tourism Sector is forecasted to increase, on average in the region of 3 percent over the next three (3) years. The projected



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increase in the hotels and restaurants sector reflects the projected increase in the number of stay-over visitors, together with the increase in the cost of a room per night. This sector is expected to realize even further growth in future years due to the completion of the Ritz Carlton and other villa properties currently under construction.

Trade

Data from the Department of Statistics show that merchandise value of imports increased by 11.8 percent in 2018 when compared with the same period in 2017. This was largely associated with reconstruction and other recovery activity in the aftermath of the two (2) Hurricanes. Merchandise imports is forecasted to increase on average by 5 percent over the period 2019 to 2021. Exports from the TCI in 2018 were valued at \$5.8 million when compared to \$2.3 million during the same period in 2017. This resulted in an overall merchandise trade deficit of approximately (\$477.9) million within the same period and an increase in the overall negative trade balance by 11.1 percent. The dismal export performance reflects primarily the narrow range of goods exported from the TCI. Overall imports are projected to increase over the period 2019 to 2021, especially imports related to construction materials, as the construction activity continues and new projects are implemented.

Downside Risk

In the midst of the positive sentiment for both the global and national economies, the TCI is always mindful that inherent and external risks can pose a serious threat to projected growth being materialized. The TCI is highly dependent on the US for the importation of goods and services. It is also the dominant target market for tourist arrivals. Should the US realize any economic crises in the forms of stagflation and lower economic growth, this could negatively impact the TCI economy through high inflation and lessened economic activities due to lower tourist arrivals. Additionally, US trade tensions under the NAFTA agreement and with China poses a negative risk to the TCI which can diminish its prospects for available foreign direct investments for private sector projects. The uncertainty surrounding the BREXIT agreement between the UK and the EU also poses a long-term risk for the TCI with respect to capital projects' funding assistance.

Internally, increasing criminal activities within the TCI, can threaten the economic backbone of the nation. Although TCI's natural capital inherently realizes its "Beautiful by Nature" slogan, unfortunate criminal incidents can impose irreparable harm on the tourism sector. Strategic



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national efforts are currently being implemented to mitigate against any looming threat against the tourism sector given its importance to the local economy.

In the midst of uncertainty, unforeseen negative global macroeconomic and financial shocks can constrain TCI's economic performance. Oil spills, increase in fuel costs and unanticipated public health concerns are other factors which may harm TCI's economic health. Noteworthy is the TCI's vulnerability to hurricanes during the June to November period, since it can dampen economic activities due to infrastructural damage, hotel closures, flight cancellations as well as other economic disturbances. In the midst of these risks, positive economic growth is still anticipated for the Turks and Caicos Islands over the next few years, given its efforts to become more resilient and its adaptive approach in this dynamic global economic environment.

Outlook for 2020

The TCI economy continues to experience economic growth as a consequence of its strategic fiscal decisions made over the medium term. Since the 2017 hurricanes, the TCIG capital development focused on renovation of buildings and construction, and enhanced climate resilience. This has helped with stimulating economic activity. Foreign direct investments geared towards the tourism sector of the Turks and Caicos Islands and consequential construction requirements, continue to stimulate business confidence and economic growth. Although economic growth in the Turks and Caicos Islands has not been aggressive, it has still been stable and positive; laying the foundation for improved performance in years to come.

The TCI recognizes the importance of practicing fiscal prudence as an important aspect of its future growth and development prospects. Consequently, the Government seeks to ensure that its short-run macroeconomic management (three year plans) and Medium Term Development Strategy, intentionally complements its long- run development policy initiatives (Vision 2040).

In the midst of its unavoidable challenges, an optimistic economic outlook is anticipated for the Turks and Caicos Islands over the next three (3) years. This is as a result of the Turks and Caicos Islands' resilience over the years and its courage to adapt to the dynamic global environment. Strategic measures have been put in place to realize growth through key institutions. One of these institutions is InvestTCI, which is the investment promotion agency for the TCI which provides an enabling business environment in the TCI for local and foreign investment. These investment initiatives seek to develop projects which not only reap competitive returns but also benefit the



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national economy through employment, personal income and tax revenue prospects. The Micro, Small and Medium Enterprise (MSME) programme is another venture implemented by Invest TCI to promote export development among the islands whilst incrementally laying the foundations for economic diversification through its core priority areas.

The Government will continue its implementation of the recommendations of the National Tourism Strategic Policy which should help the TCI to realize further development of the tourism sector. The main objective of the strategic policy is to foster sustained increases in the tourism industry over the next few years and improve the competitiveness of the TCI within the region. The strategic emphasis of the plan seeks to increase and diversify tourist arrivals from other destinations, while simultaneously maintaining or increasing the number of arrivals from its core target market (US and Canada). In the midst of these objectives, to grow and optimize the value of the TCI tourism product as well as protection of its natural capital is paramount. 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 for the TCI.



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AGGREGATE FINANCIAL TARGETS

The aggregate financial targets for core Government operations, that are listed below have been established for the 2020-21 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 (3) categories: operating, balance sheet and cash flow.

Table 5-Aggregate Financial Target

FINANCIAL MEASURES	2017/18	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24
	Unaudited Actuals \$'000s	Unaudited Actuals \$'000s	Approved Estimate \$'000s	Forecast Outturn \$'000s	Estimate \$'000s	Projection \$'000s	Projection \$'000s	Projection \$'000s
OPERATING TARGETS								
Recurrent Revenue	261,416	303,844	304,789	313,704	320,106	329,709	339,601	349,789
Non-Recurrent Revenue	20,756	11,181	1,053	1,568	4,821	821	821	821
Total Revenue	282,173	315,025	305,842	315,272	324,927	330,530	340,421	350,609
Recurrent Expenditure	208,808	219,490	247,490	236,578	270,059	268,967	267,691	274,384
Non-Recurrent Expenditure	10,050	9,359	10,258	8,621	8,952	8,823	43	33
Total Operating Expenditure	218,858	228,849	257,748	245,199	279,011	277,789	267,734	274,417
Surplus Before Capital Programme	63,315	86,176	48,094	70,073	45,916	52,741	72,687	76,193
Capital Development Projects	(17,762)	(32,756)	(36,586)	(36,586)	(39,000)	(30,000)	(30,000)	(30,000)
Transfer In -National Wealth Fund	-	(8,015)	-	-	-	-	-	-
Net Operating Surplus	45,553	45,404	11,508	33,487	6,916	22,741	42,687	46,193
BALANCE SHEET TARGETS								
Net Government Debt	20,714	(32,372)	(51,562)	(55,827)	(69,983)	(98,638)	(147,239)	(199,345)
CASH FLOW TARGETS								
Opening Cash Balance	47,204	80,593	116,304	116,304	127,020	132,244	155,430	198,563
Net Operating Cash Surplus	45,553	45,404	11,508	33,487	6,916	22,741	42,687	46,193
Other Net Cash Inflows	429	697	697	697	697	697	697	697
Debt Repayment	(12,593)	(10,389)	(6,427)	(6,427)	(2,389)	(251)	(251)	(251)
*National Wealth Fund-In	-	-	-	(17,714)	-	-	-	-
New Borrowing	-	-	673	673	-	-	-	-
Closing Cash Balance	80,593	116,304	122,755	127,020	132,244	155,430	198,563	245,202
TCNWF Balances*	-	8,015	8,000	25,729	25,729	25,729	25,729	25,729

Source: Prepared by the Budget Office

Operating Targets

The operating targets reflect the three (3) main areas from the operating statement: operating revenue, operating expenses and operating surplus. The operating surplus is the key operating measure.

According to Table 5, total revenue in 2020-21 is forecast at \$324.9 million or \$9.7 million above the forecasted outturn for 2019-20 and \$9.9 million above the unaudited actuals of 2018-19.



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Total expenditure before capital contribution is forecast at \$279.0 million, an increase of \$33.8 million or 13.8 percent over the forecast outturn or \$22.3 million or 8.6 percent above the approved budget of 2019-20 and \$50.2 million or 22.0 percent above the unaudited actuals for 2018-19. Capital Expenditure is forecast at \$39.0m. The forecast is for an operating surplus in 2020-21 and the three (3) following years.

Balance Sheet Targets

Core Government assets and liabilities are reported as targets. Fixed assets are not currently recorded in the Government accounts. A new Fixed Asset Policy was approved in the 1st Quarter of 2019-20, which would allow for the inclusion of fixed assets on the Balance Sheet. Net Government debt is forecast at negative \$70.0 million which augurs well for fiscal risks management.

Cash Flow Targets

Net operating surplus before debt repayment is forecast at \$6.9 million in 2020-21 or 2.2 percent of recurrent revenue; \$22.7 million in 2021-22, \$ 42.7 million by 2022-23 and \$ 46.2 million in 2023-24. These operating cash flows will better enable the Government to respond to economic shocks.



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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 intention is for compliance to be met in all areas in 2020-21.

Table 6-Compliance with Principles of Responsible Financial Management

PRINCIPLES	DEGREE OF COMPLIANCE	
Operating Surplus: should be positive all years Operating Surplus = Total Operating revenue - Total Operating expenditure	Complies in all years	
	2013/14	25,851
	2014/15	67,781
	2015/16	47,395
	2016/17	30,803
	2017/18	45,553
	2018/19	45,404
	2019/20	11,508
	2020/21	6,916
	2021/22	22,741
2022/23	42,687	
2023/24	46,193	
Debt Service: Debt servicing cost for the year should be no more than 10% of core revenue by the end of fiscal 2018/19 (Debt servicing = interest + principal repayments + other debt related expenses + transfers to the Sinking Fund)	Complies by the end of Fiscal year 2016/17	
	2013/14	17.0%
	2014/15	33.9%
	2015/16	20.4%
	2016/17	6.3%
	2017/18	5.2%
	2018/19	3.6%
	2019/20	2.3%
	2020/21	0.8%
	2021/22	0.1%
2022/23	0.1%	
2023/24	0.1%	
Net Debt : Should be no more than 110% of core revenue by fiscal 2015/16 and 80% of revenue by the end of 2018/19 (Net debt = Government debt balances + weighted outstanding balance of statutory entities guaranteed debt - government cash balances)	Complies in 2014/15 and 2014/15	
	2013/14	129.9%
	2014/15	75.9%
	2015/16	44.0%
	2016/17	32.8%
	2017/18	7.9%
	2018/19	-10.7%
	2019/20	-16.9%
	2020/21	-21.9%
	2021/22	-29.9%
2022/23	-43.4%	
2023/24	-57.0%	
Liquid Cash Reserves: Should be no less than 90 days of estimated expenditure by the end of financial year 2018/19 At least 90 days in 2018/19: Liquid cash reserves = government cash balances + Sovereign Wealth Fund balance	Complies by the end of Fiscal year 17/18	
	(DAYS)	
	2013/14	30
	2014/15	32
	2015/16	56
	2016/17	88
	2017/18	141
	2018/19	207
	2019/20	236
	2020/21	214
2021/22	246	
2022/23	306	
2023/24	360	
Financial Risks: Should be managed prudently so as to minimise risk	Complies in all years Insurance coverage exist for key assets and major potential liabilities. Hurricane and other natural disaster preparedness strategy in place	

Source: Budget Office



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Operating Surplus

Operating surplus is forecast to be positive in all years (operating surplus is discussed further under budget aggregates).

Public Debt and Debt Servicing

Debt repayment and servicing are addressed in detail under “Strategy 2 – Management of Public Debt”.

Liquid Cash Reserves

Liquid Cash Reserves is including the Turks and Caicos National Wealth Fund (TCNWF), if the Fund or a part thereof, will be easily converted to cash. The compliance target requires a minimum of ninety (90) days planned expenditure by the fiscal year 2018-19. The forecast is to have two hundred and fourteen (214) days of planned expenditure as at fiscal year 2020-21. 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 2020-21 budget and the financial outlook for 2021-22 to 2023-24 is prepared. The forward projections are based on a set of medium-term estimates which will be adjusted 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.

Table 7- Turks & Caicos Islands Government General Government Sector Budget Aggregates

	Unaudited Actuals	Unaudited Actuals	Forecast Outturns	Estimates	Projections			Totals
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Recurrent Revenue	261,416	303,844	313,704	320,106	329,709	339,601	349,789	2,218,169
Per cent of GDP	27.23%	30.08%	29.59%	28.84%	28.42%	28.07%	28.91%	
Recurrent Expenses	(208,808)	(227,505)	(236,578)	(270,059)	(268,967)	(267,691)	(274,384)	(1,753,992)
Per cent of GDP	21.75%	22.53%	22.32%	24.33%	23.19%	22.12%	22.68%	
Underlying cash balance	52,608	76,339	77,125	50,047	60,743	71,909	75,405	464,177
Per cent of GDP	5.48%	7.56%	7.28%	4.51%	5.24%	5.94%	6.23%	
Total Revenue	282,173	315,025	315,272	324,927	330,530	340,421	350,609	2,258,957
Per cent of GDP	29.39%	31.19%	29.74%	29.27%	28.49%	28.13%	28.98%	
Total Expenses	(218,858)	(236,864)	(245,199)	(279,011)	(277,789)	(267,734)	(274,417)	(1,799,873)
Per cent of GDP	22.80%	23.45%	23.13%	25.14%	23.95%	22.13%	22.68%	
Net operating balance	63,315	78,160	70,073	45,916	52,741	72,687	76,193	459,084
Net capital investment	(17,762)	(32,756)	(36,586)	(39,000)	(30,000)	(30,000)	(30,000)	(216,104)
Fiscal balance	45,553	45,404	33,487	6,916	22,741	42,687	46,193	242,980
Per cent of GDP	4.75%	4.50%	3.16%	0.62%	1.96%	3.53%	3.82%	
GDP	960,000	1,010,000	1,060,000	1,110,000	1,160,000	1,210,000	1,210,000	

*GDP forecast for 2019/20 -2022/23 provided by STATS and 2023-2024 by S&P

Table Prepared by Budget Office

Recurrent receipt of \$320.1 million or 28.8 percent of GDP are expected to be approximately \$6.4 million higher in 2020-21 than the forecast outturn 2019-20 and \$16.3 million higher than the actual performance for 2018-19. Non-recurrent revenue is \$4.8 million. Total revenue is



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\$324.9 million or 29.3 percent of GDP. The forward years' outlook is forecast to grow by 3 percent.

Recurrent expenditure of \$270.0 million or 24.3 percent of GDP are expected to be approximately \$33.5 million higher in 2020-21 than the forecast outturn 2019-20 and \$42.6 million above the performance 2018-19. Due to prudent fiscal planning total expenditure excluding capital has been restricted to \$279.0 million or 25.1 percent of GDP. Recurrent expenditure growth is planned at 2.5 percent for the future years. Recurrent expenditure in 2021-22 to 2023-24 are projected at \$269.0; \$267.7; \$274.4 million respectively. \$39.0 million has been allocated for 2020-21 and \$30m for each successive years in the medium term. Net Capital Investment for 2019-2024 is expected to amount to \$165.6 million.

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

	Unaudited	Unaudited	Forecast	Estimate	Projections		
	Actual	Actuals			2021-22	2022-23	2023-24
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash Receipts							
Recurrent Revenue/ Operating cash receipts	261,416	303,844	313,704	320,106	329,709	339,601	349,789
Non Recurrent Receipts	20,756	11,181	1,568	4,821	821	821	821
Total cash receipts	282,173	315,025	315,272	324,927	330,530	340,421	350,609
Cash Payments							
Recurrent Expenditure/Operating cash payments	208,808	227,505	236,578	270,059	268,967	267,691	274,384
Non Recurrent Expenditure	10,050	9,359	8,621	8,952	8,823	43	33
Capital Expenditure	17,762	32,756	36,586	39,000	30,000	30,000	30,000
Total cash payments	236,620	269,621	281,785	318,011	307,789	297,734	304,417
Underlying cash balance	52,608	76,339	77,125	50,047	60,743	71,909	75,405
Per cent of GDP	5.48%	7.56%	7.28%	4.51%	5.24%	5.94%	6.23%
Fiscal Balance	45,553	45,404	33,487	6,916	22,741	42,687	46,193
Per cent of GDP	4.75%	4.50%	3.16%	0.62%	1.96%	3.53%	3.82%
GDP	960,000	1,010,000	1,060,000	1,110,000	1,160,000	1,210,000	1,210,000

Source: GDP forecast for 2019-20 to 2022-23 provided by SPPD and 2023-2024 by S&P

Table Prepared by Budget Office

An underlying cash balance which is the net recurrent cash flow is projected at \$50.0 million or 4.5 percent of GDP in 2020-21. It is expected to continue to improve into 2021-22 to a surplus of \$60.7 million or 5.2 percent of GDP; 2022-23 to \$71.9 million or 5.9 percent; 2023-24 to \$75.4 million or 6.2 percent.



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Fiscal Balance/Operating Surplus which is the net cash flow after capital expenditure, is projected at \$6.9 million or 0.6 percent of GDP in 2020-21. It is expected to continue to improve into 2021-22 to a surplus of \$22.7 million or 1.9 percent of GDP; 2022-23 -\$42.7 million or 3.5 percent; 2023-24 - \$46.2 million or 3.8 percent.

The Government continues to pursue a sustainable macro-fiscal environment that encourages and enhances private sector (local and foreign) investment. The plan is to impose no new taxes on the citizenry, as such, the expenditure growth target is restraint at 9 percent over the approved budget of 2019-20. Approximately 13.9 percent of the planned expenditure in 2020-21 and the immediate forward years is being directed to capital investments. Table 9 below, shows the budget reconciliation details and the revised baseline ceilings for the medium term.

Table 9-Baseline Budget Ceiling

	2020-21	2021-22	2022-23
	Budget Ceiling	Forward Estimates	Forward Estimates
	\$'000s	\$'000s	\$'000s
Budget and Forward Estimates (rolled forward from 2019-20 budget document)	276,539	277,517	277,517
+ Forward Year Impact of 2019-20 Post-Budget Decisions	1,701	(30)	(30)
+ National Audit Office - Audits	400		
+ Forward Year SIPT Legal Aid	4,460	4,460	-
+ Forward Year SIPT Civil Recovery	700	-	-
+ Forward Year SIPT Prosecution	3,610	3,610	-
+ Forward Year Gratutities and Pension	100	100	100
+ Adjustment of New Spending Requests Approval	30,500	20,363	20,897
BASELINE BUDGET CEILING	318,011	306,021	298,485

Source: Budget Office

Spending priorities will be pursued subject to the TCI 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 that are discussed below.



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Strategy 1 - Controlling Government Expenditure –Spending Priorities

In 2020-21 the operating expenditure target is \$279.0 million, \$33.8 million or 13.8 percent above the forecast outturn of 2019-20. Recurrent expenditure new spend proposals from Ministries Department and Agencies (MDAs) for the fiscal year totaled \$35.3 million including new staffing needs of three hundred and fourteen (314) posts costing \$13.4 million. Given the existing constraints on recurrent revenue streams, the fiscal space for new spending approval for the 2020-21 fiscal year is \$30.5 million. Table 11 below, illustrates the allocations into categories and by ministries. Consistent with the focus to restrain recurrent expenditure, whilst augmenting the investment plan of the islands: a further \$9m has been allocated to the capital expenditure programme (revised to \$39.0m) and \$21.5m to recurrent expenditure.

Table 9-Budget Allocations by Ministry

Ministries	2020/21					2021/22	2022/23
	Baseline Budget Ceiling R/F from 2019-20	Post Budget Decisions	New Spends	Revised Based Line Ceiling	% of Total Expenditure	Forward Estimates	Forward Estimates
	\$'000	\$'000	\$'000	\$'000	%	\$'000	\$'000
Office of the Governor	7,223	410	972	8,605	2.7%	20	20
Police	22,332	5,078	2,150	29,560	9.3%	7,521	3,911
Attorney General's Chambers	5,595	690	725	7,010	2.2%	427	427
Judicial Administration	4,035	4,440	-	8,475	2.7%	4,460	-
Statutory Charges	46,980	97	12,085	59,162	18.6%	1,697	1,697
Ministry of Immigration, Citizenship, Labour and Employment Services	11,078	(122)	1,521	12,477	3.9%	666	666
Ministry of Finance, Trade and Investment	21,191	(46)	750	21,895	6.9%	390	390
Office of the Deputy Governor	2,639	(15)	-	2,624	0.8%	-	-
Ministry of Education, Youth, Culture, Social and Library	35,344	5	3,311	38,661	12.2%	4,626	4,857
Office of the Director of Public Prosecution	1,589	(0)	-	1,589	0.5%	-	-
Ministry of Home Affairs, Public Utilities and Transportation	10,553	858	987	12,399	3.9%	1,699	1,699
Office of the Deputy Premier, Ministry of Infrastructure, Housing, Planning and Development	17,378	10	665	18,052	5.7%	665	665
Ministry of Tourism and Environment	8,778	(521)	2,772	11,030	3.5%	1,793	2,096
Ministry of Health, Agriculture and Human Services	75,389	(13)	3,525	78,901	24.8%	3,477	3,477
House of Assembly	3,175	-	36	3,211	1.0%	36	36
Office of the Premier, Local Government and Community A	3,261	100	1,000	4,361	1.4%	1,025	1,025
BASELINE RECURRENT BUDGET CEILING	276,539	10,971	30,500	318,011	100.0%	28,504	20,967

Source: Budget Office

Allocation to the Ministry of Health, Agriculture, Sports and Human Services will account for \$78.9 million or 24.8 percent of the national expenditure; Ministry of Education, Youth, Culture and Library Services \$38.6 million or 12.1 percent; Police - \$29.6 million or 9.3 percent; Finance \$21.9 million – 6.9 percent; Infrastructure, Housing and Planning - \$18.1 million or 5.7 percent;



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Home Affairs, Transportation and Communication -\$12.3 million or 3.9 percent; Governance - \$8.6 million or 2.7 percent and Office of the Premier - \$4.4 million or 1.4 percent. *(The allocations by Ministry are indicative and may be subject to adjustments as the budget progresses).*

Investment in Human Capital

The economic development of the islands is hinged on the quality of its human capital, as such the government will invest greater than 10 percent of the fiscal space for 2020-21 into early childhood, primary and vocational education. This will be achieved through, professional development and vocational education and training.

Spending priorities are aimed at linking the education system to the labour market by addressing the existing gap of labour force skills, providing adequate training facilities, increasing stipends to private institutions and increasing government scholarships.

- Early Childhood Education – Priority has been given to fully fund training programmes that are geared toward improving teaching capacity in early childhood education and the monitoring and assessments (inspections) of the early childhood centers.
- New Primary School in Providenciales – The construction of the first phase of the new primary school in Providenciales is scheduled for completion in the 1st Quarter of 2020-21. In September 2020, the first group of students will attend the school. Provision is being made to fund the recurrent costs of the school in 2020. This will allow for the school to be properly staffed, so that a rich and robust curriculum can be delivered to students to provide them with relevant, balanced educational experiences to promote lifelong learning and the development of the skills and competencies to fully access the high school curriculum. The provision of adequate spaces for children in primary education is a priority of the Government. This is captured in the Education Sector Plan 2018-2022 and other policy documents on education and national development.
- Technical Vocational Education Training (TVET)– a major priority of the government is to invest in the TVET and skills development, which will allow for the linking of the labour market to vocational education and training. Spending approval has been granted to facilitate the opening of a technical vocational school on Providenciales. The school will address the skills gap identified in the Labour Market Survey and National Skills



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Audit with the aim to ensuring that there is a pool of skills that can be utilized in the labour market and reduce the current dependence on imported labour.

- Private School Subsidies – Funding is being requested to allow the Government to meet its commitment to private schools participating in the Private School Subsidy Programme. Private schools participating in the programme provide an invaluable service to the Government and people of the country by accepting children who are considered the overflow when spaces are filled in public schools. Paying the schools at the increased rate would help them meet their overhead costs inclusive of their cost to remunerate teachers.
- School Nutrition Plan and Fitness Policy – In the fiscal year, funding is being prioritized to allow for the student population to be educated on healthy lifestyle practices that will reduce the financial burden of Chronic Non-Communicable Diseases (CNCDs) on the population.

Investment in Quality Healthcare Services

Healthy economies are synonymous with healthy citizenry. Thus investment in quality healthcare services is a major priority of the Government. The Government in partnership with the constituents, will continue to invest over 10 percent of the fiscal space for 2020-21 into the development of the social and physical environments that will improve the quality of life of the citizenry. The aim is to promote good health for all, improved quality of life and whilst improving the economic health of the country. The Government recognizes that while the individuals may be responsible for their lifestyle choices, the ability to make the choices is also dependent on the environment that extends beyond the individual. Reducing Barriers to improved Health.

- In the medium term, the Government will make resources available for the transformation of the Sports Department to a Statutory Authority. The aim is to develop sports within the islands and to make sports work for all. Whilst individual development (leadership, discipline, resilience, competitiveness, self-esteem, tolerance etc.) is critical, mental wellbeing, social and community development, economic development and physical wellbeing are also being flagged as the priority of the transformed Sports



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Commission. The Government believes that an investment in sport is a dollar well spent; a dollar that will yield great returns; a healthier, safer and more prosperous TCI.

- Allocation has been made available to continue the strengthening of the Primary Health Care Services - environmental health, emergency medicine, mental health and special needs. The continuous monitoring of the Private Public Partnership (PPP) contracts for the two hospitals is being given priority attention.

Investment in National Security and Border Protection

Policing

The islands continue to face challenges in the area of crime and the Government continues to provide the much needed resources. The Government has prioritized funding for the Police to support community policing, to strengthen Tactical Unit and to re-establish the Drug Unit.

National Security

National Security Secretariat Unit(NSSU)

The Government's vision is to centralize national security to allow for the best use of its resources. The Government was successful in crafting the first National Security Strategy that identified key threats to TCI. Consequently, the Government will establish a National Security Secretariat to provide oversight to the management of these threats. The Government remains committed in its vision for a more formal and permanent partnership between the border management and protection enforcement arms of Government. The NSS Unit will lead the process on the establishment of the Border Protection Unit which will have this as a part of its remit.

Contingency Force

The Government believes that the TCI is at a level of maturity and can benefit from the establishment of a Contingency Force. To this end, the Government will invest in core staffing to commence this critical initiative.

Immigration and Border Protection

The Government is committed to border protection and the improvement of service delivery of immigration services. A further investment in manpower for the Immigration Department is key to delivering Government's objectives for a stronger border management system.



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Prison Management

The Prison continues to undergo structural reform in human and physical resources. The Government is committed to providing offender management programs under a full redevelopment of the facility with a central rehabilitative focus. The full physical redevelopment will begin in Financial Year 2020/21. A further investment in manpower is also being made to strengthen management.

Investment in Protection of the Environment and Climate Change Risk Reduction

Disaster Management

The Government continues to rebuild following the Tropical Cyclones of September 2017. The Government is not only committed to rebuilding but to rebuilding stronger and to strengthening the management system. Investment will be made to secure key positions and in critical equipment for the Department of Disaster Management and Emergencies.

Environment and Coastal Resources Management

Protection of the Environment and actions to reduce disaster risks and the impacts of climate change remains a key priority for the Government. The Government is committed to the protection of the environment and towards addressing the challenges that climate change is sure to bring. The Government is currently undertaking an audit of our environmental assets and is together with the JNCC creating an environmental strategy. The Government will invest in key positions, programs and initiatives through the Department of Environment and Coastal Resources and the Premier's Office and the carriage of conduct of critical Environmental Impact Assessments to support the work around the National Parks System.

Investment in Critical Bodies

Establishment of a Public Utilities Regulatory Body

The Government believes that public utilities inclusive of telecommunications, water, energy and utilities will be better managed under a Public Utilities Regulatory Body. To this end funding has been prioritized to establish this Regulatory Body.

Gaming Commission

A Gaming Commission Ordinance has been enacted to transition the department of gaming to a Statutory Body that will be named the 'Gaming Commission'. An additional allocation of \$1.7



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million in the first year is being invested in the Gaming Commission. The investment in the Gaming Commission will allow for the gaming sector to meet international standards and best practices set out by the CFATF in the governance and monitoring of the TCI Gaming Industry.

Anti-money Laundering Initiatives

The Government is committed to maintaining a clean jurisdiction, in an effort to comply with all international standards, an allocation of \$500k is being made available for the enhancement of activities towards the realization and promotion of the international standards.

Investment in Social Security, Civil Servants Development and Welfare

Prudent fiscal management over the years has allowed for social support to be expanded and greater financial support is provided for the social categories of welfare grants, pensions and gratuities.

- Credit Unions are empowerment agencies and are favored in many cases over Banks. The Government will invest \$250k for the startup cost to establish a Credit Union for the Public Service.
- The home help programme is being bolstered by 34.0 percent to meet the social welfare needs of the population.
- Government pension scheme was phased out in 2013; The Government has provided funding for the Office of the Deputy Governor to complete work that begun in 2015 which is a review of TCI Public Service Pensions and Terminal Benefits. The objective of the exercise is to determine the feasibility of introducing a contributory pension scheme and/or re-instating gratuities. Further work will be undertaken in light of the critical findings of the latest Actuarial Assessment of TCIG Pensions which included for the first time Retiring Allowances and which shows the extent of the Government's unfunded liability. Works will progress this year and consideration would give to affordability and possible revenue streams to support.



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Total Expenditure by Economic Classifications

The allocation by economic classifications are discussed in detailed below:

Table 11-Expenditure by Economic Classifications

Recurrent Expenditure	Unaudited Actuals	Unaudited Actuals	Estimate	Forecast Outturn	Estimate Projections			
	2017-18	2018-19	2019-20		2020-21	2021-22	2022-23	2023-24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Personnel Costs	80,862	84,070	96,715	90,730	104,181	108,074	108,074	110,776
Pension and Gratuity	6,361	6,378	5,976	6,205	8,073	6,224	6,380	6,540
Transfers to NHIB	35,885	32,701	33,254	33,254	33,254	34,086	34,938	35,811
Hospital Provisional Charges	20,692	20,043	21,626	21,329	22,545	23,109	23,686	24,279
Subventions	11,523	12,514	14,652	14,058	19,632	19,857	20,167	20,671
Rental of Assets	4,682	4,716	5,217	5,200	5,251	5,102	5,229	5,360
Other expenditure	48,804	59,066	70,049	65,801	77,123	72,515	69,217	101,697
Total Recurrent Expenditure	208,808	219,490	247,490	236,578	270,059	268,967	267,691	305,134
<i>Annual per cent recurrent expenditure</i>	6.39%	-8.49%	12.76%	-4.41%	14.15%	-0.40%	-0.47%	13.99%
Non-Recurrent Expenditure								
Grants	-	-	612	1,012	-	-	-	-
Civil Recovery	729	888	700	268	700	700	-	-
SIPT Prosecution	3,731	3,608	3,610	3,266	3,610	3,610	-	-
SIPT Legal Aide	4,605	4,164	4,960	3,699	4,460	4,460	-	-
Debt service, interest and fees	985	699	376	376	182	53	43	33
Total Non-Recurrent Expenditure	10,050	9,359	10,258	8,621	8,952	8,823	43	33
Total Operating Expenditure	218,858	228,849	257,748	245,199	279,011	277,789	267,734	305,167

Source: Budget Office

Staff Costs

Personnel costs will account for \$104.2 million or 38.6 percent of recurrent expenditure and 33.8 percent of recurrent revenue in 2020-21 or 7.7 percent higher than the approved budget in 2019-20. Approximately, one hundred and thirty-seven (137) critical positions are being added in the following areas: (52) Ministry of Education for the primary, secondary, vocational institutions and social welfare; (39) Crime Fighting; (17) Immigration, Coastal Radar and Employment Services; (6) Emergency Medicine and Special Needs; (6) Road Safety and Prison services; (5) Disaster and Emergency Management; (4) Project Management; (4) Environment and Coastal Resources, (2) Finance; (1) Deputy Governor’s Office; and (1) House Assembly.



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Pension and Gratuity

The pension and gratuity allocations for 2020-21 accounts for \$8.2 million or 2.5 percent of total spending and recurrent revenue; approximately 3.5 percent greater than the approved estimates for 2019-20. Planned pension allocation of \$5.3 million in government pension for civil servants that retired before 2013 and retired parliamentarians. Included are civil servant gratuity allocation of \$0.7 million and legislative allowances (gratuity) for former parliamentarians \$2.0 million.

PPP Provisional Charges and Subventions to the NHIB

The subvention of \$33.2 million to the National Health Insurance Plan (NHIP) will be used to subsidize the treatment abroad programme, utility charges for the two major hospitals, health care costs for juvenile and the indigent population. In addition, there are hospitals related debt obligations for the construction and equipment contract of \$23.1 million. These account for 14.6 percent of the recurrent expenditure for FY 2020-21. This is in addition to approximately \$38.0 million that is received in Contribution Income from the insurers on the Insurance Scheme.

Subvention (Net NHIP)

\$19.6 million or 5.9 percent of recurrent expenditure and \$5.1 million greater than 2019-20, will be allocated for subvention to other Government agencies. Two new statutory bodies are being proposed for the new Financial Year. Gaming Commission - \$ 2.7 million and Sports Commission - \$2.5 million.

Special Investigation and Prosecution Team (SIPT)

Annual allocation for the prosecution and defense of the ongoing corruption trials is \$8.1 million or 3.5 percent of the national budget. Allocations for the prosecution team is \$3.6 million and the legal aid for the defense team is \$4.5 million. Other Civil Recovery matters allocated at \$0.7 million.



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Other Goods and Services

It is planned that Other Goods and Services will increase by an average of 13.0 percent to \$79.2 million. This is as a result of allocations to support the school nutrition plans, home help, utilities regulations, repairs to tanks, E-Governance for Road Safety and Immigrations. Procurement of suitable software for Internal and External Audit Departments, Tourism Strategy and Policy and increasing the stock of pharmaceuticals in public pharmacies.

The budget will continue to support 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;
- Home help and social welfare;
- Maintenance of government infrastructure; and
- Fiscal prudence and good governance.

Capital Expenditure

Over the years, strong fiscal discipline has allowed for the release of additional funds to improve public infrastructure. The objective is to reduce structural barriers to obtain a competitive advantage in the global sphere. In so doing, unlocking a sustainable macro-fiscal environment that is favourable to private sector investments and citizens' wealth creation. Over the medium term, Capital Expenditure are planned at approximately \$39.0 million, averaging 12.2 percent of annual expenditure. In 2020-21, approximately, \$15.3 million relates to projects that span more than one fiscal year and is being rolled forward from 2019-20. The prioritization of the capital investments will be based on the level of impact the projects will have on transforming the

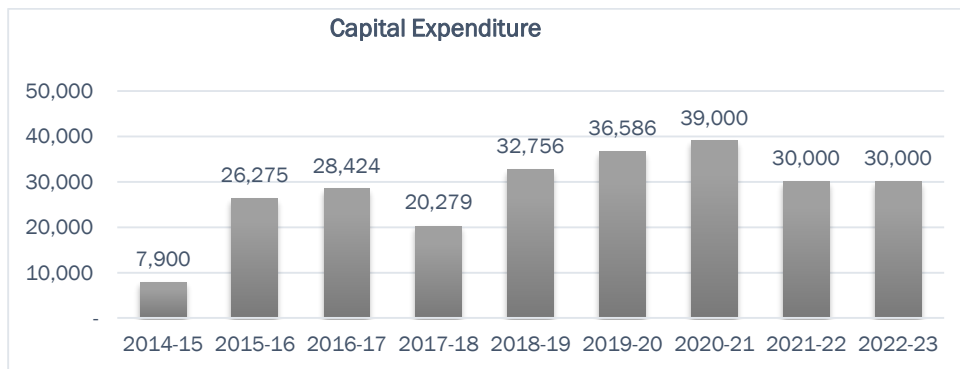


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economic structure of the country. The allocation details for the remaining \$23.7 million is being finalized, however, the Government is committed to include:

- TCICC PLS Campus
- Equipment to enhance National Security
- HM Prison Redevelopment, Grand Turk
- Remand Center, Providenciales
- Disaster Preparedness Equipment
- Schools Redevelopment
- Sports Development
- Community Development Projects
- Recovery of the islands

Figure 2-Capital Expenditure Allocations - 2014-23



Source: Budget Office

*2014-2018 – actual performance 2019-2023 approved and projections.

Strategy 2 - Management of Public Debt

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 targets have been achieved.

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



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on levels of public debt relative to public revenue; (ii) limits on debt service costs as a proportion of total public expenditure; and (iii) levels of reserves relative to public expenditure.

The Fiscal Framework Document (FFD) which has been agreed with the Secretary of State, states that unless in exceptional circumstances, different arrangements are agreed in writing between TCIG and the Secretary of State. TCIG will borrow only to fund capital expenditure where: (i) the proposed project is forecast to yield sufficient revenues to fund the additional debt service costs; or (ii) the Government can demonstrate that it has sufficient surplus operating cash flows to fund the additional debt service costs, which arise from borrowing to finance such capital expenditure. It further states that the TCIG should give preference to borrowing from concessional lenders to ensure that the lender's expertise is brought to projects.

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

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.

Net Government Debt in 2020-21 is forecast at negative \$156.6 million or negative 21.9 percent of recurrent revenue. 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. Core government debt at the end of the fiscal year 2019-20 is forecast at \$3.75 million, this balance mainly reflects the residual balances from the \$33m refinancing loan of 2015-16. Debt repayment for 2020-2021, is forecast at \$2.4 million, government debt will therefore be reduced to \$1.36 million. In 2021-22, \$0.2 million is forecast as debt repayment.

The loan at the Airport's Authority will be retired in this financial year, resulting in the removal of the obligation for the TCIG to maintain a 20 percent debt guarantee. The Imputed Debt



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obligation for the Hospitals PPP agreement is forecast to reduce to \$60.9 million. Net Government Debt is forecast to be negative 14.1 percent of GDP.

The key assumption underpinning the calculations is that, **no new debt** is being forecast for 2020-21 and beyond.

Table 12- Government Debt Schedule at Year end

GOVERNMENT DEBT	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
RBC 2015-2016	12,000	4,000	-	-	-	-	-
Citibank Commercial Loan	-	-	-	-	-	-	-
CDB Loans	1,486	1,164	804	688	572	456	340
RBTT Loans	-	-	-	-	-	-	-
TCI Bank	3,407	2,340	1,273	-	-	-	-
New CDB Loan	-	-	673	673	538	404	269
CDB 2015-2016	3,000	2,000	1,000	-	-	-	-
Core Government Debt	19,893	9,504	3,750	1,361	1,110	860	609
Imputed PPP Hospital debt outstanding	76,553	71,336	66,118	60,901	55,683	50,466	45,248
TCIAA (Adjusted to FFD 20% weighting)	4,861	3,093	1,326	-	-	-	-
Total Government Debt	101,307	83,933	71,193	62,261	56,793	51,325	45,857
Net Debt	(60,700)	(114,817)	(149,000)	(156,613)	(180,050)	(223,434)	(270,323)

Table Prepared by Budget Office

Debt Servicing

The Debt Servicing 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 and it forecast, that debt servicing will be below 0.1 percent of recurrent revenue and approximately 0.02 percent of GDP in 2020-21.

Table 13- Net Worth, Net Financial Worth, Net Debt and Net Interest Payments

	Unaudited Actual	Unaudited Actual	Estimate	Forecast Outturn	Approved Estimate	Projection		
	2017-18	2018-19	2019-20	2019-20	2020-21	2021-22	2022-23	2023-24
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Net debt	(60,700)	(114,817)	(149,000)	(149,000)	(156,613)	(180,050)	(223,434)	(270,323)
Per cent of GDP	-6.32%	-11.37%	-14.06%	-14.06%	-14.11%	-15.52%	-18.47%	-22.34%
Net Interest payments	985	699	376	376	182	53	43	33
Per cent of GDP	0.10%	0.07%	0.04%	0.04%	0.02%	0.00%	0.00%	0.00%
GDP	960,000	1,010,000	1,060,000	1,060,000	1,110,000	1,160,000	1,210,000	1,210,000

Source: GDP forecast for 2021-22 provided by SPPD and 2022-2024 by S&P

Table Prepared by Budget Office



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Strategy 3 - Revenue Enhancement Strategy

The Government’s revenue enhancement strategy will continue to focus on reducing the tax burden on the residents and citizens. The robust GDP growth is expected to return recurrent revenue growth over the forecast outturn of 2019-20 of:

- Hotel and Restaurant Tax – 2.6%
- Import Duties and Customs Processing Fees – 5.0%
- Work Permit – 2.8%
- Fuel Tax – 5%
- Business License – 3%

Table 14-Revenue Targets

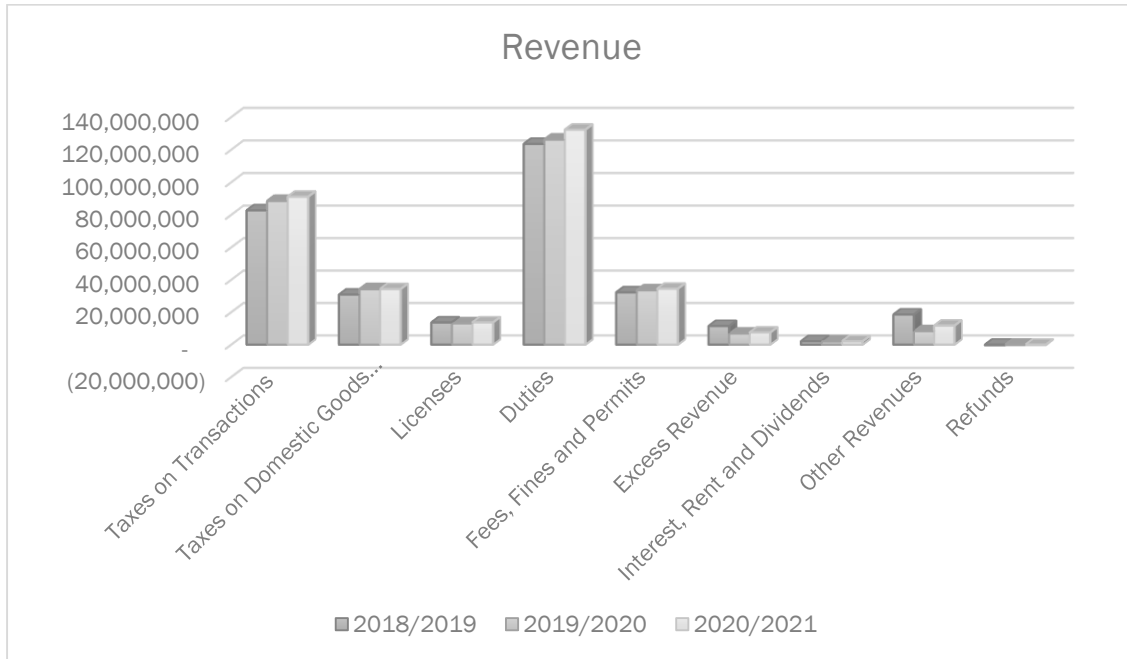
Recurrent Revenue	Unaudited Actual	Unaudited Actual	Approved Estimate	Forecast Outturn	Estimate	Per. R/R	Projection	Projection	Projection
	2017/18	2018/19	2019/20		2020/21		2021/22	2022/23	2023/24
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Import Duty	67,935	76,570	78,486	78,191	82,101	25.6%	84,564	87,101	89,714
Hotel & Restaurant Tax	59,152	67,218	69,404	73,222	75,139	23.5%	77,393	79,715	82,106
Customs Processing Fee	33,464	34,911	35,873	35,807	37,597	11.7%	38,725	39,887	41,083
Stamp Duty on Land Transactions	26,554	28,988	28,061	32,275	30,000	9.4%	30,900	31,827	32,782
Work Permits and Residency Fees	23,221	29,515	30,142	30,981	31,872	10.0%	32,828	33,813	34,828
Fuel Tax	8,547	10,285	10,542	10,690	11,224	3.5%	11,561	11,908	12,265
Business Licences	2,380	2,705	2,806	2,831	2,916	0.9%	3,003	3,093	3,186
Other Recurrent Revenues	40,163	53,652	49,475	49,708	49,257	15.4%	50,735	52,257	53,824
Total Recurrent Revenue	261,416	303,844	304,789	313,704	320,106	100%	329,709	339,601	349,789
Recurrent Revenue									
Land Sale Receipts	692	1,079	1,053	797	821	17.0%	821	821	821
EU Grants and Other Grants	4,780	7,732	-	771	4,000	83.0%	-	-	-
Capital Receipt	-	-	-	-	-	0.0%	-	-	-
Hurricanes Irma and Maria CCRIF Payout	15,284	-	-	-	-	0.0%	-	-	-
Total Non-Recurrent Revenue	20,756	11,181	1,053	1,568	4,821	100%	821	821	821
Total Revenue	282,173	315,025	305,842	315,272	324,927		330,530	340,421	350,609

Source: Prepared by Budget Office



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Figure 3-Revenue by Category



Source: Prepared by Budget Office

There have been no new taxes since 2013, and no new revenue streams will be introduced in the FY 2020-21. The aim is to use a balanced approach to improve voluntary compliance by improving customer service, increasing audit coverage, and proposing legislative changes to address tax compliance issues that are different in their nature and therefore required different responses. The major revenue collectors are the Customs and Revenue Departments. The robust approaches that they will continue to embark on to secure government revenues are discussed below:



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Revenue Department

In 2019, the Inland Revenue Department which has responsibility for taxes such as, Accommodation, Communication, Insurance Premium, Seaport Departure, Domestic Financial Services, Telecommunication Net Revenue and Business Licences has made the following operational efficiencies that were aimed at improving compliance whilst enhancing the tax-payers experience:

- Upgrade to SIGTAS was successfully completed and Revenue Department has now migrated to web-based platform that would make it possible to provide online services to registrants/proprietors in regards to online application/renewal of Business License.
- Successfully administered the Amnesty Program and recovered significant amount of tax arrears (\$1.77 million) mainly from small and medium size establishments that were in the arrears books for more than 12 months.
- Proposed and have it legislated the Rate Variation Regulations that provided certainty to large taxpayer segment that provide All-Inclusive services by legislating a fixed tax rate for those establishments operating in this segment and a qualifier system for those that are planning to enter the All-Inclusive market.
- Actioned on those who are not willing to comply by sending Business License Revocation letters and negotiated with those that are proposing a payment plan.
- Advanced discussions with the major proprietors regarding settlement of tax arrears and referred them to legal counsels for mediation/litigation.

In 2020-21, the Revenue Department will focus on enforcement and compliance strategies that are aimed at improving revenue performance and indirectly collection performance by collecting the right taxes at the right time. Firstly, Revenue Department will expand the scope of its audit coverage by initiating audit in the “Financial Services Tax” segment i.e. financial institutions, money transmitters, and insurance companies. In the current fiscal year, key senior auditors attended three Regional Tax Audit Team (RTAT) – Auditing the Financial Sector training workshops hosted by CARTAC that aims to build capacity in auditing the sector and promote regional response in doing so. Furthermore, Revenue Department is anticipating starting its



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inaugural audit activities in the “Seaport Departure Tax” segment in early 2020-21 budget year. Both of these new types of audits as well as routine “Hotel and Tourism Tax (HTT)” audits will have a direct effect on collecting higher revenues and indirectly increasing voluntary compliance by establishing our presence. Secondly, we will continue focusing on the VRBO sector by continuing compliance activities such as assisting JLET task force, conducting surprise visits, crawling websites.

Regarding the emerging VRBO sector, Revenue Department will be advancing its strategy to position itself regarding collection of taxes from activities conducted through websites such as Airbnb, Home Away and others. In 2019-20 budget year Revenue Department has advanced its Cabinet Paper in favor of taxes being collected and remitted by the online intermediaries (Airbnb), however, further research and meetings with European counterparts have revealed that this strategy is not as effective when it comes to regulating the sector and enforcing Business License registration. In the 2020-21 year further strategies will be developed in addition to traditional compliance activities in the sector that Revenue Department is continuing to conduct.

In 2019-20 budget year, Revenue Department has been provided with a report by CARTAC regarding the formation of Revenue Authority by 2021-2022 budget year. This report was prepared after a two-week mission diagnosing current tax regime, legislative framework, and current organization structure of Revenue Department. The report made recommendations that would require significant changes in these areas that are required for improving performance by removing impediments to effective and efficient management while maintaining appropriate accountability and transparency. Implementation of a Revenue Authority structure can be a catalyst to enable broader revenue administration reforms and therefore lead to increase in government revenues. It is anticipated that the application of these recommendation will start in 2020-2021 budget year.

There is ongoing work in the Revenue Department on arrears for hotel and restaurant taxes. The forecast for 2020-21 has excluded the arrears pending the outcomes of an audit exercise. Outstanding arrears collected will be considered windfall revenue.

Customs Department

The Strategies of the Customs Department will also focus on the enhancing compliance. In particular, the focus will be on devising and implementing operational strategies to mitigate risk



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associated with revenue leakages and ensuring that proper duties and fees are collected from importers and contraband detected at the border. The main areas of focus are:

- i. Enhancing the Entry Processing Unit's ability to scrutinize declarations to ensure that non-declared and falsely declared goods are captured and paid into Customs;
- ii. Strengthening collaborative efforts with Law Enforcement Agencies to detect illicit drugs, undeclared cash and other commercial frauds;
- iii. Ensuring that all entries are paid on ASYCUDA before they are released to importers (excluding Account Holders and other exceptional cases), securing timely collection of revenues;
- iv. Tracking storage days at the Transit Sheds and facilitate timely transfer of cargos to Customs Warehouses, as necessary, securing the accrual of warehouse rents;
- v. Monitoring cargos at the transit sheds/Customs warehouses and be able to value inventory at any point in time;
- vi. Monitoring and reconcile warehouse rent payment;
- vii. Eliminating unnecessary arrears on the ASYCUDA system;
- viii. Conducting of Collector's Inspections on Development Orders, and end use verifications on concessions granted, to detect revenue leakages and collect additional revenue for;
- ix. Conducting internal systems review to ensure that the Customs Legislation and SOP's are adhered to, which will lead to proper revenue collections;
- x. Scanning of baggage and cargo to detect revenue offences; and
- xi. Conducting quarterly engagement with Brokers to promote voluntary compliance with Customs Tariff as it relates to classification, leading to collection of the correct revenue.

The Government will continue its focus on leveraging activities that are wealth creating, that will build a resilient economy. The economic growth will be spurred by increasing market linkages and business partnerships, improving on trade arrangements and improving new public and private sector investments to create jobs. The Statistics Department predicts, resilient sectoral growth in the major sectors of construction, real estate, and tourism.

Non-Recurrent Revenue

The 3rd Tranche of the EU-EDF 11 in the amount of EU €5.52 million is due for disbursement in 2020-21. The 3rd 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



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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 is being forecast at \$4.0 million. The balance will be considered windfall revenue should the Government identify ways to mitigate the risk.



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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. There is a statutory requirement for Turks and Caicos Airport Authority, Financial Services Commission, Telecommunications Commission, Invest Turks and Caicos and Port's Authority, and the bodies of good governance to remit proportions of their net surpluses to Government annually, in 2020-21 approximately \$8.2 million is expected from SBs.

National Health Insurance Board

The National Health Insurance Board with, subvention allocation of greater than 10 percent of the recurrent revenue of Government, continues to present an explicit contingent liability on Government. The organizational restructuring is ongoing and improvement in the compliance efforts are being considered by the Board. 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.

Ports Authority

The Seaports infrastructure development in the TCI is consistent with TCI draft Vision 2040 Document and the Medium Term Development Strategy. SDD 1, which speaks to the TCI having a robust and climate resilient Infrastructure and SDD 5, addresses good governance. In 2018-19, the Board of Directors at the Ports Authority approved the Medium Term Infrastructure Investment Plan (MTIP) which has paved the way for the May 2019, strategic plan for 2019/20 to 2021-22. The strategic plan prioritizes continued improvement, maintenance and building resilience of port infrastructure.



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The TCI's ports infrastructure has been poorly maintained and are in need of major rehabilitation and investment to support the development thrust of the country. Rehabilitation of secondary ports on Grand Turk and South Caicos is ongoing from net-revenue the Government has approved for the Ports Authority to retain. South Dock, Providenciales is the main international port for the TCI, through which more than 90 percent of imports and exports take place. It is widely acknowledged that South Dock is currently operating beyond its capacity and in need of redevelopment, modernization and general improvements to keep pace with economic developments taking place on Providenciales.

Consistent with the MTIP, in 2018 the Ports Authority commenced a consultancy to plan the redevelopment of South Dock for the long term. The consultancy involved consultation with key stakeholders and confirmed the technical feasibility and economic viability of redevelopment project at the current location, which will take place in five (5) phases between 2020-2024. This is necessary as the port will remain operational during construction.

The Cabinet accepted the recommendations of the consultancy in January 2019. The Ports Authority has subsequently undertaken detailed appraisals of project, based on the consultancy, focusing on phases 1 and 2. This led to refinement of the project cost and completion of project designs to support a request for Detail Development Planning permission, which was approved in August 2019. The project is planned to address shipping needs for Providenciales over the next 20-30 years, which is projected to triple. It addresses climate change and environmental issues and build resilience of this critical asset. The project also addresses security and port efficiency issues. The current cost of the project based on the American Society of Civil Engineering (ASCE) class 3 estimation is \$41 million. The Ports Authority should complete final technical studies to support tendering of the project within the next 3 months. The Ports Authority along with the Ministry of Finance is currently exploring the financing options with a view to have Phase 1 of the project approved in this FY.

Airports Authority

At the Providenciales International Airport, there is lack of infrastructure to accommodate peak periods and a new terminal facility has been identified as a major Government priority.



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In July 2011 the Airports Authority completed a full redevelopment and rehabilitation of the airside of the Providenciales International Airport to become fully compliant with ICAO annex 14 and to accommodate the B777-300, facilitating direct services for as far as Asia and Europe. In December 2014, an extension to the existing terminal was completed, in the interest of improving the passenger experience and obtaining IATA service level compliance, in the interim, and in line with the Master Plan. The terminal size was near doubled, from 51,462 sq. ft. to 92,321 sq. ft. It was believed that, the expansion it would have sufficed for a few years (through to 2028), based on forecast growth. However, the Country has experienced growth in excess of the nominal forecast of 3 percent annually. Urgent discussions on the expansion of the Providenciales Airport has begun at the policy level and the government is committed to have the expansion completed timely. Financing options are being discussed.

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. As a measure of reducing the finance costs of the PPP, the Ministry of Finance is in the process exploring available refinancing options. No new PPPs are being proposed for 2020-21. Requirements of the Framework Document are acknowledged.



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STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)

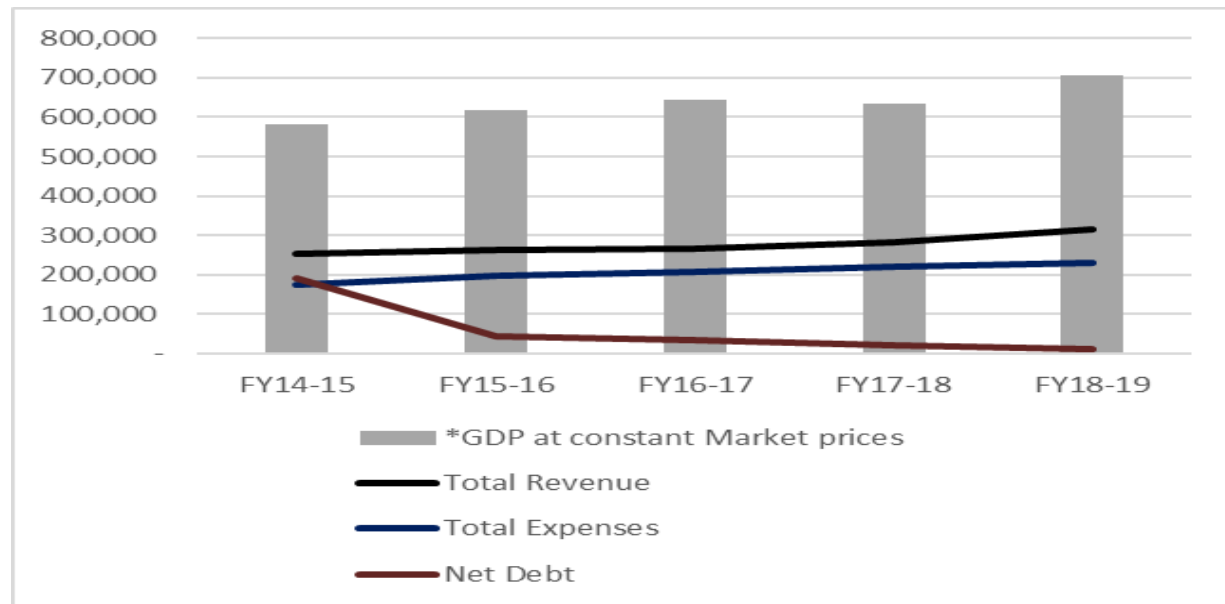
Table 15-Fiscal Performance Against GDP

	2014-15		2015-16		2016-17		2017-18		2018-19	
<i>figures in US\$'000</i>		%GDP		%GDP		%GDP		%GDP		%GDP
Recurrent Revenue	246,462	42%	258,346	42%	262,951	41%	261,416	41%	303,622	43%
Recurrent Expenses	168,549	29%	191,762	31%	202,146	31%	213,409	34%	218,786	31%
Total Revenue	252,954	43%	263,884	43%	267,100	41%	282,172	44%	315,025	45%
Total Expenses	175,421	30%	196,582	32%	207,874	32%	218,858	34%	228,849	32%
Net Operating balance	77,533	13%	67,303	11%	59,226	9%	63,314	10%	86,176	14%
Capital Investment	7,900	1%	11,459	2%	23,509	4%	16,058	3%	17,581	2%
Fiscal Balance	69,632	12%	55,843	9%	35,717	6%	47,256	7%	68,595	11%
Net Debt	191,738	33%	44,281	7%	32,376	5%	19,783	3%	9,394	1%
Finance Cost	7,015	1%	6,634	1%	1,260	0%	984	0%	699	0%
Underlying Cash Balance	2,939	1%	15,728	3%	17,655	3%	36,255	6%	62,154	9%
*GDP at constant market prices	582,266		616,860		644,000		634,436		707,005	
GDP at current market prices	823,968		893,502		950,358		962,526		1,022,312	

**Figures shown are calculated against GDP at constant market prices*

Source: AGD

Table 16 -Performance against GDP at Constant Market Prices



Source: AGD



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Table 107: Operating Results

<i>figures in US\$'000</i>	31-Mar-19 Actual	31-Mar-19 Budget	31-Mar-18 Prior Year	Actual vs Rev. Budget		Actual vs Prior Year	
Recurrent Revenue	303,622	272,910	261,416	30,712	11%	42,206	16%
Recurrent Expenditure	218,786	234,131	208,804	15,345	7%	(9,982)	(5%)
Net Recurrent Surplus	84,836	38,779	52,612	46,057	119%	32,224	61%
Non-Recurrent Revenue	11,403	6,687	20,756	4,716	71%	(9,353)	(45%)
Non-Recurrent Expenditure	10,063	11,258	10,054	1,195	11%	(9)	0%
Operating Surplus	86,176	34,208	63,314	51,968	152%	22,862	36%

Figures may not add due to rounding

Source: AGD

Expenditure categorization differs from the Management Accounts produced and published monthly in order to conform to the IPSAS cash basis of accounting

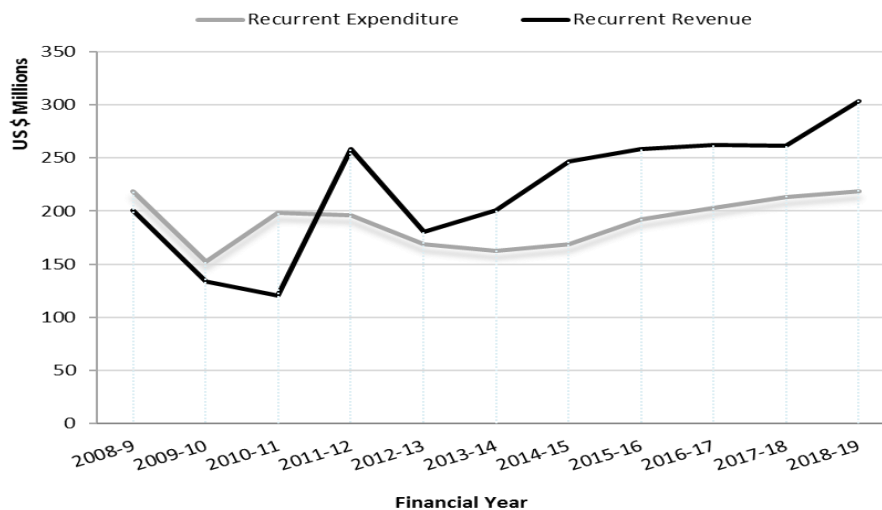
The Turks & Caicos Islands Government posted an operating surplus of \$86.2 million (2018: \$63.3 million), an improvement of \$22.9 million (36%) on the prior year's performance. Compared to the budget the performance was 152% better than the \$34.2 million projected. Capital expenditure of \$17.6 million (2018: \$16.1 million) and debt repayment of \$10.4 million (2018: \$12.6 million) were also made during the year.

- **Recurrent revenue** outturn for the year was 11% ahead of budget and 16% above the prior year's outturn.
- **Recurrent expenditure** for the year was 7% below budget while being 5% above the prior year's results.



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Figure 4 - Recurrent Revenue & Expenditure 2008-2019



Source: AGD

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 thrice to April 30th, 2019.

Revenues

TCIG revenue for the 2018-19 fiscal year totalled \$315.0 million (2018: \$282.2 million). This represented an increase of \$32.9 million from fiscal year 2017-18 and was \$35.4 million or 13% more than estimates for the year.

Total revenue for the 2018-19 fiscal year included \$76.5 million (24%) derived from import duties; \$67.2 million (21%) from hotel and restaurant tax; \$34.9 million from customs processing fees; while \$29.0 million from stamp duty on land transactions, \$21.1 million from work permits and \$12.4 million in excess revenue returns from statutory bodies together accounted for 20% of revenues.



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Table 18: Recurrent Revenues

figures in US\$'000

RECURRENT REVENUES	31-Mar-19 Actual	31-Mar-19 Budget	31-Mar-18 Prior Year	Actual vs Rev. Budget		Actual vs Prior Year	
Import Duty	76,570	70,653	67,935	5,917	8%	8,635	13%
Hotel and Restaurant Tax	67,218	62,468	59,152	4,750	8%	8,066	14%
Customs Processing Fee	34,911	30,000	33,464	4,911	16%	1,447	4%
Stamp Duty on Land Transactions	28,988	27,000	26,554	1,988	7%	2,434	9%
Work Permits	21,145	18,452	16,370	2,693	15%	4,775	29%
Excess Revenue	12,402	7,975	6,100	4,427	56%	6,302	103%
Fuel Tax	10,285	9,672	8,547	613	6%	1,738	20%
Other Revenues	52,103	46,690	43,294	5,413	12%	8,809	20%
Total Recurrent Revenues	303,622	272,910	261,416	30,712	11%	42,206	16%

Numbers may not add due to rounding

Source: AGD

Total duties (excluding stamp duty) collected for the year were \$123.6 million (2018: \$111.5 million). This represented \$12.1 million increase from last year's results and \$11.7 million above the budget estimates. Although **Import Duties** were \$8.6 million above the prior year's results and \$5.9 million above the budget, total concessions issued for the year amounted to \$5.5 million of which \$0.3 million were in relation to a customs order signed extending duty-free exemption for a variety of goods as a continuation of recovery efforts until 30th April 2019. An additional \$0.8 million in concessions were also granted for customs processing fees bringing the total duties foregone for the for the financial year to \$6.3 million.

Taxes on goods and services were \$11.7 million above estimates and up \$12.1 million from the prior year's results, largely owing to the increase in tourism volumes. **Hotel and Restaurant Tax** showed an increase of 8% and 14% respectively compared to budget and last year's results, a trend that was also reflected in **Stamp Duty on Land Transactions**, which was also above estimates and prior year's outturn by 7% and 9% respectively. Although not quantified, 158 stamp duty exemptions in relation to property transfers were granted during the financial year.

Fees, fines and permits of \$31.3 million increased by \$7.7 million (32%) when compared to last year's results as well as \$3.0 million (11%) in comparison to the budgeted outturn. The major contributor to this performance was **Work Permits** of \$21.1 million which was \$2.7 million (15%) more than budget and up by \$4.8 million (29%) from last year's results.



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Table 19: Other Recurrent Revenues

figures in US\$'000

OTHER RECURRENT REVENUES	31-Mar-19	31-Mar-19	31-Mar-18	Actual vs Rev. Budget		Actual vs Prior Year	
	Actual	Budget	Prior Year				
Communications Tax	5,368	4,817	4,820	551	11%	548	11%
Telecommunications Licence	4,637	4,202	3,420	435	10%	1,216	36%
Vehicle Licence	4,377	3,776	3,582	601	16%	796	0%
Gaming Machine Tax	3,959	3,800	3,782	159	4%	176	5%
Seaport Departure Tax	3,534	3,221	3,133	313	10%	402	13%
Overtime Cost Recovered	3,342	2,938	2,982	404	14%	360	12%
Business Licence Renewal	2,705	2,476	2,380	228	-	324	-
Permanent Residency Fees	1,915	2,300	1,933	(385)	-17%	(17)	-1%
Temporary Work Permits	1,691	247	1,117	1,444	584%	574	51%
Stamp Duty - Vehicle Hire	1,660	1,448	1,352	213	15%	309	23%
Other Revenue Heads	18,915	17,464	14,793	1,451	8%	4,122	28%
Total Other Revenues	52,103	46,690	43,294	5,413	12%	8,809	20%

Numbers may not add due to rounding

Source: AGD

Other Recurrent Revenues collected for the year totalled \$52.1 million (2018: \$43.3 million) which was 12% above the budgeted amount and up by 20% of last year's outturn.

Table 20: Non-Recurrent Revenues

figures in US\$'000

NON-RECURRENT REVENUES	31-Mar-19	31-Mar-19	31-Mar-18	Actual vs Rev. Budget		Actual vs Prior Year	
	Actual	Budget	Prior Year				
Insurance Proceeds	-	-	15,284	-	-	(15,284)	-
Civil Recovery Income	2,370	-	-	2,370	100%	2,370	100%
Revenue from Grants	7,954	3,987	4,780	3,967	99%	3,174	66%
Land Sales	1,079	2,700	692	(1,621)	(60%)	387	56%
Total Non-Recurrent Revenues	11,403	6,687	20,756	4,716	71%	(9,353)	-45%

Source: AGD

Non-recurrent revenue for the year totalled \$11.4 million (2018: \$20.8 million) The major contributor to this amount was **Revenue from Grants** which included the second tranche of the 11th European Development Fund grant of \$7.7 million received during the month of December 2018 for budgetary support. **Civil Recovery Income** of \$2.4 million represents single settlement payment made in a civil suit. **Land Sales** receipts were \$1.1 million, which underperformed against budgeted outturn by 60% although 56% above last year's results.



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Expenditure

TCIG’s expenditure (excluding capital) for the 2018-19 fiscal year totalled \$228.8 million (2018: \$218.8 million). This represented a reduction in spending for the year by \$16.5 million or 7% from the budget estimates while being \$10.0 million or 5% above the previous year’s outturn.

Table 21: Recurrent Expenditure

figures in US\$'000

RECURRENT EXPENDITURE	31-Mar-19 Actual	31-Mar-19 Budget	31-Mar-18 Prior Year	Actual vs Rev. Budget		Actual vs Prior Year	
Total Personnel Costs	90,471	97,828	87,099	7,357	8%	(3,372)	(4%)
Medical Treatment & Transfers to NHIB	32,700	32,701	35,886	1	0%	3,186	9%
Hospital Provisional Charges	21,124	21,124	20,692	-	0%	(432)	(2%)
Subventions	12,575	13,133	11,469	558	4%	(1,106)	(10%)
Maintenance Expenses	9,211	9,609	9,178	398	4%	(33)	(0%)
Grants and Contributions	8,243	8,282	6,464	39	0%	(1,779)	(28%)
Other Expenses	44,462	51,454	38,016	6,992	14%	(6,446)	(17%)
Total Recurrent Expenditure	218,786	234,131	208,804	15,345	7%	(9,982)	(5%)

Figures may not add due to rounding

Source: AGD

All expenditure heads were below or on par with estimates for the year.

The total spent during the current fiscal year included \$90.5 million (41%) for Personnel Costs, which was \$7.4 million less than budget as a result of delays in the recruitment process, exacerbated by the late passage of the budget. The increase in personnel cost of \$3.4 million (4%) over the prior year results attests to the efforts made in filling vacant positions.

Medical Treatments and Transfers to NHIB totalled \$32.7 million and together with Hospital Provisional Charges of \$21.1 million accounted for 25% of expenditure. While these results were on par with estimates, combined expenditure were 5% less than the prior year’s outturn. The Government is actively pursuing measures it hopes, will reduce the cost of healthcare for its citizens while maintaining or improving the delivery of care.

Subventions totalled \$12.6 million representing an 10% increase from last year’s cost of \$11.5 million, while being 4% below the budget.



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Grants and Contributions totalled \$8.2 million for the year of which \$3.9 million was spent on Scholarships, \$1.1 million in contributions to Regional Institutions, \$0.7 million on Airline Subsidies, and \$0.5 million in Grants to Private Schools.

Table 22: Other Recurrent Expenditure

figures in US\$'000

OTHER RECURRENT EXPENDITURE	31-Mar-19 Actual	31-Mar-19 Budget	31-Mar-18 Prior Year	Actual vs Rev. Budget		Actual vs Prior Year	
Rental of Assets	4,896	4,984	4,690	88	2%	(207)	(4%)
Utilities	3,432	3,635	3,009	203	6%	(423)	(14%)
Local Travel and Subsistence	3,155	3,540	2,573	386	11%	(582)	(23%)
Professional and Consultancy Services	2,882	3,939	2,996	1,057	27%	114	4%
Repatriation Expenses	2,581	2,620	1,137	39	1%	(1,444)	(127%)
Other Recurrent Expenditure	27,517	32,736	23,613	5,220	16%	(3,904)	(17%)
Total Other Recurrent Expenditure	44,462	51,454	38,016	6,992	14%	(6,446)	(17%)

Source: AGD

Other recurrent expenditure for the year totalled \$44.5 million (2018: \$38.0 million) which was a 17% increase from last year's results, while being \$7.0 million or 14% below the budgeted amount.

Table 23: Non-Recurrent Expenditure

figures in US\$'000

NON-RECURRENT EXPENDITURE	31-Mar-19 Actual	31-Mar-19 Budget	31-Mar-18 Prior Year	Actual vs Rev. Budget		Actual vs Prior Year	
Special Investigation Prosecution Team (SIPT)	7,482	8,645	8,106	1,163	13%	625	8%
Civil Recovery	1,179	1,191	959	13	1%	(219)	-23%
Statutory Land Acquisition	1,402	1,422	989	20	1%	(413)	-42%
Total Non-Recurrent Expenditure	10,063	11,258	10,054	1,195	11%	(9)	0%

Figures may not add due to rounding

Source: AGD

Non-recurrent expenditure for the year of \$10.1 million (2018: \$10.1 million) was down 12% from the budget estimates while on par with last year's outturn. Of this amount SIPT expenses accounted for \$7.5 million (74%), which was 8% less than last year's results and 13% below the budgeted amount. Civil Recovery expenses of \$1.2 million were 23% above last year's outturn while being a marginal 1% below budget estimates. Statutory/compulsory land acquisitions were in line with the budget.



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Current Liabilities comprise refundable deposits and payables from exchange transactions totaling \$10.3 million as well as the principal payments of the debt which is due within the next twelve months, that is, fiscal year 2019-20.

Capital Expenditure

Table 24- Capital Expenditure

(All figures in US\$'000)	TCIG Funded Projects	UK DFID Programme Education & Health	UK/TCI Development Aid No 2 Account	Other UK Development Programmes	CDB Basic Needs Trust Fund Programmes	Grants from Other Private Sources	31-Mar-19 \$'000	31-Mar-18 \$'000	Estimates
Development Fund Balance at the beginning of the year	22,783	45	33	34	117	378	23,391	22,109	
Consolidated Fund Contribution	32,641						32,641	17,762	36,626
Grants Received							-	-	
Total Capital Receipts	32,641	-	-	-	-	-	32,641	17,762	36,626
Funds Reverting to the CF							-	-	
Expenditure not requiring commitment							-	420	
Other Capital Expenditure	17,581						17,581	54	36,626
Total Capital Expenditure	17,581	-	-	-	-	-	17,581	16,480	36,626
Surplus/ (Deficit)	15,061	-	-	-	-	-	15,061	1,282	-
Development Fund Balance at the end of the year	37,844	45	33	34	117	378	38,452	23,391	-

Source: AGD

Ordinance 9 of 2016 which commenced on March 24, 2016 included an amendment to the PFM Ordinance to lend additional clarity to the previous amendment in FY 2014-15. The effect of the amendment was to indicate that moneys appropriated for the purposes of the Development Fund would not lapse and that any unexpended balance of moneys withdrawn, would remain in the Fund at the end of the FY if the moneys were still required to meet any expenditure or commitment under the Fund.

The total amount spent on capital projects for the fiscal year was \$17.6 million which was funded by capital contributions appropriated from the Consolidated Fund. The total budgeted expense for capital projects was \$36.6 million. Contracts with a value of \$32.6 million were committed during the year and will be available for expenditure over the life of the specific projects to which



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they relate. Expenditure will be made from the Development Fund as approved in the Appropriation Ordinance.

The Fund has unused allocations of \$38.5 million available for use in the 2019-20 FY.

Table 25-Public Debt

Borrowings

figures in US\$'000

Outstanding Public Debt

Unsecured

	Repayment		
	Loan Balances 01- Apr-2018	During 2018/19	Loan Balances 31-Mar-2019
Caribbean Development Bank	4,375	1,322	3,053
RBC Royal Bank	12,000	8,000	4,000
TCI Bank Limited	3,408	1,067	2,342
Total unsecured debts	19,783	10,389	9,394

Source: AGD

TCIG’s outstanding debt as at March 31, 2019 was \$9.4 million (2018: \$19.8 million). Total principal debt repayment for the year was \$10.4 million (2018: \$12.6 million) while total finance costs for the year were \$0.7 million (2018: \$1.0 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\$1.3 billion as at the end of March 2019. This amount includes an estimated long term commitment of \$344.5 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 \$442.6 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 \$109.9 million as at March 31, 2019 which comprises \$82.2 million for established employees and \$27.7m in



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relation to Legislative allowance. Additionally, the unfunded pension liability totaling \$396.6 million, relating to the National Insurance Board at March 31, 2019 is also reflected in this amount.

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 31, 2019 reflected in contingent liabilities is \$25.8 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.



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FISCAL RISK ASSESSMENT

The fiscal risks matrix below identifies the implicit and explicit obligations that may cause fiscal outcomes to differ from expectations.

Table 26-Fiscal Risk Matrix

**Fiscal Risks Matrix
POSSIBLE SOURCES OF FISCAL RISK - TURKS AND CAICOS ISLANDS**

	DIRECT LIABILITIES	INDIRECT/CONTINGENT LIABILITIES
EXPLICIT LIABILITIES (LEGAL OBLIGATIONS, NO CHOICE)	<ul style="list-style-type: none"> • Debt Repayment and Servicing Payments • Recurrent Expenditure, legally binding over the medium/long term e.g., salaries and wages/PPP monthly contractual obligation, gratuities and pensions, SIPT Prosecution and Legal Aide Costs 	<ul style="list-style-type: none"> • Guarantees related to Airport's Authority • NIB- Pension plan • Claims against Government/Compulsory Land Acquisition • NHIB - the continuous increase in health care cost that is passed on the Government.
IMPLICIT LIABILITIES (EXPECTATIONS AND POLITICAL DECISIONS)	<ul style="list-style-type: none"> • Maintenance costs for Public Sector Investment Plan - schools, clinics, hospitals etc. • Social Services • Continuous spending due to political cycles/elections 	<ul style="list-style-type: none"> • Response after natural disasters • Default of State-owned companies on non-guaranteed obligations (National Trust, AA, NHIB, Ports Authority)

Source: Prepared by the Budget Office - Format adopted from the World Bank

Main Sources of Fiscal Risk

- Legal or moral obligations – recurrent expenditure due to binding contracts, debt servicing
- Loan Guarantees and PPPs
- Treatment Abroad Programme – NHIB
- Exposure to natural disasters resulting from climate change



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- Crime and border protection issues
- Global economic fall-out with major trading partners and source markets such as United States and the United Kingdom

APPROACHES FOR MANAGING MAJOR RISKS

Risk Reduction – Reduce Vulnerability and Exposure to Hazards

- During the budget planning stage, climate measures are costed and prioritized
- Improve building codes and monitoring
- Strengthen reefs
- Improve citizen security

Risk Financing – Retention and Risk Transfer

- Catastrophic Risk Insurance
- Mandatory Private insurance (Residential homes)

Residual Risk Management Strategies – Post Disaster/Catastrophic Event Response

- Contingency Fund
- Budget reallocation
- National Wealth Fund
- Liquid Cash Reserves-Net Surpluses
- Low debt portfolio
- Credit Rating BBB+
- Expenditure controls



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NATIONAL WEALTH FUND

Turks and Caicos National Wealth Fund was enacted in 2017. The cumulative total in the National Wealth Fund is \$25.7m representing, the initial sum of \$8 million that was transferred into the Fund in financial year 2018-19 and \$17.7m from the excess revenue of 2018/19.

The Established Fund has the following components:

- Stabilisation Fund;
- Infrastructure and Competitiveness Fund;
- and Heritage Fund.

The National Wealth Fund is being funded through surplus revenue from the Consolidated Fund, 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.
1. 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



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- (d) where any available accumulated surplus in the Consolidated Fund has been exhausted.
2. The funds in the Infrastructure and Competitiveness Fund may be withdrawn from time to time subject to the approval by the House of Assembly for special projects emanating from a long term development plan and no maximum limit shall apply to the withdrawal from the Infrastructure and Competitiveness Fund.
 3. The funds in the Heritage Fund may be withdrawn from time to time subject to the approval by the House of Assembly in the following circumstances—
 - (a) to facilitate cross fund usage;
 - (b) for extraordinary circumstances that have a negative impact on the national welfare of the Islands; or
 - (c) where the Heritage Fund has reached 10 percent of the gross domestic product.