

2006/07 BUDGET ADDRESS

MONDAY 8th MAY, 2006

Delivered by

HONOURABLE FLOYD BASIL HALL, MLC, CPA

MINISTER OF FINANCE, HEALTH AND NATIONAL INSURANCE

To the

LEGISLATIVE COUNCIL

Mr. Speaker

Honourable Chief Minister and other Members of Executive Council

Honourable Leader of the Opposition

Members of this Honourable House

Radio and TV Listeners

Ladies and Gentlemen

Boys and Girls

My fellow Turks and Caicos Islanders

Mr. Speaker, I move that the Bill entitled '*The Appropriation (2006/2007) Ordinance 2006*' be read for a second time, and in so doing, I crave the indulgence of this Honourable House in permitting me to read the Government's Budget Address.

Greetings

Mr. Speaker, about two and one-half years ago, our administration was given the opportunity to serve the people of these Islands as their Government. We were elected on a mandate of '*Turks and Caicos Islanders First.*' With God's ongoing help and guidance, every day we set about to ensure that this is paramount in all of our actions. Through His Grace, we have been able to usher in a period of unprecedented growth for the benefit of all of our People.

We are beginning to realise our goal of balanced development across the archipelago.

We are beginning to realise our goals of quality education, health care and proper housing for our people.

We continue to be good stewards of our environment.

We continue to promote a caring and crime free country where all of our People are free to pursue their development objectives and ambitions.

Our country is being recognized internationally as a progressive and stable democracy. In the process, our national self-esteem has increased.

All of us – Belongers, Investors and guest-workers – have in our own way contributed to the transformation of these Islands; and should all be proud.

This Administration is therefore very pleased with the many blessings God has bestowed on our People during the time of our stewardship. Mr. Speaker, we therefore use the occasion of this Budget session to rededicate ourselves to providing the high quality leadership, which the people have become accustomed. We will rely on God's continued guidance to sanction our efforts, on behalf of all of our people.

Introduction

Mr. Speaker, Members of this Honourable House, working along with my Ministerial colleagues and my technical staff, my primary responsibility is to ensure that resources are in place for the timely implementation of Government's development policies. This is a responsibility I do take seriously. My task is to ensure the functioning of a transparent, stable and predictable public financial management system for growth and development and individual endeavour to be achieved.

Ladies and Gentlemen, effective public financial management is critical if we are to assure our sons and daughters a quality education. It is important if we are to provide

health and welfare benefits to our People, especially the elderly and other vulnerable groups. It is important if we are to assure the People of Salt Cay that their port would be refurbished. It is critical if we are to assure the people of Middle Caicos that their roads would be reconstructed.

It is equally critical if we are to assure the people of Providenciales that South Dock would be redeveloped. It is also important to maintain investor confidence in our economy; and to ensure that current economic growth translates into gains in the future for the residents of these islands. In short, Mr. Speaker, we need to ensure adequate provision of both recurrent and capital programs. One cannot '*crowd out*' the other!

Mr. Speaker, this is why over the past six months, we strongly debated and agreed revenue, expenditure, debt and reserves policies and targets to ensure the timely delivery of a proactive development agenda, which the People require and deserve. This was a long and arduous process. We had to '*burn the midnight oil!*' We are however confident that the resultant policies and plans, which I will outline today are sound and in the best interest of our long term sustainable development.

Mr. Speaker, you know we are a results oriented government! The first section of my address therefore reviews some of our many achievements during 2005/06. This section is followed by a review of fiscal performance during 2005/06.

Based on the results from 2005/06, section three presents an elaboration of our main strategic objectives for the 2006 to 2009 budget cycle, which is to ensure the stable and predictable implementation of our development agenda.

To put our plans into context, section four of this address reviews current economic and social conditions locally and internationally.

In section five of my address, I would discuss our fiscal forecast to 2009 and the policy measures to be implemented to ensure achievement of our Strategic Objectives. In this section, I would also discuss our main policies and plans to improve overall public

financial management in the islands. This is consistent with our commitment to constantly assess the effectiveness of our financial management system and improve it by adopting international best practices. This section also includes the elaboration of medium term public expenditure issues and efforts to improve the budget process to ensure the stable and predictable implementation of our development agenda. This section is important as it presents a framework to evaluate the Government's performance in addressing critical development challenges facing these Islands. It also allows evaluation of budgetary outcomes over a longer time period and a comparison of our budgetary performance with similar sized countries and territories.

In the sixth section, our revenue, expenditure, debt and reserves policies and targets for 2006/07 are elaborated. In the final section of the address, I would discuss development planning initiatives and efforts to diversify our economy.

Development Agenda 2003-2007: Results during 2005/06

Mr. Speaker, based on an assessment of key economic and developmental challenges facing the Turks and Caicos Islands, in his first Budget contribution on September 24, 2003, the Honourable Chief Minister outlined a proactive development agenda for this administration. The main themes of it were:

1. Good Governance
2. Social Sector Management
3. Business Development
4. Natural Resources Management
5. Tourism Development
6. Inter Island Tourism Development
7. Infrastructure Development
8. Development Planning

This administration is pleased to be assessed based on achievements in these thematic areas.

Mr. Speaker, as in my past Budget addresses, I would like to restate that this is a proactive and results-oriented Government. We have made much progress in implementing our development agenda. We have introduced new programs and initiatives. A record number of development projects have been completed. The pace of development is quickening on all of the Islands and across all sectors. Our track record after only two and one-half years in office speaks for itself. We are very proud of our achievements on behalf of all of the People. I am therefore very pleased to highlight some of our major achievements during the last year:

1. The recurrent budget surplus for the year was \$17.5 million. This is the highest in the history of the Turks and Caicos Islands. As you may recall, we incurred a recurrent deficit of just under \$5 million during 2004/05. This is therefore a significant turn around and is a testament to the success of our policies.
2. The tourism sector continues to expand, with visitor arrivals increasing by 16.6%; topping 200,000 for the first time. Airlift has been expanded. Hotels are experiencing average room occupancy rates in excess of 65%. Scheduled jet service has been reintroduced to Grand Turk by Spirit Airlines, after some four years. The Islands tourism sector continues to be recognized internationally. The Honourable Chief Minister and several hotels have been the recipients of international tourism awards. Our beaches continue to rank among the best in the World!
3. We have deepened and diversified the tourism sector by successfully integrating our culture and other events such as the Music Festival and Juve-Fete into our product offerings; and by facilitating the construction of the Cruise Centre on Grand Turk.

4. We have successfully promoted tourism developments on several islands, besides Providenciales. These include St. Charles Condominiums and Royal Reef Resort on North Caicos; Turks and Caicos Sporting Club on Ambergris Cay; and the Ritz Carlton on West Caicos.
5. In the housing sector, we have completed arrangements for more than \$3 million in additional mortgage lending; and invested over \$500,000 in housing programs through TCInvest. I am especially pleased with the results of the Special Mortgage Program, which has been piloted on Grand Turk and has resulted in the construction and refurbishment of over five houses for our senior citizens on very affordable terms. The Shelter Development Program continues on Grand Turk and Providenciales. The Government has also facilitated private sector housing initiatives such as *'Quality Homes for All,' 'Flamingo Crossing' and 'Rainbow Estates.'*
6. In the natural resources sector, we have adopted a new Fisheries Management Plan. We have published our first environmental statistics report: *'TCI Environment: A Closer look 2004.'*
7. The Government is committed to social justice and reduction of inequality in our society. We have established a committee to monitor our achievement of the Millennium Development Goals. We created the Department of Social Development by reengineering the former Welfare Department to focus on social transformation to put an end to the dependency syndrome.
8. We have provided, free of costs, anti-retroviral drugs to persons living with HIV/AIDS. This is already paying dividends in terms of expanding the lives of and improving the quality of life of persons suffering from this dreaded disease.
9. We continue to support the development of agriculture and crafts in the Caicos Islands to provide linkages and employment opportunities related to the tourism

- sector. We facilitated a workshop held by the National Trust for persons working in the crafts sector.
10. We are all very pleased with the success of the pilot agriculture development project on North Caicos. Products from this farm are now being sold at shops on Providenciales. We also made arrangements to make farmland available to our farmers.
 11. We have formulated a Transport Sector Policy to maximize this sector's contribution to national development. The Tourism Strategic Plan and the Health Sector Strategic Plan were also completed with wide stakeholder inputs. We commenced the preparation of a new Five Year Education Development Plan. During November 2005, we launched the process to prepare a Ten Year National Development Plan for the Turks and Caicos Islands.
 12. We have continued and expanded our infrastructure development program. The Lower Bight Road project is 99.9% completed at a cost of over \$12 million. It has transformed the area. Works continue on the North Caicos Port project. The Auditorium on Providenciales is nearing completion. We commenced construction on the Five Cays Community Centre, the North Caicos Airport Runway and Roads Refurbishment Projects and the South Caicos Clinic and Airport Terminal Reconstruction projects. We signed contracts valuing over \$4 million and \$12 million for Subdivision Roads and South Dock and Five Cays Roads Projects on Providenciales, respectively.
 13. The Telecommunications sector has been fully liberalised after more than 100 years as a natural monopoly. We have already granted licenses to other operators. This should result in competition, which should lead to further price reductions and improved service. This would improve the economic welfare of our People and mitigate some of the effects of the increase in fuel prices.

14. In light of increasing concerns about crime, the government has already made good on its commitment to implement the Crime Reduction Action Plan which the Royal Turks and Caicos Islands Police Force formulated during the year. We have already increased salaries for the Police Force by 30% and have made provision to recruit 40 new officers (some of whom have already been recruited).
15. The Government realises the importance of a strong and effective Civil Service. During the year, the Chief Secretary's Office introduced a Civil Service Recognition Program and held a Motivation seminar, which was facilitated by Mrs. Nsombi Jaja from Jamaica.
16. We have made good on our efforts to deepen the financial sector and enhance its contribution to national development. During the year, a public/private sector committee, which is chaired by His Excellency, Governor Richard Tauwhare, was established to oversee efforts to review legislations, introduce new products and undertake increased marketing and promotion of the sector.
17. The financial sector was deepened and competition increased with the opening of the TCI Bank Limited during December 2005. For the first time, Turks and Caicos Islanders have a Bank, which they can call their own. The advent of TCI Bank Limited promises to transform the financial landscape of this country by introducing new products and investment instruments. We all need to support the TCI Bank Limited.
18. Finally, and most importantly, plans for the construction of modern health care facilities on Providenciales and Grand Turk and associated reforms are at an advanced stage of planning. I am pleased to announce that all four finalists have now submitted their bids for the construction of the hospitals. These were opened on April 28th 2006. They are now being evaluated. We look forward to breaking ground for these facilities by the beginning of the third quarter of this year. This is a significant achievement.

Acknowledgements

Mr. Speaker, the many successes of this administration could not have been achieved without the dedication and commitment of many of our civil servants. In addition, we have had strong development relations with the local private sector on several development projects. I am sure, Honourable Members would like to join me in thanking the private sector and our civil servants for their contributions to the common good of the Turks and Caicos Islands.

The Budget preparation process is a long and arduous one. We could not have reached here today without the input of many civil servants. However, I will single out for recognition, the Permanent Secretary for Finance and his Budget Team – Accountant General, Chief Economist, Financial Adviser, Budget Director, Revenue Controller, Under Secretary of Finance and the Public Sector Investment Officer – and other technical staff in the Ministry of Finance for their professionalism and dedication. I would also like to thank His Excellency the Governor, the Honourable Chief Secretary, the Establishment Secretary, Permanent Secretaries, Heads of Departments and other officials who have provided invaluable assistance to us.

The Turks and Caicos Islands continues to benefit from the support and assistance of numerous multilateral development agencies. At this time, I wish to especially convey our thanks to the various agencies of the United Kingdom Government, the UK Overseas Territories Conservation Forum, the European Commission, the European Investment Bank (EIB), the Association of Overseas Countries and Territories of the European Union (OCTA), Caribbean Financial Action Task Force (CFATF), Caribbean Disaster Emergency Response Agency (CEDERA), the Caribbean Community (CARICOM), the United Nations Development Program (UNDP), Pan American Health Organization (PAHO), Caribbean Regional Technical Assistance Centre (CARTAC) and the Caribbean Development Bank (CDB) for the financial and technical assistance they have provided over the years.

Analysis of 2005/06 Budget

I now turn my attention to presenting an analysis of the outturn for the last financial year.

Mr. Speaker, 2005/06 was a very challenging year from a budget management perspective. It required skilful economic and financial management. We began the year with a recurrent deficit of about \$5 million. Revenue for the year was estimated at \$127.5 million and expenditure at \$123.3 million for a projected recurrent surplus of \$4.2 million. As I have already informed this Honourable House, the recurrent surplus for 2005/06 significantly exceeded the original estimate.

Consistent with current economic expansion, recurrent revenue exceeded the original estimate by \$32.7 million with an outturn of \$160.2 million. Mr. Speaker, several recurrent revenue heads showed significant increases compared to the original estimates.

The most notable increases were as follows:

- Planning and Development Application Fees had an estimated outturn of \$2.2 million compared with an estimate of \$1.3 million;
- Import duties had an estimated outturn of \$55.6 million, an increase of about \$9 million;
- Gaming Machine Tax outturn was about \$2 million compared to the original estimate of \$1.5 million;
- Accommodation Tax outturn was \$13.7 million, an increase of \$1.7 million over the estimate;
- Stamp Duty on Land Transactions showed an outturn of \$31.8 million, an increase of \$11.3 million over the estimated amount; and
- Work Permits and Residency Fees had an outturn of \$15.7 million, compared to an estimate of \$9.7 million, an increase of \$6 million.

Mr. Speaker, Members of this Honourable House, the recurrent expenditure outturn for 2005/06 is \$143.2 million, representing a \$19.9 million or 16% increase over the budgeted amount. About thirty-three (33) programs incurred expenditure above the budgeted amount. In most instances, the increases were below \$100,000. However, the main areas showing over expenditure are as follows:

- Subvention to the Tourist Board was \$1 million higher than the budgeted amount of \$4.1 million. This reflected additional marketing and promotion costs.
- Pension and Gratuities totalled about \$4 million; an increase of approximately \$575,000 over the budgeted amount.
- Medical Treatment overseas cost had an outturn of about \$11 million compared to a budgeted amount of \$ 4 million.
- Consistent with the increased medical treatment overseas cost, patients travel cost exceeded the budgeted amount by about \$800,000.
- Cost of drugs and medicine was about \$370,000 higher than the budgeted amount.
- Debt service costs were about \$670,000 higher than the budgeted amount of \$2.6 million.
- Maintenance of Fixed Assets was about \$1.1 million higher than the budgeted amount.
- The Subvention to the Sports Commission was about \$550,000 above the budgeted amount of \$450,000.
- Continuing students scholarships cost was \$4.4 million above the budgeted amount of \$8.8 million.
- No budgetary provision was made for Hurricane Relief costs, which totalled \$256,879 for the year.

Mr. Speaker, the Government remains committed to controlling recurrent expenditure. However, with the benefits of hindsight, we acknowledge that we might have forced departments to contain their expenditure budgets within unrealistic amounts given the demand to expand and improve service delivery in line with the requirements of a growing economy. We will take this fact into consideration in planning future budgets.

Notwithstanding the increases in recurrent expenditure, as I have already highlighted, we realised an end of fiscal year recurrent surplus of \$17.5 million.

Mr. Speaker, during the year, we had the opportunity to securitize the first ten years of the guaranteed portion of the passenger head tax income associated with the Grand Turk cruise ship project. This is a normal financial planning transaction for firms and enterprises. We accepted this only after careful evaluation of all issues and protracted negotiations to get the best deal for our people. Due to our skilful negotiations, we were able to complete securitization at a 5% discount rate. This is a competitive rate since interest rates are increasing in major financial centres. As part of the transaction, Carnival Corporation was willing to forego its *Force Majeure* rights. This is indicative of their commitment to Grand Turk.

The proceeds from this transaction amounted to \$6.5 million. Part of the proceeds from this transaction would be invested in improving infrastructure on Grand Turk. The remainder, about \$5 million, would be held in our Reserve Fund, which would be formally established shortly.

Mr. Speaker, local Capital revenue and expenditure for 2005/06 were estimated at \$17.5 million and \$22.0 million, respectively. Loan and grant funded capital projects were estimated at \$53.2 million. This was to be financed mainly from draw-downs of past loans and a grant from the European Commission. The outturn for local capital revenue was \$12.9 million and locally financed capital expenditure outturn was \$20.3 million. Expenditure on capital projects from the Conservation Fund was \$369,000. There was a local funds Development Fund deficit for 2005/06 of \$7.4 million. This was financed by an equivalent transfer from the Consolidated Fund.

Expenditure on capital projects from loan proceeds and grants was \$14.2 million. The European Commission grant was not approved as expected. Overall Development Fund expenditure from all sources was \$34.5 million. This represented a slight increase compared to 2004/05 when total expenditure was \$31.1 million.

Mr. Speaker, Members of this Honourable House, taking into consideration the recurrent surplus of \$17.5 million and the local capital funds deficit of \$7.4 million, there was an overall TCIG funds surplus of \$11.1 million for the year.

Mr. Speaker, due to inadequate levels of liquid assets, we were in breach of the Borrowing Procedures during 2005/06. Accordingly, only two new loans were disbursed: \$4.3 million to the Government and \$3 million to TCInvest. Towards the end of the fiscal year, approval was received for additional borrowing of \$10 million to finance the provision of infrastructure on Providenciales. This amount was not disbursed during the year. However, total public sector approved borrowing was \$72.3 million on March 31, 2006, which includes \$17.9 million of debt held by TCInvest. Mr. Speaker, total approved debt is less than 20% of Gross Domestic Product, where debt levels approaching 60% is considered to be unsustainable.

Mr. Speaker, at the end of 2005/06 year, Government was able to increase its reserves by \$4 million to a total of \$10 million; and became fully compliant with the borrowing ratios. Our reserves are equivalent to 25 days expenditure coverage, an increase of 10 days coverage compared to 2004/05.

FISCAL STABILITY AND PREDICTABILITY TO FINANCE OUR DEVELOPMENT AGENDA

Mr. Speaker, I would like to begin elaborating on our plans to ensure Fiscal Stability and Predictability to Finance our Development Agenda by discussing our Strategic Objective for 2006 to 2009.

2006 to 2009 Strategic Objectives

Mr. Speaker, the Government is aware of the important linkages between our recurrent budget and development budget programs and our capacity to build up reserves to underpin planned borrowing to implement critical development projects. This is why,

during the course of the 2006/07 to 2008/09 budget period, our strategic objective is to improve overall financial management by ensuring that there is more predictability and certainty regarding financial outcomes by continuously improving forecasting and strictly controlling recurrent expenditure so as to have liquid assets, including reserves, equivalent to 90 days recurrent expenditure by March 31, 2010. Based on the current estimate for 2008/09 Budget, this will be equivalent to just under \$50 million.

We plan to implement a number of measures to achieve this strategic objective.

- To begin, we would set targets for recurrent and capital expenditure and reserves for each fiscal year based on careful estimation of the level of resources likely to be available. We would also set a target for the growth in the amount of resources to be allocated to staff costs, so as not to introduce inflexibility into the budget process. These targets would be consistently and systematically assessed on available information.
- As was begun during the current budget, Ministries would be given resource envelopes within which they would have to meet existing and new expenditure programs.
- We intend to be proactive in planning for potential financial transactions, which could result in unplanned expenditure. This is why we included a \$5 million contingency reserve amount in the recurrent expenditure budgets for 2007/08 and 2008/09 to meet unforeseen demands for expenditure and lessen the need for supplementary expenditure.
- We would also be proactive in planning for emergencies and natural disasters. Accordingly, the Management Policy for the Government Reserve Fund will include a provision to allocate a set percentage of reserve funds to undertake disaster preparedness and mitigation initiatives.
- We also plan to insure major government assets to lessen recovery costs in the unfortunate event of natural disasters.

- Mr. Speaker, we will better integrate the recurrent and development budgets so that all costs can be taken into consideration in determining the affordability of development projects.

Mr. Speaker, we remain committed to timely evaluation of our Policy Agenda for 2003-2007. This would be refined to address emerging issues. Consistent with our Policy Agenda, recurrent and development expenditure programs would be targeted at addressing key development challenges, especially those in the areas of:

1. Policing and Crime Reduction;
2. Timely provision of infrastructure, especially in the transport sector;
3. Improving service delivery and facilities in the education and health sector;
4. Expanding housing programs; and
5. Meeting the costs of hosting the CARIFTA Games.

Ladies and Gentlemen, the Government is keen to measure the effectiveness of expenditure programs to ensure we are positively impacting equality and addressing the problems faced by our People. This is why we will make every effort to benchmark our development programs against international commitments such as the Millennium Development Goals. In this regard, over the next few years, we plan to develop local development goals and indicators; and expand our capacity to measure and report on their attainment.

Current economic growth is led by developments that are taking place within the tourism, and related construction and real estate sectors. It is very much dependent on outside labour and capital and the opening up of new areas for development. Government is cognizant of the need to promote economic diversification and better control the rate of development and to ensure that Belongers are in the fore of the development process. These issues will be addressed in the Ten Year National Development Plan. Mr. Speaker, future national Budgets will be refined to ensure implementation of priorities, which evolve from the National Development Plan.

Development Issues and Challenges

Economic Issues

Mr. Speaker, our revenue, expenditure and borrowing plans must be rooted in a proper social and economic context.

All analyses of the economy, including, for example, those undertaken by the Foreign and Commonwealth Office and the Caribbean Development Bank, point toward unprecedented economic growth. Mr. Speaker, for the first time, we have prepared our National Accounts Estimates locally. This is a significant development for our country; and I would like to thank the Caribbean Development Bank for preparing these estimates for us over the years. Preliminary estimates from the Department of Economic Planning and Statistics suggest that economic growth for 2005 surpassed 15%. Significant growth rates should occur in the medium term.

Economic activity is beginning to be more widely distributed throughout the Islands, thanks to the policies of this administration.

The pace of development has resulted in the need to address several infrastructural, social, housing and environmental challenges. The Department of Economic Planning and Statistics estimates that the population is growing at more than 7% per year. There is the need to refurbish and expand infrastructure on Providenciales, while at the same time meeting similar demands on Grand Turk and the Caicos Islands. We have to meet the housing needs of people and guest-workers. We have to maintain the integrity of our environment. This is the foundation of our development.

We have made considerable progress in addressing these challenges. We made steady progress in delivering our development agenda to transform the Turks and Caicos Islands into a World Class Tourism and Investment destination, for the benefit of all of our people. The winds of change and economic expansion continue to blow our way – at

almost Hurricane Force. For the first time in our history, there is balanced development across all of the Islands – with employment and entrepreneurial opportunities for all. The government is expanding infrastructure developments across all the Islands with notable success. We are expanding healthcare and educational opportunities for all.

We have a golden opportunity to develop these Islands into a Jewel – a beacon of success and prosperity for all. We can show what a small country could do once we embrace a common goal. Mr. Speaker, this is our time. We have to ‘*strike while the iron is hot,*’ lest we fail to realise the development that is within our grasps.

Mr. Speaker, we have been able to attract investment projects valuing in the billions, which are ongoing or slated to commence during the next few years. This, along with the country’s increasing reputation as an up-market jurisdiction and ongoing promotion and marketing efforts, will increase the value added from the sector. This should ensure that current growth rate is maintained during the next few years. This would improve revenue prospects and our ability to address critical development challenges.

Social Development Issues

Mr. Speaker, as part of our quest for development, we need to pursue policies, which have a ‘*human face.*’ We need to pursue policies, which are pro-poverty reduction and which ensure that none is left behind. Our policies need to promote greater equality and social justice for all. Therefore, today, I would like to begin a discussion with the men and women, boys and girls of this country concerning our social conditions. I would like to make my remarks in terms of the progress we are making to achieve the Millennium Development Goals.

The Millennium Development Goals is an international commitment between rich and poor countries, which runs until 2015. They aim to promote global partnerships to reduce poverty, protect the environment and increase aid flows to countries that are most in need. It is a framework for concerted action in such areas as: poverty reduction, reduction

of infant and maternal mortality, protection of the environment, reduction of the impact of HIV/AIDS and increased universal access to education. This is therefore a good place to benchmark our social conditions.

Mr. Speaker, the Turks and Caicos Islands is on track to achieve most of the eight Millennium Development Goals. A summary of progress so far is as follows:

1. Maternal mortality ratio in the Islands is Zero, and is expected to remain at this level.
2. The proportion of births attended by skilled personnel is 100% and is also expected to remain at this level.
3. The number of infant and under - five years old deaths are between Zero and One and we hope to keep this at this minimal level.
4. Immunization coverage is currently 50%. Immunization services are readily available and as more health promotion is carried out, this level would increase. Our target by 2009 is 70% coverage.
5. The number of persons completing primary school, after first entering, is currently 91% and is expected to reach 99% by 2009 as measures to reduce truancy and investments into the education sector take place.
6. The number of persons reported as dying from AIDS per year has dropped by 75%, from 8 in 2003 to 2 last year.

We acknowledge that there are statistical gaps that need to be filled to improve our ability to monitor achievement of these goals. This is why, as I have mentioned previously, we have established a Committee to improve our capacity to measure and monitor attainment of these goals. The work of this Committee would be used to inform public policies, which would be the basis of targeted interventions to reduce poverty and conditions which predispose People to poverty. Mr. Speaker, I look forward to keeping the People of this nation informed of the progress we are making to achieve the Millennium Development Goals.

International Economic Developments

Mr. Speaker, I would now like to make a few remarks concerning international economic developments, which would affect our development prospects.

As I address you, the World economic agenda is being dominated by increasing oil prices. For the first time, oil prices have topped \$75 per barrel on the New York crude oil market. This is due mainly to instability in key producing countries such as Iraq, Iran and Nigeria; and excessive demand in China and India. In the longer term, the effects of increased oil prices would be to reduce the disposable income of households as goods become more costly and borrowing more expensive. This could have adverse effects on travel and other major purchases.

In the United States, the main interest rate was increased by 25 basis points at the last Federal Reserve meeting at the end of March. This was the fifteenth successive increase since June 2004. Most analysts foresee one more interest rate hike for the year. The US economy is still expected to record positive growth of just below 4% for 2006, but there are concerns about a 'bubble' developing in the housing sector.

At their recent meeting, during mid April, Finance Ministers from the World's seven most industrialized nations remained optimistic about economic expansion during this year. However, they noted concerns about rising oil prices leading to increased inflation and rising interest rates. The International Monetary Fund also remains optimistic about global expansion during 2006. Its forecast for World economic growth is 4.9% for the year.

Mr. Speaker, I would like to turn our attention to developments closer to home by discussing economic performance and issues within the Region.

Information from the Caribbean Development Bank suggests, that while some economies expanded during 2005, the overall rate of growth in the Region declined compared to

2004. Performance was highest in economies where tourism and construction activities increased during the year, and in Trinidad and Tobago, due to increase income on account of the increase in oil prices on the World Market. Several economies continue to rebound from hurricane damage.

It is expected that output should increase during this year and 2007 as construction and tourism prospects improve as the Region readies itself to host the 2007 Cricket World Cup.

Mr. Speaker, the Bank cautions that the Region continues to struggle with public debt and public financial management issues. It recognized that several policy responses have been implemented in some countries to address these issues. It was also noted that some Regional countries, most notably the United Kingdom Overseas Territories, have responded by taking efforts to ensure fiscal and debt sustainability and by establishing benchmarks for fiscal prudence.

It is suggested that these policy responses would need to continue in the medium term. They would include: strengthening revenue collection; developing transaction-based tax systems in light of pressure for reduction in taxes on trade items; targeting public sector investment programs; and improving debt management.

The Turks and Caicos Islands would continue to monitor Regional developments to inform future policy formulation.

Fiscal Outlook to March 31, 2009

Mr. Speaker, I would now like to turn our attention to a discussion of our fiscal targets to March 31, 2009. I would also like to discuss the key policy measures we plan to implement to achieve these fiscal targets.

Mr. Speaker, Members of this Honourable House, our fiscal target is to be well on the way to having reserves equivalent to 90 days recurrent expenditure at the end of this three year period. Specifically, we are forecasting reserves to be \$40 million on March 31, 2009 or 73 days recurrent expenditure coverage. This would be achieved by making an average annual contribution of \$10 million to a properly established Government Reserve Fund over this and the next two fiscal years. Based on recurrent expenditure projections for 2008/09, there should be a gap of about \$8 million to achieve the 90 days recurrent expenditure target. Accordingly, we are convinced that we should achieve this target during 2009/10.

Mr. Speaker, given the current growth that is taking place in the economy and expectations that this should continue for the foreseeable future, we are projecting average annual recurrent revenue growth of 15% over the next few years. We believe this is a prudent average annual recurrent revenue growth target. The projected increase in recurrent revenue should ensure that we have the funding to finance our recurrent expenditure programs, while being able to expand the Development Fund and build up reserves at the levels I have suggested.

Mr. Speaker, key to the success of our efforts is adequate control of recurrent expenditure. Starting with this Budget, we have made ample efforts to make the recurrent expenditure budget as realistic as possible. This has therefore resulted in an increase in recurrent expenditure by about \$36 million or 26% compared with 2005/06. On this basis, Departments would have no justification to incur over expenditure. Accordingly, we should not require supplementary expenditure during the year.

Looking ahead to the next two fiscal years, we plan to contain recurrent expenditure growth below 5% per year. This, along with the measures I have already outlined to achieve our Strategic Objectives for 2006 to 2009, should increase our ability to achieve increased recurrent surpluses. These are therefore projected to be \$12.9 million, \$30.3 million and \$54.6 million during this and the next two fiscal years respectively.

Based on projections for not increasing recurrent expenditure, we would be able to expand local contribution to the Development Fund and build reserves. We are forecasting for locally financed development projects to average \$30 million during this and the next two fiscal years. This means that over the next few years, the People of these Islands can look forward to about \$90 million being invested in capital projects from local savings.

As the infrastructure demands of our country dictate, and the building up of reserves allow, our government would assess the need for further borrowing to modernize our infrastructure on all inhabited Islands. We plan to be compliant with the Borrowing Procedures throughout the next three years based on current borrowing plans.

Measures to improve overall public financial management

Mr. Speaker, the achievement of our Strategic Objectives and fiscal targets require continuous improvement in our financial system. This is necessary if we are to have more predictable financial outcomes. Therefore, as in past Budget Addresses, I would like to propose a few actions to be undertaken by this government to improve public financial management.

Firstly, successive governments have made notional contributions to reserve funds. However, such a Fund was never formally established. Funds were co-mingled with general government funds. This made it difficult to manage these funds. It was far too easy for governments to access these funds. It also made it difficult to ensure that adequate reserves were in place to back borrowing for instance. This cause delayed implementation of several capital projects. We cannot afford such delays. This is why, I am pleased, that for the benefit of this and future generations of People of this country, this government will take the steps necessary to formally establish a Government Reserve Fund as a '*special fund*' under the Finance and Audit Ordinance.

Secondly, Mr. Speaker, our efforts to improve public financial management focus primarily on strengthening the ability of the Ministry of Finance to ensure more stable and predictable financial outcomes. Consistent with this, I am pleased to propose the following program of action which is to commence this year.

1. The Ministry of Finance will in the first instance host a post Budget session Seminar to discuss: monthly revenue and expenditure statements sent out by the Ministry of Finance; budget implementation matrix and administrative procedures for the Development Fund.
2. During the year, monthly meetings would be held between the Minister of Finance and other Ministers and Senior Ministry of Finance officials to review budget performance information. Similar meetings would be held with Permanent Secretaries and Heads of Departments.
3. Regular reports and presentations would be made to Executive Council by Senior Ministry of Finance staff to review and inform on budget performance. Based on these reports, appropriate policy actions would be adopted to ensure that fiscal targets could be achieved. It is envisaged that Executive Council would also summon other program managers to review performance.
4. The Accountant General's Department would be strengthened to improve the accuracy and timeliness of preparation of key financial reports.
5. The Budget preparation and monitoring process would be enhanced by the further strengthening of the Budget Office; and also by strengthening budget preparation at the level of the line Ministries by employing professional budget managers in key cost centres.
6. In the medium term, financial legislation would be reviewed to strengthen the role of the Ministry of Finance in controlling budget outcomes and improving overall

financial management in line with best international practices. Particular emphasis would be made to improve financial management in statutory bodies.

Recurrent revenue forecast – 2006/07

Mr. Speaker, I now propose to discuss our recurrent revenue forecasts for the new financial year.

Recurrent revenue for 2006/07 is estimated at \$192.5 million. This is based on existing fees and charges, which would remain the same for the new financial year. Our revenue projection is a \$32.3 million or 20% increase over 2005/06 outturn. Mr. Speaker, this is a realistic forecast given the 30% increase in recurrent revenue during 2005/06. It is also consistent with a growing economy and ongoing efforts to improve revenue collection. As part of our efforts, we plan to improve revenue forecasting by developing ‘strategic’ relationships with private sector actors in the various sectors.

Ladies and Gentlemen, I would like to refer you to the chart on page 2-1 of the Budget booklet, which shows the distribution of government recurrent revenue. It shows that taxes, duties and fees and charges account for about 91% of all revenue, with 39%, 36% and 16% respectively.

Mr. Speaker, the majority of revenue heads are showing increases. This confirms that current economic expansion is being felt throughout the entire economy. This notwithstanding, as expected, the majority of recurrent revenue would be collected in sectors related to the tourism, construction and real estate.

One. Due to ongoing construction activity as a number of resort projects continue and the increase in residential housing construction, we project import duties at \$67.5 million. This represents an increase of about \$12 million or 21% over 2005/06.

Two. Stamp duty on land transactions is projected at \$40 million, which is \$8.2 million

or a 26 % increase over last year's outturn. Mr. Speaker, this is a prudent figure, which I would like to discuss some more. As we continue our thrust to promote up-market residential tourism and attract high net worth individuals to our shores, the value of investments should continue to increase. This should have positive implications for the amount of stamp duty to be collected, as a number of major projects are ongoing or about to commence.

Three. Accommodation Tax is projected to increase by \$ 3.3 million to \$17 million, representing a 24 % increase over 2005/06 outturn of \$ 13.7 million. This increase in accommodation tax translates to increased room occupancy rates in the sector and the opening of new properties such as, the first phase of the St. Charles Condominium in North Caicos and the Amanara Resort and the Somerset on Grace Bay in Providenciales.

Four. Work Permit fees are projected to increase from \$ 15.7 million to \$19.5 million, an increase of 6%. This is consistent with the need to allow in more guest-workers to augment local labour supply bottlenecks.

Five. Business Licence fee is projected to increase from \$1.6 million during 2005/06 to \$1.7 million for 2006/07 or 6%, on account of increased economic and entrepreneurial activity throughout the entire country.

Six. Visitor arrivals is projected to increase by a further 10% during this year. Accordingly, Airport Departure Tax is projected to increase by \$200,000, from an outturn of \$4.5 million during 2005/06 to \$4.7 million during 2006/07.

Seven. Cargo dues is projected to increase by about \$500,000, from an outturn of \$2.9 million to about \$3.5 million during 2006/07.

Eight. Port Security fees is projected to increase from \$516,482 to \$1.2 million during 2006/07.

Nine. Motor Vehicle License revenue should increase from \$1.5 million to \$1.9 million during 2006/07; while Drivers License income should increase from about \$420,000 to \$700,000 during 2006/07.

2006/07 Recurrent Expenditure Plans

Mr. Speaker, the success of our efforts to improve overall financial management in these Islands would enable us to implement our recurrent expenditure programs in a stable and predictable manner. There would be no uncertainty concerning our ability to implement our programs to impact the lives of our citizens across the length and breath of these Islands. It therefore gives me pleasure to inform the nation of our main recurrent expenditure programs for the new financial year.

Mr. Speaker, I would begin my review of the recurrent expenditure plans by presenting the traditional analysis of recurrent expenditure plans for 2006/07. I wish to refer you to section 2 of the Budget booklet. The pie chart on page 2-3 shows that the bulk of recurrent expenditure is allocated to the Ministry of Finance and Health, the Ministry of Education, Youth, Sports and Social Development, and the Office of the Chief Minister and Ministry of Development with 31.9%, 19.4% and 15.3% of the total, respectively.

The Ministry of Communications and Works accounts for 11.1% of total recurrent expenditure; while the Ministry of Home Affairs and the Ministry of Natural Resources account for 7.4% and 3.4% respectively of the total. The current distribution of expenditure across ministries compares favourably with past allocations. This is indicative of successive governments' commitment to promoting development in the Islands, and to providing improved healthcare, education and social services for our people.

Mr. Speaker, Ladies and Gentlemen, the Royal Turks and Caicos Islands Police Force is allocated 7.9 % of total recurrent expenditure. This is an increase of one-half percent over last year and is consistent with our commitment to improving public safety in the Islands.

Mr. Speaker, the main areas of costs are as follows:

- Across all ministries, employment cost is estimated at \$79.8 million and accounts for 44.4% of total recurrent expenditure. Accordingly, these estimates are comparable to those for 2005/06.
- Debt service payments are estimated at \$5.8 million, up from \$3.2 million in 2005/06; an increase of \$2.5 million. Debt service costs are equivalent to 3.2% and 3% of total recurrent expenditure and recurrent revenue respectively.
- Total expenditure for the Royal Turks and Caicos Islands Police Force is increased by \$4.5 million, from \$9.7 million during 2005/06 to \$14.2 million for the year. This represents an increase of 44%, which is higher than the 26% total increase in recurrent expenditure.
- The subvention to the Tourist Board has been increased by \$3.6 million to \$8.7 million, an increase of 71% over 2005/06.
- The amount for Overseas Medical Treatment is increased to \$8 million, up from the \$4 million originally approved for 2005/06. This amount is about \$3 million below the 2005/06 outturn. However, we are confident that costs can be contained within the allocated amount as the Medical Referral program is consolidated and efforts to verify overseas costs take effect. In addition, a Dialysis Unit will be opened on Providenciales, which would lessen inter-islands travel costs for dialysis patients.
- The budget for drugs and medicine at the Grand Turk Hospital and Myrtle Rigby Health Complex has been increased from \$600,000 to \$800,000 and \$550,000 to \$650,000, respectively.
- Cost for rental of buildings is increased by 18%, from \$2.2 million to \$2.6 million. This reflects increase in rental of buildings to expand service delivery on Grand Turk and Providenciales.
- Cost for maintenance of public assets by the Engineering and Maintenance Services Department have been consolidated under a new cost centre – program number 082. As part of this change and consistent with the PWD Change Program

recommendations, maintenance costs have been increased by 132%, from about \$2.6 million to \$6.4 million.

- In the Ministry of Education, the subvention to the Sports Commission is increased by \$450,000 from the original estimate for 2005/06 to \$818,396.
- Also in the Ministry of Education, continuing scholarship cost is increased by \$4.2 million, from the original budgeted amount of \$8.8 million to \$13.0 million. This is slightly below the 2005/06 outturn of \$13.3 million. However, we are confident that costs could be contained within this amount as the effects of the introduction of the new Scholarship Program take effect. Additionally, we propose to increase scholarship lending funds made available to TCInvest by over \$1 million, as part of a new line of credit for \$7 million. This should reduce scholarship costs by allowing more persons to finance their tertiary education needs themselves.

Mr. Speaker, during 2005/06, the majority of expenditure programs experienced over-expenditure compared to their original budgets. Accordingly, in addition to the major program expenditure increases discussed previously, we had to allocate small increases to most programs.

Mr. Speaker, a detailed analysis of the manpower situation shows that the total number of employees has increased to 2,626, an increase of 159 over last year. This is distributed as follows: 2,053 established staff, an increase of 152; and 573 non-established staff, an increase of 7.

The main areas of increased established staff allocations are as follows:

Royal Turks and Caicos Police Force	42
Immigration Department	15
Myrtle Rigby Health Complex	12
Environmental Health Department	10
Grand Turk Hospital	9

Mr. Speaker, several departments have been reengineered and this has affected the distribution of staff between departments. For instance, the PWD Change Management Project and the decision to convert the Civil Aviation Department into two statutory bodies have had implications for distribution of staff between the new divisions for the Engineering and Maintenance Service Department, the Office of the Chief Minister and Ministry of Planning, Tourism, Development and District Administration and the Domestic Fire Department. It is noted that staff level in the Office of the Chief Minister and Ministry of Planning, Tourism, Development and District Administration moved from 267 to 62 due to the reengineering of the Civil Aviation Department.

Mr. Speaker, more than twenty other cost centres have established staff increases below 6 new positions. Only a few cost centres had no increases or showed a reduction in new staff positions compared with 2005/06.

In my last Budget Address, I highlighted the importance of a professional, highly motivated and results-driven civil service. I also outlined a number of initiatives to achieve this objective. Earlier in this address, I outlined some of the progress made in achieving this outcome during 2006/07. Ladies and Gentlemen, I am sure our civil servants would be pleased to know that we have budgeted about \$7.0 million to implement the agreed recommendation of the public sector restructuring and re-grading exercise, which would be retroactive from April 1, 2006. Under this initiative, civil servants can look forward to receiving salary increases based on the relative grading of each post.

Mr. Speaker, our efforts in the area of civil service capacity building will continue and will encompass the entire service. The following initiatives should be introduced in the short-term to medium-term:

- A Training Needs Survey would be undertaken, to prioritise training needs.
- Increased funding would be provided to implement the results of the Training Needs Survey, with special emphasis on the enhancing of skills of middle and

senior level employees.

- A program would be implemented to recognize and reward outstanding performance.
- Efforts would be made to formalize the process of succession planning for key positions, service-wide.
- General Orders would be reviewed to bring them in line with modern Industrial Relations practices.

Mr. Speaker, five new cost centres have been introduced to improve transparency of the Budget process. These new cost centres include: 081- EMS Project Management Division, 082 - EMS Maintenance Division, 083 – Gender Affairs Unit, 084 - Chief Secretary’s Office, Providenciales and 085 – Electoral Office.

Mr. Speaker, I would like to draw your attention to the fact that Head 068 – Development Servicing has been modified to separate interest payments on loans and properly capture principal repayments. Under these modifications, we can track the interest and principal payments which are directly associated with each loan taken out by the government.

2006/07 Capital Revenue

Mr. Speaker, I would like to present the details of our capital revenue projections. Capital receipts from all sources are forecasted at \$83.3 million. Local capital revenue is estimated at approximately \$35.5 million and grants at \$6.8 million. Proceeds from borrowing are projected at \$41 million. This also includes the \$10 million loan approved for the South Dock and Five Cays Roads project during 2005/06.

Mr. Speaker, I refer you to page 2-9 of the Budget document, where the pie chart shows that grants, loans and locally financed projects account for 8%, 52% and 39% respectively of capital receipts. It is noted that the percentage of locally financed projects is 6% higher this year compared to last year.

Grant proceeds consist of a grant from the Caribbean Development Bank, under the 5th Basic Needs Trust Fund Program and from the European Commission as part of the 9th European Development Fund.

Members of this Honourable House would be pleased to know that we have made good progress in finalizing the Financing Proposal for the 9th European Development Fund. The delay in concluding these arrangements has been a source of frustration for the Turks and Caicos Islands and indeed the other Overseas Countries and Territories. However, at last, we are optimistic that we should be receiving the first tranche of funding from the Commissions within a few months and a second tranche by February 2007.

Public Sector Debt

Mr. Speaker, a significant percentage of capital revenue is from the proceeds of loans. At this time, I would like to discuss public sector debt in more detail for the benefit of the Public, less this issue be misconstrued for political reasons.

At the end of the last financial year, total approved public sector debt was \$73 million or about 16% of Gross Domestic Product. During the year, and in direct proportion to our liquid assets, we plan to seek approval to borrow up to \$30 million. This would bring total public sector debt to about \$100 million. This would then be equivalent to just under 25% of Gross Domestic Product.

The majority of public sector debt, about \$83 million, would be directly handled by the Government. The remainder would be handled by TCInvest. The majority of direct government debt will mature between 12 and 15 years, and attract fixed interest rates.

Mr. Speaker, as I pointed out in a previous Budget Address, borrowing is a legitimate tool of any government's policy, which should be used prudently. Mr. Speaker, I am convinced that successive governments have borrowed prudently. The main projects financed from loan proceeds namely, Leeward Highway, Lower Bight Road and North

Caicos Port are testament of this fact. In all likelihood, these projects could not have been financed except through borrowing. However, Mr. Speaker, I am afraid, that over the years, the partisan nature of the debate on this important policy instrument has demonised it. It is time persons from both sides of the political divide accept the fact that as we grow and develop, governments would have to borrow to implement essential projects.

At this time, I must note and congratulate the West Caicos Development Project on being able to procure a loan from Lehman Brothers in the amount of \$100 million to build the Ritz Carlton and private home development on West Caicos. It is worth noting that three years ago, such a loan would not have been forthcoming from such a reputable institution for a development in the Turks and Caicos Islands, because the confidence of the funding agencies in the strength of our economy was not there. As a result of this Government's hard work, we are turning the tide and attracting international institutions of high repute which now have confidence in the sustainability of our economic policies.

I make this point, Mr. Speaker, only to highlight the fact that if international institutions and investors have this level of confidence in our Government and this country to advance a loan to a developer in the amount of \$100 million, then our people and institutions ought to have the same level of confidence, if not a greater degree, in our country as well. Please also note, Mr. Speaker, that this single loan transaction for investment on our shores is more than our Government's entire debt stock.

Mr. Speaker, Members of this Honourable House, Government's borrowing is approved in accordance with the Borrowing Procedures that were agreed to with the United Kingdom Government in 2002. Under these Procedures, government debt is deemed to be sustainable once three borrowing ratios are satisfied. These ratios are: the net debt ratio, the debt service ratio and the assets ratio.

Mr. Speaker, analyses undertaken by my technical staff indicate that the Government is and should remain compliant with all of the borrowing ratios over the long term, based on current budget performance and projected debt levels. To illustrate: the Borrowing

Procedures allow maximum debt service and net debt of 8% and 80% of recurrent revenue respectively. Our analysis projects maximum debt service and net debt below 4% and 45% over the medium term. Our projections also show that we should be compliant with the assets ratio over the next few years.

These results suggest that there will be scope for further borrowing by the Government, if necessary, to implement critical development projects. Mr. Speaker, Government's compliance with the borrowing ratios - with additional scope to borrow - is indicative of our prudent debt management policies. This, again, confirms that our debt is sustainable and that we are not taking this country on a borrowing binge, as some would want you to believe.

Mr. Speaker, public debt sustainability is also assessed in relationship to gross debt and debt service as a percentage of Gross Domestic Product (GDP) and recurrent revenue respectively. It is generally accepted that total debt exceeding 60% of GDP and debt service exceeding 15% of government recurrent revenue are indicative of unsustainable debt. The government's total debt and debt service payments are below 25% and 2% of Gross Domestic Product and recurrent revenue, respectively. These compare very favourably against international benchmarks for debt and debt service payments.

Mr. Speaker, all of the Overseas Territories have agreed Borrowing Procedures with the United Kingdom. These include the same borrowing ratios used in the Turks and Caicos Islands. Discussions with my colleagues in the other Overseas Territories suggest that the borrowing ratios are a constraint on borrowing and infrastructure provision. Most of the territories grapple with the assets ratio. The average net debt and debt service ratios during 2005 were 26% and 4.8% respectively in the other Overseas Territories compared with 24% and 3.2% respectively in the Turks and Caicos Islands.

Mr. Speaker, as I indicated when I introduced the Loan (South Dock and Five Cays Road) Ordinance 2006, I restate that as part of our debt management policy, the Ministry of Finance will engage the services of an international ratings agency such as Moody's or

Standard & Poors to obtain a sovereign rating for government debt. Given current economic performance, we are confident that we would be able to obtain an investment grade rating. This should allow the Government to be able to borrow on even more favourable terms and to access international capital markets in the USA and UK.

2006/07 Capital Expenditure Plans

Mr. Speaker, I would now like to inform the people of this country of our capital expenditure programs for 2006/07.

Locally financed projects

The achievement of our Strategic Objectives for 2006 to 2009 would enable us to expand the local component of the Development Fund, both to finance larger projects and lessen the need to borrow. Both are prudent measures! We are already achieving this goal. We will continue to do so. During 2006/07, the amount for locally financed development projects is estimated at \$33.5 million, an increase of \$10.3 million for the year. In line with this, I am very pleased to inform the People of these Islands of some of the major projects their government would be investing their savings in during 2006/07.

First, in furtherance of our commitment to fully implement the Crime Reduction Plan of the Royal Turks and Caicos Islands Police Force, we have budgeted in excess of \$1 million to improve police facilities. We will refurbish the barracks on Grand Turk and South Caicos. We have budgeted \$100,000 to begin planning works for a new Police Station on Providenciales, which is expected to cost about \$3 million. In addition, we have budgeted \$500,000 this year, to procure additional vehicles for the Force and commence the installation of Close Circuit Television at strategic areas throughout the country.

Second, a sum of \$200,000 will be invested to complete the construction of the Community Centre in Kew on North Caicos.

Third, to improve the functioning of the civil aviation system and sustain its contribution to our economic development, we have budgeted over \$1 million to improve security, navigation, air traffic control systems and runway and taxiway strengthening at the main airports.

Fourth, the Community Development Projects initiative commenced by this government has resulted in the implementation of a number of beneficial community projects throughout the Islands. It has also resulted in further empowerment of District Boards and other community based groups. I am therefore pleased that over \$1.5 million is being invested for the continuation of this initiative.

Fifth, members of the Salt Cay District Board visited my technical staff and me recently to present their community project needs. I am very pleased to inform them that we have heard them and an amount of \$200,000 is being allocated for community projects on Salt Cay, an increase of \$50,000 over last year's allocation.

Sixth, the Financial Services sector is an important component of our economic diversification effort. In this regard, I am pleased that together we have budgeted about \$350,000 for an E-Initiative and Marketing program for the sector.

Seventh, we have allocated in excess of \$900,000 for the procurement of medical equipment and needed improvements to facilities before the two new hospitals come on stream. These include: \$150,000 for new Health Information System; \$113,000 for a new Ultrasound for Grand Turk Hospital; \$250,000 for the establishment of a Dialysis Unit on Providenciales; \$90,000 for improvement to the mortuary service at the Myrtle Rigby Clinic and \$50,000 for the establishment of a Physiotherapy Unit on North Caicos.

Eighth, we have budgeted over \$200,000 for the renovation of the Clinic on Middle Caicos and \$100,000 to commence preparation for the Community Mental Health Programme.

Ninth, a further investment of \$750,000 is allocated for the continuation of the Low Income Special Housing Loan Program at TCInvest.

Tenth, the proper functioning of the Land Registry and the Land and Survey Offices is essential to facilitate the private sector. This is why I am pleased that in excess of \$700,000 is budgeted to refurbish both Offices, procure new equipment, and introduce new computerized data management systems.

Eleventh, the public on South Caicos would be pleased to learn that \$65,000 is allocated to procure a new refuse collection vehicle and compactor, while \$100,000 is allocated to construct a Dog Shelter and Quarantine facilities on Providenciales and Grand Turk.

Twelfth, the public on Salt Cay would also be pleased that a sum of \$600,000 is budgeted to resurface the runway and fence the airport.

Thirteenth, a sum of \$100,000 is budgeted to refurbish and extend the Post Office on Providenciales.

Fourteenth, the people of Middle Caicos would be pleased to know that after several years, plans are being advanced for the construction of a new government office block in Conch Bar. A sum of just under \$2 million is allowed for this project.

Fifteenth, I am sure the Honourable Minister of Sports will inform the people of this country of how proud she felt to receive the baton to formally signify that the Turks and Caicos Islands will be the host of the CARIFTA Games in 2007. Plans are very much advanced to ensure the successful hosting of these Games. A sum of \$4.7 million is budgeted to meet the cost of the games.

Sixteenth, a sum of just over \$1 million is allocated for the construction of the National Disaster Management and Emergency Command Centre on Grand Turk, upgrading

shelters throughout the Islands, procurement of generators and pumps and a Flood Consultancy.

Mr. Speaker, Members of this Honourable House, this is not a complete list of the projects that we will deliver during this Fiscal Year. I refer you to Section 8 of the Budget book, and to code 1001 in particular, for information of the other projects we plan to implement in 2006/07 using local funds.

Loan financed projects

Mr. Speaker, as I have already indicated, loan funded development projects are estimated at \$41 million. Based on achievement of fiscal stability and predictability, I am confident that we would be able to build and maintain our reserves to be able to borrow this amount under self-determination procedures. This will give me the certainty as the Minister of Finance, to assure the people of this Country that essential projects would commence in a timely manner.

Mr. Speaker, I think the people of this country deserve to know the projects that the government plans to implement with loan proceeds. I am pleased to oblige. A summary of the projects we plan to implement with loan proceeds is as follows:

1. \$4 million will be borrowed to finance road improvements in the Nation's capital.
2. The airport on North Caicos will be redeveloped from the proceeds of a \$3 million loan.
3. A sum of \$2.5 million will be borrowed to undertake port improvements on Salt Cay.
4. The terminal at South Caicos airport will be improved with loan proceeds amounting to \$4 million.
5. A sum in excess of \$12 million will be borrowed to undertake roads redevelopment works on North Caicos, South Caicos and Middle Caicos.

6. Loans amounting to \$10 million will be disbursed during the year for the redevelopment of the South Dock and Five Cays Roads on Providenciales.

Mr. Speaker, we also plan to borrow \$7 million from the Caribbean Development Bank for a new consolidated line of Credit for TCInvest. Our equity contribution to this project is \$2.5 million, which we have budgeted to meet starting in the 2007/08 fiscal year. This should increase the cost of this project to \$9.5 million. This project is expected to be approved by the CDB shortly. The successful disbursement of this loan will address the business loan, mortgage financing and student loan needs of more of our People. In the medium term, this project could contribute to containing scholarship costs as more students would be able to borrow to finance their education themselves on favourable terms and conditions.

Grant financed projects

Mr. Speaker, as I have indicated previously, we are finally confident about receiving the European Commission grant under the 9th European Development Fund. The Financing Proposal calls for this grant to be disbursed in three tranches during 2006 to 2008. We expect to receive the first tranche of funding in a matter of weeks. The People of North Caicos and Middle Caicos would be pleased to know that these funds would be used for the construction of the Causeway between these Islands. The technical work for this project is at an advanced stage of preparation. We are therefore confident that the long over due construction of the Causeway will commence by the end of the summer.

Mr. Speaker, we also expect to receive grant funding from the CDB to implement several projects under the Basic Needs Trust Fund (BNTF) Program. Among the projects we expect to undertake, are the refurbishment of the Middle Caicos Clinic at a cost of about \$200,000; and the construction of a new classroom block at the Hubert James Primary School in Kew, North Caicos at an estimated cost of \$425,000. Mr. Speaker, I would like to make an appeal to the community based groups throughout the Islands to approach the

BNTF Program Steering Committee for funding of projects in the area of skills training, education, health, water, HIV/AIDS and rural roads.

Private Sector Participation

Mr. Speaker, in my last Budget Address, I highlighted some of the benefits from private sector participation in the provision of infrastructure projects. During the last year, we commenced plans to privatise the Water on Grand Turk, South Caicos and Salt Cay and the Mechanical Workshop. These initiatives would be continued. During this budget year, we propose to focus on exploring public/private sector participation in improving conditions and expanding the port at South Dock, Providenciales. The ‘draft’ Transport Sector Policy has suggested that improvement at this port is one of the highest national development priorities for the Islands. We will address this issue by engaging private sector entities in a competitive bidding process to select a bidder to develop and operate the port in partnership with the Government for a set period of time.

The government would engage outside technical expertise to assist in appraising the project and carrying out the tendering process. The same expertise would also advise the government of regulatory requirements needed to ensure the successful operations of the port. This is needed to ensure cost effective operations at the port and to protect the interest of the public. I look forward to informing this Honourable House of the outcome of this project at a later date.

Improving Project absorption

Mr. Speaker, as in my past Budget Addresses, I would like to elaborate on a few initiatives we plan to introduce to ensure timely implementation of development projects.

Based on achievement of fiscal stability and predictability, we plan to enter into multi-year contracts for the implementation of development projects. Accordingly, we plan to enter into a multi-year contract for over \$3 million for the construction of a new

Administration Block, new Classroom Block and Students' Canteen and Auditorium at the Helena J. Robinson High School on Grand Turk. We also plan to sign a multi-year contract valuing in excess of \$20 million for the construction of the Causeway and Roads on Middle Caicos and North Caicos. This project is to be financed by a mixture of grants, loans and local funding.

Mr. Speaker, we also plan to improve appraisal of projects to ensure proper decision making concerning affordability. Projects would be tendered in accordance with Financial Instructions.

In addition, based on the findings of the Transport Sector Policy, we plan to establish an inter-departmental committee consisting of the Heads of all transport departments and other technical experts to coordinate planning and implementation of major projects in the sector. This committee would be chaired by the Honourable Minister of Works.

Economic Diversification and Development Planning

Mr Speaker, the Financial Services Industry is an essential component of our economic diversification strategy. Unfortunately, the sector has been very dormant for a number of years. In this regard, as I have already indicated, a public/private sector committee under the chairmanship of His Excellency the Governor, has been established to explore and implement initiatives to revive the sector's prospects. I am pleased to inform you that the work of this Committee has the backing of the United Kingdom Government. The work of this Committee will be continued during the year.

Mr. Speaker, in addition to the work of this Committee, the Government will appoint a team of internationally experienced advisers to develop and market a few new 'branded' Turks and Caicos Islands products to develop a new niche for us and improve our competitiveness in the sector. These advisers will start their work immediately. They will work out of the offices of TCInvest, and in a complementary manner with the Committee being chaired by the Governor.

Mr. Speaker, our plans to improve prospects for the sector also includes developing and enacting legislation to establish a ship registry in the Islands. Our decision to restructure TCInvest would also allow us to improve and expand marketing and promotion of the financial sector.

Mr. Speaker, the formation of the Turks and Caicos Islands Development Agency offers further opportunity to deepen the financial sector. We are currently in the process of preparing a Business Plan with related Mission Statement and Objectives and considering legislative changes needed to establish the new agency. However, we plan to ensure that the agency is innovative in introducing new products to address the needs of the local business people. I look forward to informing this Honourable House of our progress in this area at a later date.

One of the commitments we made in our Manifesto is to prepare a 10-year Economic Development Plan for the Islands. As I have already discussed, we have made considerable progress since the plan was launched in November 2005. The plan is being jointly led by the Department of Economic Planning and Statistics and the Planning Department.

To date, over twenty-one sector and six island specific reports have been prepared as inputs into the Economic and Social Development Strategy. A national workshop to formulate a development vision for the next ten years and to integrate the sector and island proposals into a consistent plan is scheduled to take place shortly.

Mr. Speaker, efforts are also being advanced to commence the preparation of a new National Physical Development Plan. This should commence shortly.

Mr. Speaker, the main outputs of the National Development Plan will be:

1. A National Development Vision (2006-2016). This would identify the broad philosophy, vision, guiding principles, goals and policy objectives and actions for the development of the Turks and Caicos Islands over the next ten years.
2. A Ten-year National Socio-economic Strategy for the period 2006-2016. This would be flexibly implemented in rolling three-year timeframes.
3. Island Socio-economic Strategies for Grand Turk, Providenciales, North Caicos, Middle Caicos, South Caicos, Salt Cay and West Caicos.
4. A first-stage three-year Medium Term Economic and Social Framework containing agreed high priority projects and programs to be implemented during 2007-2009.
5. A National Physical Development Plan for the period 2006 –2016.

The plan on completion will address a number of issues critical to our national development and will inform future budget plans.

Mr. Speaker, the public have embraced the national development planning process with great enthusiasm. This is an exciting time for our country. We have an opportunity to debate solutions to challenges facing our country. Moreover, we have an opportunity to allocate resources to address these challenges. All of this will ensure that we are good stewards and hand over a caring and prosperous country to the next generation of residents of these Islands. I therefore call on all of the people to participate in the national development planning process. Your views matter and we want to ensure that they are taken into consideration as together we shape the future of our country.

Conclusion

Mr. Speaker, in concluding, I would like to end as I began, by reiterating that this is a results driven government.

We have a clear Policy Agenda and our programs are geared at addressing critical development challenges facing these Islands.

There should be no doubt in the minds of the People of these Islands that we have made considerable progress in implementing our Development Agenda. Our record in office speaks for itself.

Mr. Speaker, we are consistently and systematically assessing our Policy Agenda to address emerging issues. This is why we have launched the Ten Year Development Plan. We commit to refining our policies and to allocating resources to implement agreed recommendations of the Plan.

Mr. Speaker, Members of this Honourable House, the People of this country demand - and this Government is obliged to deliver critical programs and initiatives in a timely manner. This requires stable and predictable budgetary outcomes. This is why I have devoted my address to detailing the policy measures that we will implement to improve public financial management and budgetary controls to remove any uncertainty concerning the delivery of our Development Agenda.

I am confident of the success of these initiatives and look forward to the support of my colleagues and technical staff as we work towards '*fiscal stability and predictability to finance our development agenda*'.

Finally, and on a personal note, I must thank my wife, Lisa and my two daughters, for standing by my side and being pillars of strength and being ever patient during the many times I am forced to be away.

I would also like to thank my mother and father, who always have positive words of encouragement for me.

I must thank my constituents in Over Back for the love and support and confidence they have placed in me throughout the years.

Mr. Speaker, I visit many communities throughout these Islands and I am heartened and overwhelmed by the greetings and warmth of the people I meet. I am thankful to them for bearing me up in their prayers. Knowing that the people care for me and are praying for me, make my job all the more important. It reminds me of the weight of my responsibilities. I will do my best not to betray the confidence you have bestowed in me as your Minister of Finance.

Mr. Speaker, Honourable Members of this House, Ladies and Gentlemen, I thank you for your attention and commend the Appropriation (2006/07) Ordinance 2006 to this Honourable House for debate and passage.

May God bless all of us and these Turks and Caicos Islands.