

**2008/09 BUDGET ADDRESS**

**MONDAY 21<sup>st</sup> APRIL, 2008**

**Delivered by**

**HONOURABLE FLOYD BASIL HALL, MHA, CPA  
MINISTER OF FINANCE, NATIONAL INSURANCE AND  
ECONOMIC PLANNING  
to the  
HOUSE OF ASSEMBLY**

Mr. Speaker

Honourable Premier and other Members of the Cabinet

Honourable Leader of the Opposition

Members of this Honourable House

Ladies and Gentlemen

Boys and Girls

A pleasant good morning to one and all!

Mr. Speaker, I move that the Bill entitled '*The Appropriation (2008/09) Ordinance 2008*' 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, despite uncertain economic times for countries big and small – like ours, and budgetary challenges during 2007/08, the Turks and Caicos Islands continues to be on an expansionary growth path, which has benefited all of our people, on all of our Islands.

This continues to be our time! We therefore meet today to give God thanks for past blessings!

We meet to renew our commitment to service, on behalf of all of our people, especially vulnerable groups such as our senior citizens, orphans, the poor

and the disabled who more than others need the support of the caring society we are striving to remain.

As we begin another financial year, we remain cognizant of the context in which we must realize our goals and maximize our potential as a People and Nation. We therefore count on God's continued guidance as we set about, with even greater vigour, to do the people's business.

And so today, my People, as we begin anew with a sense of humility, we rely on your continued support and prayers. We pledge, again, that all of our endeavours would be in the best interest of these Islands.

As we give an account of our stewardship of the affairs of these Islands and outline our plans for the next few years, as was requested in the past, we want you to hold all of us accountable.

## **ACKNOWLEDGEMENTS**

Mr. Speaker, there is no doubt that we are on a sustainable growth path, despite current challenges. This is as a result of the deliberate policy decisions of this government, which have galvanized the collective talent and energy of our people toward a common ideal – of nation building.

As we look to the future and outline our plans and strategies and continue along the path of building our country into the best little country in the World - personally, I would like to recognize and thank the Permanent Secretary for Finance and Economic Planning and his staff in the Ministry of Finance for their support and professionalism. I would also like to thank His Excellency the Governor, Her Excellency the Deputy Governor, Honourable Attorney General and his staff, the Public Service Commission, the Executive Permanent Secretary and staff of the Office of Public Service Management, the Cabinet Secretary and her staff, Permanent Secretaries and Under Secretaries, Heads of Departments and other officials who have provided invaluable assistance to us.

Mr. Speaker, we continue to be favoured by strong relations and held dialogues with the local private sector, the church, civic and non-governmental organizations on several issues of national importance. I am sure Honourable Members would like to join me in thanking the private sector, members of the clergy, civic and non-governmental organizations for the contributions they have made to the common good of the Turks and Caicos Islands.

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 Programme (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.

## **OVERVIEW OF BUDGET ADDRESS**

As can be seen from the Budget documents, 2007/08 was a very challenging year for the Turks and Caicos Islands. This, Mr. Speaker, places greater urgency and significance to this Budget Session of the House of Assembly.

In my last Budget Address, I outlined a number of plans and strategies to improve economic and social prospects for our people. We pledged to be a results-oriented Government. We asked you to hold us accountable.

I begin my address by an elaboration of the economic outlook for 2008/09 and an assessment of our economic prospects over the medium term. This is followed by presenting our scorecard for 2007/08

Mr Speaker, the aforementioned sections of my Address spell out the context in which we must make the necessary adjustments in our plans and policies as we continue our quest for sustainable development. Accordingly, the third section of this Address, under the theme *‘fostering a culture of strong fiscal management’* is an important dialogue I would like to begin with you – my people, on the ‘strong’ revenue and expenditure management measures, Government **must** introduce **now** if we are to maintain our economy on a stable growth and development path. This section is followed by a presentation of key budget parameters for 2008/09 and indicative targets for the three-year period ending 2010/11.

The final section of my address presents information on our plans to diversifying our economy and highlights some of the institutional development plans we will implement beginning this financial year and continuing over the next few years.

## **I. INTERNATIONAL ECONOMIC DEVELOPMENTS AND PROSPECTS FOR THE TURKS AND CAICOS ISLANDS**

Mr. Speaker, I begin my budget presentation today with a great sense of responsibility and gratitude.

You will have heard Mr. Speaker, of the crisis in world food prices and of the conflicts that have flared up in nearby jurisdictions and of conflicts yet to come. These are not easy times. There are signs everywhere that the world is in the clutches of an economic contraction that will take a toll in countries across the world.

Yet, Mr. Speaker, in reflecting on this and other issues, I will cover in my remarks in this Honourable House today, proposals to address our challenges as I consider the life we have here in the Turks and Caicos Islands.

You see, Mr. Speaker, it is very unusual in the history of the world to move from subsistence to emerging market growth in a single generation. For nearly 500 years, this country’s economic life was in the ‘boat and in the field.’ And proud though they were Mr. Speaker, nothing we have today

were our parents used to yesterday. Life was so different, such a short time ago. Our government has been able to deliver this, and done so in record time, with great benefits to our people.

In less than a decade, Mr Speaker, we have enjoyed nearly five (5) consecutive years of double digit growth; we developed and oversaw the expansion of our real estate product in the high-end sector of the world market; in that sector, we have developed some of the finest resort products in this region; also in that sector, we have hosted the most prestigious guests in the world.

Mr. Speaker, we have also initiated and managed a medical referral programme in service of our citizens; we established a scholarship programme that has been a bone to our students and an investment in our country's future. We have cultivated a solution to our need for airport expansion; developed the most innovative financing model for two new hospitals and in keeping with the times, Mr. Speaker, we completed the highest level conference ever held in the Turks and Caicos Islands, featuring Al Gore a former Vice President, Oscar and Nobel Prize winner and global environmentalist.

How far, Mr. Speaker, how far we have come, and yet there is so much further to go; so much more to do; such great and necessary demands of our people that must be met. Yet, Mr. Speaker, I simply wanted to place in a context, from the floors of this Honourable House, where we are at this moment in our development. I wanted us to reflect on how we arrived here. And I would like us to gain and maintain a perspective on the road that lies ahead, fully aware of the paths we have already trodden.

Mr. Speaker, in the road that lies ahead, we are faced with some of the greatest challenges in our nation's history. This is the result of several forces; many of which though they are beyond our control, are so likely to impact our economic life here in the Turks and Caicos Islands, that no responsible government can fail to prepare for them, manage their effects or develop solutions for the problems they will bring.

I will address these forces in sequence Mr. Speaker, because the solutions I will offer today, are designed to offset the negative impacts of external shocks to our economic system, to advance our growth and development agenda in spite of the global economic contraction, and to set the stage for economic stewardship in the medium term.

Mr. Speaker, of these forces I have mentioned, the most prominent, long-lasting and dangerous in its uncertain impacts is the sub-prime problem, which, though it originated in the United States of America, has spread world wide.

Mr. Speaker, as you may be aware there has so far been a \$260 billion write-down in the value of bad mortgages in the United States. We are advised that the loss of major banks will not be confined to Bear Sterns or Countrywide in the US, nor to Northern Rock in the United Kingdom. We are told that the world has seen only a quarter of the eventual impacts of the sub-prime phenomena; that total losses will mount to above US \$1 trillion or more than 1000 times the Turks and Caicos Islands economy. We are further advised, Mr. Speaker, that more direct impacts are forth-coming.

One impact that we cannot escape, that will affect us directly here in the Turks and Caicos Islands, is the availability of structured credit. Our real estate market depends on structured credit in two ways:

- a. Project Finance – mostly for the developer
- b. Mortgage finance – for the buyer of the finished condo product

Mr. Speaker, in the Turks and Caicos Islands, because of the healthy growth of our economy, these two lines of credit were almost merged. The mortgage financing was often sufficiently forth-coming as to sustain or guarantee project financing. Given the cost of doing business here, owing to the low economies of scale, and the absence of economies of scope in imports, but given also the appreciation of land values and market prices in these islands, this gave us a critical, finely balanced advantage.

Mr. Speaker, there is no other jurisdiction in our region that can boast of this extraordinary confluence of economic facts or financial advantages, nor one that has held it together for so long as we have.

Perhaps Mr. Speaker, it will be prudent as well as useful to consider a few additional points on the sub-prime crisis, as a means of enlightenment and reflection. One of the main elements undermining the current valuation of assets is the cost of and price of risk. The matter is so fundamental, Mr. Speaker, that financial institutions are unsure of their own value, or how to value themselves in a manner that they each will accept that value as a basis for credit; much less the value of their relative products or books of business.

The impact for us, Mr. Speaker, is that the sustainability of land prices, is based largely on external demand. This means that the Turks and Caicos Islands must not only be disciplined, but must be seen to be maintaining its discipline as this supports market pricing and value even in difficult times. The issue is this Mr. Speaker: the very people who have been the source of this demand, are the ones impacted profoundly by the sub-prime crisis. This is not so, Mr. Speaker, because they themselves are the subjects of such mortgages. But rather that their investment houses, their banks invested for them in these mortgage backed products and so their financial flexibility is less than in previous years. That Mr. Speaker, will have an impact on our real estate and condo sales market for the medium term.

If I turn my attention to fuel prices for the moment, Mr. Speaker, we will discover an operational impact in our tourism industry. For every \$10 dollars added to the price of oil, \$500 million dollars is added to costs in the tourism sector. That means \$2.5 billion added to the cost of business in the air travel sector alone.

This is occurring Mr. Speaker, even as the expansion of capacity is underway, following our example of high-end development. The Bahamas has just added 600 super luxury suites, three new hotels are coming on stream in Cuba (along with market making reforms), Cayman's Ritz

properties are now having an impact, Rockhouse in Jamaica is now opened and so is Crystal Cove in Barbados.

Mr. Speaker, this increase in supply, along with the constriction in demand, oil price impacts on the uptick has lead to a downturn in Caribbean tourism. According to the Caribbean Tourism Organization Mr. Speaker, *“the overall projected increase for travel and tourism in the Caribbean region is 2.3 percent. However, that growth rate is expected to increase and level out to an average of 3.2 percent each year between 2009 and 2018, which is still below the world average.”*

Going forward, we will have to distinguish between having high-end tourists as part of our brand, and looking more directly at the economic impact in terms of dollars spent per visitor on non-real estate economic activity. Mr. Speaker, this will prove crucial to the improvement of our commercial texture, mix of services, entertainment and attractions in these islands.

Mr. Speaker, one of the areas in which external pricing impacts have been profound is in food prices around the world. More analysts agree that food prices have risen nearly 60% in the last year. When coupled with fuel prices, this has a direct and potent effect on small island developing states such as the Turks and Caicos Islands. A number of factors such as increased demand in India and China; adverse weather conditions in some countries such as Australia; depreciation of the United States dollar, and pass through effects on the price of fuel and other commodities and increased subsidies for alternative fuel production have resulted in the current situation. We have to continue monitoring developments in these areas and would also participate in Regional Initiatives to limit the impact of food price increases.

Fuel and shipping costs, Mr. Speaker, are collateral pricing impacts for food. What this means for us here in the Turks and Caicos Islands, is that we find ourselves at the end of the pricing process with no real power to effect it. These prices, Mr. Speaker, are being set by forces beyond our control.



I am pleased however to assert, that in the spirit of Turks and Caicos Islanders, that we do not look upon great forces with fear or resignation. Mr. Speaker, these impacts of which I have been speaking are not just technical or analytical in nature. They are having a real negative impact on the lives of our people here in these islands. For myself, and I can speak for my colleagues in saying, we cannot allow the situation to stand without action.

But first, Mr. Speaker, let me say this: I am a capitalist. I believe when businessmen or women, have taken the risk, done the work and paid the price to build a commercial enterprise, he/she is entitled to his or her profits as a component of the price of goods.

But these times Mr. Speaker, are not times for ideology. We must discuss, discover and develop a means to counteract global forces, even if in a limited way for a limited period of time. For this reason, I have directed my staff upon receiving direction from the Premier to begin contacting merchants here in the Turks and Caicos Islands with a view to agreeing a price ceiling on a basket of everyday staple goods. I want the participation of all merchants trading in food and baby care items, so that we may bring some limited relief over some limited period of time to those struggling amongst us.

There are three general points to be noted in this strategy, which ideologists may themselves reflect upon:

One. We adopt this strategy now in a time of economic difficulty.

Two. In most other jurisdictions – the Bahamas for instance - such impositions on pricing are permanent in government policies.

Three. We are not seeking a comprehensive strategy to go beyond the current crisis and control prices across the market on all goods and services; as was done in the United States during both World Wars, during the Korean War, and by the Nixon administration from 1971 to 1973.

I will take soundings from the merchants, reflect on that; and then take a decision to be reviewed in six (6) months. In this way, we will proceed in a

manner that is as fair as possible to as many persons as possible for the shortest time possible. That, Mr. Speaker, is how we govern.

Within the tourism sector, we must begin to diversify and attract new varieties of visitors. Mr. Speaker, it was in this context that we have sought to enhance our European exposure to take advantage of the appreciation of the Euro against the United States dollar.

Additionally, Mr. Speaker, we need to explore changes in the near markets in the non-traditional tourism sector. We believe that the largest near-term opportunity is in retirement communities. It is estimated that there are nearly 77 million Americans retiring in the next ten (10) years. These Americans represent over \$40 trillion in wealth or eight (8) times the value of all the economic activity of Europe. This pool of persons have a “spending imperative”, which is to say, they must spend in order to live, nearly \$20 trillion in the next fifteen (15) years. In terms of spending per day per person, this pool of potential long-term tourism have a per day spending rate when annualized that is three times that of any other visitor group.

Mr. Speaker, it is clear then, that growth in these areas will be crucial to our ability to come through the global economic downturn in good shape. As such, I have asked for a large scale review of all potential growth areas, not currently operational in the Turks and Caicos Islands.

As I have already indicated, Mr. Speaker, these are tough times. The age of easy growth is gone and we are now in the age of managed growth; by which I mean, using policy levers to create transparencies and critical platforms so that investors can match opportunities with our market in real time, safely.

## **II. PERFORMANCE SCORECARD 2007/08**

### **Economic Performance in the Turks and Caicos Islands**

Mr. Speaker, Ladies and Gentlemen, I would now like to review economic performance, key budgetary results and some of our major development achievements and indicators during 2007/08.

Mr. Speaker, 2007 was another year of positive economic growth for the Turks and Caicos Islands due to ongoing construction of tourism related facilities and government infrastructure on several islands. Gross domestic product growth is forecasted to have declined by 6 percent in 2007, when compared to the 2006 estimate of 17 percent. The main contributors to growth continue to be tourism and related real estate and construction sectors. These sectors account for more than 50 percent of gross domestic product. Mr. Speaker, although real estate sales are softening economic prospects are favourable due to buoyancy in the construction sector.

During the year long-stay over and cruise visitor arrivals increased. Long-stay over visitors topped 270,000 for the year, an increase of over 6 percent over the 2006 estimates. According to tourism officials, the increase in visitor arrivals was about 2 percent above the regional average for the year. Additionally, average hotel occupancy was in excess of 64 percent. Cruise passenger arrivals increased to 532,225 compared with 295,000 during 2006, reflecting an 80.4 percent increase.

Due to the slowing in the real estate sector and declining customs duties, government revenue growth declined compared with recent years and was below 5 percent for the year.

Mr. Speaker, despite the slowing of government revenue, major social and economic investment programs continued as planned. Accordingly, all major macroeconomic and social indicators continue to point in an upward direction.

Our population is currently estimated at about 34,862, reflecting a 5 percent increase for 2007 compared to 2006. Per capita income is estimated at about \$18,909.

Mr. Speaker, the islands have achieved near full employment, as the national unemployment rate continues to fall, from 8 percent in 2005 to 7 percent in

2006 to 5 percent in 2007. Providenciales continues to be the main centre of employment, but employment creation is picking up on all of the Islands. For example, Grand Turk and North Caicos created 118 and 34 new jobs respectively during 2007.

Looking at some of the other key economic indicators, prices rose slightly during the year as the price of petroleum increased to over \$100 per barrel, with knock-on effects for commodities and other imports and shortages continue in the housing sector. This notwithstanding, the inflation rate is estimated at below 5 percent.

In line with economic growth, according to the Department of Economic Planning and Statistics, the value of imports increased by 17 percent during 2007 and was valued at about one-half of one billion dollars. While the value of imports increased this did not follow through into increased customs duties as the level of exemptions increased as well. The value of exports declined by approximately 7 percent during the year. Consequently, the balance of trade further widened. Already for the first quarter of 2008, we have \$147 million in imports, which is about 25 percent of the total imports for 2007. But compared to the first quarter of 2007, the increase is by 16 percent.

Mr. Speaker, financial intermediation accounted for 10% of gross domestic product during 2007 and about 12% of gross value added for the year. Total assets for the banking system expanded during the year ending December 2007, and surpassed \$1.6 billion, loans and advances topped \$986 million for an increase of \$300 million for the year. Importantly, construction and land development and property acquisition lending were \$421 million and \$211 million respectively for 2007. These figures are indicative of the vibrancy and prospects of the construction sector.

### **Social Progress during 2007**

Mr. Speaker, in my last budget address, I stressed that this government is on a quest to achieve 'economic development' as opposed to only growth. It has

to be noted that while growth is necessary for development to take place, it is not a sufficient condition.

Economic Development has to take into consideration psychological, social and environmental dimensions. This takes into consideration how people live and how they perceive themselves relative to citizens of other countries. In this context, we recognized the Millennium Development Goals as a yardstick to measure our progress. We are also committed to developing our own national development goals as an output of the Ten Year Development Plan.

Mr. Speaker, poverty reduction is the main focus of the Millennium Development Goals.

It is generally accepted that we have a very equitable society with opportunities for all. This notwithstanding, the Standard of Living Assessment Report of 2001 suggested that indigent poverty in the Turks and Caicos Islands was about 3.2 percent. While this was very low by Caribbean standards, it is not acceptable for us. We remain concerned that despite current economic growth, pockets of poverty persist in several communities throughout these Islands.

Mr. Speaker, we are in the process of updating the local poverty line, with technical assistance from the Caribbean Development Bank. In the interim, we have increased funding to programs which impact the elderly, orphans and disabled who tend to feature highly amongst the local poor. In this regard, we have expanded Home Help Programs for senior citizens and have launched the Poverty Alleviation Citizens Empowerment (PACE) program to address the needs of other poor citizens and continue the Low Income Housing Program through TCInvest. This program particularly addresses the housing needs of our senior citizens; and over the last two years more than thirty (30) homes have been built for them.

We continue to make progress in other areas related to the Millennium Development Goals.

1. In the area of Universal Primary Education, primary school enrolment increased by over 300 pupils during 2007 from the 2006 enrolment. According to DEPS, the proportion of pupils starting grade 1 who reached grade 5 was 98% in 2005/06. The literacy rate for the 15-24 years age group is currently estimated at 95%.
2. We have made much progress in the area of gender equality and empowerment. During 2005/06, the ratio of girls to boys in primary schools was 98:100, at the secondary level it was 91:100 and at the tertiary level the ratio of girls to boys was 302:100 during 2003. 98% of females between the ages of 15-24 are literate.
3. Child mortality and maternal healthcare are areas of resounding success for the Islands. In 2007, under-five year old mortality was 4.3 per 1000 live births, while maternal mortality ratio was 2, and nearly 100% of births were performed by skilled personnel.
4. In the area of HIV/AIDS and other diseases: antiretroviral drugs and condoms are available free of charge. Instances of malaria and tuberculosis are nearly nonexistent.

### **Budget Performance during 2007/08**

Mr. Speaker, I would now like to discuss the performance of the Budget during 2007/08

2007/08 was a very challenging year. By the end of the first quarter, there was evidence of a deteriorating financial position due to increase capital and recurrent expenditure and a slowing of revenue on both capital and recurrent accounts. During the early part of the third quarter, a Fiscal Stabilization Plan was agreed by Cabinet primarily to contain all expenditure and to aggressively collect revenue.

Accordingly, efforts were made to better analyze revenue trends, especially in the areas of import duties and stamp duty. During the year a Stamp Duty

Operational Unit was approved to coordinate efforts to build capacity to better forecast stamp duty revenue. Notwithstanding these initiatives, recurrent revenue for the year was only \$206.8 million or \$30.9 million below the estimate of \$237.2 million. Mr. Speaker, revenue growth was positive at about 5 percent above the unaudited actual revenue for 2006/07. This is however low by recent revenue performance.

Mr. Speaker, the main underperforming revenue heads were: Taxes on domestic goods (stamp duty) which was \$13 million below budget; and duties which was about \$13 million below the estimate. The decline in growth on these heads is consistent with the fact that several resort projects are at an early stage of construction and the slowdown in the US economy, which affected sales of existing inventory. However, it has to be acknowledged that due to high revenue growth in past years, stringent collection effort was relaxed.

As part of the efforts to contain expenditure under the Fiscal Stabilization Plan, meetings were held with Accounting Officers to inform them of the Government's financial position and to win support for expenditure containment efforts. Additionally, special meetings were held with officials responsible for administering scholarship and medical referral programs. Because of these efforts, out of 87 Departments only 16 incurred excess expenditure. Recurrent expenditure outturn was \$235.6 million, an increase of less than 1 percent over the budgeted amount.

Mr. Speaker, substantial savings were realized within civil servants emoluments cost (approximately \$10 million overall), maintenance (about \$2 million) and debt servicing (about \$6 million). Several departments had minor savings. The aforementioned savings allowed us to absorb the excess expenditure in several areas such as medical referrals [\$31.1 million, compared with a budget of \$17.9 million], scholarships [\$20 million, compared with a budget of \$18.8 million, including the supplementary amount], hosting and entertainment [\$24.7 million, compared with a budget

of \$20.1 million] and other programs such the Music and Film Festivals, communications expenses and travel costs.

During the year, supplementary appropriations of \$1.5 million and \$800,000 were approved for scholarships and the subvention to TCInvest respectively. Several other heads incurred excess expenditure for which no supplementary appropriations were approved.

Mr. Speaker, all of us, including me have to acknowledge the part we have played in contributing to this 'culture of over-expenditure' which is evident within the public sector. I therefore would like to commend those departments who responded to our call to contain expenditure as part of the Fiscal Stabilization Plan; and pledge that in the future, starting now, we will apply the sanctions included in our laws to those departments who incur excess expenditure without proper authorizations. To further enforce this, any department over spending will immediately receive correspondence from my office highlighting the infraction and insisting on corrective action.

Local capital revenue for 2007/08 was \$63.1 million. A grant of \$6,917,995 was received from the European Commission under the 9<sup>th</sup> European Development Fund. Total capital revenue was \$69,988,825 while capital expenditure was \$76,871,671 resulting in a deficit of about \$6,882,845. Capital expenditure increased by only about \$1.4 million during 2007/08 compared with 2006/07. During the year, most capital expenditure was on projects in the transport sector on several of the Islands.

Mr. Speaker, due to declining revenue growth, we had to drawdown our reserves, which resulted in us being not fully compliant with the Borrowing Guidelines. Accordingly, during 2007/08, we did not seek approval for any additional loans. Past loan funds were expended on approved projects during the year. Total disbursed debt held by Government (excluding debt held by TCInvest) declined during the year due to principal repayments and is now estimated at \$60,918,290, compared with \$64,552,641 at the end of 2006/07.



Mr. Speaker, taking into consideration the Consolidated Fund and Development Fund transactions, the Government ended 2007/08 financial year with an overall deficit of \$35.7 million consisting of a recurrent deficit of \$28.8 million and a Development Fund deficit of \$6.8 million. The overall deficit for the year was financed by an overdraft facility; a rundown of fund balances and the Reserve Fund.

### **The National Hospitals Project**

Mr. Speaker, without a doubt, the most important development for 2007 was the signing of the \$124 million agreement for the construction of the two new hospitals on Grand Turk and Providenciales. To put the significance of this agreement into its proper context, it should be noted that since the year 2000, governments of the Turks and Caicos Islands have been grappling with the problem of deteriorating health sector infrastructure and spiralling overseas medical referral costs. Rising medical referral cost which surpassed \$32 million in 2007/08 is threatening the sustainability of our entire financial management regime.

Mr. Speaker, it was only with the foresight of this government that we have been able to conclude the landmark international procurement of the two new hospitals. This agreement is without global precedence and is a major accomplishment for a small country. Mr. Speaker, it breaks new ground in risk sharing and private finance initiatives since it involves private sector expertise in the delivery of clinical services as well.

Mr. Speaker, Members of this Honourable House, the hospitals would be at the centre of major reforms for our health system, which would fundamentally change the quality and delivery of health services in Turks and Caicos Islands.

Mr. Speaker, the procurement process for the new hospitals is prudent as it allows the country to access international capital markets for debt to finance such a large capital investment, while maintaining prudent balance sheet management. It also allowed us to access loans and other funds to enable us

to undertake other capital infrastructure such as roads and airports, and invest in education and training for our people.

Mr. Speaker, despite views to the contrary, I am satisfied that we have achieved the important objectives we set for the procurement of the two new hospitals, which were to:

- Achieve Value for Money.
- Maintain financial viability and affordability for overall government spending.
- Follow an equitable and transparent bidding and selection process.

For this I am sure future generations of Turks and Caicos Islanders will be proud of our stewardship in this area.

### **The Middle Caicos/North Caicos Causeway**

Mr. Speaker, I am sure you will agree that the second most important highlight for the year has to be the completion of the Causeway which links North Caicos and Middle Caicos. It was therefore with a strong sense of pride that I joined the Premier and other local officials and the Head of Delegation from the European Commission in Jamaica for the opening of the Causeway in September of last year. This link, which was long overdue has already succeeded in consolidating the social and developmental ties, which bind the People of these two Islands; which can now be considered as a single economic space.

Mr. Speaker, this is only the first link in our vision to join the Caicos Islands by a Spine Road. The Ten Year Development Plan accords the highest priority to this project. We agree with this recommendation and call on all future governments of these Islands to work incrementally towards the completion of the Caicos Islands Spine link. Mr. Speaker, the construction of this link is technically feasible and though there are cost implications, if all governments commit to this project, we could afford it within a reasonable time frame.

## **Progress on Major Initiatives and Strategies**

Mr. Speaker, consistent with the theme of my last Budget Address '*investing for self-sufficiency in a globalized world*' and building on the record of past PNP Administrations, which have made landmark investments by creating institutions like National Insurance and TCInvest which shape our lives, I outlined our major investment plans and strategies for the medium term to achieve self-sufficiency under the following headings:

- Tax reform
- Renegotiation of borrowing guidelines
- National Health Insurance
- Gateways to the Turks and Caicos Islands
- Linking the Caicos Islands
- Special Development Bond
- Formation of Turks and Caicos Islands Development Agency

We remain committed to the full implementation of these investment plans and strategies and worked with diligence in this regard. Accordingly Mr. Speaker, consistent with our commitment to accountability, I would now like to review our scorecard to date in implementing these investments and strategies.

Mr. Speaker, our efforts in the areas of Tax Reform, the Special Development Bond and Renegotiations of the Borrowing Guidelines have been absorbed within the Ministry of Finance Change Project, which was approved by Cabinet during the year. We have made some progress. Terms of Reference have been completed and funding has been approved to undertake a major review of our revenue regime. The objective of this review is to have a modernized and elastic revenue regime, which is fair and equitable and easy to administer. We are in the process of recruiting

consultants to work along with the Ministry of Finance to undertake this study with local ownership and consultation with the business community. We aim to complete this study and to be in a position to implement agreed recommendations as part of next year's budget.

Mr. Speaker, the Borrowing Guidelines are inflexibly enforced by the United Kingdom Government which is keen to limit its contingent liability associated with our debt. This is a major constraint on our ability to access credit to grow our economy. We have therefore consulted with the other Overseas Territories on their Borrowing Guidelines to inform the development of our new guidelines. Our efforts in this area and the Special Development Bond will be advanced during the visit of the Economic Adviser from the Foreign and Commonwealth Office during next month.

Mr. Speaker, Members of this Honourable House, we have made much progress in our quest to introduce National Health Insurance in these Islands. With the successful conclusion of plans for and commencement of construction of the two new hospitals on Grand Turk and Providenciales, this will be the next reform to modernize our health sector. Mr. Speaker, for the avoidance of any doubt, I want to clarify that the national health insurance is not intended to meet the costs of the hospitals project. This will continue to be met from the Consolidated Fund. Specifically, National Health Insurance is being planned to allow citizens to meet part of the costs of the healthcare needs for themselves and their families, as is the case in modern societies.

During the year, Cabinet approved a 12-month work plan for the introduction of National Health Insurance by April 2009. A Project Steering Committee, Work Group and a Project Director have been appointed. Experienced international consultants in the areas of public relations, health sector planning and actuary have been engaged and are working according to the work plan.

Whilst the government is committed to the introduction of mandatory National Health Insurance, we have mandated the project planners to consult widely with the Public so that all issues and concerns can be factored into

the final designs for this most important national endeavour. I want to therefore encourage all to support the consultation process and become a part of shaping this new institution which I am sure will prove to be another landmark accomplishment on the road of nation building.

Mr. Speaker, the development of air and sea ports on Providenciales was identified as important gateways to the Turks and Caicos Islands. I am sure you will agree that without timely redevelopment efforts, these infrastructures would become major constraints to continued economic expansion in the Turks and Caicos Islands, and Providenciales in particular. In the last Budget Address, we announced plans to undertake a loan of \$75 million to buyout our current joint venture partner and undertake the redevelopment of Providenciales Airport. However, the constraints imposed by the Borrowing Guidelines have forced us to reconsider our approach to this redevelopment. We have therefore agreed that a continuation of the joint venture is our best option to redevelop the airport in a timely manner.

Accordingly, we have also agreed to the appointment of experienced external financial and technical advisers to work along with the joint venture company and the Airports Authority to redevelop Providenciales Airport by the winter of 2009. Our plans call for the resurfacing and lengthening of the runway to 10,000 linear feet, construction of parallel taxiways and additional parking aprons, improvements to lighting and the construction of a new terminal with 15 years capacity.

During the year we reconfirmed our plans to restructure TCInvest and create the Turks and Caicos Islands Development Agency. These plans will be progressed during the new budget year.

### **Other Notable Highlights during 2007/08**

Mr. Speaker, apart from the aforementioned major achievements, during the year, we reported progress in a number of areas which have national impact and cut across several sectors. This year I would highlight progress in the areas of law and order, public safety and security and environmental protection, as I give further account of stewardship of the people's business.

**First.** We have continued to meet the needs of the Royal Turks and Caicos Islands Police Force in a timely manner. During the year, thirty-three (33) new officers were recruited, a Management Services Unit was established, over \$800,000 was expended on several projects including procurement of vehicles and replacement of engines for the police aircraft.

**Second.** Efforts to enhance the capacity of the Judiciary were consolidated despite the fire at the Courthouse; a new Chief Justice was recruited, along with a second Supreme Court Justice and an additional magistrate and plans for the construction of a new Courthouse on Providenciales were progressed.

**Third.** The Five Year Strategic Disaster Management Plan was operationalized through community group formation and an enhanced public awareness campaign. Flood maps were prepared for four of our Islands.

**Fourth.** A contract for the construction of the new National Disaster Headquarters on Grand Turk was awarded.

**Fifth.** New Fire vehicles valuing over \$3 million were commissioned and distributed to airports throughout the Turks and Caicos Islands. This investment will ensure that the Turks and Caicos Islands continue to meet international safety requirements.

**Sixth** We continue to grapple with the problem of illegal immigration from Haiti. During the year an agreement was signed with a UK based firm, Easat, for the provision of a costal radar detection system which will cost about \$2.7 million.

### **III. FOSTERING A CULTURE OF STRONG FISCAL MANAGEMENT**

Mr. Speaker, the Budget is a tool to allocate resources to achieve important national development objectives. Successful budgetary outcomes require that resources are mobilized for allocation to priority expenditure programs consistent with government policy. The need for expenditure to take place

according to a legal mandate is paramount and systems must be in place to achieve value for money, while maintaining transparency and accountability.

Mr. Speaker, an internationally accepted budget Performance Measurement Framework includes the critical dimensions of an open and orderly Public Financial Management system. These are as follows:

1. **Credibility of the budget:** the budget must be realistic and should be implemented as intended;
2. **Comprehensiveness and transparency:** the budget and the fiscal risk oversight must be comprehensive and fiscal and budget information should be accessible to the public;
3. **Policy-based budgeting:** the budget must be prepared with due regard to government policy;
4. **Predictability and control in budget execution:** the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
5. **Accounting, recording and reporting:** Adequate records and information are produced, maintained, and disseminated to meet decision-making, control, management, and reporting purposes; and
6. **External scrutiny and audit:** there must be adequate arrangements for scrutiny of public finances.

Mr. Speaker, these dimensions present a useful framework in which our financial management system can be assessed, and enhancement measures implemented. This is imperative if we are to strengthen and improve financial management for sustainable development.

Accordingly, we must make an honest assessment of the current position, as we begin the process of rebuilding our reserves in a period of economic

uncertainty. This will require a period of ‘belt-tightening’ for us to sustain current gains and keep our economy in a sustainable growth path.

Mr. Speaker, with the benefits of hindsight, we have to acknowledge that the expansion in recurrent expenditure programs has not been very orderly or predictable. According to recent Audit Reports, annual recurrent expenditure growth averaged over 20%. This is in spite of the fact that we have stated that our main fiscal objective was to contain recurrent expenditure growth, below recurrent revenue growth.

We have to also acknowledge that over-expenditure has become chronic. The increase in recurrent expenditure has been system-wide; although it is most significant in a few areas: overseas medical referral and scholarships and in a few statutory bodies.

We have to further acknowledge that expenditure in excess has incurred without the mandated supplementary budget approvals by this Legislature taking place, in advance.

We have to acknowledge that there is significant divergence between projects that are implemented and those approved as part of the Budget.

Moreover, we have to acknowledge that while expenditure and revenue management systems are automated, the reports are not used by managers to inform policy making as adequately as is possible.

Finally Mr. Speaker we have to acknowledge that in this time of economic expansion where there have been windfall revenue, there has been some relaxation of revenue collection effort. And my Ministry takes full responsibility for the areas where Revenue Control and Customs have oversight. We intend to lead by example in taking corrective measures and would encourage and support other Ministries in doing likewise.

Mr. Speaker, our efforts to improve Public Financial Management in line with internationally accepted best practices can only be successful after the introspection I have just concluded. Our efforts have in fact begun as part of



the Fiscal Stabilization Plan we introduced during 2007/08. This notwithstanding, we have to acknowledge that the outturn from 2007/08 still reflects serious difficulties in controlling discretionary recurrent expenditure and a lack of adherence to proper budget management principles system-wide. The measures contained in the Fiscal Stabilization Plan must therefore be enhanced and enforced during 2008/09. This would also include a plan to address some of the issues and acceptable recommendations raised in recent Audit Reports and UK National Audit Office Report on risk in the Overseas Territories.

Mr. Speaker, 2008/09 therefore has to be a year of adjustments and ‘belt-tightening’ to foster a culture of strong public financial management, which must remain in place once this period of global economic uncertainty ends.

Beginning now, we need to establish policies and a management framework that would guide fiscal reform in our system, with the aim of reducing unnecessary expenditure, enhancing mechanisms of revenue collection, retooling systems that assure transparency and accountability.

Second, we must structure our fiscal and economic policies in a manner that substantially promotes investor confidence in our islands; that helps to facilitate growth in services through business growth and development.

Third, our budgetary process must be adapted to ensure enhanced participation of our social partners, a process that would strengthen accountability and transparency in the way we manage the budget. Embedded in this process must be the development and implementation of economic forecasting, a tool that is likely to provide greater information on current status and the options available to successfully move forward.

Fourth, it is critical that complete reviews are undertaken in all segments of government, inclusive of our health and education sectors, tourism promotion, marketing programs and welfare programs, which will be better targeted to impact those most in need. Again, this is related to issues of efficiency, productivity, and the elimination of wastage. In other words, this “belt-tightening” that I speak of must extend into every Ministry,

Department, program and activity. None should be exempted, including my own.

Consistent with the ongoing need to foster a culture of strong public financial management and accountability, we would adopt two broad policy objectives for the medium term.

Our first objective is to strictly prioritize and control expenditure in line with what is appropriated; and to seek supplementary expenditure during the year if there is need for additional expenditure.

Our second objective for the year is to aggressively collect and account for all revenue due to the government, including a reduction in concessions and exemptions. This is an interim measure as a far reaching revenue study is to be undertaken during the year.

Mr. Speaker, some of the key policy measures to be implemented during the year by the Ministry of Finance under Objective 1 are as follows:

1. Budgets would be loaded and funds checked on a monthly basis to ensure that prospects for excess expenditure are captured early to allow Accounting Officers to make appropriate adjustments and or inform the Permanent Secretary for Finance and Economic Planning of the need for supplementary appropriations as required by law.
2. An allocation of \$1.5 million is being made to the Contingency Reserves to address excess expenditure requests until supplementary appropriations can be approved. I want to stress that the allocation of this amount would not be used to encourage Ministries and Departments to incur unnecessary expenditure.
3. The Ministry of Finance will convene monthly expenditure and revenue meetings with high risk expenditure departments and key revenue departments; and with all departments at least quarterly to monitor expenditure and revenue, and make appropriate adjustments, if necessary.

4. A plan will be developed in conjunction with the Ministry of Works to control and improve the management of building leases to achieve better terms and conditions for the government.
5. A review of major contracts would be undertaken to ensure compliance with tender requirements and value for money.
6. Efforts to strictly monitor major expenditure areas (Scholarships and Medical Referrals) which began last year would continue.
7. Serious work to control medical referral cost which is becoming a drain on our entire revenue system has to commence before the new hospitals are commissioned. Accordingly, the Ministry of Finance will facilitate the work of the Ministry of Health to better control overseas treatment abroad costs: including the introduction of new Medical Treatment Abroad Policy (TAP), support to establish the new Treatment Abroad Unit and engagement of consultants to review and objectively assess all overseas contracts to reduce costs. I would require the Ministry of Health to agree a Treatment Abroad costs containment plan with the Ministry of Finance for the year by July.
8. As a nation, we have to work together to address the problem of rising healthcare costs. Citizens need to use their insurance, if they have them; and if they do not have insurance they should consider doing so; and should lead healthy lifestyles. This is part of good household management and responsibility to us and our children. Government will therefore in the future only refer patients in cases of emergency situations.
9. With respect to scholarships, expenditure will be capped at the level of the 2007/08 Budget. This program is vital to our future development and productivity but it will be continuously assessed to ensure value for money and that scholarships are being offered in priority areas.

10. The Ministry of Finance would seek to agree with the Ministry of Education a Scholarships Expenditure Containment Plan for the year by July; and facilitate and support initiatives by the Ministry in this area.

11. The Ministry of Finance would seek to encourage open tendering and to limit the use of limited tendering, except in cases of urgency.

12. It defeats our objectives if we can control spending within the central government and leave 'some' statutory boards to do as they like with public funds. The Ministry of Finance will therefore work along with relevant Permanent Secretaries to ensure improved financial management within statutory bodies.

Mr. Speaker, some of the key policy measures to be implemented during the year by the Ministry of Finance under Objective 2 are as follows:

1. The Ministry of Finance would seek timely assistance from Office of the Public Service Management (OPSM) to strengthen key revenue departments by ensuring filling of existing staff vacancies and assessing and implementing staff development plans.
2. A rationalization of several fees and charges would be undertaken during the year to take account of changes in the structure of the economy.
3. Key revenue departments will be required to be proactive in collecting all revenue and would be aided by public relations campaigns.
4. A statement of revenue arrears and amounts owing to government would be prepared. Action would be undertaken to settle arrears and other claims.
5. Starting this year, concessions and exemptions would be limited to a 50% effective tariff reduction, except in special situations where

concession are targeted to empower Belonger projects which have 100% Belonger involvement.

6. A plan would be prepared and implemented to improve revenue modeling and forecasting as a follow up to technical assistance from CARTAC during 2007/08.
7. A Stamp Duty Implementation Unit would be established within the Ministry of Finance and Economic Planning to continue to collaborate with stakeholder departments to build a database, and develop a better understanding and estimation of stamp duty transactions.
8. The Ministry of Finance will make efforts to build the capacity of line-ministries as part of our efforts to better collect revenue.

Mr. Speaker, as part of our efforts to foster a culture of strong financial management, the Ministry of Finance will seek to build the capacity of line Ministries and statutory bodies to better plan and manage resources and eliminate waste. A number of complementary activities will be implemented during the year as part of this effort.

A post budget Seminar will be facilitated by the Ministry of Finance on April 30, 2008 to discuss financial instructions for the year.

The Ministry of Finance would seek to collaborate with the Office of Public Service Management, Audit Department, and in some instance outside consultants to undertake regular capacity building seminars and workshops for line Ministries. Topics to be covered would include: use of monthly revenue and expenditure statements to inform budget management, project appraisal, budget timetable, tendering, role of Accounting Officers and administrative procedures for the Development Fund.

Mr. Speaker, in concluding this dialogue on fostering a culture of strong public financial management, I am convinced that the measures I have outlined will be successfully implemented and will bring our management regime in line with international best practices. This is an opportune time to

implement the measures I have outlined and I wish to reiterate that a culture of strong public financial management and accountability must be retained after this challenging period.

#### **IV. FISCAL PLANS AND POLICY MEASURES 2008 TO 2011**

Mr. Speaker, I would now like to outline our broad fiscal plans and policy measures to 2010/11.

The Turks and Caicos Islands government operates a cash accounting system. This means that the government can only spend what it collects. Our ability to borrow or to make use of a bank overdraft facility is dependent on the responsiveness of the United Kingdom government, whose main policy objective as far as we are concerned is to limit their contingent liability.

In the absence of our own national currency, the government can only use fiscal policy to influence economic performance.

Mr. Speaker, given the structure of our economy, we had to depend on customs duties and transactions fees and charges to finance recurrent and development expenditure. Since monetary policy is not applicable, we cannot increase the money supply or lower interest rates to spur economic activity. Our main policy variables are the reduction of customs duties, reduction in stamp duty on conveyances and concessions on acquisition of Crown land. Successive governments have used these few variables to engineer a very strong and robust national economy in these Islands, despite the vagaries of the economic and construction cycles. This notwithstanding, the United Kingdom government and others are critical of the way we have used the few policy variables at our disposal to grow our economy, without their support.

Mr. Speaker, economic expansion continues in the Turks and Caicos Islands due to several up-scale private sector projects taking shape and ongoing government infrastructural investments. Both private sector and government

investments have taken place on several islands as part of our balanced development objective. Mr. Speaker, Private Sector projects ongoing across the Islands which should be completed within the next year or so include: West Bay Club, Wymara, Grace Bay Estates, the Italian Villas at Beaches and the Atrium on Providenciales; the Wyndham Cacique Royal on Grand Turk, Royal Reef on North Caicos, the Ritz Carlton on West Caicos, the Turks and Caicos Sporting Club on Ambergris Cay and several other projects which are at an advanced stage of planning for South Caicos, Salt Cay and Middle Caicos.

Mr. Speaker, I have already elaborated on the international economic context in which we have to pursue our development objectives over the next few years. Despite our plans and strategies, we have to remain aware of international developments and manage our affairs with the necessary degree of caution and prudence. This is necessary since international developments are exacerbating cyclical effects in the construction sector since developers and investors would have to access financing in a more risk-averse financial sector with tighter credit regulations. This could temper growth prospects, here, resulting in revenue growing at a declining rate. Accordingly, we have to adopt a fiscally conservative stance for the next financial years.

Mr. Speaker, we estimate gross domestic product growth over the next few years to average over 10% per year. Positive Revenue growth should therefore continue. We are forecasting that revenue would grow by 3% over last budgeted amount during 2008/09 and would continue to increase over the next few years and should total about \$780 million.

Efforts to collect revenue would be matched by concerted efforts to continue to control recurrent expenditure growth. Total recurrent expenditure should be about \$700 million over the next three years. Recurrent expenditure growth should average 1% per year during the next few years.

Mr. Speaker, some might question our ability to contain recurrent expenditure. Mr. Speaker, the winds of success beckon us because solutions to our key challenges in the areas of health and scholarship cost containment are within our grasps. Within the next two years, the two new hospitals

would be operational and National Health Insurance would be introduced to contain health sector costs. While in the area of scholarships, greater use would be made of the home study course at the Community College and via the internet; more students would be sent to the United Kingdom to take advantage of reduced tuition costs, and efforts to send students to fewer schools on the basis of financial agreements would take effect. Furthermore, Mr. Speaker, we have the resolve and have acknowledged that in some instances expenditure was too liberal.

The combined efforts to collect revenue and contain recurrent expenditure would allow us to generate increasing surpluses on the Consolidated Fund to begin the process of rebuilding our reserves, to lessen effects of economic cycles; and again be in a position to make transfers to the Development Fund. Accordingly, during 2008/09 we plan to make transfers of about \$3 million to each of the Development and Reserve Funds. Transfers to these two Funds should progressively increase over the three year budget period. We are therefore forecasting Development Fund and Reserve Fund balances of \$37 million and \$24 million respectively at the end of 2010/11.

Mr. Speaker, Members of this Honourable House, we plan to limit new borrowing during the next few years. Our primary activities during 2008/09 would be to continue ongoing projects, using local capital revenue and debt consolidation and refinancing to allow us to obtain savings as interest rates decline in major capital markets. During the next three years, new debt should be about \$60 million. Average debt service cost should therefore remain below \$10 million. We should therefore remain well within the scope of the net debt and debt service ratios and should become compliant with the asset ratio by 2010/11.

As part of our efforts to expand development project absorption, we plan to finance several projects through Private Finance Initiatives. Such projects would include: construction of schools, and an expansion at the Community College on Providenciales and the construction of a new courthouse and police station on Providenciales and the redevelopment of the port at South Dock. These projects would be affordable since we have limited long term debt service obligations for the size of our economy and revenue base. These



projects are consistent with the Ten-Year Economic Development Plan and would be undertaken through competitive tendering.

In my last budget address, I announced plans to issue a \$100 million Turks and Caicos Islands Development Bond. This is still of importance to us as we explore options to keep our economy growing. In this regard, during 2008/09 we will seek technical assistance to establish a government backed Real Estate Investment Trust to use our substantial land assets as a means to mobilize funding for our development efforts, without having to physically dispose of assets.

### **Revenue Measures for 2008/09**

As I have already indicated, revenue growth declined during 2007/08 as a result of softening in the real estate sector and the fact that we are at an early stage in the construction cycle of many tourism projects. Mr. Speaker, we have attempted to stimulate this economy through a stimulus package which took effect on the April 1, 2008 and should run through June 30<sup>th</sup> 2008. We will continue to monitor the impact of this stimulus package.

As part of the new Budget, we will provide funding to undertake a major review of our revenue regime to modernize it, improve equity and objectivity and make it more sustainable and elastic in line with the changing nature of our economic structure. This review will involve consultations with the business sector and other stakeholders. I can assure you my fellow citizens that direct taxation is not being considered as part of this revenue review.

However, as an interim measure, the Ministry of Finance, with input from relevant departments, has undertaken a review of fees and charges, many of which have not been reviewed for more than a decade. This review also took into consideration competitiveness of the Turks and Caicos Islands economy and changes in our economic structure as an opportunity to introduce a few revenue measures.

Mr. Speaker, the new revenue measures are progressive and have been designed to limit impacts on the poor.

Mr. Speaker, within the foregoing context I am pleased to inform this Honourable House of a few new fees and charges we plan to introduce by July 1, 2008 and to increase the rate of several existing fees and charges that should take effect by the same date.

Firstly, as part of our efforts to redevelop the Providenciales Airport, several airport fees and charges under the Aerodromes and Air Navigation Aids Ordinance would be reclassified in line with the International Civil Aviation Organization (ICAO) regulations and several rates would be adjusted. International Departure Tax will be increased to \$40.00, an increase of \$10.00 per passenger and a new Airport Development Charge of \$55.00 per passenger would be introduced. In addition, a major review of airport aircraft landing and parking fees would be implemented. The incremental revenue impact of these changes which will be collected by the Airports Authority is conservatively estimated at about \$16 million.

Secondly, a levy will be introduced on money transfers through money transmitters and telegraphic transfers and drafts through Banks. The levy will be applied at 50 percent of the rate currently charged by money transmitters and Banks for their services. We are conservatively estimating incremental revenue of \$2.5 million for the year as a result of the introduction of this levy.

Thirdly, a Migrant Health Processing Fee will be introduced to certify the health status of first time entrants to the labour market. The one-time fee would be \$100.00 per entrant. The incremental revenue impact of this new fee is estimated at \$1.5 million.

Fourthly, the value of goods imported into the Islands with full or partial exemption is increasing exponentially. It was estimated at over \$200 million last year. Accordingly a Customs processing fee of 2.5 percent of the value of goods imported would be introduced where full or partial exemptions have been granted. This would meet the cost of providing a service to the

public and is consistent with the 10 percent surcharge on non exempted imports into the country. The incremental revenue impact of this new processing fee is estimated at \$6 million.

Fifthly, in the Ministry of Natural Resources Land Registry - a minimum fee of \$25 would be introduced for all inspections and certified copies to capture the cost of providing this service to the public. Additionally, Fees and Charges in the National Parks system would be rationalized to have more revenue to protect the environment and capture revenue from new commercial activities in the parks. Incremental revenue of \$450,000 has been included within the budget to reflect the impact of these changes.

Sixthly, Accommodation Tax which was last reviewed almost a decade ago will be increased to 15%, reflecting a 5% increase. This will bring the tax rate in line with the average regional rate and would allow us to be able to allocate more funds to tourism promoting and marketing initiatives. The incremental revenue impact of this rate change is \$2 million.

Seventhly, Business License Fees and the miscellaneous category have been in place for ten years despite changes to our economic structure. Accordingly, a reclassification and fee revision initiative is long overdue. Specifically a minimum business licence fee of \$500.00 is being proposed and several new categories will be introduced and rates increased generally by about 50% on average to reflect a changing economic structure. Mr. Speaker, you will be pleased to know that senior citizens, above the age of 65, would be exempted from having to pay business licence fees.

Eighthly, as part of the new Immigration Ordinance several new fees and charges would be introduced and incremental revenue of \$2 million has been included within the Budget to reflect the planned changes.

Mr. Speaker, as part of our efforts to remove the disparity in applying cargo dues, as a result of concessions, with immediate effect we will reduce this tariff from \$9.00 to \$6.00 per tonne and will eliminate all discounts to importers effective January 1, 2008. This will have the effect of rendering null and void all letters that have been issued to importers through the

Ministry of Finance for reduction in cargo dues and only those provisions that are enshrined in development agreements will be acknowledged.

Finally, Mr. Speaker, I want to assure the nation that this government is not seeking to place a drag on economic activity by introducing these charges at this time. Mr. Speaker, we simply want to rationalize fees and charges and ensure more equity in the revenue system.

### **2008/09 Budget Parameters**

Mr. Speaker, taking into consideration the incremental impact of the change to the rate and the introduction of several new fees and charges and proactive collection effort, recurrent revenue for 2008/09 is estimated at \$244,911,045 which represents a \$38,093,774 or 18.4 percent increase over the 2007/08 outturn.

Mr. Speaker, the softening of revenue during 2007/08 preparation of the 2008/9 Budget was underpinned by the strategic objective of containing costs by keeping recurrent expenditure at 2007/08 levels. Additionally, recurrent expenditure was only approved to reflect full year impact of staff changes and transfers of programs from the Development Fund to the Consolidated Fund. Funding for priority areas such as law and order, tourism marketing and promotion, health and education sector cost rationalization were also favourably considered.

Overall recurrent expenditure is estimated at \$237,005,228 which represents an increase of \$1,437,918 or less than 1% over 2007/08 outturn. This amount also reflects the transfer of expenditure amounting to \$17.5 million for the Turks and Caicos Islands Airports Authority from the government's accounts. This amount also includes cost associated with the Provo Airport Company Agreement.

Mr. Speaker, ministries and Departments with major increases in expenditure are as follows: Office of Public Service Management (15%); Judiciary (25%) Office of the Premier (13 %), Ministry of Natural Resources (9%); Ministry of Health & Human Service (10%). Only three ministries or

departments have projected a drop in expenditure: Attorney General's Chambers (-1%); Ministry of Finance (-13%) and Ministry of Housing and Works (-12%). Several important expenditure heads have allocations as follows: Medical referrals (\$18.5 million, compared with an outturn of \$31 million), Scholarships (\$17.5 million compared with an outturn of \$20 million).

Mr. Speaker, two new programs have been introduced: Treatment Abroad Unit to manage all overseas health referral costs and Statutory Charges to capture the costs of debt service, lease payments, pensions and gratuities and other costs which are Charges on the Consolidated Fund.

Mr. Speaker, an analysis of manpower costs shows that new posts were only approved in key areas such as policing, judiciary, education and health sectors. In all, only 56 new established posts have been added, while 23 non-established posts have been added. This is a major achievement since in past years there were significant increases in the number of new posts, for example during 2007/08 over 300 new posts were added. Additionally all vacancies were reviewed. In cases where vacancies existed and new posts were agreed only partial year budget allocations were approved. Payroll costs have increased from \$69,978,441 in 2007/08 to an estimated \$70,930,725; an increase of less than \$1 million.

Mr. Speaker, several staff allowances reviews are being undertaken including a review of housing allowances and staff pay while on study leave. It is expected that the recommendations of committees looking into these matters would be implemented during the year and would have marginal expenditure implications. However, no provision is being included in the new budget for a major review of public servant pay and grade at the current time. Efforts would, however, be made to address anomalies in the current pay and grade regime that have already been expressed. Additionally, work which has already commenced to make reforms to the Pensions Ordinance would be continued.

Mr. Speaker, taking into consideration recurrent revenue and expenditure projections we are projecting a surplus of \$7,905,817 for 2008/09. We

believe this target will be met due to the resolve of my team in the Ministry of Finance and Economic Planning to take the necessary actions, some of which would be very unpopular, to aggressively collect revenue and raise awareness of the need to contain expenditure growth.

Mr. Speaker, I would now like to look at key parameters for the Development Fund during 2008/09. The priority would be to complete ongoing projects and to carefully plan the commencement of new projects. Mr. Speaker, I will leave it to my colleagues to present information on new projects and programs to be implemented during the years, except to mention that in my constituency of Over Back every effort would be made to modernize the NJS Francis Park with proper basketball and tennis facilities and the construction of a community centre to host events on the island of Grand Turk. This project is long over due and I will work with the relevant departments to ensure that this happens.

Local capital revenue for 2008/09 is estimated at \$61,419,123. This will be financed primarily through natural resources related transactions, the Infrastructure Development Fund and the Conservation Fund. It is not envisaged that government would undertake additional borrowing during the year. As part of our budget cost containment and in line with prudent financial management, we plan to refinance government debt to take advantage of current low interest rates in capital markets. This should allow us to obtain interest rate savings, better repayment terms and should also simplify debt management.

Mr. Speaker, we would explore options for Private Finance Initiatives (PFIs) with the private sector to finance several capital projects. These projects would be undertaken on the basis of affordability and the need to limit a dramatic increase in associated long term liabilities. These projects would also need to satisfy competitive tendering requirements to achieve value for money and efficiency compared to TCIG borrowing to finance such projects itself. The full life cost of all projects should be properly documented. It is expected that PFIs would be pursued to construct several projects on Providenciales such as the new police headquarters, the new courthouse, South Dock Redevelopment and a campus for the TCI Community College.

The privatization of the water utility on Grand Turk, South Caicos and Salt Cay and the Caicos Islands should also be completed during the year.

Mr. Speaker, total development fund expenditure from all sources is estimated at \$86.7million; as follows: TCIG local capital revenue: \$61.4 million; grant funded expenditure: \$2.6 million [mostly from receipt of the EU grant]; loan-funded expenditure \$8.7 million and joint venture or PFIs: \$13.9 million.

Mr. Speaker, the appropriated Development Fund expenditure is less the amount for PFIs and funds which do not actually pass through government account and is estimated at **\$68,695,977.00**.

### **Economic Diversification**

Mr. Speaker, last year we discussed our diversification initiatives. Since that time, our advisors have developed a comprehensive 3 year medium term and 5 year long-term plan to give rise to a robust financial services sector here in Turks and Caicos Islands.

Our focus will be in Yacht and Jet registries; Yacht design, financing and insurance; Yacht construction and maintenance. The basis of these initiatives, Mr. Speaker, is the development of our company laws to ensure that the corporate platform is fit for the purposes. We have passed our Protected Cell Companies Ordinances. We are now turning our attention to work on our new Companies, Banking and Insurance and Arbitration Ordinances. I am advised that the new Immigration Ordinance has been completed and includes provisions aimed at supporting our diversification initiatives.

As a part of these initiatives, and consistent with the revenue measures I have already discussed, in the Financial Sector, following consultations with stakeholders, we propose with immediate effect to implement a general increase to all fees and introduce a few new ones for administrative services. The effective date for annual fees would be agreed with practitioners. These charges will bring our fees in line with those in competing jurisdictions and

should not affect our competitiveness. The additional revenue for these fee changes will aid us in keeping and acquiring the best advice to drive our diversification process.

Mr. Speaker, as part of our efforts to diversify our economy during the year, we commissioned a Gaming Sector Development Plan. Funding has been allocated in this Budget to implement the main recommendations of this, which include: review of existing and introduction of new sector legislation; development of marketing to be implemented with private sector participation, staff capacity building and institutional reforms. I will keep this Honourable House informed of our efforts in this area as our Plan is implemented.

On this point, Mr. Speaker, it is important that our citizens, the business community and members of this Honourable House understand why diversification is necessary. The points I made at the beginning of this presentation had to do with external shocks to the global economy and the risks for our economy against forces we cannot control but in the face of which we must find solutions.

In this respect Mr. Speaker, diversification is a risk management strategy. As I suggested, we must look at diversity within tourism itself, and between tourism and the broader economy. As a government, we intend to increase the variety of sources of government revenues as a means of off-setting downturns in our main industry.

In managing these risks, the Ministry of Finance along with advisors will be examining the regional and global economy for opportunities which are amenable to Turks and Caicos Islands.

### **Institutional Development Issues**

Mr. Speaker, I would now wish to make some remarks on some of the institutions which fall within the ambit of my responsibilities.



The civil service continues to be at the centre of our national life. This is why during the year much progress was made in recognizing the contributions of civil servants and to turning the service into a performance driven organization. This year, as part of our commitment to the service, we observed the First Annual Civil Service Prayer and Family Fun Day. This was a very successful undertaking and will be continued in the future.

Mr. Speaker, the process of change and transformation within the public service, which I announced in my last Budget Address, has begun to take shape. Integral to our efforts is an effective change management programme which is to act as a catalyst in the development of an efficient and effective public service by seeking to create new opportunities to help the Turks and Caicos Islands push the frontiers of what is possible. Under this programme, technical support would be provided to strengthen local expertise through building a sound regulatory environment or upgrading skills in the public services. Technical support would be designed in such a way that it helps to build and raise productivity of public service resources; and would support activities with powerful demonstration effects.

This is key to be able to adequately develop the systems and capabilities needed for a changing Turks and Caicos Islands economy in a knowledge-based era. To this end, and as part of a thrust to create a professional public service, a new management team was appointed to lead and develop the public sector, under the direction of the Public Service Commission. The executive team which was appointed in November 2007 consists of an Executive Permanent Secretary, Permanent Secretary of Human Resources, Change Manager and a Director of Training.

Since this team was appointed, a new style of management by consultation, participation, transparency and accountability has been introduced. Vision 2012 was agreed during the year and articulates the public sector's strategic or priority areas for attention. These are set within a five-year period and are aimed at greater performance efficiency, affectivity and highlight the need for the development and alignment of human resources with the priority needs of the country.

As part of Vision 2012, the former Office of Public Service Commission was renamed Office of Public Service Management. As part of this rebranding exercise, Vision, Mission and Core Values were adopted for the new public service. These embrace, among other things, participation, professionalism, a culture of neutrality and high ethical standards. The new Office of Public Service Management has already begun to review its recruitment processes, with revised guidelines and procedures and is currently engaged in an organizational and training needs assessment which will ensure that decision making and planning is based on sound information, and places resources where the critical needs are. Mr. Speaker, a competency framework for the public sector should be introduced in May this year to set objective criteria for hiring, promotion and training. Another important foundation activity soon to be completed is the development of a Code of Ethics and Integrity. Another important activity to be undertaken in the future would be a Job Evaluation Exercise for the public sector.

Mr. Speaker, change is sometimes difficult and there inevitably will be some resistance to doing things differently. Indeed some traditional practices, attitudes and behaviours may place an extra challenge to the new team as they set about the business of change. But change we must. As Minister with responsibility for the sector, I can say that my colleagues and I stand ready to support vision 2012 and have pledged a total of \$500,000 over the next two years to ensure its success and sustainability.

Mr. Speaker, the National Insurance Board celebrated its 15<sup>th</sup> Anniversary during April of last year. Despite the initial resistance to the program, this institution is one of the greatest success stories of our country. The National Insurance Board continues to provide social protection for the citizenry of this country and continues to build strong reserves. Indeed, many have benefited both directly and indirectly from its provisions.

The National Insurance Board provides a wide range of benefits as it seeks to provide the very best level of coverage for our people. This Government has taken steps to ensure the benefits remain relevant to all beneficiaries by effecting periodic increases in keeping with Section 50 of the National Insurance Ordinance.

My government is always happy to recognize the efforts of our senior citizens and to assist them as best we can, since they paved the way for what we enjoy today. Accordingly, in July 2007, yet another promise was kept when this Government adopted its second increase since April 2004 in the long term branch of benefits:

- Non - Contributory Old Age Pension was increased by 25% from \$200 to \$250 per month;
- Retirement and Invalidity Pensions were increased by 15%, with the minimum pension increasing from \$270 to \$310 per month;
- Disablement Pension and all eight Survivor's Pensions were also increased by 15%.

These increases have directly benefited some 912 beneficiaries and provided them with an additional \$711, 540.00 annually in purchasing power.

Mr. Speaker, consistent with our objective of ensuring that the contributions and benefits remain relevant, we have reviewed the maximum income ceiling of \$2,600. This revealed that a significant percentage of contributors would not receive a high benefit amount since only 27 percent of contributors pay at the higher level. Accordingly, to increase benefits going to our people, the maximum contribution ceiling would be increased to \$800.00 weekly and \$3,500 monthly effective July 1, 2008.

The accumulated reserves of the National Insurance Board have exceeded actuarial projections, and have surpassed \$120 million. This amount is prudently invested under a discipline diversification strategy to achieve an annual nominal rate of 5.5 percent. Mr. Speaker, due the excellent performance of reserves and in line with actuarial projections, a Social Development Fund was created. This would allow the Board to contribute to educational, medical and youth development initiatives which would benefit

communities throughout the Islands. An allocation of \$500,000 is being made to this Fund during the year.

### **Conclusion**

Mr. Speaker, let me conclude my remarks by reiterating that while 2007/08 was a challenging year it was still another year of expansion for our economy.

As I elaborated core economic variables are positive. This augurs well for the recovery of our economy once the world economy rebounds from current uncertainty.

In the interim, we have outlined a number of revenue and expenditure measures to *'foster a culture of strong fiscal management'* in our country. These measures are appropriate given the challenges we face and would be implemented with limited impacts on the poor and other vulnerable groups. We know these are prudent measures and would work with vigour to see them to completion, and call on all persons to join us in this effort.

The success of these measures will allow us to rebuild our reserves, which have sustained us during this period.

The success of these will measures will allow us to provide needed infrastructure on all Islands.

Mr. Speaker, the success of these measures will sustain us in a more competitive and uncertain international environment

Earlier in this presentation, I discussed some comparative observations between ourselves in the Turks and Caicos Islands and other countries in the region.

In the current climate, we have been able to hold our own against the introduction of new supply into the market. However, if we are to make

good on our potential, we must act now to secure a competitive advantage with those who are more secured, diversified or resource-rich.

Yet, we have much for which to be grateful, Mr. Speaker. Ours is a country that stands at a cross-road. We have developed and sustained an excellent basis for future sustainable development. Our country's brand, again owing to the work of our Premier and his team at the Ministry of Tourism, is a premium brand known largely in the wealth centres of the world.

Mr. Speaker, we must ready ourselves for this phase of our development and can learn much from Singapore, who merely a generation ago stood where are now.

If we value the effort of our forebears, who did not have what we are fortunate to have today, we will weather this current period of economic uncertainty with stronger resolve to secure a brighter future for those who will follow and address our challenges as opportunities. In this budget, that is what we have tried to do.

Ladies and Gentlemen, I thank you for the privilege of addressing you today, and I now commend the Appropriation (2008/2009) 2008 Ordinance to this House for debate and passage.

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