

**MINISTRY OF FINANCE
N.J.S. FRANCIS BUILDING
GRAND TURK
TURKS & CAICOS ISLANDS**

BUDGET ADDRESS

“PUBLIC VALUE AND POLICY CHANGE FOR PROGRESS”

given by

**HONOURABLE CHARLES W. MISICK
MINISTER OF FINANCE, INVESTMENT & TRADE**

presented

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INTRODUCTION

Mr Speaker, I rise to present the Budget for the year 2013-14 under the caption “*Public Values and Policy Change for Progress.*”

Mr Speaker, Public value has been described as the equivalent of shareholder value in private management. As the roles of the public, private and voluntary sectors shift in the current period of political, economic, ecological and social change, public value strategies and action may help with these complex challenges my Governments is now facing. As Leaders, we are called upon to make tough choices and crunch decisions resulting from finite resources and infinite demand.

Mr Speaker, policy is a plan or course of action, intended to influence and determine decisions, actions, and other matters. In order for the Turks and Caicos Islands (TCI) to maximise its potential, it is implementing a number of policy changes, which are outlined at various places in this presentation. They include Physical Development, Economic Development, Investment, Immigration, Tourism and others.

SUMMARY

Mr. Speaker, Honourable colleagues, today is an important day in the struggle for financial autonomy. It is the first budget to be presented by an elected government in four years; it is heavily influenced by restrictions we are obliged to operate under because of world economic realities, and the conditions set by the current Public Financial Management Framework Document (PFMFD) agreed to by The UK Government and the Interim Administration. That document forms the basis for Her Majesty Government’s (HMG’s) debt guarantee. It is a constitutional requirement to produce and maintain such a document. The 2011 Constitution specifically accepts that that document is currently in effect. My government will review that document before the next financial year to decide whether it wishes to consult with the public in the formulation of a new document.

Mr. Speaker, the constitution also provides for the Minister of Finance to lay the budget before the House at least six weeks before the beginning of each financial year including revenue and



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expenditure targets for the next three financial years, and an assessment of performance against the debt sustainability limits as set out in the Framework Document (FD). The reason for this provision is to give the appropriation committee the opportunity to scrutinise the estimates, and make recommendations in time to facilitate the passage of the Appropriation Bill before the beginning of the financial year in question.

Mr. Speaker, my Government has not been able to take the procedural steps needed to present the budget before the beginning of the current financial year for a number of reasons, not least among them was the fact that the final results of the November elections was not settled until March. Then there was the struggle to defeat the introduction of Value Added Tax (VAT). The decision by HMG not to have the Governor assent to the VAT legislation was not issued until April; following which, an extended period of negotiations with HMG over alternative taxation measures had to be addressed. This resulted in the approval of the Fiscal and Strategic Policy Statement (FSPS), and in turn the budget well passed the intended deadline.

However, Mr Speaker, the budget being presented today has gone through the rigorous process required by the Constitution, and the PFMFD. At this juncture, I wish to acknowledge with gratitude the collective efforts of my honourable colleagues, and the Turks and Caicos community in general in defeating the introduction of VAT. Mr Speaker, it speaks to what we can achieve when we focus on common interest, rather than special interest. It is in that spirit that I ask my colleagues to support the passage of this appropriation bill and to collaborate with my Government as we navigate the economic challenges of today's global economy.

Mr Speaker, the challenging global and regional conditions of which I speak continues to impact the TCI economy, and led to a significant shortfall in expected recurrent revenue last financial year. Mr Speaker, the sustainability of net surpluses is a good indication of a government's financial management, as it indicates the underlying balance between long-term government revenues and expenditure. As I pointed out to this House recently, TCI has an extensive history of structural (permanent) deficit. The results for the 2012/13 financial year validate the point. Without the non-recurrent revenue we would not have achieved the surplus we have.



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Although TCIG ended the year with a recurrent surplus of around \$24.8 million, this was achieved at the expense of massive reduction in budgeted expenditure, and consequently reduction in service delivery to the public. When combined with non-recurrent revenue of \$47.4 million and capital receipts of \$27.4 million TCIG ended the year with an operating surplus of just under \$55 million after paying civil recovery and SIPT costs of around \$14 million. Of the \$55 million, \$40 million was transferred to the Sinking Fund to pay down TCIG UK guaranteed debt in 2016 and \$13.8 million was used for debt servicing.

Mr. Speaker, we cannot depend on windfall revenue, and cannot continue to generate recurrent surplus by with-holding service from the public. We have to therefore implement strategies to sustain revenue growth, and move away from structural deficit budgeting. In that regard, we face a clear choice, radical cuts to the bone that would risk jobs, healthcare and our economy, or a responsible approach that safeguard the government resources, and stimulate economic growth.

Mr. Speaker, this budget takes the collective best interest of our communities at heart in prioritising the allocation of limited resources. It makes the choice to strengthen the public financial position without compromising healthcare, and education, and other social services. The commitment to the generation of continued surpluses through better financial management, debt reduction, investment incentives, will enhance economic growth as the economy rebounds. However it does require short term adjustment in public revenue targets, resulting in additional taxation initiative, which understandably raises concern. I will address these concerns during the course of this presentation.

Mr. Speaker, before I speak directly to the policy implications of the budget, it is important to analyse the TCI economy in context of the world and more specifically regional economic performance. According to the Conference Board, the global economy has yet to shake off the fallout from the crisis of 2008-2009. Global growth dropped to almost three per cent in 2012.

Mr. Speaker, the International Monetary Fund (IMF) on July 9 lowered its forecast for U.S. and global economic growth this year, citing the European recession and reduced demand worldwide. The world economy will grow 3.1% this year, the IMF said, down from its April projection of



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3.3%. Growth also will be slower in 2014 at 3.8% compared with an earlier 4% forecast. The U.S. economy will grow 1.7% this year and 2.7% next year, both down 0.2 percentage points from the organization's April World Economic Outlook forecast.

Mr. Speaker, the World Bank's June 2013 Report suggest that the global economy is in transition to a more stable but low growth pattern, with 2013 growth projected at 2.2% (versus the IMF's 3.3% forecast), and 2014 at three per cent (versus the IMF's four per cent). In 2012, the per capita growth in Latin America and the Caribbean fell below 2% for the first time since the global crisis. Caribbean growth decelerated to 3% according to the World Bank. The World Bank is projecting further deceleration in Caribbean growth in 2013 to 2.2%.

Mr Speaker, the TCI economy grew by ½% in 2012 according to RBC Caribbean Report, and by TCIG's own calculation, it is estimated to have grown by about ¾%. It is projected to grow at a robust rate of 3.5% in 2013 above the World Bank for the Caribbean as a whole.

On the other hand, Mr. Speaker, private demand appears increasingly robust in the United States, and over the past six months, advanced economic policymakers have successfully defused two of the biggest short-term threats to the global recovery; the threat of a Euro area breakup, and a sharp fiscal contraction in the United States caused by fear of the "fiscal cliff." In response, financial markets have rallied on a broad front.

Mr. Speaker, despite the short fall in recent revenues in 2012/2013, the Budget before you will see absolutely no spending cuts, but instead, an increase in expenses for better service delivery. In addition, a number of temporary tax measures have been implemented to meet government commitments pending the recommendations of the recently appointed Blue Ribbon Commission, and the introduction of what my Government hopes will be a broad based consumer tax. The remaining growth in revenue projection will come from increase economic activity in 2013. The aim is to lower the barrier for investment, and the reduction of overall tax burden. This in my Government's view will help to incentivise investors, and free up the economy.



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Mr Speaker, no government gets to choose the global economic circumstances in which the budget is framed. But we do get to choose the priorities for the nation. As stated in the PNP manifesto, those priorities are jobs, education, and healthcare. All depend on achieving economic growth. Job creation and the generation of increased public revenues will also depend very much on policies that support good governance, including good financial governance, sound economic management and improving the climate for investment. And so at this juncture, I wish to go on record, in lending my broad support to the passage of legislation, implemented under the Interim Administration to strengthen TCIG Public Financial Management and the safeguarding of government assets.

My government does however; take issue with some aspects of the Procurement Ordinance and the new Crown Land Ordinance and we intend to engage our colleagues opposite to make the common sense amendments to promote efficiency. Our concerns are that some of the provisions and processes have the potential to create bottlenecks and a drag on economic growth, restricting our ability to compete. This is especially so, considering that our economy is completely driven by tourism, and the economic fortunes or misfortunes of the US, Canada and the European Union (EU), which are likely to continue to dominate the tourism, financial services and other investment and trade interests of this the Turks and Caicos Islands.

Regional and TCI Economic Review

Mr. Speaker, in the Caribbean, many countries are challenged by high levels of debt, rising unemployment, high import prices for energy and food and reduced tourist arrivals from North American and Europe in particular. Already weak balance of payments and fiscal positions, which left little room for growth, pushed some of the countries in the region to the brink. Others benefitted from lower debt burdens as well as a combination of natural resource wealth, domestic investments, and the turnaround in tourist arrivals and remittance flows from the United States to the region. The TCI has weathered the storm reasonably successfully. But, now we must do more to raise the profile and promote balance growth so that all of our communities benefit from a rebounding economy.



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Investment Policy

Mr. Speaker, a new investment policy is under review by Government with the specific objectives of:

- a) Attracting long-term growth oriented investment that is aimed at creating local jobs;
- b) Pro-actively encourage appropriate investment into the lesser-developed Family islands;
- c) Pro-actively attract investment into new industries to broaden the economic base;
- d) Operate a regulated system of investment incentives that is clear, transparent and relatively easy to monitor for compliance and aftercare;
- e) Reduce the cost of doing business; and
- f) Lower the barriers to entry into business except for high risk activities.

Mr. Speaker, as part of my Government's efforts to accelerate the rate of direct foreign investment, we remain committed to the establishment of a one stop investment and promotional entity that will promote and facilitate investment generally, but more particularly in our main industries of tourism and financial services. With the creation of this new body, changes are proposed to a number of legislation including the Encouragement of Development Ordinance.

FISCAL PERFORMANCE REVIEW -FY2012/13

Mr. Speaker, financial performance of the Government for fiscal 2012-13 has been prepared in adherence to the Public Finance Management (PFM) Ordinance 2012 (Section 46.01), and affirms the Government's commitment to transparent reporting, accountability and improved financial governance and prudent decision making. This review provides detailed analysis of the operating results for the year ended March 2013, especially the reasons why actual results were different from those estimated by the 2012/13 Budget.

Mr. Speaker, Operating Surplus for the year ending March 31, 2013 was \$55 million, which was \$47.4 million or 529% above the budget. This operating surplus was an improvement of \$84.3 million from the previous year's deficit of \$29.4 million.

Revenue



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Mr. Speaker, Recurrent Revenues for the year ended March 31, 2013 totalled \$171.4 million, compared to a budget of \$187.6 million, a negative variance of \$16.2million (8.6%) and \$7.8 million above the previous year's receipts of \$163.3 million. There were budgetary shortfalls primarily in Import Duties (\$3.4 million), Accommodation Tax (\$2.9 million), Stamp Duty (\$1.6 million), Work Permits (\$3.2 million) and Other Revenues (\$4.5 million).

Non-recurrent revenue for the year ended March 31, 2013 was \$45.4 million, which was \$32.4 million or 249% above the budget and \$44.2 million ahead of last year's results. This is as a direct result of the work of the Civil Recovery Team, in addition to FCO and EU grants.

Total overall revenues for financial year (FY) 2012/13 were \$216.8 million, compared to the budget of \$200.6 million, a positive variance of \$16.2 million or 8% and a significant increase of \$51.9 million over the previous year results.

Expenditure

Mr. Speaker, Total Recurrent Expenditure for FY 2012/13 was \$146.6 million; this compared favourably with the budget of \$154.1 million; a positive variance of \$7.6 million or 5% below the budget. The saving included \$300,000 in staff costs, \$3.0 million for Operating Expenses and \$1.5 million in Investments in Interim Administration's Milestones.

Non-Recurrent Expenditure was \$22.6 million for the year, which was \$3.3 million or 11% below budget and \$17.9 million below the previous year. Savings on Historical Liabilities accounted for most of the positive variance against the budget, as the Government continues the process of bringing all long outstanding creditors up to date.

Total expenditure for the year was \$169.2 million, which was \$10.9 million or 6% below the budget and \$33.8 million below last year's result, as the government continues its prudent financial management of public resources. As stated earlier, this was partly as a result of shortages in the delivery of service to the public.



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Sectorial Spending in 2012/13

Human Resources

Mr. Speaker, staff cost is still the largest element of the Government expenditure, at around \$56.9 million in 2012/13, representing 24% of Total Expenditure, compared to \$66.9 million (or 38% of Total Surpluses) for the previous year, due primarily to the Voluntary Redundancy program and strict controls on recruitment. This result was still \$300,000 below budget even after the reinstatement of the 10% pay cut that was imposed in 2010. Mr. Speaker, my government will continue to employ cost saving measures in the new financial year; to create a careful balance between cost containment and a public service that provides the kind of service that a modern emerging economy expects.

Healthcare

Mr. Speaker, the direct cost of providing healthcare service to the country was also a very significant expenditure last year and there is limited scope to reduce this expenditure in the near term. Transfers to National Health Insurance Board and hospital provisional charges totals about \$42.5 million for the year, compared to \$44.8 million the previous year.

Mr. Speaker, the scope of the financial audit of Inter Health Canada (IHC) has been extended. We expect to receive the audit results imminently. A clinical audit is also being conducted. The result of these two audits is expected to uncover suspected weaknesses in the system, including potential contractual breaches, incorrect accounting, over billing, lack of cost control measures by IHC. Corrections to the system are expected to result in a reduction in TCIG subsidy. However, the need to provide reliable, accessible, affordable, and sustainable high quality healthcare will remain a priority of this administration.

Education

Mr. Speaker, in order to develop a productive, self-confident people, it is important to invest in the education of the youths of the country. My Government demonstrated its commitment to educating the future generation during the last fiscal year, with the almost completed new six



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classroom facility at Helena J. Robinson High School and continued strategic investment in primary and tertiary education.

Mr. Speaker, expenditure on scholarships and subvention to the Community College fell from a high of \$13.6 million in 2009/10, to a mere \$4.3 million in 2012. We can all admit that the system might have been abused in the past, but this level of investment is not sufficient to achieve our goal. My government's plan for education is set out in the PNP manifesto and the Minister for Education will speak more specifically to our plans during the course of her presentation.

Subvention- Statutory bodies

Mr. Speaker, Subvention to statutory bodies for the year was \$6.4 million, compared to \$8.7 million the previous year. The Government continued reforms initiated the preceding year, which resulted in the closure and transfer of the services previously provided by TCInvest, Sports Commission, Culture, Library Board and Radio Turks and Caicos to the central government. However, my Government believes that the reinstatement of TCInvest in the appropriate form is needed to maximise Direct Foreign Investment (DFI), properly structured and managed, this can become a profit centre, and will help to accelerate the process of project proposals and investment implementation.

SIPT and Civil Recovery

Mr. Speaker, combined revenue from SIPT and Civil Recovery actions during the year amounted \$30.2 million but the two also had operating cost totalling \$14.0 million. Operating revenue and costs are expected to reduce for the new financial year as the work of both SIPT and Civil Recovery begins to wind down.

Capital Contributions

Mr. Speaker, the Government contributed \$6.8 million from the Consolidated Fund to the Development Fund during fiscal 2012/13, to assist with the capital expenditure for the year, including the acquisition of the N.J.S. Francis Building that we are in today.



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Debt Management

Mr. Speaker, total principal debt repayment for the year totalled \$13.8 million, which was \$5.4million above the budget and included the early repayment of the Scotia Revolving Credit Facility of \$6.0 million, which resulted in saving in interest cost for the year. Total Debt reduced from \$229.4 million or about 30.7% of GDP, in April 2012 to \$214.9 million or 28.8% of GDP, at the end of March 2013. My Government has established a working group within the Ministry of Finance to review Government Debt, and to explore options to manage our debt obligation more efficiently to reduce the total annual Debt Service cost, including the contingent liability of the two hospitals, and to plan for the treatment of the residual debt balance in 2016 when the \$170 million bond matures.

Sinking Fund

Mr. Speaker, at the end of the FY 2012/13, the Sinking Fund had a balance of \$41.0 million due to the transfer of funds remaining in both the Consolidated and Development Fund at the end of the financial year.

Capital Programme

Mr. Speaker, full year's receipt of \$27.4 million exceeded the budget by \$11.9 million, due primarily to the unbudgeted receipt of \$7.5 million from the sale of the Provo Water Company's shares and proceeds of \$7.0million from the sale of the West Caicos property.

Mr. Speaker, Capital Expenditure for the full year was \$15.3 million, which was \$1.7 million above the budget. Expenditure for the year included the following among others:

Providenciales Airport land acquisition	\$4.4 million
NJS Francis Building acquisition	\$2.7 million
North Caicos Deep Harbour land acquisition	\$1.6 million
Repairs to the Causeway Bridge	\$966,000
Helena J. Robinson High School – new block	\$880,000
New RO plant and equipment	\$830,000



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Census preparation 2012	\$522,000
Carnival Infrastructure Projects	\$225,000
South Caicos Community Centre	\$136,000

POLICY REFORMS FOR A DYNAMIC ECONOMY

Public Financial Management (PFM) Reforms

Mr. Speaker, the Government remains fully committed to deliver on the promises it made to the people of the Turks and Caicos Islands. These include:

- a) Creating a vibrant and sustainable economy;
- b) Enhancing tourism and financial services as the twin pillars of the economy whilst diversifying alternative sectors; and
- c) Creating opportunities for Turks and Caicos Islanders.

Mr. Speaker, I re-emphasize that my Government remains committed to prudent fiscal management that ensures that we achieve these objectives, and help to create an environment in which people and businesses can trust Government, and plan for the future with confidence. Our main focus over the medium term will include:

- a) Optimal utilisation of public resources for long-term sustainable development;
- b) Enhanced value-for-money capabilities;
- c) Setting the enabling environment (institutional and technical conditions) for formulating, implementing and monitoring the use of public resources in accordance with the Government's priorities;
- d) Improving coordination between revenue management and fiscal policies;
- e) Better linkage of planning and budgeting, including the progression towards program-based and performance-based budgeting;
- f) Improving project investment management, monitoring and evaluation;
- g) More efficient treasury management;
- h) Enhanced transparency and financial accountability;



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- i) Improved budgetary control, auditing and oversight;
- j) Improving co-ordination, performance and financial management practices of Statutory Bodies;
- k) Limiting new borrowings;
- l) Re-aligning the revenue base;
- m) Reducing costs and public investment by working in partnership with the private sector.

Financial Sector Reforms

Mr. Speaker, Financial Services Commission (FSC) is not in my view performing anywhere near its potential. My government is committed to working with the private sector to promote this sector and design new products for the international market. Under the Constitution, the Governor has responsibility for the regulation of the sector. My government is committed to improve the FSC's regulatory and supervisory role, as it relates to risk-based examinations, focusing particularly on internal controls, credit risk, market risk, capital, consolidated supervision, and Anti-Money Laundry compliance. However, we will ensure that the job of promoting and developing the sector resides somewhere else to enhance the current slate of product and services offered by the financial services sector, so that TCI remain up to date with international requirements and increase its competitive edge, my Government is in the process of enacting the following new laws:

- a) New Insurance Ordinance
- b) New Trustee Ordinance
- c) New Banking Ordinance
- d) New Depositor Protection and Insolvency Ordinance
- e) New Company Ordinance

Mr. Speaker, my Government is keen to ensure that ordinary working people have a stake in the economy beyond a mere wage. Realising therefore, that the establishment of Credit Unions could play an important role in Capital Formation, productive investment and ultimately economic development for the country; my Government has decided to implement legislation to facilitate



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this new category of institution. Relevant legislation is in process and will make its way to this Honourable House before the end of the calendar year. I look forward to the support of my colleagues on both sides of the isle to support this empowering initiative.

Mr. Speaker, TCI supports Multilateral Automatic Exchange of Tax Information. We subscribe to the notion that the fight against tax evasion and fraud is a global priority, necessary to protect the integrity of public revenues; the confidence of tax payers in the fairness and effectiveness of their tax systems and, ultimately confidence in open global capital markets.

Mr. Speaker, TCI recognises the need to work to further improve the robustness and availability of information on beneficial ownership. The work of the Global Forum and the Financial Action Task Force has led to significant improvements which TCI has supported. We are determined to work with our partners to take forward this agenda, and hereby commit to review the effectiveness of our legal and enforcement framework and to produce an action plan aimed at ensuring that we are in the forefront of jurisdictions in respect of information and enforcement of rules on beneficial ownership.

In light of the above Mr. Speaker, this Government has decided that it is time for us to be a member of the Global Forum on Transparency and Exchange of Information, and has set up and staffed this new unit in the Ministry of Finance.

Private Sector Development

Mr. Speaker, my Government appreciates the importance of a vibrant private sector, and is committed to the creation of a friendly business climate where business can prosper. We take the opinions of the sectors seriously, and are committed to work cooperatively with it on important issues such as security, unnecessary bureaucracy, job training, and labour concerns. My government also depend on the sector to partner with us to further develop the infrastructure in the country, that they depend on to expand their business and to succeed.



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Mr. Speaker, because of the importance we place on consultation and advice, my Government decided to sponsor the establishment of an independent think tank – with the acronym IDEA – TCI (Institute for Democracy and Economic Affairs) on which individuals with proven track records in business, education and government can brainstorm to provide advice to government and generally consider ways to improve democracy and the economy. We expect this to be in place and function within the next 60 days.

Mr. Speaker, my Government will continue to focus on the following areas of cooperation and partnership with the private sector.

- a) To promote local and international direct investment in all sectors of the economy
- b) To provide efficient and less bureaucratic public services, which meet and exceed the business community's requirements
- c) To promote inter-island and international trade
- d) To create awareness of the critical importance of the private sector to the livelihood and well-being of the country
- e) To promote the development of small and medium size enterprises
- f) To encourage improvement in the quality and consistency of all products and services through the creation and implementation of best practices and world class standards
- g) To develop a transparent framework for information sharing and consultation with all representative groups in the private sector.

Resort Development Projects

Mr Speaker, The Caribbean/Mexico hotel development pipeline comprises 131 hotels totalling 21,957 rooms, according to the June 2013 Smith Travel Research (STR) Construction Pipeline Report. The total active pipeline includes projects in the Construction, Final Planning and Planning stages but does not include projects in the Pre-Planning stage. Among the region's countries, Mexico reported the most rooms under construction with 4,025 rooms. Five other countries reported more than 200 rooms under construction: Dominican Republic (2,475 rooms); Bahamas (2,271 rooms); Puerto Rico (709 rooms); Aruba (320 rooms); and Jamaica (238 rooms). By my count, TCI has in excess of 1,500 rooms in the planning stage. This emphasise the



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need to remove red tape and replace it with red carpet, if we are to continue to attract investment, and remain competitive.

My government has embarked on an aggressive project facilitation of new investment in TCI. Current projects are either at the Development Agreement (DA) or Memorandum of Understanding (MOU) stage or in early implementation phase includes:

Grand Turk:

North Creek Marina and hotel development

White Sands expansion

Dolphin Cove

South Caicos:

East Bay Resort Development – Expansion of their Development Agreement/Order

Sail Rock - South Caicos

Sun Crystal Health Salt processing business

North Caicos:

St. Charles Resort is under Sale and Purchase Agreement by a group with plans to redevelop and build out the project.

Providenciales:

The Desarollos Hotel Group signed an MOU in July 2012 for the establishment of 3 Five Star branched European plan hotels located along the famous Grace Bay Beach. The group has purchased two development sites and has indicated that to date they have spent over \$30 million inclusive of land the purchase.

The group propose to develop a 380 bedroom hotel on a 10.5 acre site adjacent to the Seven Stars Resort to be Branded and managed by J W Marriott in the first place. It proposes to develop two additional Five Star hotels with a further total combined 500 beds, adjacent to the Sands Resort. It is planned that each project will follow in



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immediate succession to facilitate bridging finance, and optimum utilization of construction equipment, and other overheads. The implication is an extensive period of potentially up to six years of continuous construction activities by the group once the initial phase of the construction commences.

Mr. Speaker, my Government is working closely with the group to facilitate the project toward an expedited start. But projects of the size planned by the group have a long planning phase. The Group has been granted outline planning permit. The sponsors are working closely with various government departments to ensure that all required regulations are incorporated in the detail design of the project including the provisions for adequate fire protection to meet the brand standards. Construction is slated to commence during the summer of 2014.

The financial impact of the combined projects beings proposed by Desarollos is huge. The direct value of the combined investment is estimated at around \$750 million, this is more than the entire current GDP of TCI at the moment. The long term operating benefit to TCIG and the economy over a ten year period after development will result in billions of dollars into the local economy.

Shore Club expects to close on financing with the next 30 days, with a view to commencing construction in the fourth quarter of this calendar year. The project consists of 38 luxurious condominium residences and six Estate Villas together with all the necessary conveniences at a construction value in excess of \$100 million.

Hyatt Andaz Turks and Caicos is planned as a world class lifestyle luxury resort consisting of 100 hotel keys, 76 condominium units, 3 luxury villas with fill resort amenities. A MOU between the developers and new investors has recently been signed, and the new investors are under taking the obligatory Due Diligence (DD). This project has been issued with Outline Planning Permission (OPP) sometime ago. Construction value is around \$250 million. If the developers receive a commitment for the funding at



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the end of the DD period during the month of August, further planning will continue with a view to commencing construction in 12 months.

Third Turtle Development - a MOU was signed in October 2012 with developers for the development of a \$70 million hotel, casino and marina complex on the vacant Third Turtle site on Providenciales. The agreement gives the Developers until December 31, 2013, to apply for OPP and 40 months to complete the development after obtaining Detailed Development Permission (DDP). By current estimation this project will not commence construction before 2015.

Dallas Cay Resort – my Government has agreed to the extension of the Delis Cay DA in order to encourage new investors to acquire the project. As far as we can ascertain the project has not year been sold. We have however, been informed that the level of interest in the project has increased.

West Caicos:

West Caicos Resort was acquired by Kew Capital, in December 2012. The project is being redesigned, modernised and expanded. Over the period of development the project will run into \$500 million. The company has a DA with TCIG, and plan to commence construction in the second quarter of 2014.

Other Development Projects

There are two Medical Schools, to which the green light has been given by the Higher Education Board. One of these has received the requisite license and should commence within the next 12 months. The other has an MOU with TCIG, and is expected to complete due diligence (DD) for operating in September 2013.

My Government is also in negotiation with a group of doctors currently providing Orthopaedic surgery in the TCI including hip and knee replacement procedures, for locals and international



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clients. We support Medical Tourism, and see it as a way to expand our Tourism sector, and generate increased revenue for the country.

The Gaming Industry

Mr. Speaker, my Government is also keen to improve the operations of the gaming industry therefore we have solicited the assistance of the United Kingdom (UK) to provide technical assistance to the TCIG's Gaming Inspectorate. CFATF has since 2008, advised that the industry is not compliant to established standards; therefore, until the review is completed, there will be a freeze on the issue of new licenses.

The review will cover areas such as legislative improvement; revamp compliance measures, identifying new revenue possibilities for the country and new promotional activities. Once the review is completed and necessary legislation is in place, the gaming will be given a fresh start. The UK funded consultant is expected to be in place within the next 60 days.

Providenciales International Airport Terminal

Mr. Speaker, to ensure that the Turks and Caicos Islands remain a premier destination, my government is embarking on a \$10 million expansion of the Providenciales Airport. This project will significantly increase overall traffic capacity and travellers comfort. The construction time table for the expansion is 18 months. Construction commenced in May 2013, and is currently ahead of schedule. My government, as prudent managers of public resources will complete this project without the need to borrow a penny of the \$10 million expansion cost.

My Government 20/20 vision calls for the development of a first in class terminal facility, for which we in the pre-planning discussions with potential partners. However, in the immediate future, and following on from the Providenciales Airport Extension, my government's focus will be on the re-development of the South Caicos Airport, and the upgrading of the Grand Turk Airport to accommodate the anticipated resort projects in various stages of planning and construction in those islands.



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Improving Governance

Mr. Speaker, my Government recognises the need to ensure that the public have unshaken confidence in the Administration of the affairs of the country and that the opportunity for corruption is minimised. In that regard, we support the importance of Integrity Commission as the guardian of good governance. To show our full commitment to the work of the commission, it is the only body in government that received a 100% increase in budgetary allocation in the new budget.

A new Auditor General is now in place and the requisite staffing for the department is being recruited, so that the Auditor General Department can effectively carry out its work. It is expected that there will now be more timely audits and audit reports of the Government's stewardship.

A new Chief Internal Auditor was recently hired, and the Office of Chief Internal Auditor is also being staffed with competent individuals who will conduct audits of Ministries, departments of government and statutory bodies, to ensure good governance. The audits will also ensure that public finances are regulated, controlled and supervised in accordance with Public Financial Management (PFM) Ordinance.

A new Accountant General is also being appointed to fill this long outstanding vacancy. The Accountant General will ensure that there is full compliance with the PFM Ordinance. Detailed quarterly financial reports will be made available to the public on a timely basis in regards to the financial performance of government as a whole, including all ministries, departments and statutory bodies.

A new Revenue Commissioner was also appointed to enhance the overall administration of the revenue collection process. The Revenue Control Unit was redesignated as the Revenue Department and the new department assumed the mandate of the old unit. There was also an initiative to strengthen the capacity of the department and staffing level was increased by over 300% from 6 to 23. Existing staff at the then Revenue Control Unit were absorbed into the new



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Revenue Department and additional staffing was identified through a competitive recruitment and selection process.

Mr. Speaker, a strong Revenue Management System is important to the Government's commitment to the Framework Document (FD), the Fiscal and Strategic Policy Statement (FSPS) and transfers to the Sinking Fund that will assist with the repayment of the nation's debt.

Public Sector Investment Management

Mr. Speaker, the Government's public sector investment programme is managed through the Development Fund. The Development Fund was established for the purpose of receiving such moneys as may be appropriated annually from the Consolidated Fund together with other moneys received from external donors.

The Government will continue to provide funding to the critical area of the economy such as:

Education:

- New block at the Ona Glinton Primary School
- New Administration Block at Helene J. Robinson High School
- Furniture and Equipment for the Helena J. Robinson High School
- Completion of Auditorium at Helena J Robinson High School
- Fencing for Clement Howell High School
- Construction of Canteen Facilities at Clement Howell High School
- Additional Toilet Block for Clement Howell High School
- School Bus for Marjorie Basden High School
- Refurbishment of Home Economics Department at Marjorie Basden High School
- Technical Training Amenities for TCI Community College
- Upgrade Equipment and Materials in Science labs all high schools
- Construction of a Bathroom Block a Ianthe Pratt Primary School

Healthcare:

- Upgrade the Salt Cay Island Clinic
- Furniture & Equipment for Middle Caicos Clinic



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- Refurbishment and outfitting of the Public & Environmental Health Lab
- Refurbishment of and outfitting of the Wellness Centre – Grand Turk
- New Ambulances for North and South Caicos

Infrastructure and government property:

- Construction of South Caicos Community and Disaster Management Command Centre
- Repairs to former Customs Office South Base
- Repairs to former Immigration Office-South Base
- Repair and refitting of the Providenciales Magistrates' Court – main courtroom
- Continue repairs to Causeway Bridge
- Install Hurricane Shutters on Government Buildings
- Complete the New RO plant, to provide sustainable water supply
- Repairs to Water Catchment in GDT, XSC and Salt Cay - Phase 1
- Design and Installation of one 30 gallons per day (gpd) Ro Plant - Salt Cay
- Construction of Building to House New RO Plant - Salt Cay
- Installation of pre-paid water meters to all customers
- Construction of Fish Market for West Road
- Replacement Dock for South Caicos

Border Control and Security:

- Radar System for Turks & Caicos Islands
- Construction of Remand/Detention Centre PLS
- Border Management Information System
- New Vehicles for Police
- New Patrol Vessels for Police
- Anti-Crime Capacity Building

FISCAL AND STRATEGIC POLICY STATEMENT - FY2013/4 – FY2015/16

The FY2013/14 Budget



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Mr. Speaker, the 2013/2014 Budget has been prepared in line with the new Public Financial Management Ordinance 2012 and includes revenue and expenditure projections for the next 3 years.

The budget for fiscal 2013-14 includes estimated revenues of \$214 million, expenditures of \$199.8m, and contributions to the Development Fund of \$16.8 million and transfers to the Sinking Funds of \$11.1 million, of which \$2.6 million was made in April.

Mr. Speaker, this year's estimates include some new revenue measures which are being implemented to enhance revenue collections and broaden the tax base. The new Revenue Department will be using all legal tools available to ensure that there is appropriate enforcement of the tax ordinances and maximum compliance by individuals and corporate entities.

Revenue Projections and Tax Policies for FY2013/14

Mr. Speaker, the proposed revenue estimates for FY 2013/14 is a total of \$214.0 million, compared to total revenue of \$239.4 million for the previous year, a reduction of 10%, due mainly to a sharp expected decline in Civil Recovery and Grants.

Mr. Speaker, revenue growth rates for the existing revenue streams are assumed to average around 5% for the next three years, with the positive effects of any new revenue enhancing measures being reflected in FY 2014/15 and FY2015/16. Recurrent revenues estimates of \$189.4 million, which is \$18.1 million or 10% above last year's receipts, are expected to increase moderately from 2013/14 onwards.

The forecasted increases will be as a result of the Government's deliberate policy interventions and normal business activity. These two factors are expected to positively affect major macroeconomic indicators in the local economy during this financial year.

Import Duty



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Mr. Speaker, the budget for import duties for 2013/14 is set at \$50.6 million, which is an increase of \$2.4m or about 5% over the previous year's actuals. There are no tariff increases estimates in revenue budget for 2013/14. At the end of the first quarter we collected \$13.0 million, indicating a strong rebound of economic activities.

Customs Processing Fees

Mr. Speaker, the budget for Customs Processing Fees for 2013/14 is estimated as \$19.8 million, which is an increase of 5% over the previous year's outturn. These fees are paid by all importers on all imported items; therefore concessions included in some development agreements, do not apply to these this charges. At the end of the first quarter we collected \$5.1 million, an encouraging start to the new financial year.

Accommodation Tax

Mr. Speaker, the 2013/2014 Budget projects a \$2.7m (8%) increase in collections when compared with last year, which will result in the total amount of \$36.7 million. The budget anticipates a 5% increase due to economic activity and a 3% increase that is based on expected improved compliance and enforcement, by the new Revenue Department. Total receipt after the first three months of operation is \$11.4 million, which should increase gradually with the implementation of the new 1% rate increase in July 2013. Mr. Speaker, despite the challenge we face by the closure of Beaches in September and October, we will continue to work with the industry to ensure the growth and expansion of the industry. In the end, my Government anticipates a steady increase in tourist arrivals with the recent opening of Key West Village (formerly Veranda Resort and Residence), and increased promotion by stakeholder in the industry. This is supported by statement from the Caribbean Tourism Organisation (CTO).

Caribbean destinations are on pace for a strong 2013 following a 2012 season that saw a 5.4 per cent region-wide increase in tourist arrivals to 25 million overnight visitors, according to Beverly Nicholson-Doty, chairman of the Caribbean Tourism Organization (CTO) and U.S. Virgin Islands Tourism Commissioner.



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Tourist arrivals to the Caribbean from the U.S. increased 4.1 per cent in 2012 compared with 2011, “holding steady with the pre-recession levels of five years earlier,” said Nicholson-Doty. U.S. arrivals increased in all of the reporting Caribbean countries, she added.

In addition, Caribbean hotels are generating stronger results, with regional properties reporting improvement in four key performance indicators for the second consecutive year. “The overall occupancy for the Caribbean increased by 7.1 per cent; average daily rate went up 4.8 per cent and total room revenues by 8.9 per cent,” said Nicholson-Doty. Revenue per available room also rose by 12.4 per cent in 2012. “Should these trends continue, it certainly augurs well for 2013,” she added.

Canada is the fastest growing Caribbean travel market, according to Nicholson-Doty, posting a 5.9 per cent arrivals increase in 2012, marking the country’s fifth straight year of growth. In an “encouraging sign” visitor spending in CTO-member countries totalled \$27.5 billion in 2012, a 3.6 per cent increase over 2011 and the third consecutive year of growth. “This marks a return of aggregate spending by visitors to the pre-recession level,” Nicholson-Doty said.

Stamp Duty on Land Transactions

Mr. Speaker, the Budget for 2013/2014 of \$15.1 million reflects a \$1.2 million or 8.5% increase over the previous year. Stamp Duty outturn is showing encouraging results with \$5.6 million already collected in the first three months of the new financial year.

Work Permits Fees

Mr. Speaker, the budget for 2013/14 has been increased to \$11.6 million, reflecting an overall increase of 6% over the previous year’s result. Year to date outturn for the first three month of the new financial year was an encouraging \$3.1 million.

Other Recurrent Revenues

Mr. Speaker, other recurrent revenues are forecasted to increase by an average of about 5%, in keeping with the overall revenue strategy outlined in the Government’s Fiscal and Strategic



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Policy Statement (FSPS), which was tabled in this house. Other recurrent revenues included in the 2013/2014 Budget are: Fuel Tax of \$7.2 million, Business Licensing Renewals of \$2.9 million, Vehicle Licences of \$3.3 million; Telecommunication Tax of \$3.3 million; Gaming Machine Tax of \$2.3 million and Bank Services Tax of \$2.0 million.

Non-Recurrent Revenue

Mr. Speaker, Non-Recurrent revenue of \$19.3 million, compared to receipts of \$47.4 million in the last financial year. Non-recurrent revenue primarily includes Civil Recovery, SIPT income and receipts from Land Sales, in addition to Grant Funds from EU and others. Its sharp decline is mainly due to Civil Recovery falling from \$28.2 million in 2012/13 to \$5 million in 2013/14. The expected decline in Grant funding will also contribute to the decline in non-recurrent revenue.

New Revenue Measures

Mr. Speaker, since the people of the TCI backed this government in its decision that the VAT model proposed was not the best revenue measure for the Turks and Caicos Islands, we had to implement other revenue raising ideas to replace VAT. We reviewed and prepared revenue models for a number of suggestions from internal and external stakeholders and we are convinced that the measures adopted are the least burdensome at this time. In any event, these measures are expected to be short term.

Mr Speaker, we are proud to announce that with the help of Technical Assistance provided by the United Kingdom Government a “Blue Ribbon Committee” is being put in place to conduct a complete review of the taxation regime in the Turks and Caicos Islands and recommend a modern revenue regime that is broad based and sustainable. The Committee has been appointed, and includes representation from a broad section of the community’s interests. We expect to be in a position to implement the recommendations for the financial year beginning April 1, 2014.

In the meantime, Mr. Speaker, I appeal to all stakeholders to understand and support the temporary increases in the various revenue measures leading up to the 2013/14 Budget.



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Accommodation Tax - Rate Increase

Mr. Speaker, the rate increase in the Accommodation Tax, from the current 11% to 12% became effective as of July 8, 2013. This increase is expected to result in additional revenue of about \$3.1 million per annum, based on actual collections for FY2012/13. However, to be prudent, we forecasted revenue of \$1.1 million in FY2013/14 or about 50% of the computed revenue for the nine months period beginning July, 2013.

General Sales Tax

Mr. Speaker, the GST will be a single stage; broad-based tax levied on professional and other services provided in the Turks and Caicos Islands, with allowances for a schedule of exemptions, for example, health and education. The rate adopted will be 6% and the target date for implementation is October 1, 2013. The GST is forecast to collect revenue of about \$2.5 million per annum, but to be prudent we forecasted revenue of only \$0.9 million in FY2013/14 or about 70% of the calculated revenue for the six months period beginning October 1, 2013.

Communication Tax

Mr. Speaker, this is an expansion of the current communication tax regime to include cable and internet services, effective as of October 1, 2013. This tax is expected to result in additional revenue of about \$2.0 million per annum, but to be prudent we included collection of \$0.8 million in FY2013/14 or about 80% of the revenue expected for the six months period beginning October 1, 2013.

Temporary Driver's License

Mr. Speaker, the fee of \$30 for up to 90 days, effective as of October 1, 2013, will be imposed on all rentals of vehicles and motorcycles and will be charged and collected on all rental agreement contracts by the lessor to lessees holding valid driver's license issued by other countries other than TCI. The car rental companies will be required to include this fee on the rental contracts or issue the temporary license provided by the Road Safety Department. The revenue anticipated from this new measure is about \$1.1 million per annum, but again to be



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prudent we projected only about \$260 thousand for FY2013/14 or about 50% of the revenue expected for the six months period beginning October 1, 2013.

Freight and Insurance Tax

Mr. Speaker, this new tax will be levied on the freight and insurance component of imports at a flat rate of 15%, effective as of July 8, 2013. The revenue expected from this new tax is about \$6.5 million per annum but to have projected about \$4.7 million for FY 2013/14.

Expenditure Priorities and Allocations

The Government is taking definitive steps to control expenditure in a prudent and rational manner. Therefore the proposed expenditure estimates for FY 2013/14 is a total of \$199.8 million, compared to total expenditure of \$184.5 million, an overall increase of \$15.3 million or about 8%.

Recurrent expenditure estimates of \$165.8 million, compared to \$146.6 million, for the previous year, due largely to 10% pay reinstatement. These targets are consistent with the Government's goal to be more efficient and less costly in delivering services. The targets are also indicative of the Government's commitment to maintaining prudent financial management.

Human Resources

Mr. Speaker, personnel cost is still the largest item of expenditure for the government. The cost adjustment of 10 percent is a major contributing factor to the changes in recurrent expenditures over the budget period. In addition \$2.2 million is provided for the recruitment of additional staff in the new financial year.

The pay-and-grade in the civil service is currently being assessed but unfortunately we will not be able to implement the recommendations until there is sufficient sustainable revenue to cover the cost.

Healthcare



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Mr. Speaker, my government will continue make healthcare a priority. We are committed to ensuring that all TCI residents have access to health care and services of the highest quality based on available resources and in keeping with the Primary Health Care approach of equity, accessibility, affordability, efficiency, coverage and impact of services provided.

Mr. Speaker, transfer to the National Health Insurance Board (NHIB), and payments for hospital charges are budgeted at \$42.2 million this year a slight reduction from \$42.5 million last year. This amount is significantly above the original of forecast of the Interim Administration but my government will be taking steps to ensure that subvention to NHIB is kept under tight control.

In order to resolve this problem Mr. Speaker, my Government intends to work closely with NHIB during the financial year to help to improve their financial position and also to help in managing all costs in the healthcare sector more effectively. One of the initiatives being pursued as a cost saving measure is the merger of the collection departments of NHIB and National Insurance Board (NIB).

Education

Mr. Speaker, my Government will continue to resource the Ministry of Education so that it can fulfil its mandate. Finance will work with the Ministry team to strengthen the management of financial and human resources among all of their departments and statutory bodies. My Government will strengthen the capacity of the Ministry of Education to respond to the educational and developmental needs of the nation's children. Scholarship program will be revised to ensure compliance with all audit recommendations and full response to national development needs.

The budgetary allocation to the ministry this year is \$25.5 million, including \$2.7 million for continuing student scholarships, \$1.7 million for the TCI Community College and \$4.7 million for capital expenditure.

Border Control and Employment



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Mr. Speaker, my government is committed to the protection of our borders and full employment for the residents of this country. Even though we made great strides last year including streamlining and re-organisation of departments to achieve better synergies, clearing a huge backlog and a much improved case-working function in some areas, an active industry training agenda, acquisition of new staff members to support the work of the Employment Services Department, the commissioning of a coastal radar station and national consultations on the pathway to citizenship but we will not rest on our laurels.

The 2013-14 Budget provides for the construction of a new Immigration Detention Centre, completion of the second phase of radar monitoring cabin. It also provides for hiring new staff members, including 18 new assistant immigration officers, which will be flexibly deployed across the various units of Border Control and Enforcement to enable the department to proactively address their responsibilities under the Immigration Ordinance.

Another initiative this year Mr. Speaker, will be the introduction of new Immigration and Employment laws that will enable enforcement officers and policy implementers to better respond to modern day realities. To improve customer service delivery while simultaneously balancing the mandate to ensure compliance, reduce risks and challenge abuse, a One Stop Shop has being created that will significantly enhance the overall service delivery.

Total budget allocation for the ministry is \$6.4 million, including \$700,000 for capital expenditure.

Infrastructure

Mr Speaker, my Government is committed to providing the resources necessary to properly maintain the roads, drains, street lighting and for water undertaking throughout this country. Therefore my government will provide over \$2.5 million from the Consolidated Fund for repairs and maintenance of the country's vital infrastructure. While this amount may not be as large as we would like, it is the first step in gradually increasing the resources to adequately maintain



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infrastructure. My Government will allocate more financial resources to infrastructure as our revenue collection improves and the effect of our cost containment measures is realized.

Debt Management

Mr Speaker, at the close of fiscal 2012/13, our overall outstanding public debt stood at US \$214.9 million or about 28.8% of GDP. Mr Speaker, when we factor in the sinking fund balance of \$43 million (balance to date), the real Debt-to-GDP ratio in the TCI is about 23%. By comparison, Mr Speaker, let's take a look at some other British Overseas Territories: Cayman Islands – 24.9%, Anguilla – 20.7% and British Virgin Islands 10.3%. Mr. Speaker, while we enjoy this low level of debt ratio in the TCI, other Caribbean countries are grappling with what the IMF refers to as unsustainable debt path for most of those countries. For instance: St. Lucia 77%, Grenada 109%, Barbados 70%, Belize 80%, Bahamas Islands 60% and St. Kitts-Nevis 139%.

Mr Speaker, due to the fiscal and strategic policies of my government, GDP growth is estimated at 3.5% for 2013. This trajectory is expected to continue in future years. What is more interesting Mr Speaker, is that when one views the current debt repayment trend; the forecasted build up in the sinking fund; and the significant reduction in the country's debt that will occur when the existing \$170 million bond is repaid in 2016; all of these factors will result in TCI's Debt-to-GDP ratio being about 14% by the end of fiscal 2016, and estimated at 7% by the end of 2018/19. My Speaker, this positive outlook should provide the people of the TCI with hope of a better tomorrow.

Capital Programme

Mr. Speaker due to current expenditure constraint, the scope for significant increases in capital expenditure will be limited, until we have repaid and refinanced the \$170 million Bond in 2016.

Total capital expenditure from all sources is forecasted at \$19.1 million, compared to actual expenditure of \$15.3 million for last year, an increase of 25%.



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The major projects to be undertaken this year includes the follow and other mentioned earlier:

New Block at the OnaGlinton Primary School	-	\$2.1 million
Continued work on the Causeway Bridge	-	\$1.5 million
Complete and furnish new block the HJRHigh School	-	\$1.2 million
New vehicles for the Police	-	\$815,000
Completing of the new RO plant – Grand Turk	-	\$668,000

CONCLUSION

Mr. Speaker, TCIG has gone through a difficult four years. When we least expect it, life sets us a challenge to test our courage and willingness to change; at such a moment, there is no point in pretending that nothing has happened or in saying that we are not yet ready. The challenge will not wait. Life does not look back. Whatever we do, we need courage. Whatever course we decide upon, there is always those who will say we are wrong. I call for the collective will and courage of all to help us make sound public choices and policy change for progress.

Mr. Speaker, this PNP Government has made the choice — a clear choice — to keep our economy strong and invest in our future. We are determined to give every child a world class education, and to make sure no Turks and Caicos Islander is left behind. We are determined to provide first class health care for our people. We've chosen a responsible path to surpluses while supporting jobs and growth; to make our economy stronger, our people smarter and our society fairer.

Mr. Speaker, the PNP has a proud record of making visionary choices that strengthen this beautiful country. Mr. Speaker creating prosperity and spreading opportunity are the values that drive this PNP Government every single day.

Mr Speaker, the PNP has a history of facilitating private sector investment, in that regard the list of trailblazing new investments that I announced today is indicative of the confidence placed by both local and international investors in my government.



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Mr. Speaker, I close with a question: How do we fashion the future? Who can say how, except in the minds of those who will call it now? In the words of an anonymous poet:

*Great ends demand great sacrifice,
Else the dream becomes a debt.
Open hearts will pay the price,
Redeeming loss without regret.
Great leaders also make demands,
Else the mandate turns to dust.
Willing minds find willing hands,
As courage shared engenders trust.
So a nation moves ahead,
Having found its avatar,
In hard times hungry to be led,
Navigating by its star.*

I therefore commit this budget to the house.