



Quarterly Statement from the Governor

This has been an exceptionally busy three months since my second quarterly statement in February. Financial issues have remained a key focus for the Government with a number of developments in our efforts to stabilize the public purse. There has also been good news on a number of fronts as we have seen more milestones achieved in the Government's overall reform programme for the Turks and Caicos Islands.

Budget 2010/11

The budget took centre stage in April. As the Government reviewed the financial position at the end of 2009-2010, and looked towards this new financial year, we could take stock of the real impact on the TCI of the continued slump in global economic activity, particularly in the advanced economies of North America and Europe. Two key aspects stood out very clearly: the extent of the drop in public revenues due to the worldwide economic downturn and that the country is unlikely to see any significant recovery in 2010/11.

With over two thirds of the Turks and Caicos Islands' national income determined by the construction, real estate, hospitality and financial services sectors, the global financial crisis and recession delivered a major blow to our small, open economy. Unsurprisingly public revenue streams so dependent on these activities fell sharply in 2009-10 by over a third on the previous financial year. This was especially the case for stamp duty - which can only provide a major source of revenue during a property boom underlining the volatility and inefficiency of such a tax. It is exceptional for an economy to rely so heavily on stamp duties as a source of revenue to fund recurrent public expenditure as the TCI. With global economic recovery underway but remaining fragile and sluggish, particularly in most advanced economies, our economy and revenues will continue to struggle. As a result, irrespective of the consolidated loan facility to help pay old debts, the budget is expected to be in deficit over the coming financial year, rising to almost \$27 million by the end of March 2011.

These figures underline why deep cuts in public expenditure have been unavoidable. Many other developed economies have reached the same conclusion and are actively cutting public debt. But while the Government has succeeded in lowering expenditure by 30% during the last financial year, the forecast deficit has meant that even these measures will not be enough. As a consequence we finally had no

option left but to make the very difficult decision to reduce public sector salaries and wages by 10%.

We have not been alone in having to take this step. Neighbouring governments are having to take similar steps to bring spending back in line with revenues. Anguilla has had to cut its public service pay by 10% and the Cayman Islands' are also considering steps to reduce public sector pay.

Due to the severe pressure on public finances and the unexpected delay in securing the consolidated loan, the 10% cut needed to be put in place quickly. The Consultative Forum were understandably very concerned that public servants would not have time to prepare for the reduction and requested that the Government delay implementation. We were sympathetic to their request and agreed to postpone the cut to salaries and wages by 30 days. However, given very limited financial resources, it was not possible to postpone the cut to allowances.

Consolidated loan

Despite the fact that the TCI will, like so many countries internationally including the UK, face a hard year ahead for the economy and public finances, we did have some good news this quarter. At the end of April, we finally secured loans of \$79 million. As a result, in May, we were able to pay off a significant amount of accumulated short-term debt to many local businesses and institutions that the previous government had failed to pay. This will help improve cash flow for many local businesses. Additionally, while the loans are not enough to pay off all of the Government's bigger creditors, we have been able to make large payments towards these debts and negotiate improved payment schedules. This is a very positive step in the right direction towards more stable public finances.

Revenue reform

During this quarter we have continued to make good progress in our efforts to build more sustainable revenue streams. The rapid development of the economy in the last 10 years ignored the need to spread economic risks by encouraging more balanced and internal growth. The almost exclusive focus on attracting inward investment in real estate created an unsustainable boom in construction and property prices, outstripping even the global bubble that eventually burst in 2008.

Going forward, construction and real estate will remain important sectors in the TCI economy and the Government wants to do all that is sensible to support and safeguard jobs in them. But we also need to balance social and environmental concerns with economic ones. This balance will be important for all sections of the community and is illustrated by our new, progressive stamp duties and proposals for customs tariffs designed to stimulate the economy and improve fairness in social welfare. We will also need to ensure a capacity to appraise proposals efficiently and follow due process to convert renewed interest into investment and enterprise.

Stamp duty

Our reform of the stamp duty system was completed this quarter with fairer rates coming into force. The new, tiered system has been specifically designed by the Government to help TCI residents: first-time buyers, families and local entrepreneurs, many of whom will benefit from lower rates. Further reductions have also been made available for East Caicos, Middle Caicos, North Caicos, South Caicos, Grand Turk and Salt Cay. By making it possible to spread payments over four years, the new system will help reduce the volatility in revenues. It will make properties more affordable for ordinary residents, and help stimulate the market to improve stamp duty income.

Customs tariffs

Additionally, in May, the Advisory Council was briefed on the comprehensive review of the tariff system currently being undertaken by the Customs Department and recommendations to simplify the existing duties. New reduced tariffs are proposed on goods commonly used by households and the community, as well as goods needed to help support agriculture and investment in other key sectors of the economy. Higher rates are proposed for luxury items and other imported goods that compete with those produced locally.

Infrastructure - airport

As well as our work to improve revenue streams, it is also important that we equip the economy with the infrastructure it needs to compete effectively for international tourism and attract a wider variety of visitors throughout each year. This will build on encouraging evidence that tourist arrivals are increasing and that Providenciales Airport is busier than ever; and will help fill our resorts and create indigenous business opportunities in leisure, retailing and other service sectors.

To this end, the preferred contractor to complete the first phase of a major redevelopment of Providenciales airport was announced in April following competitive tender and an extensive assessment process. Work to extend the runway should begin in June. It will inject \$4 million directly into the economy and create and safeguard many local jobs. The contractor, Dexter Construction, will also establish a scholarship programme for TCI belongers who will have the opportunity to study at their training facilities in Canada. The construction of the new runway is an important step towards creating a modern, safe and efficient international gateway. Once completed, the airport will be able to accommodate more frequent and larger aircraft used for long haul flights from as far as Europe and Asia.

Depositor Protection Scheme

The Government's work on tariffs, stamp duty and progressing the airport project have been three examples this quarter of our work to put in place measures designed to stimulate the TCI economy in the mid to long term. Nevertheless, the local economy suffered a blow this quarter when provisional liquidators had to be appointed to the TCI Bank. While this represented a purely commercial failure, the

Government was acutely aware of both the wider economic impact and the potentially serious implications for a significant number of local depositors. But it is important to remember that the fundamentals of the banking sector are sound. We are fortunate to have strong and stable international banks on the island – which will continue to serve residents.

In response, I announced that we would accelerate existing plans for a new Depositor Protection scheme. Depositor Protection schemes are widely used internationally and seen by the international community as good practice. Indeed they are mandatory in the European Union. Funded by the banking industry, they provide for payments up to specified limits to be made to qualifying retail depositors of banks that fail, thereby helping to limit economic dislocation and boosting investor confidence in the banking system. I have asked the Financial Services Commission (FSC) to make this a priority and work has progressed on the new Depositor Protection Ordinance. Once it has consulted the banking industry, the FSC will present details of the Ordinance to the Advisory Council and the Consultative Forum for consideration.

Adoption of such a scheme in the TCI will be seen by the international community as a further sign of the Government's full commitment to taking the steps that are necessary to continue to enhance regulation of our financial services industry and to meeting international standards. So, too, will our ongoing program of work in the international tax arena. To this end, this quarter I signed the country's 13th Tax Information Exchange Agreement, this time with Australia. Further TIEAS will be signed with Canada and Germany shortly. Such initiatives will go far in reinforcing our reputation internationally, providing a firm foundation for the country to continue to grow its international business sector.

Governance

The Government's work to strengthen governance in the country has continued to press ahead this quarter, in particular our work on electoral and constitutional reform; establishing a new Integrity Commission, and improvements in the administration of Crown land.

Electoral and Constitutional reform

Our plans for revised electoral and constitutional arrangements got underway. Kate Sullivan, the constitutional and electoral reform adviser, arrived in the TCI in March to begin gathering information and develop plans for the review. She met with both the Advisory Council and the Consultative Forum and accepted an invitation from the Consultative Forum to assist with consultations with the public. The first round of such consultations began at the end of May when the Forum held a meeting with individuals and organisations representative of the community. This is being followed by a series of TCI wide public meetings, chaired by a local Forum member where all residents can share their views. After these consultations, written proposals will be produced by Ms Sullivan for further discussion. There will then be

another round of consultations before a draft constitution Order in Council is produced, followed by further public consultation in the TCI prior to finalisation.

It is important to remember that this is a consultation process rather than a negotiation. Everyone in the territory will be able to express their views, and the consultations will involve belonging stakeholder groups and individuals at every stage of the process. The review will ensure that necessary provisions are in place to underpin the governance and financial management reforms that have been made - and will continue to be made - to avoid a repeat of the systemic failures identified by the Commission of Inquiry.

Integrity Commission

I am also particularly pleased that the Government achieved another milestone this quarter in our governance reforms for the country. In April I announced the appointment of Sir David Simmons (who has held distinguished offices in Barbados including acting Prime Minister, Attorney General, and, most recently Chief Justice) as Chairman of the Integrity Commission, and the other Commission members: Mrs Rosita Butterfield, Mr Gary Brough, Reverend Reuben Hall, Mr Jeremy Northcote, and Bishop Clarence Williams. The new independent Integrity Commission will be a corner stone in the good governance of the country, in ensuring integrity in public life and in fighting corruption.

From now on, persons in public life listed in the Integrity Commission Ordinance will have to provide declarations of income, assets, and liabilities; and it will be the Commission's responsibility to examine these; and, as necessary, verify their accuracy. The Integrity Commission will have the power to investigate, in pursuance of a complaint or at its own initiative, acts of corruption; and to examine, and advise on, the practises of public bodies to reduce the occurrence of corrupt acts. The Integrity Commission held its first meeting on 12 May

Crown Land

In addition to up-coming consultations on revised electoral and Constitutional reform, consultations will also begin in the coming months on a new Crown Land Policy. To begin this process our Crown land adviser, Jon Llewellyn, has now met with members of the Consultative Forum to brief them on progress and discuss plans to engage the public.

As well as work on the policy, we have this quarter made considerable progress on improving the transparent administration of Crown land, which remains a priority. A comprehensive Crown land inventory covering the whole of TCI has been created - using funding from the UK - and work is now underway to prepare a series of maps for each island that will graphically show how much of this heritage asset remains for future generations. Additionally, we will soon be publishing a Crown land allocation register, which will include the details of current owners of land in the country who obtained allocations of Crown land. This key transparency measure was included in the former Crown Land Policy, but never acted upon by previous governments. Any future allocations of Crown land will be added to the register and electronic copies

will be available, free of charge, from the Crown Land Unit. The data we have now collected will also be used to inform the development of the new Crown Land Policy.

In the Land Registry, work has been progressing to create a comprehensive computerised procedures manual. This is being developed to help ensure consistency in registration and to help staff members provide an effective service to the public. Data from the Crown land inventory exercise is also being used to ensure that the records of the Land Registry and the Survey and Mapping Department are complete and consistent with each other.

Criminal and civil investigations

I am pleased to report that there has been excellent progress this quarter by the teams leading the criminal and civil investigations.

The Special Investigation and Prosecution Team (SIPT)

The SIPT is now at full strength. At the Press Conference in April the Special Prosecutor announced this and stressed that from now on there would be a permanent presence of experienced investigators on the Islands. There was a great deal of vigorous questioning from the media and a number of important issues were ventilated. These included first, the length of time before any charges were likely to be brought. The Special Prosecutor reminded the public of the statements she had made at the first conference in August 2009. The Commission's Report recommended a thorough investigation of over a dozen serious cases of potential corruption and criminal misconduct and since the SIPT's appointment; other serious matters had been brought to its attention. The law required that much of the material presented to the Commission should be re-presented; in other words, it was not possible for the SIPT to simply repackage the material and the evidence obtained by the Commission. This would take time and her estimate was that 18 months would be a reasonable time for the inquiry to be completed. The SIPT will make the protection of witnesses and the detection and prevention of attempts to obstruct the course of justice a priority. Questions were also asked about the suspension of the constitutional right to jury trial. There has been considerable misunderstanding about this. At present the law is operating as it has always done. Any change to the system can only be done by Ordinance. However I can confirm that it is intended that jury trial will only be denied in those cases where a judge decides that a fair trial cannot take place before a jury. This will be a decision after full argument by the prosecution and the defence and the only deciding factor will be the interests of justice, including those of the defendant. Questions were also asked about the cost of the investigation. The Special Prosecutor stressed the importance of keeping costs down and of providing value for money. A Strategic Oversight Group has been established on the Islands, that receives monthly reports and that is responsible for scrutinising the management of the SIPT's budget and the progress of the investigation.

Civil Recovery

Civil recovery is being led by Edwards Angell Palmer & Dodge (EAPD) who are working closely with the Attorney General's Chambers on a number of matters. A considerable amount of work has been undertaken during the past three months in pursuit of civil recovery claims. Three major areas are currently being addressed. Firstly, with respect to the high profile developments identified in the Commission of Inquiry report, the first set of civil proceedings were issued by Chambers in April against the Salt Cay developers; developments at Dellis Cay, Joe Grant Cay and the Third Turtle Club are also being looked at. Secondly, a number of other claims involving land and contracts are being reviewed. Thirdly, a programme to deal with the very large number of Conditional Purchase Leases, which are in arrears or which have expired but where the land has not been returned to the Crown, is underway.

Other areas of progress

Police

We have also made progress on our work to strengthen the capacity of the Royal Turks and Caicos Islands Police Force (RTCIPF). I am particularly pleased that we have now recruited four UK police personnel to assist the RTCIPF: a Detective Sergeant, Community Policing Sergeant, Fingerprint/Crime Scene officer and a crime analyst. They are due to take up post in June.

Prison Service

In addition, in April I appointed a new Superintendent of the prison, Mr Ian Sargent. Mr Sargent has considerable experience after nearly 20 years in various senior management roles in the UK's prison service, which has also included work in Anguilla. In addition to managing the prison, Mr Sargent will also mentor and help develop staff.

HealthCare

This quarter saw the opening of the two new hospitals: the Cockburn Town Medical Centre in Grand Turk, and the Cheshire Hall Medical Centre in Providenciales which, together, create the Turks and Caicos Islands Hospital. The new facilities opened on time and within budget with the first patients being transferred from the old hospitals on 10 April. The country now has access to new medical capabilities such as improved emergency care and surgical facilities, and comprehensive diagnostic equipment and services. There will be improvements in public health programmes and education with particular focus on disease prevention. Feedback from staff and patients has been positive, but, as with all major projects, there are some teething problems, which InterHealth Canada and the Ministry of Health, in concert with the National Health Insurance Plan, are working diligently to iron out. The opening of these facilities marks a major improvement in the provision of secondary healthcare in the country and a turning point as we become less reliant on Emergency Overseas Treatment. Even when patients do need to be sent overseas, their return

will be expedited because of the excellent rehabilitation facilities that form part of the new service in the TCI.

Solid Waste Management

Following discussion in the Advisory Council, the Consultative Forum endorsed the Government's recommendation for a new comprehensive solid waste management project. It will improve the collection of waste from households and businesses and ensure its better disposal.

Disaster Recovery Projects

By the end of this quarter the Disaster Recovery Board had approved 98 projects valued at \$7,982,072. Of these 34 projects have been completed, and most of the remaining 64 are nearing completion. Work has included the provision of emergency shelters, repairs to 33 education buildings in 11 schools and colleges; 15 health buildings including the two former hospital facilities, which will have a continued use even after the recent opening of the new hospitals on Provo and Grand Turk. Repairs to public buildings have been to higher hurricane resilience standard than usual in TCI with the aim of reducing the country's future vulnerability.

UK elections

This has been an exciting time for UK politics. Elections on 6 May produced the country's first coalition government for 70 years. The new Minister responsible for the Overseas Territories is Henry Bellingham.

And finally....

This has been another very busy quarter. I would like to express my gratitude to the members of the Advisory Council and the Consultative Forum for their tireless efforts and valuable contributions.

We still have a long way to go, but after 9 months I think that together we are making clear progress across a number of fronts. These will stand us in good stead as we continue to move forward to put the TCI back onto a sure footing for a sustainable future.

GORDON WETHERELL

3 June 2010