Quarterly Statement and Annual Review from the Governor

It has now been a year since the Interim Government came to office. To mark this milestone, I want to take the opportunity in this quarterly statement not only to single out some of the developments during the past three months, but also to reflect on the main areas of progress and some of the difficulties during the past year.

As in many other countries, the Government’s work during the year has been dominated by three major interlinked challenges: the economy; public finance; and, the public sector.

• **Economy** - The ongoing world economic crisis left the US and European economies weak and as a consequence continues to limit significantly the availability of the investment that had hitherto been the main source of revenue and stimulus in the TCI. Between 2001 and 2007 the TCI economy more than doubled in size almost exclusively due to the financing and construction of real estate targeted at foreign investors. Fuelled by a rush of inward investment the construction sector grew in excess of 50% in some years and supply expanded well ahead of demand both for real estate and for accommodation for tourists. As a consequence, when the global bubble in credit and property markets burst in 2008, the unprecedented growth in TCI came to an abrupt halt, output dropped and, critically for Government, income from the economy reduced considerably.

• **Public Finance** - Many years of poor fiscal discipline compounded the impact of the economic crisis. Largely due to the lack of an appropriate framework and resources, and often as a result of political interference, excessive overspending and the systemic mismanagement of public money across all Ministries had left the country deeply in debt.

• **Public Sector** - The public service and statutory bodies were allowed to grow out of all proportion. Public administration alone accounts for around 10% of the TCI workforce; while public sector wages now account for $72 million each year out of recurrent budget of $182 million - a figure which still exceeds annual revenues (budgeted for $155 million but likely to drop to $140-145 million) - adding further to
the legacy of national debt. Like many western and regional economies, the TCI has to contend with some tough choices. Demonstrably sound fiscal management will also be key to restoring the confidence of global capital markets in the TCI government and economy.

Economy

While the 2001-2007 period saw many benefits for the TCI, economic development was poorly conceived and implemented. It left the country vulnerable and with a damaging legacy: an excess of unsold properties in resorts for sale or rent, a number of failed over-indebted developments, the past failure to support investments in other sectors and to modernise public institutions; difficulties arising from suspected corruption and mismanagement of Crown land; and, a significant public debt despite five years of buoyant public revenues including proceeds from the sale of significant amounts land. Growth, when it returns, is likely to be far more modest than the unsustainable levels witnessed in the middle of the last decade. Nevertheless, some new construction is underway, building homes for TCI families and key workers, and a number of new or rescued resort developments could get underway soon if their developers are able to attract sufficient external capital.

Going forward, real-estate sales, tourism and financial services will continue to remain important sectors for the TCI economy, but the focus must now be on growing and diversifying the tourist base to fill up the resorts and for longer stays. No government can guarantee they will come. Competition in the travel market is fierce and increasing as more destinations open up in the region and around the world. However, the proper role for government is to ensure the economy has the right infrastructure, frameworks and incentives it needs to compete effectively.

Infrastructure

To support the growth of the tourist industry, steps are being taken to open up the islands to greater visitor numbers all year round, by attracting new airlines and routes and through the building of a modern international gateway on Providenciales. To this end, the biggest and most important building and infrastructure project in the TCI since the completion of the two new hospitals earlier this year got underway this quarter when work on the new longer runway began. In parallel, discussions with JetBlue Airways have been undertaken. JetBlue will begin regular services from New York and Boston to Providenciales early next year.

Framework and incentives

The Government published the Tourism Working Group report this quarter. The report makes recommendations for new legislation to take forward important changes designed to help promote and stimulate tourism, expand target markets and the range of tourism activities. The Government believes the private sector has the right knowledge and incentives to play a much bigger role in these activities. It should work
in partnership with the Government, which will set the policy framework, with the aim of exploiting synergies with the wider hospitality industry, encourage broader representation from smaller businesses and the other islands and, overall, ensure better value for money.

However, the TCI also needs to consider what other sectors may be able to help generate new jobs and incomes, teach new skills and help reduce the cost of living on these islands. For example, during this quarter the Government agreed to licence a major medical school in the islands contingent on it securing the necessary international accreditation for its curriculum. If successful, the school could attract up to 650 long stay post-graduate medical students and their families into TCI each year as well as visiting staff from distinguished American universities. The Government’s agreement followed a thorough assessment exercise.

Funding has also been made available for the first time in many years to help support private sector investment in agriculture. It will not create vast numbers of new jobs but does have the potential of providing a much needed boost to the local economy of North Caicos and, importantly, providing fresh locally grown produce to displace a number of imported items.

Revenues

Early on the Government initiated a review of the TCI’s tax system and options for the future, involving representatives from business and professional groups. Professor Roe’s revenue study, published in February, made a number of recommendations which the Government is taking forward. A key feature of revenue reform is to make sure it balances economic as well as social and environmental concerns. To this end, the Government completed its reform of the stamp duty system introducing fairer rates, principally to help TCI residents and local entrepreneurs who stand to benefit from the lower rates. The Turks and Caicos Real Estate Association report these changes have been well received and there are some early and encouraging signs of recovery in the market.

Similarly, during the last quarter the Government has greatly simplified customs tariffs following a comprehensive review and consultation. Accordingly, tariffs have been reduced on many basic foodstuffs and essential items widely used in homes and the community, as well as many materials and equipment vital to many businesses. The need to secure public revenue to pay public sector salaries and fund other public expenditures meant it was inevitable that some rates had to rise, but overall the package of measures should provide relief to those on the lowest incomes.

Going forward it is important that the TCI has a tax system that produces a surplus of revenues over costs. It must be effective and efficient in meeting the needs of society, the economy and government. It must be more equitable, administratively efficient, competitive and sustainable: a tax system that is fit for a modern economy in the region.
Encouraging enterprise and investment

Work is also in hand to create the right framework to encourage enterprise and investment through the streamlining and, in some cases, removal of controls where it is sensible and appropriate to do so. This quarter the Advisory Council considered and recommended proposals for refocusing TCI Investment Agency as a one-stop-shop for business guidance, licensing and monitoring. This will of course require a robust reorganization of the Agency; and, a more joined-up approach across government departments to support TCInvest in reviewing applications and making recommendations within commercially driven timescales.

The Government also announced changes to the Encouragement of Development Ordinance. This will ensure that the decision making criteria and process underpinning the provision of financial support from Government will be evidence based, auditable and consistently applied. The new encouragement of enterprise and economic development policy will focus on providing more limited financial assistance, principally through deferred taxes, in support of investments that clearly demonstrate wider social, environmental and economic benefit. Tax concessions will be the exception rather than the norm and there will be no further exemptions of up to 35 years from speculative future taxes. Such long lived exemptions are fiscally irresponsible and inequitable.

Immigration

Improving the TCI’s approach to immigration remains a priority. Immigration has a significant bearing on the economy through its impact on the local labour market, and the encouragement of long stay tourism and investment. Inward migration to a small island economy needs to be controlled carefully. A balanced and transparent approach must also recognise the needs of local businesses to attract inward investment and skills not readily available on the island until those skills can be developed locally through improvements in the education system and work-based training.

To this end, improvements to the Immigration Service will be important. This quarter the Government has completed a draft report on immigration. The Advisory Council and Consultative Forum have broadly welcomed the report which includes wide ranging recommendations to enhance the delivery of immigration services. Work will now be taken forward by the Permanent Secretary Border Control with the support of a new Immigration Adviser from the UK who will join us this month.

Public Finance

Against the background of the global economic recession and falling local revenues, one of the biggest priorities and ongoing challenges faced by the Interim Government since taking office in August last year has been how to deal with the massive accumulated national debt of $135 million we inherited. This has been further compounded by difficulties associated with the culture of poor financial management practices that had been allowed to become widely entrenched across Government for
years. As a result more, previously unknown, debts have come to light over the course of the 12 months. The situation has been further exacerbated by the coming on stream of the costly Private Finance Initiative project to design, build and operate the new medical centres in Providenciales and Grand Turk albeit with significant healthcare gains into the bargain.

Considerable effort has been made by the Government to reduce the national debt and to put in place improved public financial management measures. Most notable has been securing the Government’s consolidated loan earlier this year. Although this has enabled the payment of millions of dollars worth of priority debts, particularly to TCI’s small businesses, our lower revenues and the frustrations of more debts being identified even at this late stage, means that TCI’s public finances continue to struggle significantly. Indeed, as I reported in my last statement, the budget remains in deficit and will continue to do so for the short to mid term, despite our extensive measures to reduce public expenditure during the year, including the regrettable but necessary move to cut public sector salaries.

As a result of this worsening financial situation, the UK Government announced this quarter that it would provide a temporary package of financial support. This was conditional on the TCI Government strengthening its capacity and systems to manage public finances and to balance the budget within the next three years. It also announced agreement to a short-term loan of up to £10 million to help meet unavoidable commitments between June and August.

The UK Government’s conditions underline the importance of the programme of reform the Government has been progressing this year. With the help of Ministry of Finance staff, extensive work is already underway and involves consultation with all Ministries, Departments and Statutory Bodies. This has included the implementation of a Stabilization Plan and a full review of financial management practices; a comprehensive revenue review and the preparation of an improved legislative framework for public financial management. It has also included the requirement for all Ministries to produce service delivery agreements; steps to establish a new internal audit division to focus on the application and suitability of internal controls as well as ensuring Ministries comply with higher standards in financial accounting; steps to strengthen expenditure controls with the introduction of tighter procedures for spending authorisation and enhanced financial reporting; and improved budgetary analysis.

Public sector ‘right-sizing’

But fully embedding modern, rigorous best practice standards for public finance management across all Ministries remains a challenge and will take time to achieve. It will require further effort by the Interim Government and in due course continued commitment from any new elected Government. It depends on increasing the availability of the specialised skills needed by public sector staff to deal with public finances efficiently and accurately.
The need to increase the number of appropriately trained, qualified or experienced staff in many areas across Government, whether in Ministries or specialist departments such as the Attorney General’s Chambers, continues to be a challenge. It will be a key consideration for the Government’s plans to ‘right-size’ the public sector: to increase resources in critical areas and to decrease resources in less important areas and ones in which there are inefficiencies. The overall aim is to strengthen the public sector’s capacity and capability to deal with requirements of good governance and the demands of an increasingly sophisticated population, a broader based economy, and the infrastructure needed to underpin the sustainable long-term growth of the TCI.

Much foundation work for right-sizing the public sector has taken place this year. Early on the Government completed a major restructuring exercise to improve efficiency and value for money, creating new Ministries such as for Trade, Tourism and Communications, and realigning many responsibilities; for example, streamlining front line services for immigration and customs which now fall under the remit of the new Ministry of Border Control and Labour. Similarly, all departmental and government support functions previously within the remit of the Premier were reassigned more appropriately across Ministries. We have also this quarter opened a new Government Press Office and appointed the first member of the press office team. To build on this work and increase the capacity of Ministries and departments to support wider objectives of good governance, transparency and sustainable growth in the TCI, the Government has secured the services of a new Public Service Adviser who is expected to arrive in late October to oversee resource allocation across Ministries and departments.

Good governance

Constitutional and electoral reform

Underpinning all of our governance and public sector reforms, and our effort to ensure that the systemic failures identified by the Commission of Inquiry are not repeated, is the work on constitutional and electoral reform. Ms Kate Sullivan, the constitutional and electoral reform adviser, commenced work in February and has now completed the first two stages of her work.

Most importantly, during this quarter, Ms Sullivan published her initial proposals. These have already been the subject of wide discussion and debate. Public meetings on these proposals will be held in September and I hope that they will be well attended. After her September public meetings, Ms Sullivan will refine her proposals and a further opportunity for public comment on a draft constitutional Order in Council will be provided later this year.

Attorney General’s Chambers

A priority for the Government and its ongoing right-sizing plans has been to strengthen the capacity of the AG’s Chambers. Work is in hand to address areas where additional
legal expertise is needed. In August I signed the contract for Chambers’ new offices and expect the team to move in September. Improvements in Chambers will be overseen by Mr Huw Shepheard, LLB, MBA who I was pleased to announce had been appointed earlier this quarter as the Attorney General, replacing Mr Kurt Defreitas QC. Mr Shepheard, a barrister from the UK, comes to the TCI with considerable legal experience, including many years working in the financial services industries. Mr Shepheard joins us from the Bermudan Attorney General’s Chambers where he has worked as Crown Counsel and also served as Acting Deputy Solicitor-General.

Integrity Commission

The Integrity Commission will be a corner stone of good governance in the TCI. It has the responsibility for supporting integrity in public life through the provision of advice to public bodies, investigation of suspected acts of corruption, and the examination of declarations of income, assets, and liabilities by persons listed in the Integrity Commission Ordinance. The Commission began its work during this quarter when, in accordance with the Ordinance, it initiated the process of declaring and registering the assets of persons in public life.

Crown Land

During this quarter, the Government published the TCI’s first Crown Land Inventory maps showing the remaining Crown land that could potentially be used for development in the future. The maps graphically show that only limited numbers of Crown land parcels remain on these islands and that the principal heritage asset of the Turks & Caicos Islands is now mostly held in private ownership. The maps are available free of charge from www.tcilandinfo.tc.

The maps illustrate why improved, robust governance of Crown land is vital to ensure that the mismanagement of the past is not repeated, and to make the best use of the land that is left. To this end, during this quarter, the draft of a new Crown land policy has been published and a comprehensive public consultation exercise has just been undertaken for each island community. The policy document sets out how the Government proposes to deal with Crown land in the future in a manner consistent with the principles of sustainability and responsible national development. The public consultation exercise has verified that the proposed new policy fairly represents a consensus opinion on the way forward with only minor amendments suggested during open fora on the islands. Final adoption of the policy in the near future will allow the development of a Crown Land Ordinance.

In addition, the Government has also implemented other key Crown land transparency measures. These include a comprehensive, computerised Crown land inventory; and the creation and free publication on the internet of the first editions of the Crown land allocation register that sets out details of Crown land allocated by way of grant or lease to private individuals or corporations.
National Youth Parliament

A high-point this quarter was the territory’s first National Youth Parliament which I was particularly pleased to address. It was clear to me that an enormous amount of hard work had been done to prepare for this event, not only by Government officials, and teachers, but also by the students themselves. The Government’s governance reforms will only really have a lasting impact if future generations take an active interest in parliamentary democracy, integrity in public life and a duty to manage the TCI’s public money and its assets responsibly.

Criminal and Civil Investigations

Two of the most important and sizeable projects being undertaken are the thorough investigation of allegations of corruption by former Ministers as recommended by the Commission of Inquiry report, and the recovery of property and money lost to the TCI public purse through unlawful conduct and breaches of contract. Accordingly, it was an early priority for the Government to appoint a Special Prosecutor and a civil recovery team.

Special Investigation and Prosecution Team (SIPT)

I was delighted that someone of the calibre of Helen Garlick should have accepted the post of Special Prosecutor. She very quickly appointed her senior management team and presented her plan and budget. Once delays over funding had been overcome, she appointed the other staff necessary for a complex investigation. The full team was in place by April and has largely made good earlier delays. It has a permanent presence in Providenciales and productive links have been established with law enforcement agencies in the United States and other jurisdictions. The team have already pursued a number of lines of inquiry and taken steps to ensure that assets believed to be the proceeds of crime are not dissipated. Inevitably, there was high public expectation that there would be early prosecutions. However, as the Special Prosecutor and I have stressed on different occasions, the higher burden of proof required in criminal cases necessitates extensive investigation; and, in any case, under the Commissions of Inquiry Ordinance evidence given by any person before a Commission is not admissible against them in civil or criminal proceedings.

The thorough investigation of over a dozen serious cases of potential corruption and criminal misconduct is well advanced; and other serious matters have been brought to the team’s attention by the TCI public, for which the SIPT have been very grateful. I have been impressed by the team’s progress to meet its agreed timetable, with some investigations due to complete in the first half of next year, and the remainder before the end of 2011.

During this last quarter, the SIPT has concentrated on 3 areas of the investigation:
1. The Commission of Inquiry obtained some financial records but it was not in a position to obtain full and complete records directly from banks, using the range of measures that are available under the Proceeds of Crime Ordinance 2007. Furthermore the SIPT is conducting a much wider ranging and more detailed financial investigation than the Commission was able to do. A large number of Orders have been obtained from the Supreme Court and served upon a number of banks and the data that has been gathered is being analysed. This process will continue into the next quarter.

2. Numerous interviews have been held with public servants, and the SIPT is grateful for the cooperation it has received. This has been important in order to understand the organisation and working methods of government departments that are central to the investigation.

3. The SIPT is widening its international investigations and it is working closely with law enforcement agencies in a number of jurisdictions in Europe and elsewhere. It is encouraged by the high degree of international cooperation it has received.

Civil Recovery

In the eight months since their appointment as the civil recovery team, the distinguished international law firm Edwards Angell Palmer & Dodge (EAPD) have undertaken a considerable amount of work. They have focussed on high profile developments identified in the Commission of Inquiry report, other claims involving land and contracts, and 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.

During the last quarter, EAPD proceedings against the developer on Salt Cay have continued. Proceedings have now also been issued by Chambers against the developer on Joe Grant Cay. Dellis Cay and Third Turtle Club continue to be looked at closely. EAPD also continue to look very actively at other claims and expect to issue at least one set of proceedings imminently which relate to the 'flipping' of land which was not mentioned in the Commission of Inquiry report. This underlines the fact that, while the Commission's Report was a very useful starting point, the nature of the investigation which is being carried out ranges much more broadly. I am pleased to report that, with respect to the Conditional Purchase Lease recovery programme some recoveries of both money and land have now started, though there is much more to do.

Police

Events during this last quarter have been overshadowed by the senseless murders of Mr Murat, who had chosen to come to these islands to take up employment, and of Mrs Charity Harvey-Higgs, a Turks and Caicos Islander and much respected resident of Middle Caicos. I again extend my sympathies to their families, and to that of Mr Gardiner whose equally senseless murder took place in December last year.
The communities of the Turks and Caicos Islands are still largely peaceful, but I do not underestimate the impact which violent crime has on our population, our tourist industry, and the potential investors. That is why security remains a top priority for the Government; why despite, our well documented financial difficulties, the Government allocated an additional $4 million to the Royal Turks and Caicos Islands Police Force earlier this year; and why we recruited four very experienced UK police personnel.

As a result of this investment, there are now RTCIPF officers deployed, properly trained and equipped to provide an effective and professional response to incidents of violent crime. Community Policing has developed significantly with the Unit increasing to six full time officers, including one of the UK officers. During this quarter the police opened a station at Salt Mills Plaza on Grace Bay; and the Police Tactical Unit, which is at the forefront of efforts to tackle gun crime, has been provided with new equipment and undergone intensive training. The Police have been able to launch a number of overt and covert operations throughout Providenciales reinforcing those already in place to tackle crime and apprehend wanted individuals. Operation Alpha 1, conducted in Providenciales in August, was the largest such operation. As a result, over 100 vehicles operating illegally, some of which police believe are responsible for supporting criminal activities, have been removed from our roads.

As a result of this extra investment and policing, arrests have increased, as has the proactive seizure of firearms. But the community also has a role to play in partnership with the police, too. I welcome the support of members of the public and business community who are already working with the police on further measures to keep our islands safe for residents, visitors and investors alike.

To conclude

This has been an extremely busy but rewarding year. Despite some considerable hurdles of the type that tax far larger Governments, a lot has been achieved and more is in the pipeline. This work would not have been possible without the support, commitment and time given by the Advisory Council, and the Consultative Forum, to whom I once again pay tribute. I am also grateful to all those members of the public service who have continued to work hard under difficult circumstances, with further difficult months ahead.

Finally, the end of this first year has been marked by the visit of Andrew Rosindell, MP who is Chairman of the Turks and Caicos All Party Parliamentary Group, and member of the Foreign Affairs Committee. We will shortly welcome Henry Bellingham MP, the British Minister responsible for the Overseas Territories, on his first visit to a UK Territory since his appointment. Their visits underline the interest of the new UK Government and Parliament in the Turks and Caicos Islands and their people.

Over the course of this year, the Interim Government has had its critics and detractors, many of them very vocal. This is inevitable and where constructively argued, provides a
valuable contribution to the process of shaping policy, which I welcome. I have also
been encouraged by the supportive and encouraging messages I have received from
many people across the island communities. Whether critics or supporters, I continue
to enjoy meeting and working with such a warm and friendly people, and having the
opportunity to take part in such joyful occasions as the celebration of the 100\textsuperscript{th} birthday
of Mrs Ona Glinton.

GORDON WETHERELL