



Second Quarterly Statement from the Governor

I published my last quarterly statement in November. The past three months of the Interim Government have been significant for the future of the Turks and Caicos Islands. We have made good progress on a number of key strands of the reform agenda and, in doing so, I think we are starting to see critical pieces of this complicated puzzle coming together and pointing more clearly towards 2011 and a return to elected Government.

Plans for Electoral Reform

Perhaps the most important announcement this quarter was the confirmation that elections will be held next year as scheduled.

Many argue that the Interim Government should be extended well beyond 2011 to ensure that all necessary reforms can be fully established; others criticise the UK for suspending elected government in the first place. But on the basis of the remedial work undertaken during the past six months, and after giving careful consideration to the views expressed by many individuals and groups, the UK Government has concluded that a return to elected government is still feasible for next year. We have always maintained that elections would be held by July 2011. This will require provisions being put 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.

Moreover, as announced during the visit of Colin Roberts, the UK Director for Overseas Territories at the beginning of February, following the election of a new TCI government there will be a greater degree of oversight of the Territory by the UK Government and a greater presence of British officials on the ground than existed before August 2009.

A key component of the measures that must be in place before the election will be revised electoral and constitutional arrangements. In January the UK Government appointed a team leader to progress this important project. That work will begin shortly and I expect it to be completed towards the end of the year. The precise date of next year's election will be decided following consultation with the Advisory Council after completion of the review.

How the review of constitutional and electoral arrangements will be conducted has sparked considerable interest. Kate Sullivan, the constitutional and electoral reform team leader, who has extensive international expertise in this field, will appoint her small team to get the right mix of skills and experience in this technical field. She will engage in extensive consultations with individuals and organisations representative of the inhabitants of the TCI. Belonger stakeholder groups and individuals will have the opportunity to be involved in the process at every stage and there will be debate in the Consultative Forum.

The end result will be a draft constitution Order in Council and draft laws for public consultation in the TCI prior to finalisation. UK ministers will need to be satisfied that constitutional and electoral reforms meet their objectives and properly reinforce reforms already made.

It would be wrong to view this exercise in the same light as the 2006 Constitutional review. It will be a consultation process rather than a negotiation. However, as with any constitution, the 2011 constitution which emerges will be kept under review, as will the extent of UK oversight with the possibility that it will change again in the future once there is confidence that governance and financial management reforms have been fully embedded.

Recent progress

I would also like to highlight progress on three other major strands of our work during the past quarter, which will make a significant contribution to the long-term improved governance of the TCI.

The Attorney General's Chambers

- The TCI's Attorney General's Chambers has for a long time been under-resourced and been forced to operate in far from ideal office conditions, while its staff has had to cope with a staggering work load. This has included in the past quarter helping bring to a successful conclusion the negotiation of the 12 Tax Information Exchange Agreements necessary to move the TCI onto the OECD's "White List". A full review of Chambers is nearly complete. It will determine the requirements necessary to ensure the level of service needed to support government, particularly during this period of extensive change. New office premises have also been identified and accommodation plans are now being drawn up. I can also announce that, after two tours totalling 6 years, the Attorney General has confirmed that he will not seek a third. A vacancy notice for a new AG will be published very soon: but I am grateful to Mr de Freitas QC for agreeing to remain in post until a successor is employed.

Public Finances

- The legislative framework for financial Management and Audit has been reviewed and proposals for revisions have been considered by the Advisory Council this quarter. Our aim is to ensure a stronger legislative framework for public financial management. . These proposals will be supported by updated administrative laws, which lay the groundwork for transparency and accountability in public finance. The proposals will be passed to the Constitutional reform team for consideration following further discussion involving the Attorney General's Chambers. All proposals will be subject to consultation. Plans have also been completed for a new internal audit office, which will have a key role to play in the good governance of public money across all Ministries. Recruitment for this critical office will begin shortly.

Crown Land

- The sustainable administration of Crown land is vital for TCI's long-term future and represents a priority UK and Interim Government governance commitment for the Territory. A new draft Crown land policy has been prepared and was presented to the Advisory Council for their initial comments in January. The UK has funded the compilation of a Crown land inventory for the whole Territory and the computerisation of all Conditional Purchase Leases. Data from the completed Crown land inventory will be used to complete the draft policy. It will be then be published for consultation with the public and the Consultative Forum before being finalised in the summer.

Good Governance

To support our governance efforts, the UK has provided \$140,000 to fund a National Integrity Study (NIS) in the TCI. The NIS will review all major institutions, which have a role to play in maintaining the integrity of the public service and fighting corruption. The review will include public consultation with stakeholders, lead to recommendations for further policy and anti-corruption reform, contribute to the preparation of the new constitution, support for the Integrity Commission and improvements to the AG's Chambers .The NIS will be conducted by Transparency International and begin in March. Together with ongoing reform of the public service, completion and implementation of these areas of our work before the elections next year will strengthen governance in the TCI and help prevent favouritism, unfairness and corruption in the future.

Tackling past corruption and current policing concerns have also been key features of this second quarter.

The Special Investigation and Prosecution Team (SIPT)

The SIPT has moved forward on a number of fronts. Recruitment for the full team is now near completion including a number of specialist roles. Offices have now been set up in London and TCI and the team will shortly have a permanent presence in the TCI. The SIPT is working closely with a number of other agencies, making and investigating a number of lines of enquiries and is taking action to ensure assets believed to be the proceeds of crime are not dissipated. Helen Garlick and members of the Senior Management team are currently paying a two-week visit to the Islands. The Team has held a series of meetings and will be making a further announcement once the full investigation team is in place.

Civil recovery

In addition to the criminal investigations, following a tendering exercise, the Interim Government has appointed the international law firm Edwards Angell Palmer & Dodge to advise on civil law issues, including the recovery of property and money obtained through breach of contract and unlawful conduct. As announced earlier this week, the EAPD team is led by Laurence Harris and James Maton, two partners in the firm's London office with considerable experience in civil recovery cases who will work with Counsel here and with the SIPT.

Thorough investigations of the scope and kind being undertaken by the SIPT and EAPD do not conclude quickly. Some of the investigations will be completed before elections next year, others may take longer. Nevertheless, the Interim Government is determined that, even with the high programme cost, this work will be completed. I am certain that with the combined expertise and drive of both teams, criminal investigations and the recovery of unlawfully obtained property and money will be pursued vigorously, with money repaid to the public purse wherever possible. This will be for the longer-term benefit of all of the people and the public finances of the TCI.

The Police

Measures are in hand to improve policing. As I announced in my first quarterly statement, I commissioned a review into the Royal Turks and Caicos Islands' Police force last year. The report from the review was presented to me during this second quarter and its conclusions were robust. I expect to have a final text incorporating factual corrections soon, but work is already in hand on a number of recommendations for improvements and I am having discussions with the senior management of the police to ensure these are fully implemented. I hope, too, that the recruitment of additional British police officers to increase the capacity for community policing and crime detection can be completed by the end of March.

Public Financial Management

A wide range of measures continue to be undertaken to stabilize public finances and to reform financial management within the public service. Implementation of the overarching Stabilization Plan for restructuring management and financial control systems is on track. It remains the guiding plan for reform. An internal Revenue Task Force has, this quarter, been working closely with all of the individual departments with revenue collecting responsibilities. Permanent Secretaries are now obliged to submit monthly review reports and the Task Force is overseeing progress setting targets and reviewing performance. I place a very high priority on this work and, together with the Chief Executive; I will be monitoring closely the performance of all Permanent Secretaries in this crucial area.

A comprehensive Revenue Management Review has also been undertaken this quarter. We have found that there are outstanding payments due to Government from businesses and individuals in excess of \$12 million for items such as water bills, conditional purchase leases and vehicle licenses. This also includes outstanding contributions to the scholarship fund worth approximately \$3 million. We are now putting in place measures to recover unpaid monies including taking some individuals to court.

One of the most significant and time critical public finance stabilization measures pursued by the Interim Government this quarter were our negotiations with investors to secure a consolidated loan facility. The facility was specifically designed to address the TCI's immediate crippling cash flow problems brought about by the extreme mismanagement and debt accumulation of the previous administration. Loan repayments would come from a special fund created solely for this purpose and into which specific revenues will be deposited. Creation of the fund and the specific use of revenues required the concurrence of the UK Government. I expected to sign the deal in February in time for the next budget.

The Interim Government was careful to release all the information it could to the Advisory Council and the Consultative Forum. I should like to underline that negotiations of this kind are commercially sensitive and necessarily confidential which is why details of the loan were not made publicly available. Syndicate members would not have engaged in negotiations with the Interim Government if they had considered it likely that details of the negotiations would be made public before they were agreed and contracts signed. However, details of the loan were leaked and then given widespread publicity both locally and regionally. As a consequence, finalisation has been postponed. The leak has also undermined the Government's capacity to negotiate with potential investors on current and future investment projects. I need hardly emphasise that this damaging and irresponsible breach of confidentiality is a very serious matter.

The result is severe and immediate pressures on our cash flow. Preparatory work for the 2010/2011 budget was already in hand on measures to find the savings necessary to match revenue and expenditure over the next financial year and enable us to live within our means, Tougher decisions may now need to be taken and the depth and timing of their implementation deepened and brought forward.

Increased Revenue

Clearly, against this backdrop, it is more critical than ever that we look for ways to generate revenue without holding back the recovery of the economy. Accordingly, we have discussed and agreed a number of measures with the Advisory Council during this second quarter.

We are removing significant administrative, tax and other obstacles to new and existing proposals for resort, housing, renewable energy and other developments. These will bring new investment and jobs to the TCI economy while ensuring they comply fully with all legal requirements and will contribute to the achievement of a fair, growing and more stable economic base.

Tourism

We have also announced our intention to develop a modern and competitive international airport in Providenciales that will increase access and boost the appeal of the Islands across the globe. In doing so, we will have the capability to strengthen, diversify and reduce the seasonality of our tourism industry, thereby creating further opportunities for new small enterprise. In December, as foreshadowed in my first quarterly report, the Advisory Council considered the initial report of the Working Group set up to make recommendations on the promotion of tourism. Its comments have been reflected in the Working Group's final report; and work is now in hand on the legislative and other changes needed to give effect to its recommendations. Plans are also well advanced by Carnival to bring up to 1 million cruise passengers a year to Grand Turk, providing the market leverage for new small business ideas in Grand Turk and nearby islands, and the incentive to restore their historical sites and heritage. Furthermore, I hope to announce soon a package of measures to develop the agricultural sector in North Caicos to create new opportunities for TCI residents interested in commercial farming and to reduce our dependence on a range of food imports.

Taxation

The current tax model is not sustainable. We need a tax system that is able to fund prudent and efficient public services and one that is able to stimulate new business and economic growth. We

have, therefore, recently completed a review of the existing tax system and options for the future: the first of its kind in the TCI. This involved consultations with a cross section of representation from business and professional groups. The review report makes a number of recommendations and these will be subject to further consultation. In addition, we have recently agreed changes to the stamp duty system that will deliver significant benefits to all TCI residents, and especially those seeking to buy family home or commercial premises to start a new business. I hope to announce the details of these shortly. We have also commenced a comprehensive review of the Customs Tariff. Looking forward, the budget will contain measures to strengthen our economy and revenue base.

Haiti

This quarter has also been dominated by the crisis in Haiti following the earthquake on 12 January. The scale of the disaster and loss of life has shocked us all and, once again, I would like to extend my deepest sympathy to the Haitian community in TCI who have been personally affected by this tragedy.

The arrival of further migrants presented a significant challenge. The TCI does not have the capacity or resources to deal with large numbers of migrants for more than a few days. While we were able to announce that we would not deport Haitian nationals who were here illegally on or before 12 January, we have had to repatriate illegal arrivals since then. With UK support, work is now underway to provide training to ensure that the processing of migrants fully meets international standards and also suitable emergency accommodation for such migrants for a few days during this process.

Disaster Recovery

The Haitian tragedy is a reminder of the importance of our own efforts for disaster recovery and preparedness. This quarter, the Recovery Task Force has continued to develop new post hurricane reconstruction projects for the Disaster Recovery Board's approval, as well as progress previously approved projects. The majority of the \$7.5 million provided by the UK for post hurricane recovery has now been committed or allocated. Many projects during this quarter focused on school repairs and refurbishments across all islands as well as health facilities in Grand Turk, Providenciales and North Caicos.

Projects focusing on disaster preparedness continued to be a priority including ensuring disaster shelters are structurally sound and in a good state of repair. Funding has been approved to upgrade some of Radio Turks & Caicos' equipment so that it can provide improved multi island coverage that can be used in the event that a hurricane warning or other potential disaster needs to be communicated to all Turks & Caicos islanders.

Healthcare

Additionally, I would like to note here that the two new hospital facilities are near completion, with extensive work undertaken this quarter on fitting and testing equipment. It is expected that the hospitals will open their doors to patients in April. A contract management team, comprising representatives from the Ministries of Finance, Health, Works and the NHIB, has been formed to manage the relationship with InterHealth. Recent topics on their agenda have been the incinerator and ambulance services. Furthermore, registration for the NHIP nears completion and has now exceeded 22000 with approximately 6500 dependants. All businesses have registered. We anticipate that revenue to be collected by 31 March 2010 will be slightly greater than expectations.

And Finally...

This has been an exceptionally busy quarter. After only six months, I believe that the tasks we have undertaken to date, and continue to work hard to take forward, will provide stronger foundations for the future and generate investor and international confidence.

I have no doubt that over the coming months, as more consultations are undertaken, we will hear your views clearly on a wide range of subjects. I welcome these, both positive and challenging.

Indeed, in March the Chief Executive and I will undertake a second round of Town Hall meetings to communities on all the Islands when we look forward to much lively debate.

I recognise that these are testing times for many residents of the Turks and Caicos Islands, especially for families with children, mortgages and other financial commitments. In countries across the region people are facing the same challenges as they struggle to deal with the impact of the global recession and the squeeze on credit. But with a common sense of purpose and the resilience for which Turks and Caicos Islanders are known, I have no doubt that we will get through this difficult period to emerge stronger and better prepared to secure a bright future for the generations to come after us.

Gordon Wetherell
