

St Helena Government

SHG response to the DFID Consultation Document on access options

Introduction

This paper has been prepared by the St Helena Government (SHG) as an interested party in response to the three access options outlined in the DFID consultation document. The three options proposed in the consultation paper are:

- a) Go ahead with the airport now;
- b) Decide now not to build the airport and commission a new ship;
- c) Defer a decision for a period of up to five years.

As requested in the consultation document, this response provides SHG's views on:

- The three options in the light of the current climate;
- How deferring the decision for the short/medium-term would impact on SHG;
- How deferring the decision for the lifetime of a replacement ship to the RMS St Helena would impact on SHG; and
- Proposals on how the options identified could be modified to be more acceptable to interested parties.

SHG's response draws on the economic analysis of the air and sea access options undertaken by Atkins Management Consultants plus population projections prepared by the SHG Social Development Planner.

Assessment of the three options in the light of the current climate

SHG acknowledges that the timing of the global financial crisis and the subsequent economic recession has changed the financial climate in which the proposed airport development would have been taking place. The deteriorating economic climate has placed increased pressure on the UK Government budget, due to falling government revenues and rising costs. There is increasing concern at the level of public sector borrowing. For DFID, its resources have been stretched as more people face poverty as a result of the world recession.

Despite these adverse conditions, SHG contends that the economic situation also provides strong reasons for the UK Government to proceed with the project now. Not only will the UK taxpayer benefit from reduced budgetary support to the island, but early commencement will maximise the advantage of timing due to current slack in the construction sector and a probable upturn in the world economy by the time the project comes on stream. The island, both economically and demographically, is in a very fragile state and almost wholly dependent on budgetary support for survival. It urgently needs investment in air access as the pre-requisite for any substantive economic development. The current

SHG response to Consultation document

demographic trajectory of the island is unsustainable and must be reversed. Despite the current difficult economic conditions, failure to invest now will greatly increase the cost of support in future years.

Options (B) and (C), if selected, run the risk of condemnation of the UK by the international community, (including but not limited to the United Nations) at the treatment of one of its overseas territories; a breach of an agreement to build the airport and the enforced demise of the island and its people.

The economic and demographic impact of the three options

SHG believes it is essential that the three options put forward in the DFID consultation document should be assessed in terms of their impact on the future economic and demographic status of the island. From an economic perspective, since the decline of the flax industry in the 1960s St Helena has had virtually no source of external trade on which to base its economic development. This has resulted in a heavily public-sector dominated economy, highly reliant on UK budgetary support and imported goods for survival.

Table 1 – Key Economic Dependency Measures 2007-08ⁱ

Measure	Millions	As a % of GNP
GNP	£20.323	100%
Budgetary Aid	£7.535	37%
Total Support	£15.746	77%
Total Imports	£16.338	80%
Total Exports	£0.698	3%

Table 1 above graphically demonstrates the high level of aid and import dependency of St Helena and the negligible level of export earnings. To prosper, St Helena must develop industries which enable it to develop external sources of income. Without investment in air access, there is little prospect of developing external sources of income and this unacceptable level of economic dependency will further deteriorate.

From the demographic perspective, the situation on St Helena is even more disturbing. Lack of economic opportunity at home has been forcing Saints to migrate overseas (mainly to the UK, Ascension and the Falkland Islands) in search of higher paid work. Extrapolating past trends out to 2018 reveals a collapse in the ratio of the economically active population to those non-economically active aged over 60. This is shown in Table 2 below.

Table 2 - Dependency Ratios 1998-2018ⁱⁱ

	1998	1998	2008	2008	2018 Forecast	2018 Forecast
	Population Nos	% of Total	Population Nos	% of Total	Population Nos	% of Total
Economically active (16-59)	2858	78.99%	2224	68.26%	1731	55.16%
Non-economically active 60+	760	21.01%	1034	31.74%	1406	44.84%
Total	3618		3258		3137	
Dependency Ratio (Economically active : non-economically active 60+)	3.8		2.2		1.2	

As recently as 1998, there were 3.8 economically active residents for each retired resident. By 2008, that ratio had fallen to 2.2. By 2018, with no change in current circumstances, trend analysis shows this may fall to just 1.2. In other words, the working population will be supporting an almost equal number of retired residents. Just how serious the decline in St Helena’s dependency ratio really is can be better understood by comparing it to that of the UK. In 2018, the forecast ratio of working age to retired workers in the UK is 3.1.ⁱⁱⁱ Even allowing for the higher retirement age in the UK of 65, this is still a much higher ratio than in St Helena. The growing dependency ratio here will impose a massive economic and social burden on the working population and has major implications for the level of budgetary support for such an ageing population. Again, without air access, the current situation will continue to deteriorate. Urgent action is required to counteract this trend.

Options

SHG has the following views on the three options with regard to the current economic climate:

Option (A): Go ahead with the airport now

SHG considers that this option, whilst the largest immediate cash outlay, still remains the most favourable option in the current economic climate. Quite simply, it is the only option that gives the

SHG response to Consultation document

island any hope of standing on its own feet, reducing the need for subsidies and reversing the economic and social decline which has led to so many people leaving St Helena. Action to reverse the decline is needed urgently, as the worsening demographic scenario shows. Air access offers the opportunity to generate economic sustainability in the long term, through the development of tourism. This will help increase self sufficiency and reduce the need for subsidies, to the benefit of all, including UK taxpayers. Neither alternate option will prevent further economic and social decline.

Table 3 compares the advantages and disadvantages to SHG and to the UK Government of going ahead with an airport now:

Table 3 – Advantages and Disadvantages of Option A

Advantages <i>(from SHG perspective)</i>	Disadvantages <i>(from SHG perspective)</i>
Provides St Helena with the earliest opportunity of reaching economic self-sufficiency ^{iv}	
Brings forward the improvement in St Helena wages from current low base ^v	
Provides certainty about the economic future of St Helena necessary to reverse the current unsustainable demographic trend.	
Encourages additional inward investment in St Helena during a period of low global investment	
Provides excellent timing as completion of the airport is likely to coincide with the recovery of the world economy from recession	

Advantages <i>(from UK Government's perspective)</i>	Disadvantages <i>(from UK Government's perspective)</i>
Minimises the total aid funding required by the island ^{vi}	DFID would be unable to reallocate airport-related funds to other high priority aid targets
Supports the international construction industry (including the UK) during a period of weak global demand	UK government budget deficit would be increased in the short term compared to other options
Provides income to construction workers hired from developing countries and the UK	
Benefits from subdued wage and price inflation and fewer supply constraints during construction phase, making cost and time over-runs less likely	

SHG response to Consultation document

Will bring back Saints who have the skills that we require to fill the position of many jobs that are currently vacant or are having to be filled by expatriates at much higher costs	
Frees up more DFID funding in the longer term for other aid priorities	

Table 3 illustrates that for both parties, the early adoption of air access carries significant benefits. From both an SHG and a UK Government perspective, the balance of advantages of Option (A) appear significantly to outweigh the disadvantages. In particular, this option provides the shortest route to raising living standards on the island, with real wages projected to double within twenty years of commencing construction. Facilitating a rapid improvement in living standards is the most effective means of counteracting the serious demographic problem facing St Helena. This in turn will reduce dependency on UK financial support, freeing up development funds for other purposes.

Option (B): Decide now not to build the airport and commission a new ship

SHG considers that this option, whilst requiring a smaller cash outlay in the short term than building the airport now, merely maintains the status quo and fails to address the underlying problems facing St Helena’s development. Deciding not to build the airport and commissioning another ship would represent an enormous waste of tax payer’s money spent on the access project to date. Virtually all of the costs incurred to date in connection with the airport will be forfeited. In addition, there is a high degree of uncertainty about the cost of such a specialist ship, with the risk that it may cost substantially more – possibly up to £100m according to one industry source. Even more importantly, it will also delay the start of any recovery in the demographic trend by another 25 to 30 years. On current trends, by 2028 the dependency ratio (that is, the ratio of the economically active workforce to the economically inactive aged over 60) may sink as low as 0.7.^{vii} Currently that ratio stands at 2.2. In 30 years time, the picture would be worse. Put simply, Option (B) will result in a demographic disaster for St Helena.

SHG acknowledges that this option may be preferred by the UK Government in the current economic climate to building the airport now, but strongly rejects this option as a sensible use of scarce government funding. Table 4 compares the advantages and disadvantages of deciding now not to build the airport and commission a new ship.

Table 4 – Advantages and Disadvantages of Option B

Advantages <i>(from SHG perspective)</i>	Disadvantages <i>(from SHG perspective)</i>
Removes uncertainty about the future access to the island	Unlikely to prevent further depopulation of the island and worsening of the dependency ratio

SHG response to Consultation document

	Will delay the potential for St Helena to achieve economic self sufficiency by another 25 to 30 years ^{viii}
	Minimises opportunity for future wages growth in St Helena
	Should the ship suffer an accident or malfunction, the Island would again be cut off for an indefinite period, possibly requiring the expensive short-notice spot-hiring of a temporary replacement
	Unlikely to attract further inward investment to the island
	Fails to improve frequency or cost of access to the island
	Misses the timing opportunity for completion of the airport to coincide with the recovery of the world economy from recession

Advantages <i>(from UK Government's perspective)</i>	Disadvantages <i>(from UK Government's perspective)</i>
Reduces UK Government budget deficit or enables DFID to allocate more funds to other aid priorities than Option (A).	Still requires significant capital outlays in current economic climate
Supports the ship construction industry during a period of weak demand	Requires long term commitment for budgetary support to the island
	Annual cost of budgetary support will continue to grow in real terms as more local key post holders must be replaced with expensive expatriate labour
	Misses the opportunity to construct the airport during a period of subdued wage and price inflation and fewer supply constraints, making cost and time over-runs less likely
	Undermines Islander's confidence in the UK Government's decisions
	Risks legal challenge by Impregilo and by the Island's investors

The above tables show that from both the SHG perspective and the UK Government perspective, the balance of disadvantages with Option (B) appear to outweigh the advantages. SHG considers that Option (B) will prove to be both less effective and involve a larger cash outlay than Option (A) in the long term. Crucially, Option (B) will not stop the serious demographic decline facing St Helena.

Option (C): Defer a decision for a period of up to five years.

SHG considers that this option, whilst requiring the smallest cash outlay in the short term and thereby the preferred option of the UK Government is because of the uncertainty of the eventual outcome, the worst option of all for St Helena. Financially, a five year delay will benefit nobody, least of all the British taxpayer. The additional cost of the delay could be at least £100 million (at 2009 prices) based on the extra years of budgetary support alone. The Consultation document also concedes (page 17) that the cost of building the airport and its essential support facilities including roads, a new bulk fuel farm and water supplies; a wharf at Rupert's Bay and inshore sea rescue services would increase, as would subsidies and ship repair or replacement costs as a result of the delay.

Table 5 below compares the advantages and disadvantages of deciding to defer a decision for a period of up to five years:

Table 5 – Advantages and Disadvantages of Option C

<p style="text-align: center;">Advantages <i>(from SHG perspective)</i></p>	<p style="text-align: center;">Disadvantages <i>(from SHG perspective)</i></p>
<p>Keeps the option of an airport open in the medium term, enabling the economic case for an airport to be reconsidered when economic conditions improve</p>	<p>Extends the uncertainty around access options, which is currently paralysing many development decisions</p>
	<p>Uncertainty is likely to increase the depopulation of the island</p>
	<p>Uncertainty is likely to stop all further inward investment to the island</p>
	<p>Misses the timing opportunity for completion of the airport to coincide with the recovery of the world economy from recession</p>
	<p>Lack of certainty reduces effectiveness of other essential reforms to the public and the private sectors</p>
	<p>Provides no assurance that an airport will be built even after a wait of up to five years</p>

SHG response to Consultation document

<p style="text-align: center;">Advantages <i>(from UK Government’s perspective)</i></p>	<p style="text-align: center;">Disadvantages <i>(from UK Government’s perspective)</i></p>
<p>Reduces short term UK Government budget deficit or enables DFID to allocate more funds to other aid priorities than Option (A) or (B).</p>	<p>Larger cash outlay for the UK Government in the long term than Option (A) due to the longer period of dependency on aid funding</p>
	<p>Will increase recurrent budgetary support compared to Option (A), as more local key post holders will leave, requiring replacement with expensive expatriate labour</p>
	<p>Misses the opportunity to construct the airport during a period of subdued wage and price inflation and fewer supply constraints, making cost and time over-runs less likely</p>
	<p>Misses the opportunity to support the international construction industry during a period of weak global demand</p>
	<p>Undermines Islander’s confidence in the UK Government’s decisions</p>
	<p>Risks legal challenge by Impregilo and by the Island’s investors</p>
	<p>Future tenderers for airport contracts may be deterred by cancellation of current process.</p>

When looked at carefully, Option (C), despite its superficial attractions from a short term financial perspective, carries many downside risks. The above tables show that from both the SHG perspective and the UK Government perspective, the balance of disadvantages with Option (C) outweigh the advantages. Option (C) as currently described is potentially worse for the island than Option (B), as it continues the current problem of uncertainty for a further five years with no commitment to the provision of air access after that time. Urgent action is essential to address the worsening demographic scenario and Option (C) fails completely in this regard.

Assessment of how deferring the decision for the short/medium-term would impact on SHG

For SHG, the deferral of a decision on the airport for up to five years has serious negative consequences and is arguably the most damaging of all three options. The main concern is the continuing uncertainty with regard to the eventual access solution. Under this option, SHG anticipates the following impacts:

- Resumption of outward migration;
- Development planning significantly hampered by uncertainty on access solution;
- Loss of credibility by Saints in future SHG and UK Government initiatives following further deferral of an access decision;
- Loss of business confidence in local economy leading to reduced private sector activity;
- Loss of key personnel from critical posts;
- Increasing reliance on Technical Cooperation (TC) funding to recruit expensive expatriate expertise to replace local staff^{ix};
- Reduced local tax revenues as a result of falling employment and business activity;
- Possible legal claim against SHG by Impregilo; and
- Possible legal claims against SHG by local and inward investors.

Option (C) which is the preferred option of the UK Government leaves SHG in a policy vacuum, with no certainty of the timing or outcome of a future access decision. This will be even more damaging to the island's development than Option (B), which would at least bring certainty and enable limited development policies to be implemented around sea access. The potential five-year time horizon for a subsequent decision will be interrupted by at least one UK election cycle, bringing further uncertainty to the investment decision process. There is very little time to spare before the demographic problems facing St Helena become critical. Five or more years of inaction could be disastrous. Delaying the decision to invest will greatly increase the problems facing the island, raising the total cost to the UK taxpayer and reducing the likelihood of a successful outcome.

Assessment of how deferring the decision for the lifetime of a replacement ship to the RMS St Helena would impact on SHG.

For SHG, the decision to take Option (B) and build a new ship now would effectively remove the air access solution from the planning horizon. This decision would remove uncertainty with regard to the

SHG response to Consultation document

access solution to be adopted and would therefore assist SHG with development planning. However, Option (B) would totally fail to meet the urgent need to stem demographic decline. SHG believes that continued sea access represents a much worse economic and social prognosis for the island than would a decision to provide air access. Deferring the decision for the lifetime of a replacement ship for the RMS St Helena would have the following negative impacts on SHG:

- Resumption of outward migration;
- An unsustainable dependency ratio;
- Low potential for tourist industry development;
- Continued reliance on increasing UK aid funding;
- Continuing loss of key personnel from critical posts;
- Increasing reliance on Technical Cooperation (TC) funding to recruit expensive expatriate expertise to replace local staff;
- Very low levels of local investment. Probably no inward investment;
- Low income growth;
- Continued delays and expense of overseas medical referrals;
- Possible substantial legal claim against SHG by Impregilo; and
- Possible legal claims against SHG by local and inward investors. ^x

Whilst it cannot be certain what damage a delay of twenty to twenty-five years in the construction of an airport would have on the economic status of St Helena, if existing trends continue to hold, SHG expects the impact to be extremely severe. Population would continue to decline, possibly to around half the current level of 4,000. More importantly, the dependency ratio of economically active workers to over 60s could decline from 2.2 at present to less than 0.7 in twenty years. This would leave a mainly elderly population requiring high levels of care from expensive expatriate sources, and would leave SHG with a much reduced tax base from which to fund such expenditure.

Dependency on UK aid funding would rise significantly to compensate for erosion in the SHG tax base, and it is likely that SHG would face significant staff shortages in trying to cope with the high proportion of elderly population. It is possible that by this stage, an airport may no longer be sufficient to restore economic growth, as the working-age population on whom such growth would depend may have permanently left the island. To prevent this scenario from occurring in the absence of air access, it is likely that substantial investment in other forms of enhanced sea access and data communications to

the island will be necessary, together with a labour immigration programme targeting low wage countries to fill the employment shortfall.

How could the options be modified to be more acceptable to the interested parties?

The consultation document, whilst requiring responses to address only the three options put forward for consideration, does ask for suggestions as to how the options identified could be modified to be more acceptable to interested parties.

One modification that could be considered under either Option (B) or Option (C) would be to charter a vessel (or vessels) in place of refitting or replacing the current RMS. Chartering would allow a 'two ship' solution, which could potentially improve access for both goods and passengers. Chartering could also avoid significant capital outlays if option (B) were adopted, and could avoid the need for major refit costs for the RMS once it reaches 25 years old under Option (C) in 2015. However, information provided by Andrew Weir Shipping suggests that chartering will involve significantly higher annual cash outlays than continuing to operate the current ship, so is unlikely to be a financially attractive solution.^{xi}

In any case, SHG does not believe that Option (B) or Option (C), even with a 'two ship' solution, can solve the growing economic and social difficulties facing the island. Only air access can provide the necessary reduction in travel time and increase in frequency required to stimulate economic development. SHG therefore believes that only modifications to the Option (A) proposal are worthwhile considering.

SHG understands the financial problems facing the UK Government in implementing Option (A). Therefore, SHG suggests that in the event that Option (A) cannot be fully funded immediately from UK Government sources, alternative, lower-cost measures are considered which will enable air access to be implemented at the earliest opportunity, whilst leaving open the possibility for later full implementation of the original concept. Such modifications could include:

- the introduction of an element of private sector financing into the project to reduce the short term cash outflow to Government;
- construction of a smaller, less expensive airport initially (whilst recognising that this would be likely to result in the need for significant operating subsidies to air service providers to make the price of seats affordable to Saints on smaller capacity aircraft, and that ultimate cost of an expanded airport may be higher); or
- non-airport dependent air access options, such as the seaplane proposal, to provide an interim air access solution until a land-based air access solution could be afforded.

In each of the modifications suggested above, the critical element for SHG is that air access is achieved with certainty and at the earliest possible date. From the UK Government perspective, each of the modifications would represent a lower initial outlay (although it is probable that the longer term cost to the UK Government will be higher than under the original Option (A) proposal). Also, for the small

airport or the seaplane modifications, the travel cost per passenger is likely to be significantly more than under Option (A) due to the higher costs per seat of smaller capacity aircraft, resulting in a need for an ongoing subsidy.

Conclusions

SHG strongly favours Option (A) as providing the only effective solution to St Helena's development requirements. Despite the funding constraints imposed by the current economic climate, Option (A) still represents the best return on investment to the UK Government and the lowest cost long-term solution. SHG considers that the advantages of Option (A) significantly outweigh the disadvantages. It should be noted that as a result of the pause and the subsequent consultation process, the UK Government has already succeeded in deferring the airport expenditure by over a year, which in itself has made a significant contribution to reducing short term financial outlays during the current recession.

Option (B) represents a continuation of the status quo. Whilst this option requires a smaller cash outlay than Option (A) in the short term, in the long term it may lead to the irreversible decline in the economic and social status of the island unless other substantial investment in enhanced sea access and data communications is provided. Thus Option (B) will prove to be both less effective and involve a larger cash outlay than Option (A) in the long term.

Option (C) as currently described is potentially even worse for the island than Option (B), as it continues the current problem of uncertainty for a further five years with no commitment to the provision of air access after that time. Lack of certainty is currently paralysing SHG's policy setting process and is deterring local and foreign investment. This will exacerbate the problems which the island has been experiencing with falling population and increasing reliance on UK aid funding. The potential five-year time horizon for a subsequent decision will be interrupted by at least one UK election cycle, bringing further uncertainty to the investment decision process. Delaying the decision to invest will only increase the problems facing the island, raising the total cost to the UK taxpayer and reducing the likelihood of a successful outcome.

Finally SHG believes that the UK Government has a moral obligation to keep its promise made in 2005 to construct an airport. As part of this agreement, Council approved a range of tough policy measures^{xii} - such as full cost recovery - to encourage sustainable economic development, whilst the private sector invested in new enterprises in anticipation of an airport. St Helena has kept its side of the agreement. Many Saints in the UK have developed skills which St Helena badly needs and are keen to return home to work and set up businesses on the Island, should an airport be built. But, again, access is the issue. Thus air access is a necessary condition for the Island to progress towards self-sufficiency. If air access is to be implemented, all the evidence indicates that the time to act is now, rather than to delay the decision.

***Office of the Chief Secretary
St Helena Government
14 July 2009***

ⁱ Source: St Helena Statistical Year Book 2007 Tables 1.2(UK Aid to St Helena) and 1.4(National Income)

ⁱⁱ Source – Muir, Ann - THE SOCIAL COST OF NO ECONOMIC GROWTH – A CONTINUATION OF THE SITUATION BETWEEN 1998 AND 2008 INTO THE NEXT TEN YEARS – Table 7.

ⁱⁱⁱ Turner, Adair. 2007. *The Ageing Society: Challenges, Opportunities and Unnecessary Scare*. P.17.

^{iv} Atkins – St Helena Access – Update of Economic Analysis (Nov 2007): Under the long runway access option, the model projects that financial support will fall to zero by 2030 (assuming airport completion in 2013), compared to 2020 in our Feasibility Study (which assumed airport completion in 2009). As in our previous analysis, under the replacement RMS access option, budget surpluses are not generated in the period analysed.

^v The five-year average GDP per capita after 20 years would be £10477 with an airport, compared to £4874 with a ship. (Atkins - Table 3.10 – GDP and GNP trends, five-year averages, 2007 Q1 prices)

^{vi} Atkins – St Helena Access – Update of Economic Analysis (Nov 2007): These results show that in the long runway access option, the net cost of financial support to SHG over the period 2007-2052, discounted at 3.5%, is now £287.3 million if budget surpluses are included in the calculation. Under the replacement RMS access option, the net cost of financial support to SHG over the period 2007-2052, discounted at 3.5%, is now £360.5 million

^{vii} Muir, Ann – Dependency Ratios 1998,2008,2018 using Total Population as Moving Trend

^{viii} This is based on the assumption that another specialist joint cargo/passenger vessel is built as the replacement for the current RMS. Such a vessel is unlikely to have a ready second-hand market, making it costly for the Government to revisit the airport option before the vessel reaches the end of its economic life.

^{ix} A study conducted by the SHG Government Economist showed that the annual cost of replacing locally employed senior managers and Heads of Department with expatriate staff would add over £7m per annum to the SHG payroll cost.

^x Large compensation claims against SHG by local and inward investors would probably exceed SHG capacity and need to be funded by HMG.

^{xi} Consultation letter from Andrew Weir Shipping to DFID dated 6 July 2009. Over 5 years the cost of chartering is estimated at £45.625m compared to £36.150m for the RMS. Over 10 years, the costs are £91.250m and £74.300m respectively.

^{xii} Legislative Council Motion – 26 June 2009 – refers: "That this House recalls with concern that over the past four years, in response to persuasion by Her Majesty's Government based upon the mutual agreement between us regarding the provision of air access and more recently upon the clear promise to fund an airport here in the near future, this Government has enacted legislation and taken many hard decisions in order to keep its side of the bargain. Convinced that any further delay to the airport project can only lead to substantial decline in our ailing economy and therefore an escalation of the contingent liability to the UK taxpayer, this House calls upon Her Majesty's Government to honour its commitment to St Helena by initiating the signing of the airport construction contract forthwith."