

BUDGET SPEECH 2015/16

Mr Speaker, I wish to introduce a Bill for an Ordinance to provide for the services of the Financial Year 1st April 2015 to 31st March 2016.

Mr Speaker I am extremely privileged to stand here today in front of Members to present the budget for the coming year.

This year's budget, more than any I have been involved with previously, has already provoked lots of comment. Some of the changes that have already been announced and some that will be announced today will not please everyone. In fact, it has caused some disquiet in certain areas of our community. But I have been reminded by many people of late that the budget must not be for the benefit of the few but for the benefit of the majority of St Helena's people. It seems clear to me that the vulnerable and less well off need to be supported during this time more than ever before. If that means that taxes have to rise to pay for a better funded benefits system, improved services at the hospital and to support safeguarding of all people on the Island, then this Government believes this is the right approach to take. In writing this speech I have taken great encouragement from the words of many a budget speech given in the last decade across the world "**that the broadest shoulders in society should be the ones that carry the heaviest loads**". This equally applies to St Helena and only those with minds not broad enough to think beyond their own interests would disagree.

Without doubt, we are moving into the most important year in St Helena's history; one in which we will see the opening of the airport at Prosperous Bay Plain; and in February 2016 St Helena is expected to receive its first commercial airline flights. This will see people arriving on Island within hours rather than days, bringing a steady flow of people onto the Island every week; some will be friends and families returning to the Island, some will be previous visitors and some will be tourists looking to see what St Helena has to offer. We need to prepare for that first flight and this budget supports the improvements that need to be achieved before the first plane touches down.

In order to be ready for that first flight, St Helena Government needs to continue to improve; we need to look at how we provide services, how we address the concerns of the public and how we ensure that we are working as efficiently and effectively as we possibly can. The recent discussions with our own staff have identified many potential improvements we can make and areas where funding is required, and this budget directs funds into those areas that require **further development**. But it is not a matter of just increasing funding. SHG needs to think differently about how we make the best of the budget; we need to ensure that we reassess our thinking, our approach to how we deal with customers and our internal processes. Only then will we ensure that we are getting the best value for the public's pound.

Following the latest visit from the Department for International Development (DFID) Budget Aid Mission (BAM), this year's funding envelope is for a one year programme. This is due to the uncertainty in the outer years where the path and impact of economic development has so many unknowns and is difficult to forecast. We still have uncertainties around airport -related expenditure for airport certification and operational readiness.

As in previous years, this budget was compiled by all Members of Legislative Council, supported by not only Corporate Finance but all Directors and staff within the various Directorates. The budget process started back in May 2014 and it involved detailed discussions and positive working to get to the final Budget presented here today. This can only be achieved with Councillors, Directors and all senior officials working in partnership to achieve the common goal of a balanced budget, with resources being put into the strategic priority areas.

During 2014/15, the Sustainable Development Plan (SDP) was revised, with particular focus on the lead up to the opening of the airport and the key deliverables to make this happen, as well outlining SHG's longer term vision. Through the Medium-Term Expenditure Framework (MTEF) we ensure that St Helena Government's (SHG's) resources are directed towards achieving that vision for St Helena. Through careful prioritisation by Councillors, we ensure that as much of our financial resources as possible go directly towards supporting our National Goals:

National Goal 1: A vibrant economy providing opportunities for all to participate;

National Goal 2: Strong community and family life; and

National Goal 3: Effective management of the environment.

In order to balance the budget, Councillors have made some very difficult decisions on where limited additional resources should be allocated, and which taxes need to increase to fund additional expenditure in priority areas.

This means that Councillors made all the decisions that set the budget and take full responsibility for the budget.

Economic Background to the Budget

As in last year's budget I will highlight some headline facts on the Island's economy and forecasts for the year ahead. These economic outcomes not only provide the context within which Members have developed the Budget, they will also highlight key success measures in terms of economic development in the years ahead.

2014/15 has been another strong year for the St Helena economy, with most aspects performing at or above expectations. The population is growing, bringing skills to the island; employment levels are high; the number of businesses is increasing; and incomes have grown significantly. Moreover, this has been achieved without the price of inflation that would usually be expected in such circumstances.

At September 2014, the estimated population stood at 4,442, a 4.9% increase over the previous year, and overall average incomes have grown by 18% over the last two years. Median average income grew to £7,100 in 2013/14, which means that over 50% of the working population now pay income tax. Combined with high levels of employment, this has resulted in substantial increases in tax revenues, which has allowed the island to become more self-sufficient and, as you will hear, for SHG to continue increasing funding for services.

Annual retail price inflation started the financial year at 0.8%, driven down by price decreases for some major purchases such as car imports and broadband. The last three years have also seen a strengthening of Sterling against the South African Rand, which has helped keep retail prices lower than they would otherwise have been. The last 12 months has seen a weakening of this effect, and inflation has consequently started to increase, standing at 3.3% at the end December 2014. Inflation is forecast to average 3.9% over 2015/16, with a possibility that it could move higher should the Rand strengthen or oil prices increase faster than expected.

Despite this good news, the outlook for the coming financial year contains some significant challenges that will impact on SHG's revenue streams. As the airport construction winds down, labour market pressures will reduce. Consequently, it is likely that unemployment will start to rise towards the pre-airport construction average, although this would still be extremely low by international standards at around 40 people in total. Another impact will be that incomes are likely to rise more slowly than they have over the last three years, resulting in slower growth in tax revenues.

Business investment in preparation for air access is also expected to slow tax revenues in the short-term, while yielding substantial benefits in the longer term.

Furthermore, as we approach airport opening, SHG is facing spending pressures with the costs associated with improved safeguarding arrangements. There are a number of critical services that need to be in place to achieve airport certification. St Helena's increasing population, better diagnosis and public expectation requires further investment in our health service.

This year's budget focuses on these areas and **most will be pleased to hear that further significant additional resources are allocated to these areas today.**

Progress Made in 2014/15

Progress has continued at pace during 2014, and we have seen the completion of a number of major projects and further positive developments.

Over 265 Saints continue to work for Basil Read; they have contributed significantly to the success of the Airport project which is progressing extremely well and due to be ready to receive test flights in early July. Last year saw the completion of the fill of Dry Gut which was a monumental achievement and I am sure many people have now had an opportunity to visit the extraordinary site. The open day last year was a huge success with hundreds of people attending the event. Work continues with the construction of Rupert's Wharf, the Permanent Bulk Fuel Installation, the Access Road, and the Airport itself.

Comair Ltd has been announced as the airline to provide air service, which will see commercial flights landing for the first time on St Helena, linking the Island to the rest of the world. Further details on this will be announced very soon.

SHG's capital programme has seen a number of achievements in the last year, one of which being the opening of Ebony View residential home. This new accommodation marks a significant step forward in how we support and care for some of the most vulnerable members of our society.

EMD continue to find alternative funding for managing the environment and was successfully awarded £270,000 of Darwin Plus funding to improve marine management and the development of a sustainable fishery.

The past year has continued to be one of substantial change in the Health & Social Services Directorate, which has seen Social Services split off to take a new direction under the newly formed Safeguarding Directorate. All Social Services, including older persons services, will fall under the Safeguarding Directorate with effect from the 1st of April. Another strand of work has seen the transfer of Sanitary Services from Health to ENRD, which makes practical and financial sense.

There has also been a nursing cadre review that has identified the levels of clinical competence required in St Helena and against which staff skills can be assessed. Once staff members consistently demonstrate the skills required, their pay will be considerably enhanced. This should assist in developing clinical standards as well as assisting in staff retention and recruitment.

I can confirm that the Hospital redevelopment contract with Basil Read was signed this week on the 25th of March and work will soon commence on the redevelopment of the Hospital and the procurement of new and much needed hospital equipment to aid quicker diagnosis, which will reduce the need for Saints to go to Cape Town for such diagnostics. This work will be completed in around 10 months.

Benefits

December 2013 saw the introduction of a Minimum Income Standard which was an **important step** for St Helena, leading the world in ensuring that our benefits system properly reflects the actual costs of living here. In line with our current policy commitments, the Minimum Income Standard has been reviewed and increased for the new financial year. This will mean an increase in the weekly payments for both Basic Island Pension (BIP) and Income Related Benefits (IRB) at a cost of £140k. It is proposed that the basic level of IRB for a first householder will increase from £51.64 to £54.90 per week, and people on BIP with a full complement of years worked will see an increase from £53.53 to £56.80 per week. This will benefit nearly 800 people on the island.

Legislative Council are committed to considering all recommendations from the Sainsbury report over a five year period, and Government is pleased to announce that two further recommendations will become policy this year. A new benefit for those who are disabled will be introduced, named a 'Better Life Allowance'; £50,000 has been budgeted for to improve the lives of the most vulnerable in society. A further change to the BIP will mean that people can, if they wish, work after the age of 65; and this will be taken into account as contributing years to their final pension settlement, meaning a fairer way of assessing BIP in the future.

The Minimum Wage introduced in 2013 was welcomed across the Island and has proven to be successful in ensuring Saints are paid a fair wage; we promised to keep the Minimum Wage level under review and I can confirm that the Employment Rights Committee, led by the Honourable Les Baldwin but independent of Government, will present their report to Executive Council on Tuesday recommending an increase of 30p to £2.60 per hour for those over 18 years, and an increase of 20p to £1.65 per hour for people aged 16 and 17, effective from the 1st of July.

2014/15 Financial Out-turn

Turning to SHG's financial performance. We are expecting revenue to come in slightly short of target this year; with increases in taxation collected on tobacco and alcohol, but a decrease against budget for fees and charges. We expect to collect just over £3.8m in Income Tax, over £4.9m in Customs duty and over £1m in fees and charges. Estimated forecasted revenue for the year is £28,985K, which is lower than the budget of £29,278k. This means that we have under-collected by £293K, which is an adverse variance of 1% against budgeted revenue for the period.

Recurrent expenditure is expected to come in lower than budget, mainly due to the decreased subsidy required to run the RMS St Helena and underspends by a number of Directorates. Forecasted recurrent expenditure for the year is £28,530K, which is lower than the revised budgeted expenditure of £29,737K. This means that we will have under spent by £1,207K, which is a favourable variance of 4.1% against budgeted expenditure for the period.

Overall movement on the Consolidated Fund is forecast to be a £241K decrease. This decrease includes a £669K withdrawal to the capital programme.

DFID Settlement 2015/16

I am extremely pleased to announce that the budgetary aid settlement was agreed by Mr Kenny Dick, DFID's Deputy Head of Overseas Territories, on the 23rd of March 2015. The settlement sees DFID to continue to support SHG recurrent expenditure at the same level of last year at £13.55m.

Further, DFID have allocated an additional £1.2m to support safeguarding. Improving the safeguarding of children and vulnerable adults is a priority for SHG; and this additional funding will see SHG improving services and will allow us to develop and provide training programmes for everyone who works with children and young people, as well as raising awareness of safeguarding in the community.

Previously, DFID funded a £2m short term technical corporation budget which sat outside of the budget aid settlement; this has now been included in the overall budget aid settlement.

DFID will continue to subsidise the running of the RMS St Helena. The planned running deficit of the Ship for 2015/16 is expected to be £2.68m, which reflects the increased use of the RMS and the lower cost of fuel.

Elected Members and Officers worked closely in the lead up to and during the Budget Aid Mission, making a strong team and demonstrating to DFID our commitment to delivering strategic priorities for the Island.

The total support provided by DFID for 2015/16 will be £19.43m.

DFID has further confirmed a contingency fund of £1.2m to cover additional in-year budget calls resulting from legal cases, additional airport related expenditure and unexpected increases in fuel costs. This will be on a call-down basis approved by DFID.

2015/16 Recurrent Expenditure and Revenue

I can announce today that in 2015/16, SHG plans to spend just over **£32 million** in recurrent expenditure. This an overall increase of some £2.3m. As in previous years, the largest element of this will be £14.8m on employee costs, which includes salaries, pensions costs and Technical Cooperation (which now includes short and long term) of just over £6.7m. Other major expenditure items are £2.68 million for the running of the RMS St Helena and £872k on overseas medical referrals.

This year's budget reflects one of the key concerns of Councillors and that of the public – **improvements in the Health Service**. In addition to last year's increase of £692k, a further £252K has been allocated for 2015/16, increasing the Health budget by over £944k in the past two years.

The budget reflects the importance of safeguarding on St Helena with the introduction of a new Directorate, receiving £2.6m in funding. £1.2m of this is new money provided by DFID under the safeguarding project.

A further £326k is being allocated to the Police and Fire Service. This reflects the investment in front line services in preparation for the opening of the airport and airport certification, and £110k of this will be spent on a new Sea Rescue Service, with additional funding for Police and Prison operations.

Other funds go to airport related costs and increases in benefit payments.

The budget reconfirms our support and funding of many civil bodies, including continued budget support for the Human Rights Office and to the Community Grant Scheme.

SHG Revenue Sources

Turning to SHG's major local revenue sources for 2015/16, which comprise direct and indirect taxation, as well as fees and charges.

Local taxation and customs are forecast to total just over £10 million; including Customs and Excise of £5.4m, Income and Corporation tax being £4.2m, and the balance being service and withholding tax.

Other fees and charges make up £1.4m of the total revenue stream, which includes rents, fees, fines and treasury receipts.

Capital Expenditure

For the third consecutive year, SHG is on-target to spend its allocated Capital budget for 2014/15. For 2014-15, DFID provided £6.1m to implement the capital programme and I am pleased to report that DFID's allocation has been spent.

The refurbishment and renovation works at Cape Villa, with 6 additional units constructed, have provided homes for the frail and elderly to provide them with supported living in a modern environment without having to enter into high dependency care.

Refurbishment works are taking place on the Government Landlord Housing Flats in Jamestown and at the Schools. These works includes rewiring, replacement of windows, and redecoration.

An additional £1million was secured for Connect Saint Helena to deliver the solar farm. These works are progressing extremely well, and commissioning is expected in May 2015. The solar farm alone will contribute approximately 10% of the island's current energy requirements.

This continued achievement reaffirms SHG's commitment to ensure monies allocated by DFID are spent and reassures DFID that we have the correct processes and procedures in place to achieve agreed capital spend. This year we are seeking an additional £6.5m from DFID to fund the Capital Programme. This will not cover all the capital investment needs for the Island and therefore an agreed re-prioritised Capital Programme is being discussed at the next Executive Council meeting. Members are being supported by Officers in making some very difficult decisions around where the limited capital funds should be spent. Further details on the programme will be shared in due course.

Tax Changes

Turning to tax changes, this is always the most anticipated element of any budget speech and this year we will see some significant changes to the tax system, which include the introduction of a new higher rate of income tax. We seek to avoid increases in tax wherever possible but this year, as already mentioned, we face significant budgetary pressures, and Members have faced difficult choices between allocating additional resources to priority areas and increases in tax that are fair and don't cause significant damage to the St Helena economy in this important year for business investment.

Any changes to the tax system are initially formulated as part of the budget process with detailed work being carried out by a Tax Working Group, which this year included three Councillors, which have over the past year, considered a raft of ideas for reforms to Customs and Income Tax policies. These ideas have been discussed at length with Officers, working groups, Members and Committees which has culminated in the legislation changes proposed today.

This results in a detailed paper providing a series of options for Members to discuss and agree on; the options chosen allowing us to raise additional revenues which have been used to fund increases in expenditure on services.

Before I provide any further detail I would again like to reaffirm the commitment of SHG to encourage all businesses on Island to make full use of the tax credits and rollover relief when they are filing their tax returns. I can confirm that the Investment Tax Credit, Accelerated Depreciation, Rollover Relief On Capital Gains, and Unlimited Carry- Forward Of Losses will remain in place for 2015. We have seen an increase in the use of the Investment Tax Credit, but would emphasise that businesses should consider this relief - which not only applies to imported goods, but to the cost importing and shipping the goods to St Helena.

There are no changes to income tax paid by companies, which remain at 25%, and the personal allowance will remain at £7,000.

Fees and Charges

In line with SHG policy all fees and charges have been reviewed and a range of staggered increases will be implemented during the first half of the Financial Year.

Freight rates and passenger rates on the RMS will remain the same for 2015.

Stamp Duty will remain at 2.5%.

Duty Changes

SHG's policy on fuel duty has been to continue the equalisation of fuel tariffs and this budget finally achieves that policy one year ahead of target. As of today, all duty on diesel and petrol will be the treated the same at 39p per litre.

Increases in Specific Duties

Last year's budget focused on supporting the Health of the Nation and saw increases on specific duties such as tobacco and alcohol above inflation. It was agreed at that time that SHG policy would be to continue increasing tobacco taxes above the rate of inflation. No one can dispute the facts around the dangers of smoking and as of this morning all tobacco goods have increased by a further 5%. This will mean a packet of 20 will increase by around 16p and will now cost on average over £5.

Turning to alcohol; duty on all wine, beer, cider and spirits was increased by 3% this morning. This puts an additional 11p on a bottle of wine, 4p on a bottle of Castle and 46p on a one litre bottle of Captain Morgan.

With regards to cider over 4.5% in strength, last year we announced that in the future we would equalise the duty over a four year period to bring it in line with beer. With no sensible rationale to maintain this difference, Members have agreed to accelerate this policy and as of this morning cider and beer will attract the same duty.

Liquor Duty

Last year we introduced the Liquor Duty Ordinance, which collects duty on each bottle of locally produced alcohol.

In order to keep the price differential the same for 2015 following the increases in taxation on imported alcohol; we plan to increase the rate by 50p per litre from the 1st of April, to £4.

There are no changes to Customs Duty on Vehicles, or the customs duty rates of 5 and 20 percent.

Excise Duty

Last year's budget introduced Excise Duty on plastic bags used for shopping and styrofoam boxes used as takeaway containers. The introduction has had some success, but Members want to see a

real change in the use of such items so as of today, the excise duty on styrofoam containers and on plastic bags will increase to 10p.

Excise Duty of £0.75 per litre on Carbonated Sugar Sweetened Drinks, which has attracted international attention, will remain the same.

Members have recently received a detailed report on further possible green incentives, for example to encourage the use of energy efficient electrical goods, and further duties and incentives will be introduced over the coming months to support the green agenda.

Income Tax

As part of any tax regime, each year the annual rates of income tax are reviewed. We plan to increase of the basic rate of tax by 1% to 26%; taking affect from the 1st of April 2015.

Finally the most talked about element of the budget over the past couple of weeks has been the introduction of a higher rate of income tax. No one likes to pay more taxes, but when the Health Directorate needs additional funding to provide essential services and there is a clear need to increase benefits, then all options need to be considered.

The arguments for a higher income tax band on St Helena are well established and this has been discussed for several years, even before the new Council was in place. It was considered in 2012, but not implemented. Officials gave a commitment to Members last year to fully review the impact of a higher rate of tax so that they could make an informed decision. This review has been completed and it is proposed that from the 1st of April 2015 all income over £25k will be subject to a new rate of income tax of 31%.

These tax changes together mean that somebody with an income of £10,000 will pay an additional £30 per year in tax and somebody on £25,000 an additional £180 per year. A higher earner with a salary of £50,000 will see their income tax bill rise by £1,680 or £140 per month; an average tax rate of less than 25% and still seeing take home pay of over £3,000 per month. As I said a moment ago, we have allocated significant additional funds to priority areas. Members have agreed on a package of tax changes that raise the additional revenue needed in the fairest way possible; ensuring that those with the greatest ability to pay take a larger share of the burden - whilst ensuring our tax system remains competitive at a time when we need to attract investment and encourage skilled workers, to ensure we grasp the opportunities presented by air access. But, with the additional revenue being used to improve key services used by everyone in society and to support the most vulnerable in society through improved services and benefits, this is tangible evidence of this Council delivering on its promise to ensure that everybody benefits from economic development.

Over the coming year we will consider further change to the current tax system, with the aim of widening the tax base so that rates can be as low as possible. Further, we will look to introduce additional excise duties to support the green agenda and more work is required to define what support can be provided to commercial farmers on the Island that will result in the best economic output for the Island.

Closing

On behalf of Members I must give special thanks to Dax Richards, the Assistant Financial Secretary, Ian Smyth, SHG's Economist, Nicholas Yon, Head of Accounting Services, and all members of Corporate Finance for their support and hard work in working together with Members to achieve a balanced budget.

This speech introduces a number of significant changes to the tax system to raise additional resources to fund additional expenditure. A number of people have said that such changes should be delayed until 2016, that we should hold off changes and reconsider them, **but Mr Speaker St Helena can no longer put off change and delay decisions**, especially ones which deep down we all know are right for the good of the Nation and not just the individual. To say otherwise is to turn the other cheek and not address the issues we face on St Helena.

Mr Speaker the Airport will open in February 2016 with international flights from South Africa, this brings with it a number of challenges to St Helena and I hope this budget goes some way towards preparing St Helena for those challenges.

Mr Speaker I Beg to move.

27 March 2015