

## **BUDGET SPEECH 2014/15**

**Madam Speaker**, I wish to introduce a Bill for an Ordinance to provide for the services of the Financial Year 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015.

People often ask me what is the point of the budget speech; why do we bother year after year making such a big thing about increasing taxes; we all know taxes on wine and diesel are going to go up and it is only a matter of how much. With inflation figures readily available to everyone, we can even tell you how much it is going to go up, so what's the point? **I would say that this budget is different.**

People say to me budgets are always the same; they follow the same approach year on year, involve the same discussions, same ideas, same people and have the same result, nothing for me! **I would say that this budget is different.**

People comment to me, the budget never addresses any of the key issues facing St Helena, it does not support Health or the Police Service, it's never bold, innovative or challenging, nothing ever changes! **I would say that this budget is different.**

**Madam Speaker** this budget **is** different. It seeks to support not just economic development, but to support SHG's top priority, **Health** and not just the health of individuals **but that of the Nation.** I do not believe it's right anymore to sit on the sidelines. We need to grab every opportunity available to support our health and green objectives, and that includes using the tax system to provide appropriate financial incentives. We need to change our tax policies to address the growing number of concerns around diabetes and cancers. We need to change our tax policies to keep the Island clean and free from pollution. **We need to change and this budget needs to be different.**

The budget this year was compiled by the Council, which included a number of new Councillors following the election in July of last year. This led to a steep learning curve in how the budget runs and the process involved for all. The benefit to that whole process has been fresh ideas, new ways of working and a renewed and ever growing sense of SHG working in partnership with Councillors, Directors and other senior officials to get the best for St Helena out of a limited budget.

As always in a budget process, there have to be some hard choices made and a focus on where resources should be placed. Councillors were supported by SHG officers in making those decisions, with detailed discussion around key issues and concerns. This budget reflects those discussions, concerns and issues raised. **This means that final budget decisions were made by Elected Members, and that Councillors have full ownership and responsibility of not just the process but of the final budget.**

## Economic Background to the Budget

Before I get into the detail of progress made over the last year and our plans for the coming year, I want to outline some headline issues for the Island's economy and our forecasts for the year ahead.

We have continued to develop our analysis and modelling of the St Helena economy, and have made progress on the quality and timeliness of the data used. It's not an exact science, but it's important that we do everything we can to understand the economic factors facing St Helena and the improvements made this year have put us in a better position than ever before. These economic outcomes not only provide the context within which we have developed the Budget, they will also be our key success measures in terms of economic development in the years ahead.

Retail Price Inflation over 2013/14 has been substantially less than forecast, estimated at 1.5% compared to a forecast of just over 5%. This is good news overall and has allowed more flexibility for directorates in budgeting and price setting, such as the RMS St Helena fares. However, we must not be complacent. Prices on St Helena are driven by prices seen in our key trading partners, principally the UK and South Africa, and we expect inflation to rise during 2014. The Government Economist forecasts that inflation on St Helena will rise to 3.4% in 2014/15 and will stabilise at around 3% in subsequent years. However, he also notes several risks, all of which have the potential to push inflation above this level.

The resident population of St Helena has continued to grow in line with forecasts, and averaged 4,297 people through 2013. We currently forecast that the population will grow to nearly 4,500 people in 2014. Going hand in hand with this population growth is growth in employment. There are over 360 Saints now working on the Airport project, this is an increase of around 100 since last year and surpasses any of the predictions made around Airport employment.

Unemployment has continued to be at an all-time low throughout the last year, in fact we now have a high number of vacancies not only across Government but across the private sector too. This growth in our working population and the hard work Saints are putting in during the working day is critical to us reaping the benefits of economic development. It is the reason why tax receipts are rising and **why we are able to announce increased budgets for key public services today.**

We have significantly over-achieved on our Income Tax forecast, with a year-end estimate of £3.4m, some £325k ahead of our targets. Wages and employment have increased and Saints are letting out more properties than ever before.

We have seen the same in Customs Duties, with alcohol and tobacco exceeding targets by £115k and £10k respectively, and other duties coming in on target.

## Progress Made in 2013/14

I do think an important element of the budget speech is to highlight what has been delivered on the back of the previous year's budget. This gives us a good indication of the direction of travel of SHG.

The Airport project is progressing extremely well; Dry Gut is now over 66% complete; the combined superstructure building is over 57% complete and good progress is being made on all other elements of the project. In total over 550 people are now working on the project, **over 67% being Saints.**

Some good progress has been made over the past year with regards to ESH. The MFV Extractor, partly funded by ESH, should soon be leaving Cape Town and will be heading towards St Helena to fish the seamounts. Further, ESH has assisted in 30 youth training schemes and five Public Private Partnerships with the private sector.

Up skilling Saints is a major workstream for ESH and last year over 140 individuals were trained, including 12 apprenticeships.

We have seen the beginning of a 30 year planned maintenance programme with the rewiring of the flats in Jamestown.

Planning permission was granted for 65 homes in Half Tree Hollow, with widespread local support for the plans and house designs. The infrastructure element is now out to tender, while the new homes will feature wheelchair access, rainwater harvesting and modern methods of construction.

The divestment of the processing and delivery of firewood and partnership working on the delivery of poultry services has resulted in more than £100,000 of savings. Further, this has allowed ANRD to focus its time and resources on core activities.

We successfully procured 2 new "Chuck and Chews" with fitted bin lifts and over 1500 new wheelie bins. We expect the bins to be distributed and the new operations to start in the middle of 2014. This will address another public concern regarding the health risks that exposed refuse causes.

In November 2013, SHG was awarded over £260,000 in grants for 4 conservation and environmental monitoring projects which will start in April 2014.

SHG continues to realise efficiencies and to develop more efficient and streamlined systems and processes to help us deliver our services more effectively.

Corporate Services has been established for almost a year and is providing a streamlined support function across government, and office renovations early in the year have resulted in Corporate Services' personnel now working more closely than ever before, thus improving working partnerships and driving efficiencies.

June 2013 saw the launching of a revamped SHG website, and in July we established a Facebook presence. Both have attracted significant numbers of visitors both locally and overseas, and many favourable comments.

The past 12 months has seen some significant advances made in the standards of education achieved by our children and young people. These improvements have been achieved because we have continued to make education a top priority.

Prince Andrew School achieved the targets that were set for GCSE results and almost half of the young people who took GCSEs in 2013 achieved a C grade or better in English and Maths. These record results were quite rightly **a source of celebration across the Island.**

In Primary Schools teachers are working hard to raise standards and in recent months have been paying particular attention to improving the education we provide to the very youngest children in pre-school and early years settings.

We continue to provide our staff with high quality professional development and training, both through accredited and non-accredited courses, delivered on Island and through video conferencing facilities.

Over the past year we have introduced a new Apprenticeship programme. This has been available for those entering the employment market and for those who wish to retrain. We expected to enrol 23 apprentices but we enrolled over 40. Clear evidence not only of the success of the scheme but of the desire that people have to improve their skills.

Our NVQ Centre is performing well and enabling more and more of our people to gain internationally recognised qualifications with over 40 NVQ candidates and over 50 VRQ candidates. Over the past year the centre was awarded a badge of excellence by City and Guilds. **A rare and exceptional achievement.**

The Bank of St Helena and ESH are working more closely than ever to foster economic development and on-Island investment, seeking to provide support to businesses in developing business cases and plans to obtain finance. BOSH have further increased unsecured loans to £5k from £1k, again supporting business investment.

Procurement continues to be a success story. A new Procurement Board, Procurement Regulations and extensive training were set up in the year and we are about to appoint a local Head of Procurement to ensure strong succession planning.

The Asycuda data systems for HM Customs will come on-line from the 1st of April, and both staff and traders have been given extensive training on the system. This and the new fibre optic cable will significantly improve performance and will lead to efficiencies over time.

The past year has been one of change in Health and Social Welfare. A new Director with an extensive healthcare background has taken up post and there has virtually been a whole new team of doctors whose varied areas of expertise are welcomed. With the arrival of the Senior Medical Officer, there was for the first time a full compliment of 6 Doctors on the Island's Medical Team.

Thanks to the Technical Cooperation Budget, the Directorate has been able to fully utilise the second dental surgery, providing improved dental healthcare for children; and also improved dental care for all patients through the services of a part time dental hygienist.

The journey towards the vision of the Health service we all want to see is going to be a long one. But now, more than ever before, we have a team in place developing ambitious long term plans for investment while continuing to deliver tangible day to day improvements to services that will benefit all residents and visitors to St Helena.

### **Benefits**

We need to ensure that the benefits system is there to support our friends and neighbours when they need help, to protect the vulnerable and to ensure dignity in retirement for hard-working Saints.

December 2013 saw the introduction of a Minimum Income Standard. This is an **important step** and St Helena should **be proud** that it is leading the world in ensuring that our benefits system properly reflects the actual costs of living here. This will be reviewed at least annually, with benefits adjusted accordingly – a tangible demonstration of our commitment to protect the most vulnerable from the rising cost of living. But this is only a starting point and we all know that there is much more to do. The Sainsbury Report contains other important recommendations that Legislative Council are committed to considering and introducing as appropriate over a five year period. **This includes Child Benefit Allowance which we plan to introduce from the 1st of April 2015.**

But bringing benefits up to the level that we all see as desirable will be expensive and to introduce every proposed reform now would simply be unaffordable. But, in the same way that rising employment and income levels have allowed us to finance the Minimum Income Standard, economic growth will be the catalyst for ensuring that we can continue to improve the support available, so that Saints of all ages, including the most vulnerable in society, benefit from economic development.

The Minimum Wage introduced last year was welcomed across the Island and has proven to be successful in ensuring that all hard-working Saints are paid a fair wage; the current rate of £2.30 for over 18s and £1.45 for 16 and 17 year olds and will remain the same for 2014. Again, this is another way in which we can ensure that everyone benefits from economic development and, as our tourism industry develops, we will keep the Minimum Wage level under review.

## 2013/14 Financial Out-turn

Turning to SHG's financial performance, as I've already mentioned growth in total domestic revenues has far exceeded the budgeted forecast. We are expecting Income Tax revenue to be up another 10%, and this is on top of the 35% increase in 2012/13. We expect to collect just under £3.4m in Income Tax for 2013/14 and over £4.1m in Customs.

Recurrent expenditure in most Directorates is expected to come in close to the budget, with the exception of Health where there has been additional expenditure on overseas referrals. All the Directorates overspends have been more than offset by savings on the RMS St Helena shipping subsidy, leading to an overall forecast budget surplus of just under £600k in 2013/14.

## DAPM Settlement

Now looking towards the coming year, 2014/15, I am pleased to announce that the DAPM budget settlement signed on 18 January this year was confirmed by Mr Kenny Dick, DFID's Deputy Head of Overseas Territories, on 13 March 2014.

This year's DAPM settlement, to cover recurrent expenditure, is £13.55 million, an increase of £150k. A further amount of just over £4m covers the running costs of the RMS St Helena and £500k capital refurbishment to cover safety and operational standards on the Ship.

Despite ongoing budget pressures in the UK, DFID continues to invest in the future of St Helena and, to achieve an increase in recurrent expenditure settlement at a time of ongoing cuts in the UK is a tangible demonstration of DFID's confidence in our plans and ability to deliver on them.

Elected Members and Officers worked closely in the lead up to DAPM and during the negotiations themselves, making a strong team and demonstrating commitment to delivering strategic priorities for the Island.

## 2014/15 Recurrent Revenue and Expenditure

I can announce today that in 2014/15, SHG plans to spend just over **£29 million** in recurrent expenditure. The largest element of this will be £7.5m on employee costs, which includes salaries and pensions costs and just over £4 million for the running of the RMS St Helena. Other major expenditure items are £947k on overseas medical referrals, more than **double** the previous year's budgeted figures. Also, the increases in social benefits and Basic Island Pension takes the spend to £2.2m; and Long Term Technical Cooperation will be in line with last year's figures of just over £5m.

This year's budget reflects the key concern of Councillors and that of the public - **our Health Service**. To reflect this concern, an additional £692k has gone into the recurrent health budget for this year, reflecting the desire within Government to improve the Health Service.

Further resources are being put into Capital funding with over £1.5m being spent to fund additional medical diagnostic equipment. The upgrading of the Hospital is a top priority and **money is therefore, quite rightly, being allocated to allow our Doctors and Surgeons to do their jobs**.

A further £112k is being allocated to the Police Service, which will see additional fire officers and resources for Police operations.

This will be funded through local taxation and customs, totalling £8.6 million. This is an expected increase of £1.6m based on the forecast economic upturn driven by population growth and rising incomes.

Our other key funding sources are the DFID grant in aid of £13.6m and over £4m shipping subsidy. The balance will be met through recharges between Directorates, other receipts and fees and charges.

The budget reconfirms our support and funding to the National Trust, New Horizons, Heritage Society, South Atlantic Media Services and increases funding to SHAPE, the Public Solicitors Office and new funding for the Human Rights Office.

Further efficiencies have been achieved across Government; managers are working smarter with the funds they have allocated to them. The key elements of team-working and better communication are core to those improvements and the willingness of staff to change is fundamental to this process.

Amongst all this positive news, **we must remember** that these are still early days. We are meeting or bettering our targets for the economy, but there is still a long way to go. In 2014/15, we expect more than half of the St Helena Government's recurrent budget to be funded from local sources, this still leaves us needing significant support from the UK.

But investment, more Saints returning to the Island, more jobs and rising wages are the key to securing the future prosperity of St Helena. And, while nobody likes paying tax, rising Government revenues will mean we can ensure rapidly improving public services and greater support for the vulnerable, so that everyone in St Helena will benefit from economic development.

## Further Work Needed

As the DAPM Aide Memoire rightly pointed out “Much has already been achieved. Much remains to be done.”

Health remains SHG’s key priority. This budget provides more money to the Health sector than ever before, but further support will be required in this sector over the coming years and it is essential that the Health service keeps moving forward.

St Helena has one of the highest percentages of home ownership in the world. Every Saint, I believe, wants to own a piece of their own land and build their own home. Building houses supports not just contractors but a raft of tradesmen, adding value to the economy. It’s good for all, yet identifying and purchasing land is still a complicated and difficult process. Red tape is holding up the process and this needs to change.

A lack of architects and other building professionals within the private sector will continue to be an issue which could lead to delays of projects approved in the Capital Budget. We need to be looking at long term solutions to this issue through training and some short term solutions now.

The opportunity for tenants to buy their homes and Government adopting a new and simpler approach to selecting tenants for its homes will soon be considered.

Training is key to our staff development, and we must continue to invest in internationally recognised distance learning and off Island qualifications.

Further works needs to be done with regards to workforce planning, which will lead to succession planning and talent management. This will be supported by the review of the pay structure across Government.

Considerable change will need to take place to make the Island tourist ready following the completion of the Airport. Changes have already begun – small beginnings to help the Island realise its potential and support Saints in ‘making it happen’ for them. But further support will need to be provided to ensure that St Helena is ready.

Airport accreditation will be a main focus area over the coming year to ensure that the right processes, procedures and infrastructure are in place.

## Capital Expenditure

For the **second consecutive year, SHG** is on-target to spend its allocated Capital budget. This is **great news** and shows a dramatic turn around in the Capital and infrastructure programmes. The introduction of the new Programme Delivery Group, Project Management Unit and the appointment of an experienced Programme Manager



have certainly proven successful and have been recognised by DfID as a significant improvement .

Highlights of the 2013-14 programme have been the solid waste project which is nearing completion and the installation of a further six wind turbines. Tackling of backlog maintenance in the Hospital, Government Landlord Housing, and schools has included resurfacing of the playground and internal and external redecoration of Pilling, external decoration of St Pauls and Prince Andrew, and maintenance repairs at Harford Primary School.

Additional funding in the latter part of this Financial Year to the tune of £160K was allocated to Health to procure urgent and essential medical equipment.

We are expected to spend in the region of £8.5m for 2013/14 and most of this money is being awarded to on Island contractors and is staying on Island. For 2014/15 we are anticipating the same level of expenditure.

The budget will cover the Half Tree Hollow sewerage project which seeks to install a piped communal drain system to serve 30% of the Island's population and address planning concerns.

Importantly, over £1.5m has been set aside to fund infrastructure improvements to the Hospital, including the furnishing of a diagnostic suite; this is now at the tender negotiation stage. On the Social Services front the Sheltered Accommodation at Plantation Cape Villa is being extended to include a further 7 Units; the contract for this work was signed and commenced in January of this year. The contract for a new Challenging Behaviour Unit is in the process of being signed and work will commence before the end of this month. This unit will operate under a different name.

EDF funding of around £21.5million Euros between the St Helena, Tristan da Cunha and Ascension Island is likely to be available to support infrastructure development over the period 2016-20. But the specific projects supported by this and allocation between the Islands have yet to be formally agreed.

## **Revenue Sources**

Turning to SHG's major revenue sources for 2014, which comprise direct and indirect taxation, fees and charges, Customs Duties and (newly introduced for 2014) Excise Duties.

The developments in our economic forecasting combined with regular in-depth analysis of our revenue performance over the last 12 months, gives us a significant evidence base that allows SHG to better forecast its future resources. These forecasts are laid out in the Budget book.

## Business Tax Reform

The tax system isn't just there to raise money. It provides a powerful tool to correct market failures and, through carefully targeted tax reliefs and allowances, can encourage spending and investment underpinning the St Helena economy of tomorrow.

Last year I encouraged all businesses to make full use of the tax credits and rollover relief when they are filing their tax returns. I am glad to say that most businesses on Island did. 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 2014.

Further work is currently being carried on additional support through the tax system to encourage investment in local businesses. This is being discussed jointly with Enterprise St Helena and the Bank of St Helena to ensure we have a joined up approach to on-Island investment. Further details will be announced shortly.

The large scale support to investors announced last year for investments over £1m and £5m is still being refined to ensure that we get the right balance between encouraging those potentially transformational investments while securing economic growth that benefits the whole Island. But the package currently still includes the following:

- All investment materials to attract 0% customs duties
- 0% Corporation Tax
- 0% Capital Gains Tax; and
- Reduced freight rates on-board the RMS St Helena for new addition containerised investment materials of up to 50%.

There are no changes to the standard rates of income tax and corporation tax this year, which remain at 25%, and the current personal allowance will remain at £7,000. I can also announce that the Extra Statutory Concession relating to Farmers with regards to not paying any income tax will continue for another year. The possibility of further support to Fishermen with regards to fuel duty will be announced shortly.

## Fees and Charges

As announced in last year's budget, a comprehensive review of fees and charges was carried out during 2013, which resulted in detailed guidance being provided on how to set fees and charges with a stated aim of achieving full cost recovery where appropriate - **but always bearing in mind the social impact of any increases**. A number of increases in fees and charges will be introduced from the 1<sup>st</sup> of April and others will be staggered during the first half of the Financial Year.

Freight rates and passenger rates on the RMS will rise from the 1<sup>st</sup> of April by just 1%, but this will not apply to pre-purchased fares.

## Stamp Duty

As announced in last year's budget, Stamp Duty will rise from 2% to 2.5% from 1<sup>st</sup> of April 2014. Any further increases in the future will need to be carefully assessed before implementing.

## Duty Changes

SHG's policy on fuel duty is to continue the equalisation of fuel tariffs and this budget goes some way to achieving that aim. As of the 1<sup>st</sup> April duty on diesel will increase by 5p to 27p; this is still 12 pence behind Petrol at 39p per litre.

## Increases in Specific Duties

Over the past six months a raft of ideas and reforms to the Customs and Excise policies have been discussed at length with officers, working groups, Members and Committees.

**This has led to some ground breaking tax reforms**, reforms that support our health and environment priorities, which I am now able to announce.

Last year I stated that the duty on specific duties such as tobacco and alcohol would increase in line with inflation - for clarity we use quarter 3 figures, 1.5%. **But** I did say I would be looking to introduce further significant increases on tobacco duty next year, above the rate of inflation. **Which is what I am going to do.**

As from this morning, all tobacco goods will increase by 5%. This will mean a packet of 20 will increase by 15p and will now cost on average just under £5. The worldwide evidence on the dangers of smoking cannot be denied and a recent report to the Public Health Committee stated that the rate of throat cancer on Island is one and half times more than the UK. The highest risk factors for throat cancer being smoking and drinking alcohol to excess. This above inflation increase supports the Health service.

Some people have suggested to me that if this change is successful in reducing smoking this could result in lower revenues to Government, but we need to look at the **longer term big picture, what is best for the Health of the Nation.** If the increase in duty results in more people giving up smoking then I am happy with that, as long term health costs will reduce.

Further evidence shows that drinking excessive amount of spirits can lead to medical problems - if you are a heavy drinker then you are 3 to 5 times more likely to get cancer of the mouth, neck and throat and men are four times more likely to have high blood pressure. As of this morning, all imported spirits will increase by 5%. This puts an additional 74p on a bottle of Captain Morgan.

Currently St Helena does not have a band for spirit based drinks between 7 and 22 percent and this is an oddity compared to other countries. As of this morning, the band will be introduced at a rate of £5.49.

We currently have two rates for Beer, Lager and Cider, above and below 4.5% - two-thirds of beer duty comes from the lower alcohol bracket – indicating that, to some extent, the market is being driven by the tax system, with consumers selecting the cheaper lower alcohol drinks.

With regards to cider over 4.5%, there does not seem to be any logical argument supporting the price difference between cider and beer. Therefore it is proposed that they are now treated the same and equalised over a four year period, the duty going up by 25p as of this morning.

I've already talked about hard-working Saints and, while the health of the nation is important, I've got no desire to discourage people from having a beer at the end of the working week – **as long as they drink responsibly of course**. So I can announce that all other rates on alcoholic drink apart from wine will increase by the rate of inflation of 1.5%, putting 1p on a bottle of cider or beer.

But both I and Members want to do more to support the health of the nation and encourage people to drink lower alcohol drinks.

So from the 1<sup>st</sup> of April, we will be introducing a lower rate of duty for all Beer, Lager, and Cider of 3% and under; this is to encourage the importation of low alcoholic drinks known as "Lite". Certainly these are very popular in South Africa, which is where 98% of St Helena's alcohol is imported from. Examples are Windhoek Light which is 2.4% and Savanna Light being 3%. The new rate will be £1 per litre; this is 61p lower and should be a real incentive for traders to import these "Lite" drinks. In the UK this week the Chancellor was praised for reducing beer duty by a penny, this change for St Helena reduces duty on a bottle of "Lite" beer by 20 pence and I encourage bars and retailers to pass this benefit on to their customers in full.

And I don't want to leave out those who prefer a glass of wine. I have heard some retailers confidently predicting further duty increases of as much as 18%, but compared to the UK, wine is relatively heavily taxed in St Helena – certainly compared to the social cost and we may already be taxing wine beyond the economically efficient level. **Therefore we will not be increasing wine duty this year.**

## **Liquor Duty**

Earlier today we passed the new Liquor Duty Ordinance, which will allow us to collect duty on each bottle of locally produced alcohol.

Concerns have been raised with regards to the price of the local spirits on Island and how they compare to imported spirits. The typical cost of a bottle of locally produced

spirit is between £8 and £10, a similar imported bottle of spirit would be in the region of £20 to £25. This is a significant price differential.

As long as there is a significant price differential between imports and locally produced spirits, there should be minimal impact on sales levels. But, this could result in a decrease in sales as consumers in general will have to pay more for a bottle.

We are introducing an initial rate of duty £3.50 per litre from the 1<sup>st</sup> of April. Around £2.45 per bottle. The duty will result in a price of a local bottle being in the region of £10.45 to £12.45 - still some £10 less than comparable imported spirits.

### **New Changes to Customs Duty on Vehicles, Based on CO2 Emissions**

Last year's budget announced the possibility of introducing duty on vehicles based on CO2 emissions. Extensive work has now been carried out and a variable rate of duty on vehicles based on emissions will now be implemented from the 1st of June 2014. **This sends a strong signal to the buyer** about the environmental implications of their car purchase.

We will be introducing five different bands, with five different tax rates, Band A being the lowest at 15% and Band E being the highest at 45%. The current rate is 35%.

Band A will cover emissions between 0 and 100g, the typical car in this range being a VW Golf Blue Motion or Ford Fiesta Style. Band E, being above 185g, would be a Land Rover Vogue 4.4 litre or a BMW X5.

The average CO2 emission is 148g which would be Band C, at the current rate of 35%.

The change will relate to all car purchases - but industrial, plant and agricultural vehicles will remain at the current rate of 20%.

The scheme is estimated to be revenue neutral and full details of the agreed scheme will be released in the coming weeks.

### **Flattening Customs Duties**

We have now completed a detailed review of the possibility of flattening Customs Duties. The aim was to remove both the 20% and 5% rate and have a standard 10% rate.

It has been found that in order to flatten the duty and maintain the same revenue, there would have to be a flat rate of 16%. This would mean all items currently charged at 5% increasing to 16% and the higher rate of 20% dropping to 16%.

A 10% rate would roughly leave a £700k shortfall in revenue, but could lead to an increase in the import of some goods. However our analysis has concluded that there

are no credible scenarios where the boost to imports would be large enough to make up this lost revenue. A single 10% rate would also mean a significant increase in costs for the 5% goods, which would have a negative impact on low income families.

**Therefore no changes** are planned to the 5% and 20% rates and the policy of flattening of the duty will be put on hold for a further three years. It is important that our tax system remains competitive and, compared to a VAT system where tax is typically paid at a rate of 15-20% on the full retail cost, I believe that our duty rates are fair.

But this is not the end of our work in this area, and a full and detailed review of all items included in the 5% bracket will now be carried out. Items within this bracket need to be based on sound policy, seeking to correct significant market failures that hinder progress on St Helena, and should reflect the strategic priorities of Government. This review will be carried out in the next four months.

### **Excise Duty**

As stated in last year's budget, we aimed to introduce Excise Duty - and the Legislation passed today now allows us to introduce such duty.

St Helena's national product and future economic growth forecast are heavily dependent on the tourism market. One of the key selling points of St Helena is the 'Green' product and we should be using the tax system to promote an environment where effectively the 'polluter pays'.

The main economic reason for introducing higher tax rates on certain products that have a negative impact on the environment is that the person that buys that good does not understand or pay the full cost to society of purchasing and using that good. For instance, when using something that causes pollution, the consumer only looks at the price it costs them, not the extra costs that will be incurred by others.

There are several ways to try and combat these issues including legislation, but one way to discourage the use of goods that are harmful to the environment, as well as making people pay the true cost to society if they do decide to consume that good, is through an Excise Duty.

SHG's intention is to look at a series of changes to support our environmental objectives. Initially we will be introducing Excise Duty on plastic bags used for shopping and styrofoam boxes used as takeaway containers.

Both products are made from petroleum and are not degradable. St Helena does not have the facilities to dispose of them and they end up in the landfill. Roughly 500,000 bags and containers are used per year and this is only likely to increase as tourism grows. Similar policies to reduce use of plastic bags have been very successful in places such as Wales.

An Excise Duty of 1p on each container and 5p on each plastic bag will be introduced from the 1<sup>st</sup> of June 2014 and we will seek to gradually increase this if demand does not decrease.

We have mentioned a number of changes in this budget to the tax system, which will allow the public to make a choice - for example which car to import and the level of duty payable. Currently consumers of carbonated drinks can make a choice between paying for a full sugar drink or a diet drink, but this choice is hampered by the price difference between the two, which tends to be around 8 to 10 pence per can. With the introduction of Excise Duty we now have a process in place to address that price difference.

On St Helena, over 300,000 litres of carbonated sugar sweetened beverages are imported per year. This equates to around 67 litres per year for each person currently on Island, each of us drinking around 200 cans a year. Within this, some people will consume very little, while others may consume many more. Just to be clear on the figures, we import just under ONE MILLION cans of fizzy soft drinks each year! And each can on average contains over 35 grams of sugar.

So what impact does this have on St Helena? Well, we currently have a very high rate of obesity, and type 2 diabetes. This has a very high cost to the St Helena Health Service and there is significant evidence to show direct links:

- Every additional regular can-sized, sugar-sweetened drink per day, increases the risk of developing Type 2 diabetes by 18%
- A number of studies document a link between fizzy soft drink consumption and higher blood pressure; and
- Dental health is negatively influenced by consumption. Studies have shown that consumption nearly doubles the risk of dental cavities in children.

I can hear some people saying what has this got to do with Government and why should SHG intervene?

- Currently diet drinks are more expensive
- Choice of imported diet drinks is limited on Island
- High sugar drinks are significantly cheaper from South Africa
- Studies have shown that obesity can cost society as much as smoking
- Research has shown that increasing the price of fizzy soft drinks will lead to a fall in consumption, as consumers switch to alternatives

So from the 22 May 2014, an Excise Duty of £0.75 per litre will be introduced on all Carbonated Sugar Sweetened Drinks with over 15 grams of sugar per litre. This is equivalent to 25p per can, making high sugar fizzy drinks more expensive than diet drinks.

It is difficult to estimate the impact of this change, but we hope this will result in a 20% reduction in demand, with additional funds being put towards priority areas. The delayed introduction is to allow traders to make a choice around what drinks to import - **let's hope more diet drinks are imported.**

## Closing

Before I wind up, I must give special thanks to Dax Richards, the Assistant Financial Secretary, Ian Smyth and Rachel Armstrong, the SHG Economists, for their support and insight in bringing this budget together. And all other officers and especially Councillors.

This year has seen a significant step forward in how we approach changes in tax policy. Too often we have introduced an inflationary increase just because it seemed like the right thing to do. This year, we have carried out in-depth analysis of many of our specific customs duties to understand their economic, social and environmental impact, and to benchmark our approach against other countries. As a result, I have announced today changes to customs duty as well as new excise duties that not only help raise revenue for public services in St Helena, but also support our wider health and environmental objectives. The changes remove some of the inconsistencies in the system, seek to encourage healthier diets, and prompt everyone to think about how our behaviour impacts on our environment, following the well-established principle of "polluter pays".

No doubt this budget will not be liked by all, but they never are. I can hear some of the comments from the doubters "St Helena is turning into a Nanny State!", "Government now telling us what we can and can't eat, what next?", "What about my freedom of choice". **But** the facts are clear. Smoking causes cancer which kills, and to say otherwise is a lie. High sugar drinks are a major factor in obesity, and Type 2 diabetes develops most often in people who are overweight or obese. On St Helena we have nearly three times the rate of Type 2 diabetes than the UK. Dirty gas-guzzling vehicles pollute the clean air of St Helena. We all need to change and **make a difference.**

What this budget does is allow the people of St Helena in some small way to make a choice:

**the choice** to drink a lower alcoholic beer and **pay less for it;**

**the choice** to choose to import a more fuel efficient vehicle and **pay less tax;**

**the choice** to choose between a high sugar drink or a diet drink and **pay less for it.**

It is all actually about more choice and **freedom of choice.**

St Helena will face a number of economic challenges in late 2015. The winding down of the Airport Construction and the completion of Ruperts wharf will release a number of people back onto the employment market. It is essential that St Helena is ready to take the next step in its economic development and ensure that opportunities are made available to **All saints.** This will be the greatest challenge to all of us. I believe we need to continue to strengthening the relationships with others and build strong partnership working between the Private Sector, Enterprise St Helena, the Bank of St Helena and SHG. This will be the key to our success.



I believe that this series of reforms are a modest step towards a healthier, greener and more prosperous nation. A number of the policy changes are innovative for St Helena, using tax to actively intervene in health matters beyond the traditional Customs duties. This budget is a starting point, and further reforms **must and will follow, this is just the start**. But tax reforms are only part of the jigsaw. To change attitudes towards health and green reform, all of us on St Helena must bring together the other pieces of that jigsaw to ensure that we complete the picture and take St Helena forward. This is the challenge, not just to everyone sitting around this table, or in this room, but to everyone who wants to see St Helena succeed, **we must all work together and strive for the good of St Helena and all her people**.

This budget is not the answer to all St Helena's economic, green or health issues, but it is a **starting point, a first step, a line in the sand**. Call it what you may, but it is no longer enough to keep the ship steady, we need to change course. This budget I believe is the start in that change of course, **the start of doing something different for the good of St Helena and all her people**.

**Madam Speaker**

**I Beg to move.**

**21 March 2014**