

**STATEMENT OF ACTIVITIES
FOR THE FINANCIAL YEAR ENDED
31 MARCH 2010**

**FINANCE
DEPARTMENT**

BUDGETING

The budget process for the three years 2010/2011 to 2012/13, which began with an event in May 2009 at Plantation House attended by Councilors, Heads of Department and other senior officials and advisors, was the first under the Medium Term Expenditure Framework (MTEF) approach which seeks to integrate policy review, planning and resource allocation activities into a government-wide, results based, strategic management process.

Significant progress has been made in the budgetary process and those achievements will be built on in the coming years to make further improvements to ensure resources are allocated in line with Government priorities.

2010/11 - 2012/13 BUDGET

- Preparation of revised budget papers to departments to align with strategic plans and SHG's goals and strategic objectives.
- Review and challenge of departmental budgets with each head of department
- Revised Budget Book format to demonstrate how money spent linked to goals and strategic objectives and explanations for movements in budgets
- Preparation of information for DAPM negotiations
- Successful outcome of DAPM negotiations resulting in a £4.1M (33%) increase in DFID funding for the 2010/11 recurrent budget as well as significant funding for new Development Fund projects

AIS APPLICATIONS

- Four new businesses (three of which were local) awarded AIS

TREASURY MANAGEMENT

- New policy and process adopted for investment of SHG surplus's cash balances
- Generated over £100k in the year despite investment rates being at historically low levels

TRAINING OF COUNCILLORS

- Two Finance Training sessions held for Councillors and the Speaker

INCOME TAX SECTION

The Income Tax Section has had a very busy year. Legislative Council passed the new Income Tax Ordinance in April 2009 to come into operation in 1 April 2010. This has meant that additional work was needed leading up to and implementing this new law.

During the Financial Year an Income Tax Auditor was recruited and Miss. Skye Furner arrived in September 2009 on a contract of two years with SHG. Part of her duty is to train a local Income Tax Auditor; the recruitment process is still ongoing and will bring the staff in the Income Tax Section up to a total of five.

CHANGES TO THE TAX ORDINANCE

The new Income Tax Ordinance introduces a range of changes to the income tax system, and they are:

1. Introduction of Self Assessment;
2. Modernizing the procedures for filing annual income tax returns together with improved enforcement and penalty capabilities;
3. Strengthening taxpayer registration requirements;
4. Introducing fairer time periods in which taxpayers can dispute an income tax assessment;
5. Strengthening the process for collecting income tax by the introduction of:
 - a. Specified due dates for payment together with statutory penalties for nonpayment;
 - b. An advance installment payment system for self employed and business people;
 - c. New collection enforcement powers;
 - d. Personal liability for directors where there is nonpayment of company income taxes;
6. Introduction of new penalties for:
 - a. False and misleading statements;
 - b. Failure to deduct PAYE and withholding tax;
7. Introduction of new offences for company directors and public officers;
8. Introduction of new anti avoidance provisions;
9. Strengthening the obligations on self employed and business people to keep books and accounts
10. Clarification of the meaning of taxable income from employment, self employment, trade or business to ensure that all gains and profits (revenue and capital) are brought to account;
11. Removing anomalies in the tax treatment of employment allowances and benefits;
12. Clarification of existing and introduction of new business deductions for self employed, trade or business;
13. Introduction of Capital Gains Tax;
14. Clarification of certain items of exempt income;
15. Simplification of PAYE obligations for employers with small tax obligations;
16. Strengthening the overall administrative regime by:
 - a. Introducing a new position of Deputy Commissioner;
 - b. Modernizing the laws pertaining to access to information, books, records and premises.

COMPLIANCE/EDUCATION

The Income Tax section has held a relatively high profile in the public forum for most of the past two years, and the general community is now far more aware of Income Tax

and their obligations than before. An education program is currently in place whereby business persons, employers and employees are being educated in the new requirements and their tax obligations.

A number of simple explanatory guides outlining the application of the new ordinance were prepared in draft form by the visiting Income Tax Advisor in 2008/09. Some minor adjustments were made in October 2009 and in total 12 guides were released for printing at 'Printech' and became available for distribution to the public in December 2009.

The improvements in the income tax system are reflected in taxpayer registrations and revenue collection. The most likely reason for these improvements is an increase in voluntary compliance due to people realizing their need to be part of the tax system. In the year 2009/2010 alone we had 122 new businesses and 5 new companies' registrations.

REVENUE COLLECTION

Revenue collection has grown from £1,750,000 in 2007/08, £2,000,000 in 2008/9 and £2,200.00 in the year 2009/2010. This occurred notwithstanding an increase in the personal allowance for 2008/09 by £500 to £2,500 and another increase in 2009/2010 of £500 to £3,000 and an extension of the 17% tax band to £6000.

ADMINISTRATIVE ISSUES

With the arrival of the Income Tax Auditor in consultation with the Attorney General areas were identified in the new ITO that needed amending or clarifying before the implementations date. These changes were presented and passed in LegCo on the 19th March 2010.

The Income Tax Return (P50) has since been reviewed and a revised version was released for use for the year 2008/09 as a trial sample in readiness for the introduction to the new Income Tax Ordinance. Areas for clarification were identified during the year 2009/10 and further adjustments were made in readiness for distribution in April 2010. An addition to the Tax Return this year is the Tax Calculation Table. This is a new requirement for the self assessment system introduced in the new Ordinance.

The Income Tax Advisor recommended the need for a modern IT system to remove some of the day to day administrative tasks and provide better information for risk assessment. This system is a necessary component of a modern tax system but there has been little progress in this area so far because of the high cost of an "off the shelf" tax package.

HM CUSTOMS.

The section has completed successfully all core tasks over the year, areas have had to be prioritized and targeted due to lack of staffing and as such not all areas marked for development have been achieved.

The section has had to work without one senior officer (EO) for a year (May 2009) following the end of a temporary contract worker; due to various factors this EO post is still not filled. The departure of a full time officer to the private sector and subsequent training of a replacement officer caused further disruption. One full time officer was absent for a period of four months on annual leave which also caused disruption.

The successful advertising and filling of the Customs Manager post was tempered as without replacement, to date, of the EO vacancy this created further disruption to development.

A bespoke Saint Helena Customs Training Package was written and delivery was commenced during the year. Full time and part time staff successfully completed their initial Customs training, with all passing their exams with excellent marks. Ongoing training continues and more in depth classroom and practical training is planned on a

regular basis. In addition training packages and assistance have been given to Ascension Customs staff.

With an identified reduction in imports over the year and the omission of one planned fuel tanker it is pleasing to report that due to better enforcement and collection, with dedicated and better trained staff the overall targets for the year were exceeded by a substantial margin of over £200,000.

In addition major firearms, ammunition and offensive weapon seizure was made with a successful guilty plea. Seizures were also made of Pornographic material, Alcohol, Tobacco, Prohibited weapon (Crossbow), Restricted Goods – Honey, Coconuts, Fruit, Vegetables, Shotgun Ammunition and several items where either the duty was not paid or goods were unclaimed by the importer.

A successful drugs intelligence led operation onboard the RMS in cooperation with the police was carried out leading to the prevention of a substantial quantity of drugs being imported into the Island. Intelligence later confirmed that the goods were in fact disposed of at sea due to the operation. Seizures of other prohibited and restricted goods were also made, as well as the collection of useful intelligence. The exercise also delivered an increase in voluntary declarations and a consequential increase in revenue. The preventive effect of the joint operation was highly successful and it is planned to conduct similar intelligence led exercises in the future.

In addition intelligence supplied to international jurisdictions has led to:

- 1) A significant tobacco seizure and small drug seizure in the UK.
- 2) An ongoing international investigation of a vessel and crew who are currently detained by the USA authorities.
- 3) A drug seizure and arrest in South Africa.

Intelligence has also been supplied to local agencies including the Police leading to successful outcomes.

All of the above reflects extremely highly on the efforts, dedication, adaptability, flexibility and increased professionalism of the staff; the staff having to operate in extremely unfavorable working conditions, split between two sites and with limited facilities at the wharf.

Improved working with the Police, Income Tax, PHSSD, ANRD and the private sector is continuing to be developed to the benefit of all. Use of the Drugs Dogs has been successful and an added preventative measure to the illegal trade in narcotics. With the arrival of two new dogs it is planned to develop the use of dogs in other areas of prohibited and restricted goods.

There has been an increase in visiting yachts for the year as well as other visiting vessels leading to an increased effort and use of resources in this area. Boarding and clearance of vessels has led to favorable feedback regarding HM Customs Saint Helena, especially in comparison to other jurisdictions.

The Report/Review and Recommendations of HM Customs has been completed and accepted in principle with the recommendations being taken forward and progressed.

The Section has been heavily involved in the design, submission and approval of the new Customs freight terminal (now under construction) and the new passenger and Customs Terminal for the wharf; in addition we have been involved in the wharf development program.

The section is a core member of the Cruise Ship Task Force attending and contributing at all levels during the year. We have also been involved and given input to Government Committees on pollution, etc.

The section gave an input into updating the Port Security Instructions and validation and this was agreed by Transco.

Work has continued (now in conjunction with the PSMP project) in improving and developing Data collection and capture. Improving databases and developing the Tariff review in an electronic format.

A draft of a new Customs Ordinance, incorporating Excise legislation, airports, etc has been completed and submitted to the Attorney General and legal draught person for approval and progression.

The level of public and trade enquiries has increased and involves a significant amount of staff time and resources. However it is showing a beneficial effect in the standard of entries and reducing the amount of corrections, etc.

The year has been both extremely busy and stressful for the section, with new procedures and methods being adopted. All members of staff full time, part time, tally clerks , night duty staff and dog handlers have “stepped up to the mark” , and delivered an impressive level of drive and commitment to produce excellent and above target results for Government.

I am pleased to report that morale remains very high with very negligible levels of sick leave and increased levels of productivity.

HOUSING/REVENUE, ADMINISTRATION & PAYROLL

All Sections have worked to achieve their day to day targets.

Administration Section: All correspondence and admin related tasks have been dealt with promptly and targets achieved. Pensions and Gratuities have been processed for 60 employees during the last Financial Year.

Housing/ Revenue: Monitoring of debtors accounts and collection of revenue have been ongoing. With the introduction of a £2.00 surcharge for outstanding debts, there has been a marked improvement in collecting outstanding medical fees. Assistance to the elderly, in the form of grant payments amounting to £19,900 has been given to 14 elderly persons in the community.

Payroll Section: Payrolls for established and unestablished staff, Pensioners, Councillors and Income Related Benefits have been processed to deadlines. The section successfully carried out the transition from weekly to monthly payrolls to be paid via Bank of St Helena.

INFORMATION TECHNOLOGY

The 2009/2010, Financial Year, once again proved to be an interesting and challenging period for the IT Section Staff.

Staff members were heavily involved in the relocation of the Bank of St Helena from the Post Office to the premise known as “Jacs”. The relocation was a tremendous success for the Section, as it once again proved that we do have the necessary skills in-house to undertake a project of this magnitude. The new premises now boast improved facilities with more space and customer friendliness.

Mike Boswell, a consultant from Access Accounts visited the island for a week during November 2009. The main purpose of his visit was to upgrade SHG’s main Accounting Systems. All end-users now benefit from the new enhanced features, which the Dimensions Software Package has to offer. Further improvements, which would bring about substantive efficiency savings throughout SHG departments, were recommended by the software provider. A project proposal, with costings, has been received but to date no decision has been made on this proposal.

Chris Walker an IT Advisor, under the PSMP, visited the island from the 5th February 2010 to 3rd March 2010. The focus of his visit was to provide SHG with a quick assessment of the current IT capacity and provide practical advice on the scope for more effective use of Information Technology. Chris also reviewed the existing IT Strategy and main IT Systems.

During the DAPM visit, funding was made available to proceed with the first two key components of the IT Strategy. These were the construction of a Wide Area Network and the purchase of dedicated File Servers for all Departments. The third phase of the plan, which still requires funding, is the proposed rationalisation of SHG finance systems.

(Reasons For The File Server and WAN Project)

Backing up data is one of the most important, yet also one of the most neglected areas of computing. Backing up data should always be at the top of any computer maintenance list, right next to Virus Protection. Without data backup or virus protection, SHG users run the risk of losing invaluable data. The lost of data does happen on a regular basis, which is always of great concern to the Support Team.

Wide area networks (WANs) are used by businesses with offices at different locations and when businesses need to connect their computer systems or local area networks (LANs) to the Internet.

The installation of LANs in all government departments and the connection of each LAN to the WAN will complete the requirement of having a path through which any government employee can communicate. Government employees will also have access to any information held anywhere within government's databanks.

The WAN project will also allow for a secure and uniform process for finance data entry and a reporting mechanism to be established for all departments, significantly reducing costs, time and increasing the accuracy and availability of key finance data for all users.

During August of last year, Nicole Peters left the Island for overseas training. Nicole is doing well in her studies and I am please to report that she has passed the first of her exams. Kimleen Robinson returned to the island last September with outstanding qualifications in the field of Cisco and Microsoft. These key qualifications, which Kimleen have obtained, are vitally important as we strive to improve the IT Service.

Departments, continue to invest in IT and Office Equipment, which needs to be supported by the small team of IT Staff.

THANKS

Thanks is extended to all staff of the Finance Department for their hard work and dedication during the year under review

DH Wade
Chief Finance Officer
5 May 2010