

# DFID Development Assistance Planning Mission 2014

## AIDE MEMOIRE

### Summary

- DFID officials will recommend for Ministerial approval £13.55 million in grant in aid to fund the 2014/15 recurrent budget deficit, compared to £13.4 million in 2013/14.
- A closer working relation between the St Helena Government (SHG) and Enterprise St Helena (ESH) is needed if the airport's potential to transform the island's economy is to be fully realised.
- More could be done to provide effective and coordinated business planning advice and to ensure that there is an appropriate supply of credit to the private sector.
- The implementation of the MoU signed between SHG and DFID in 2010, setting out SHG's commitment to open its economy to inward investment and increased tourism, in parallel with the development of air access, remains a high priority. Developing the labour market, continuing the divestment strategy, creating an investment-friendly legislative environment and improving environmental management all remain key to realising the objectives behind the MoU.
- Efforts must continue to ensure that economic development is inclusive and that all islanders can participate in the benefits of air-access. Key to this will be implementation of the new Social Policy Plan. Generating adequate data to assess and address poverty and vulnerability remains key to this.
- Education and health are key human development areas that are fundamental both to individual development potential and to creating a society that facilitates social cohesion and economic growth. Improvement in health and education outcomes in St Helena continues to be a high priority.
- Hospital redevelopment has been a priority since 2008. We support SHG in pressing ahead with planned renovations and develop an initial longer-term hospital plan within the next six months.
- Social services in St Helena are stretched to deliver services for the most vulnerable people on the island. Clients of Sundale and the prison should be relocated as soon as practicable to the planned improved facilities, as currently proposed. The planned Strategic Framework for Integrated Social Services should be developed and implemented as soon as possible.
- SHG to ensure that the new Safeguarding Action Plan, developed through the Child Safeguarding Board, is fully implemented and that all children are able to enjoy childhood and develop their full potential.
- Effective prioritisation of infrastructure developments remains a challenge with many competing demands. The recent improvements in procurement and implementation must be embedded across the capital works programme and adequate provision made for maintenance in recurrent budgets.

## **Background**

1. A team from DFID Overseas Territories Department comprising Douglas Winslow (Senior Economic Adviser), Mary Thompson (Senior Social Development Adviser) and Kenny Dick (Deputy Head of Department) visited St Helena from 11-18 January 2014 for the annual Development Assistance Planning Mission (DAPM). Together with SHG the team reviewed the use of budgetary aid over the last year and agreed an aid settlement for financial year 2014/15, subject to Ministerial approval.

2. Discussions were held with the Governor, elected members from both ExCo and LegCo, SHG officials from all Directorates, Enterprise St Helena (ESH), the Chamber of Commerce and civil society organisations. The DAPM team was grateful for the time, assistance, open and constructive discussion and valuable insights provided by all participants. Particular thanks go to ExCo members (Councillors Lawson Henry, Ian Rummery, Cyril George, Les Baldwin and Christine Scipio-O'Dean) and to Chief Secretary Owen O'Sullivan, Financial Secretary Colin Owen, Assistant Financial Secretary Dax Richards, Director of Strategic Policy and Planning Susan O'Bey and Government Economist Ian Smyth.

## **Context**

3. Value for money in public spending is imperative. Many governments around the world are reducing public sector spending and rationalising services, while seeking to channel funds into areas which stimulate growth and create jobs in the private sector.

4. Despite these pressures, the UK government has continued to invest in St Helena. Airport construction remains on time and on budget. Preparation continues for an opening date in February 2016, with UK Government support for a wide range of measures being planned and implemented by SHG, ESH, local businesses and potential external investors to ensure that the airport delivers economic benefits for the island as a whole.

5. The impact of airport construction is already evident. Basil Read's presence on the island has provided jobs and had a positive influence on income levels across the private sector. In parallel, SHG reforms are targeting improved standards in public service delivery, more efficient and transparent government, and the creation of an enabling environment for the private sector.

6. The opening of St Helena's airport brings with it the prospect of continued economic and social change for people on the island. During the budget aid discussions DFID officials heard how people on the island are responding to the challenges of change, and discussed what more needs to be done to support their efforts and how to accelerate the readiness of the wider economy for the airport's opening. Much has already been achieved. Much remains to be done.

7. Key to this is the increased integration of policies, planning and action: between those directly involved in construction of the airport, the new Rupert's Bay wharf, related infrastructure and many other parts of the island government; between the different Directorates of functions of SHG; and between SHG, ESH, and wider private sector and civil society on island.

8. Alongside this, there is a need to carefully balance the allocation of public resources toward economic development and the provision of resources for key

areas of public service in which performance and capacity needs to improve in order to meet the reasonable needs of the island community. DFID officials and SHG recognised the need to strengthen medical services at the hospital and social care for the most vulnerable (for example the 'Challenging Behaviour Unit') and to provide additional resources for child safeguarding.

### **Summary of proposed settlement**

9. DFID officials will recommend for Ministerial approval a proposed package for 2014/15 of £13.55 million grant-in-aid to fund the recurrent budget deficit, up from £13.4 million in 2013/14. Taking account of inflation since the last budget, which is expected to be close to 1.5% for the full year, this represents a marginal real terms reduction on last year's settlement.

10. DFID Overseas Territory Department (OTD) has a target to decrease the proportion of SHG's recurrent budget that is financed by the UK.. Domestic revenues collected by SHG have increased by around 10% since the last budget and a larger increase is forecast next year. Holding DFID's contribution broadly flat in real terms would therefore mean that the share of the recurrent budget financed by the UK government continues to fall.

### **Budget performance in 2013/14**

11. Airport construction has boosted employment, population, and tax revenues this year. It has also led to a rise in private sector wages and rental activity. Overall inflation has come down significantly however due to a combination of somewhat greater retail competition, sterling appreciation against the Rand, and large one-off price reductions in certain areas such as car shipping and broadband access. Full-year inflation is expected to fall from 4% in 2012/13 to around 1.5% in 2013/14.

12. Growth in total domestic revenues so far this year has been in line with the forecast at the last DAPM. Tax revenue for 2013/14 is expected to be around £3.2m, up from £2.5m the previous year. Customs revenue has increased less quickly, from £3.9m in 2012/13 to a forecast £4.1m this year, partly due to a delay in the introduction of the Automated System for Customs Data (ASYCUDA).

13. Recurrent expenditures in most Directorates are expected to come in close to the ceilings agreed at the last budget. The notable exception is Health where there has been a much larger call on resources than expected, particularly on overseas referrals. There has been a more moderate overspend in Corporate Services, Police and Payments on Behalf of the Crown. These Departmental overspends have been more than offset however by savings on the RMS shipping subsidy, leading to an overall forecast budget surplus of £0.6m in 2013/14.

### **Budget Forecast**

14. SHG has continued to build on the rigorous macroeconomic modelling methodology used in the last two years, making some progress on the quality and timeliness of the data used. Overall, domestic revenue is expected to grow by approximately 15% next year, largely due to population growth, further growth in income levels and improvements in tax compliance. There are a number of tax changes being considered to support a wide range of SHG priorities, but it is assumed that these will be broadly fiscally neutral. Inflation is forecast to increase from the unusually low level currently to around 3-4% next year.

15. In subsequent years, the outlook is more uncertain. As the impact of major construction projects starts to decline in 2015/16, kick-starting local investment in the private sector becomes critical both to sustain growth in tax revenues and the recent high levels of employment.

16. In terms of the ongoing economic analysis to support the forecasts, the focus for the next year will be to reduce the level of uncertainty in the forecasts for 2016 and beyond, as important factors such as air service and tourism infrastructure, become clearer. We recommend that the DFID and SHG economists continue to work closely together throughout the coming year, with at least one formal review of progress against forecasts to take account of the changing economic environment.

17. Overall, domestic revenues are forecast to increase from £8.8m this year to £10.2m in 2014/15 which will support higher overall spending next year. By Directorate, the biggest increase over last year's agreed budget is in health, in line with recent SHG discussions on the SDP. The higher prioritisation attached to Economic Development in the last two years is also maintained in the 2014/15 budget.

## **Policy Issues**

### National Strategic Planning and Budgeting

18. SHG continues to make progress in implementing the Sustainable Development Plan 2 (SDP2) published in April 2012 and strengthening planning and budget prioritisation through the Medium Term Expenditure Framework (MTEF). Further streamlining of indicators this year with more focus on outcomes should help Directorates to improve service delivery objectives.

19. Among the challenges to the MTEF process this year was the general election. Despite this, SHG has delivered on budgeting and planning. Delivery of future SDP2 commitments has been augmented this year with the publication of the much delayed Social Policy Plan (SPP). Together with an Implementation Plan (2013-18), this will focus on achieving social cohesion across the island, reducing relative poverty and supporting vulnerable groups. The SPP sits alongside the previously published Sustainable Economic Development Plan (SEDP) and the Environmental Management Plan (EMP). SHG's emphasis in the coming year must be on integrating these policies and plans to support preparedness for the opening of the airport in 2016.

### Economic Development

20. Last year's budget aid discussions focused on the need to drive economic development through growth in the private sector. The creation of ESH in April 2012 was a key part of SHG's strategy for making this happen. ESH has six core areas of operation that derive from the SEDP in 2012 - tourism promotion, up-skilling Saints, helping Saint businesses, financing Saint businesses, attracting investment, and fisheries development.

21. ESH has faced a number of challenges in the last year, including staff turnover in key posts. Nevertheless, ESH is on track to achieve many of its performance targets for 2013/14 and has made significant progress in some of its focal areas. Cooperation with SHG's Education Directorate on upgrading skills in key economic development areas such as tourism, the introduction of subjects such as

French and Maritime Studies into the school curriculum, and the expansion of apprenticeships and vocational training seems highly promising. This will help to ensure that Saints, particularly the young, are able to contribute and benefit from new economic opportunities.

22. Timely prioritisation by ESH of its resources will be required in order to effectively respond to the quickly changing economic development landscape. ESH should also be careful not to stretch itself too thinly across its wide ranging portfolio leaving insufficient focus on priority areas.

23. DFID welcomes the additional resource planned to support construction skills, in particular to make the most of the opportunities presented during the airport construction phase to develop the industry. Support for local business start-ups and the creation of public private partnerships in areas such as agriculture and fishing are also welcome. But more could be done to provide effective and coordinated business planning advice. It would be timely to review how the credit facilities offered by ESH and the Bank of St Helena sit together, and whether the application processes for these facilities could be improved. Another area to consider is the impact on economic development of the restrictive framework on some forms of credit.

24. Closer working relationships between ESH and SHG is essential on the issue of the use of Crown assets – such as land and property – in support of economic development. This is particularly important when planning how the island will increase the quantity and quality of the accommodation it offers visitors. Robust and transparent procedures, supported by clear guidance, are needed so that businesses can acquire suitable land or buildings for economic development but they must do so in line with national plans and in ways that make the most of those limited assets. DFID agrees that the Framework Agreement between SHG and ESH should be revised to facilitate a clear, unified approach to decision making for business seeking to invest.

25. DFID has recently agreed a further three year period of funding support for ESH. It hopes to see continued, measureable progress against challenging targets in 2014.

#### Memorandum of Understanding (MoU)

26. DFID discussed with SHG and EXCO Councillors the continuing importance of the airport MoU. Opening up the island to inward investment opportunities, creating new jobs and new local economic opportunities remain key priorities to maximise the benefit of the airport. SHG reported on four key airport MoU areas this year: divestment, environment, untargeted subsidies and the labour market.

27. Utilities (electricity and water) and government cleaning services were divested in 2013. SHG envisage a decreasing subsidy to the new utilities entity Connect St Helena over the next five years. DFID notes the sliding scale of tariffs to protect the poorest electricity users and looks forward to being informed by future socio-economic studies on the impact of this divestment process. There needs to be careful analysis and monitoring of divestment to ensure value for money.

28. DFID welcomes the new Divestment Strategy that incorporates an improved governance framework supported by a new Procurement Board and look forward to seeing the recommendations from the pending review on untargeted subsidies.

29. There has been much progress this year in up-skilling of the local labour market through close working relationships between AVES and ESH with an upsurge in NVQ and VRQ candidates in important areas such as construction, hospitality, business administration, health and environment. DFID welcomes the on-going efforts to improve the apprenticeship programme which provides accreditation, develops lifelong learning and private sector work opportunities.

30. DFID also welcomes the strengthening of the Environmental Management Department. EMD has a critical role to play with the Air Access Team in the run-up to airport opening, including managing risks such as bird strike, disaster management, waste and pollution.

### Social Welfare

31. SHG anticipates that the introduction of a Minimum Income Standard (MIS), one of the first of its kind, should protect most of its inhabitants from absolute poverty. The MIS establishes an income baseline against a Saint Helenian basket of goods and services that will be reviewed on an annual basis. In 2013/14 this has resulted in an increase in pensions and benefits. Continued social impact analysis of fiscal policy changes however will be necessary to inform social welfare strategies. We look forward to hearing more about the planned introduction of child benefit in 2015/16, another recommendation from the social welfare review.

32. Ascertaining poverty levels on St Helena is challenging and DFID welcomes the continuing efforts of SHG Economists, Senior Statistician and Social Policy Planner to improve the understanding of poverty through better evidence. Information from the recent Household Expenditure Survey and the commitment to ongoing development of socio-economic analysis should provide evidence to inform budget discussions and support policy developments.

### Education

32. This year has seen some good progress against policy objectives, as well as some considerable challenges. GCSE results were greatly improved over 2013 with 32% of students achieving at least five good grades (A\*- C) compared to 19% in 2012, though below the 2013 target of 35%. These improvements partly reflect additional technical resources provided by DFID, over and above the recurrent budget aid settlement, including funding for a head teacher and several expert education advisers. The apprenticeship scheme has exceeded expectations with over 40 enrolments against the target of 24.

33. There has been an innovative and welcome focus on special needs children, with technical support from a specialist school in the UK, Skype support provided for children and their families, focusing on autism, speech and language and psychology expertise expected shortly. Against this, primary school results declined overall and clearly more effort is required in this area. Recent support for Early Years education will pay long-term dividends at the primary level, alongside improved teacher training.

34. Teacher-pupil ratio remains exceptionally generous but the majority of teachers need to improve their qualifications. We look forward to reviewing the Director of Education's 10 year plan that will further address some of these challenges. Education must continue to be a high priority to ensure that the core skills required for inclusive economic development are available.

## Health

35. Health is a Key Results Area of the SDP2 priorities yet there are considerable continuing challenges in this area. The long awaited functional analysis of the Health and Social Welfare Department (HSWD) which should have made clear the professional and operational needs to effectively deliver health and social services care in St Helena, has so far failed to produce the required information. The DAPM team had expected to discuss financial and service delivery implications of the functional analysis. Given the acute need to improve nursing skills, establish robust operational systems and procedures and improve clinical data, the new Director of Health's sense of urgency to tackle these areas is welcome and the DAPM team notes the importance of additional TC support

36. DFID is concerned at the continuing uncertainty over the future of the island's only hospital. Lack of building and equipment maintenance has rendered parts of the hospital unfit for purpose. Whilst redevelopment of the hospital has been an SHG and DFID priority since 2008, and various plans drawn up, there has been no concrete progress to date. Plans have been submitted to redevelop the operating theatre and diagnostic suite in the short-term and we expect this to go ahead in 2014/15. However, DFID remains concerned that there are no clear long-term plans for hospital provision and expect clarification before the next budget aid mission. The team welcomes recent non-structural maintenance. SHG will shortly be informed of Airport Certification requirements which is likely to impact on health requirements. The increased health budget anticipated in 2014/15 clearly reflects SHG's own concerns.

## Social Services

37. The social services department faces considerable challenges with few internationally qualified social workers or financial resources and a range of vulnerable individuals and families in their client group. Last year DFID provided technical assistance for a Senior Social Services Manager and a Social Work Trainer, with the expectation that a Strategic Framework for Integrated Social Services would be developed. Given the recent challenges in the department caused by depleted staffing levels and high profile child sexual abuse concerns we understand the delay in producing the framework but urge completion by September 2014 to feed into the strategic planning processes for the next budget.

38. The DAPM team is pleased to note that refurbishment of Half Tree Hollow Primary School as a new home of the current clients of Sundale has been tendered. This has been a DFID priority area for several years and we look forward to regular progress updates. We understand that tendering to redevelop the current CBU premises into a new prison will also take place this year.

39. Following the recent Lucy Faithful Foundation report on child safeguarding in St Helena and the many recommendations made, we welcome SHG's nascent child safeguarding action plan and look forward to reviewing it on a regular basis. St Helena will benefit from a new DFID Child Safeguarding Project for the Overseas Territories, which will augment SHG budget commitments in this area. Discussions with the police highlight key concerns over capacity and staff retention in the run-up to airport opening. This will need to be closely monitored and we note the additional TC requests for consideration.

## Civil Society

41. There has been good progress this year with the establishment of the St Helena Community Development Organisation (SHCDO) in 2013 and the opening of Guinea Grass Community Centre. The new Community Grant Scheme is in operation, providing support to over 40 organisations to date, and the Civil Society Support Officer continues to work with CSOs on a broad range of issues.

42. We were pleased to meet with Civil Society representatives and discussed the importance of addressing the needs of families on low incomes, people with disabilities and children at risk, and the need to combat domestic violence and alcohol abuse. It is expected that the pending Strategic Framework for Integrated Social Services will draw in relevant CSOs through improved Service Level Agreements (SLAs) to help deliver services in these critical areas, with greater clarity on mutual obligations under SLAs.

43. Civil Society representatives again raised concerns about communication with SHG. Although we have observed improvements through the work of SHG's Civil Society Support Officer and Social Policy Planner we encourage both SHG and civil society representatives to focus on the quality of their engagement.

### **Technical Cooperation (TC)**

44. DFID provides TC support to St Helena in order to meet personnel and technical advice needs, where these cannot be fully met from local resources and human capacity. We recognise continuing capacity constraints experienced by SHG and the impact that this can have on public service delivery and economic development. These constraints are likely to become more acute as SHG prepares for the airport opening. We will therefore continue to work with SHG to identify critical gaps as they become clear.

45. DFID recognises SHG's improvements in TC management but remains concerned about the difficulties of recruiting suitable staff. We take this opportunity to re-emphasise our support for training and mentoring to build local capacity in the long-term, given wide-ranging concerns in all Directorates about non-TC capacity and retention issues.

#### *Long Term Technical Co-operation (LTTC)*

46. LTTC support is specifically for 'line-posts' appearing on SHG's headcount for which there is no suitably qualified local officer available. The 2014/15 budget settlement includes just over £5m to meet LTTC costs, unchanged on the budget agreed last year.

#### *Short Term Technical Co-operation (STTC)*

47. STTC supports consultancies which cover a dedicated piece of work over a fixed term that does not sit within SHG's recurrent budget as a line-post. Airport Certification must be a priority planning area for TC in 2014/15 if the airport is to open on schedule.

We look forward to receiving SHG's final bid outlining STTC priorities for a new STTC project for 2014/15 in due course.

### **Capital expenditure**

48. In 2013, SHG has made further significant improvements in the delivery of its capital programme in the face of continued capacity constraints in the infrastructure



sector. This has been widely recognised, for example in the way road improvement work is now managed. Publication of the rolling programme of infrastructure works, action to help utilise contractor capacity more effectively, establishment of the new Procurement Board and other improvements in procurement practice, and more rigorous monitoring of capital works all point to the progress made. Reflecting this, SHG expects to spend its 2013/14 infrastructure budget in full – a marked improvement from previous years when significant underspends were a regular occurrence.

49. Significant challenges remain around prioritisation in the programme, with many competing demands on the capital budget. Difficult decisions will be needed and achieving full value for money will be vital. Last year's budget aid discussion highlighted the need to ensure that infrastructure essential for economic development was given appropriate attention. This remains the case. There is a need for urgent refurbishment of hospital facilities, and for relocation of the Challenging Behaviour Unit and the prison. Important improvements in environmental management and water supply are also required. DFID is pleased to see the development of the Half Tree Hollow Comprehensive Development Area which will help to ease the current lack of good standard homes on the island, and consideration of shared equity approaches. .

50. Some progress has been made in the maintenance of SHG's estate, including its social housing stock and development of public housing maintenance plan, but capacity constraints remain in carrying out routine maintenance. Directorates have identified a backlog of more substantial maintenance work needed in, for example, schools, the hospital and social housing, which will over time require higher levels of funding adding pressure to both recurrent and capital budgets.

51. DFID officials confirmed the intention to develop a new programme of support for implementation of SHG's capital works programme early in 2014/15.

## **Shipping**

52. Support for the RMS will remain key to meeting the island's reasonable needs for access until it is decommissioned after the airport opens in 2016. DFID recognises the unique position the RMS holds in the island's economy and culture and the need to provide clarity on what will happen to cargo shipment once the RMS is withdrawn from service. Discussions on this are planned during 2014.

53. The RMS has been a success story in 2013/14. Reductions in world prices for fuel oil and diesel and improvements in the US dollar and RSA Rand exchange rates against Sterling, have allowed for a substantially lower level of UK government subsidy of RMS running costs than predicted. Freight revenues have also exceeded expectations and the high levels of passenger occupancy over the peak months around Christmas has justified the investment in additional berths in 2012. SHL's Business Plan for 2014/15 will be submitted just after the DAPM ends. Passenger projections and tariffs have not yet been finalised. DFID officials anticipate seeking approval for an RMS subsidy of close to £4 million, in line with recent improvement in revenues. DFID will also continue to meet the costs of essential capital works to ensure the ship remains fit for service.

54. The re-establishment of SHG's direct responsibility for RMS operations is a recognition of the wider importance of the ship to island life. DFID welcomes the continued work by ESH and partners, including the Fondation Napoleon, to market

the RMS with a view to maximising passenger and freight revenues in its final two financial years of operation.

55. Expressions of interest to operate the post airport cargo shipping service have been received from nine parties. SHG's Corporate Procurement staff will manage the tender exercise for this important service during 2014 with a view to awarding a contract to the winning bidder early in 2015.

**Mark Capes**  
**Governor of St Helena**

**Kenny Dick**  
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**Territory Department**

## ANNEX: BREAKDOWN OF REVENUES

	2013/14 £000's	2014/15 £000's
<b><u>Domestic Revenue Streams</u></b>		
Customs	4,014	4,676
Taxation	3,075	3,950
Other Revenue *	1,713	1,580
<b>Total Local Revenue (less recharges)</b>	<b>8,802</b>	<b>10,206</b>
<b><u>Total DFID Grant in Aid</u></b>	<b><u>13,396</u></b>	<b><u>13,550</u></b>
<b>DFID Grant in Aid <u>minus</u> funding for former TC projects**</b>	<b>12,000</b>	<b>12,154</b>

### NOTES

\*Other Revenue represents all other fees and charges levied by SHG to third parties.

\*\*This figure has been included here because it was used in last year's Aide Memoire Annex. The TC projects Health Link 3 (HL3) and Education Sector Support programme (ESSP2) were previously funded separately to the recurrent budget through project support. Health Link 3 ended in March 2012 and ESSP2 ended in March 2013. With effect from 2013/14 funding for those projects has been integrated into the recurrent budget – with a resulting transfer into Grant in Aid of £1.2m for HL3 and £0.2m for ESSP2. The same level of funding for this initiative has been agreed for 2014/15 and represents the difference between the lines 'Total DFID Grant in Aid' and the 'DFID grant in Aid'.