



## **BUDGET SPEECH 2018/19**

### **Introduction**

Mr Speaker, I beg to present a Bill for an Ordinance to provide for service for the financial year 1 April 2018 to 31 March 2019.

Mr Speaker, after agreeing a rollover budget in March 2018, it gives me great pleasure to be able to present a balanced budget here today. It has been a challenging budget process, however the budget presented today strikes a balance between identifying and resourcing the key priorities for the Island whilst mitigating against the significant risks to St Helena Government (SHG) and St Helena which have been identified throughout the budget and planning process.

Mr Speaker, this budget speech sets out the key successes over the last financial year, looks ahead to the activities planned over the remaining eight months of this financial year and outlines some of the activities which are being explored for implementation during the next three-year budget cycle.

It is so easy to dwell on what hasn't gone well over the past year but we also need to look at the positives and reflect on how far we have come over such a short period of time. Last year saw the commencement of the commercial air service by SA Airlink which created a real buzz both on the Island and amongst Saints abroad. The setback following the suspension of the service directly from Cape Town via Windhoek has been disappointing, however we are hopeful that this will be resolved in the coming months and the service reinstated.

Mr Speaker, I would like to reflect on some of the significant achievements made during the past 16 months:

- SHG recently signed the financing agreement for the 11<sup>th</sup> EDF which will bring 21.5m Euros to the territory from which a significant proportion will finance the cost of the cable project
- The announcement of PASH Global as the preferred bidder for the renewable energy tender
- Agreement for a second weekly flight to commence in December 2018 during the peak season
- The launch of a new Sustainable Economic Development Plan (SEDP)
- The adoption of an updated Investment Policy and Strategy
- The first knee replacement surgeries on-Island
- The launch of the 'Saints Together' campaign
- The opening of the new Sea Rescue building
- The Airport achieving open-ended certification from ASSI

- GCSE students achieving some of the highest attainment levels
- Improved results in primary education
- 612 individuals enrolled in the Community College
- The completion of the Main Street hotel and
- The refurbishment of 14 Government Landlord houses

## **The Process**

Mr Speaker, in last year's budget speech I said 'this was the most challenging budget we have ever had to deal with', it is safe to say that I didn't know what was around the corner, as this year's budget process has been equally difficult and demanding, but with the help of all Elected Members we are finally able to present a balanced budget which, whilst not without its challenges, will allow us to build on the significant progress made last year.

As part of the planning and budget process, directorates were asked to ensure that they took into account the following principles:

- Improving efficiency and productivity, including better use of SHG's resources
- Streamlining and, where appropriate, restructuring to improve service delivery
- Ensuring a more joined up approach to service delivery between the different sectors
- Increasing revenue where possible.

This year's funding envelope, conveyed formally in April by the UK Government, is for a one-year programme. The delay in receiving confirmation of the financial aid settlement has meant that a balanced budget could not be agreed in readiness for the start of the financial year. A rollover budget, which is effectively to carry forward the previous year's budget for four months, was approved by Legislative Council on 23 March 2018 to ensure that public services continue to be delivered during the period 1 April - 31 July 2018. This Appropriation Bill now ensures that essential public services and spending can continue past the four-month rollover period for the rest of the financial year and that new activities can commence.

The budget initially presented to the UK Government requested financial aid of £30.1m to support local revenues in order to deliver a number of key priorities during this transition period. The UK Government was unable to support the full request and instead made available £27.1m which left us with a budget deficit of circa £3.0m. There were then a number of difficult choices for Elected Members to make in order to balance the budget. An extensive reprioritisation exercise was undertaken which focused on re-phasing planned activities, reducing the risks to SHG, cutting expenditure across the service, and also looking at raising additional revenues locally. In addition, a further request was made to the UK Government to provide an additional £1.4m to support some of the unfunded priorities for the Island such as additional road maintenance. Whilst this was not supported, we have since received an undertaking from the UK Government who are open to helping St Helena in

managing any unforeseen budget pressures should this arise within this financial year. This is welcoming news indeed.

The end result is, in my opinion, a budget which stripped out existing inefficiencies, found room for new activities, and limited any remaining liabilities.

Mr Speaker, you might ask why am I outlining this process in detail? I feel that it is important for the general public to understand the difficult choices which Elected Members have to make when agreeing the budget whilst collectively having to act as a responsible government.

### **Economic Backdrop**

To date, we have relied on inflation, tax revenue, population, and unemployment data to describe the state of the economy. St Helena's economy in 2017-18 showed little variance compared to the previous year.

The average annual inflation rate for 2017-18, based upon the quarterly Retail Price Index, was 4.1%. This was slightly lower than the inflation expectation of 4.4%. The price rise was predicted considering changing exchange rates after the UK's decision to exit the European Union.

In 2018-19, the inflation expectation is 4.40%. The key issues which will affect the inflation rate in the 2018-19 year are:

- Changes in the exchange rate of the Pound against the Rand
- Price inflation in South Africa, which rose from an annual rate of 3.4% in March to 4.4% in May. This affects the price of goods and services imported from South Africa
- Price inflation in the UK – annual price inflation fell slightly from a November 2017 high of 2.8% to 2.4% in April. This affects the price of goods and services imported from the UK
- The increased cost of freight

In 2019-20 the inflation expectation is 4.30%, then 4.1% in 2020/21 and 4.00% in 2021-22. This prediction is quantified considering the lagged relationship between prices in St Helena, the UK and South Africa and the inflation expectations of the UK and South Africa.

The average annual gross income from employment on St Helena, measured using the median of those receiving income above an analysis cut-off and excluding Technical Cooperation Officers, rose in both the 2015/16 and 2016/17 financial years, to £7,640 and £8,230 respectively. We are awaiting the data for the 2017/18 financial year.

New opportunities, most likely as a result of commercial flights commencing, are encouraging other St Helenians to return to the Island, and expatriates to visit or reside on St Helena. In March 2018, there was an on-Island resident population of 4,672 of which 4,306 were St Helenians, compared to in March 2017 where there was an on-Island resident population of 4,465 of which 4,102 were St Helenians. That's an increase in on-Island resident population of 4%. There is more potential for growth as people wait to see how development will occur on St Helena.

The 2016 Census demonstrates an aged and ageing population with 21% of the population over 65 years of age. This poses some significant challenges for the Island in terms of providing care for elderly people in addition to a forecasted reduction in the working age population going forward.

Over £10m of tax revenues were collected in 2017/18 which was similar to the amount collected in 2016/17. Income tax, service tax and withholding tax revenues increased by 2.9% in 2017/18 compared to 2016/17, whilst Customs duties reduced by 2.7% in 2017/18 compared to 2016/17.

Inflation represents an increase in prices, and when prices increase, so do customs revenues. It must also be understood that the Island's economy and tax revenue have grown significantly in recent years, mainly due to large capital investments (including the Airport project) and as with any economy, this growth will tend to plateau. As large projects come to the end, it is expected for there to be a slight contracting of the economy, unless new capital projects come forth to keep our construction sectors busy.

The effect of tourists on tax take has also been analysed using assumptions on spend and numbers of visitors. It is expected that tourists will contribute around £1.4m to the local economy each year. It is expected that SHG will benefit from £35,000 of revenue from the short-term entry visa fee and around £17,000 of corporation taxes as a result of tourist expenditure. These are estimates for the inaugural years. We hope to see a growth in interest, a growth in flight frequency and a growth in tourist numbers. The recent Tourism Marketing Strategy published by Enterprise St Helena will help achieve this.

As well as the commencement of the commercial air service, there are a number of other uncertainties that will affect next year's revenues. This includes the impact of a reduced number of Basil Read staff on the Island as construction commitments close, the implications of Basil Read going into business rescue, the further effectiveness of health campaigns, the amount of locally produced food, the uptake of the Investment Tax Credit, energy prices, food prices and changes in population and the exchange rate.

The economic outlook for St Helena going forward is hopeful, linked to there being more flights offered by the commercial air service, and to the future arrival of the Fibre Optic Cable and the business opportunities in the digital sector that significantly improved connectivity shall bring. Furthermore, there is some optimism that the renewable energy project will eventually reduce electricity prices.

At the moment St Helena is in a transition period. Whilst we have seen many returning Saints, friends, family and business travellers visiting the Island, tourist numbers need to grow, particularly during the off-peak period, to sustain the tourism sector. This has had a negative impact on the economy as a whole, with a number of businesses struggling to survive until the peak season. The recently launched Business Support Initiative will provide support to those accommodation businesses struggling as a result of the low visitor numbers.

Sustained investment in growth areas as identified in St Helena's Sustainable Economic Development Plan, including investment in public infrastructure, and in developing the local labour force, is required in order for St Helena's to become

more sustainable. This includes a focus on exporting goods and services, producing more goods and services locally and substituting imports in order for St Helena to earn more and keep more money on Island.

However, without substantial investment, (including foreign investment) in projects such as the Rupert's development, which would allow us to relocate the cargo operations and subsequently develop Jamestown waterfront for commercial use, it is unlikely, especially with the phasing out of the Airport project, that the economy will perform as well in 2018-19.

Austerity is something that many other countries including the UK has experienced for some time, and has some benefits in terms of ensuring efficiencies are delivered in the public sector. However, any resulting lack of fiscal stimulus can constrict economic growth. St Helena has re-developed its Investment Policy and Investment Strategy and will develop a tax incentive system for recommended implementation next year, but in order for investment to be most efficiently delivered, we will need to provide basic services on a timely basis, including immigration, land and planning, customs and environmental permitting services - all of which are facing resource constraints and funding uncertainty as a result of budget constraints.

The Sustainable Economic Development Plan was approved in May 2018 and sets out St Helena's many comparative advantages. We benefit from significant natural resources - premium grade tuna, some of the world's most expensive and sought after coffee, and an ecosystem which supports a third of all the endemic species in the British territories and attracts tourists. St Helena is a safe place to visit, the Island uses the Pound as currency and speaks the English language. Improvement in St Helena's export offerings will help to enhance St Helena's budgeting capabilities in the future. Exporting as well as producing, supplying and buying local will help retain income on St Helena and reduce the annual £23m trade deficit. This is key to helping St Helena become self-sufficient in the longer term.

### **Draft financial Outturn 2017/18**

Local revenue collected for 2017/18 is £13.1M with £10.3m coming from Taxes and Customs duty which is down by circa £0.5m against the revised budget. Together with financial aid, the total revenue received is £41.7m

Total expenditure for the year is £41.0m against the revised budget of £42.1m, this gives an overall **draft surplus for the 2017/18 FY of £0.7m** which will be transferred to the general reserve of the Consolidated Fund. This will mean that as at 31 March 2018 the general reserve of the Consolidated Fund will have a balance of circa £2.4m.

### **Revenues**

Mr Speaker, turning now to Revenues, 2018/19 will see local revenues similar to those budgeted for in 2017/18. This is largely down to the fact that the actuals for key revenue streams for 2017/18 came in under the original budget by over £0.5m. The analysis shows that PAYE receipts were down by £0.2m and also tax from self-employed were also down by £70K. This, coupled with an overall under collection in Customs & Excise duties of circa £0.3m, means SHG needed to find ways to recover

this £0.5m deficit in revenue in 2018/19 financial year before we can look to finance additional services.

There have been a number of small policy changes to customs duties in the 2018/19 financial year, these include the expansion of the Sugar Tax, reducing the duty on healthy alternatives and facilitating changes in the customs tariff to support the objectives of the Sustainable Economic Development Plan (SEDP). The usual indexation of specific duties in line with the past-year's average inflation rate has been factored in.

There are small projected overall increases in customs duties, largely attributable to a policy change in relation to the expansion of the Sugar Tax to support St Helena's drive to improve the health and wellbeing of the population. The policy changes outlined specifically supports the 'Saints Together' campaign recently launched by the Health Directorate.

There were no changes in Tax Policies in 2018/19, however, I can signal that it is the intention to bring the existing Investment Tax Credit scheme to a close at the end of 2018/19 financial year. SHG have however recently approved the revised Investment Policy and officials and Elected Members are working to introduce a new Investment Strategy which will provide targeted support to investors who support the objectives set out in the Sustainable Economic Development Plan. The new strategy will directly replace the Investment Tax Credit scheme which only provides relief to those businesses already making profits, the new scheme will see the support targeted to the start-up phase of the business where it is most needed.

Mr Speaker, I can also confirm that SHG will consider the lowering of the Corporation Tax and Income Tax rates for those businesses or part of a business which directly supports the goals set out in the SEDP this work is in the early stages but is all part of our drive to redress the trade imbalance and encourage more exports, less imports, and thus keeping funds on the Island circulating in the economy.

In addition, during 2018/19 further work will be done to explore the options of increasing the higher rate tax band and introducing an Inheritance Tax to ensure those who have the broadest shoulders carry the heaviest load.

In 2018/19 the basic tax rate for employment income and self-employed will remain at 26% for income over £7,000, and a higher rate tax band for income over £25,000 per annum at 31%, and 8% tax on dividends falling into the higher rate tax band.

Corporation Tax for all companies will remain unchanged at 25%.

Mr Speaker, we are grateful to HMG for the financial aid they have provided for this financial year, 2018/19 will see financial aid of £27.1m which is £2.6m more than the 2017/18 financial year although SHG also received shipping subsidy in 2017/18 of £4.2m which in real terms represents an overall decrease in DFID support of £1.6m.

It is also pleasing to note that FCO funding of £0.2m has been secured to address specific areas of security including immigration which has been highlighted as a

significant risk area for SHG with the air service now fully operational. We hope this will be the start of another sustainable funding stream from HMG.

### **Expenditure highlights**

Mr Speaker, turning now to the main highlights in the budget:

#### **Shipping**

Mr Speaker, we now have a new shipping service, one that is not heavily subsidised by SHG/HMG. It is true to say the service has had its fair share of problems since commencing early this year particularly with transshipment vessels not stopping off in Cape Town as planned. New arrangements for bringing forward the transshipment receiving dates in the UK are now in place and will hopefully make these missed transshipments a thing of the past.

Mr Speaker, what is certain is that we need predictability to be able to plan effectively, importers are starting to get to grips with the ordering arrangements for a four-weekly service and we also hope that shop shelves will not be bare for too much longer. Through ESH a piece of work is being commissioned to assist importers to look at warehousing and ordering systems to ensure that the needs of local merchants and their customers are being met by the importers. We will continue to work with all interested parties to improve the current climate.

The shipping budget represents the biggest single change in this budget with a reduction from £4.2m to £0.5m. The decrease is because of the withdrawal of the RMS St Helena from service and therefore the associated subsidy. The £0.5m which remains under shipping, represents the additional cost of moving cargo from Rupert's into Jamestown because of the cargo receiving facilities in Rupert's remaining unfunded.

#### **Minimum Income Standard**

This budget Mr Speaker makes provisions for an uplift in the Minimum Income Standard which takes into consideration most of the recent increases. The Minimum Income Standard continues to provide a safety net for the most vulnerable members of society and will see an increase in both Income Related Benefits (IRB) and the Basic Island Pension (BIP).

IRB will increase from £65.10 to £67.90 per week and BIP will increase from £67.30 to £70.20 per week, this represents an overall increase of 4.3%.

It should also be noted that on 1 July 2018, the Minimum Wage per hour increased from £2.95 to £3.05 (for all employees aged 18 and over) and from £2.00 to £2.10 (for young people aged 16 or 17).

**Corporate Services – Human Resources** - an overall proposed reduction in the recurrent budget from £9.2m to £8.9m. The central training budget has been limited to those needs that are critical for ensuring the maintenance of any certification or that are crucial for the delivery of and maintaining front line services. In addition to this, the centrally held Technical Cooperation budget has also decreased to reflect changing needs identified by directorates as part of the strategic planning process

and where possible delaying recruitment that does not jeopardise the delivery of front line services, until later in the financial year.

**Police** - an overall proposed increase in the recurrent budget from £1.4m to £1.6m. This proposes an additional number of posts for the Police Directorate to increase capacity particularly in the Immigration Service, Police Operations and Sea Rescue Service.

**Corporate Finance** - an overall proposed increase in the recurrent budget from £5.7m to £8.2m. This increase proposed primarily relates to the budget held as Payments on behalf of the Crown and covers the allocation of funding to maintain certification of St Helena Airport, pension contributions for Government employees, additional funding to support the St Helena Fisheries Corporation and funding allocated for Connect Saint Helena Ltd for subsidy to limit tariff increases in this financial year. Also included is the specific funding allocated by DFID for litigation and associated legal costs. This funding is provided on a contingency basis and if not utilised by SHG, the funding will not be released by DFID. The proposed increase overall for Corporate Finance includes the Airport Contract Management Unit budget of £0.2 million where previously this has been funded as a separate budget by DFID but has now been incorporated into SHG recurrent budget.

**Health** - an overall proposed reduction in the recurrent budget from £6.1m to £5.7m. Health undertook to review the current funding allocated to overseas medical treatment and the aero-medical evacuation budgets. Based on current trend and analysis, it is proposed to reduce the aero-medical evacuation budget by £0.9 million and increase overseas medical treatment budget by £0.5 million. This has resulted in an overall decrease in budget in comparison to the previous year by £0.4 million.

In addition, Health has set aside funds to support a policy change where the most vulnerable members of society will get access to free medical treatment, particularly in the case of the elderly. The scheme should be means tested so those most in need will benefit from this initiative. More information on this proposal will be made available over the coming months.

**Safeguarding** - an overall proposed increase in the recurrent budget from £2.5m to £2.9m. There are four key areas within Safeguarding where it is proposed to allocate additional funding, this includes proposed additional funding of £0.075 million to support the Home Care Policy, where with an ageing population we aim to support the elderly to live in their homes as long as possible, funding to develop a specialist service provision for children and young people with complex needs of £0.18 million, funding to increase staffing capacity at the Community Care Complex of £0.09 million, funding to support the Child in Need policy of £0.01million and smaller increases across the directorate to maintain current services.

Mr Speaker, this gives a total projected spend for 2018/19 of £40.9m with total revenues of £40.8m leaving a deficit of £0.1m which will be a call on the Consolidated Fund, which we have heard earlier is currently estimated to be £2.4m.



## **Future outlook**

Mr Speaker, I have talked a lot today about the challenges we face as an Island-rising costs, increased freight, delayed flights and low tourist numbers to name a few. However, Mr Speaker there is a light at the end of the tunnel and I would like to take some time to outline some of these in more detail:

### **Cable**

The significance of the signing of the financing agreement to get access to the 11<sup>th</sup> EDF envelope should not be underestimated. St Helena stands to receive 17.0m Euros which will be used to secure a link to a subsea fibre optic cable which will bring unlimited internet connectivity to St Helena.

This will mean improvements in telemedicine, social care, education, economic development and connectivity for the community. SHG has engaged the services of a sector expert to provide ongoing technical support.

On-Island surveys have taken place for possible landing points for the cable and also for possible satellite ground station sites. SHG has launched a website to attract ground stations to the Island and there has been considerable interest resulting in advanced discussions with investors which we are confident will provide employment and other opportunities on the Island.

The cable project will have considerable socio-economic benefits for the people of St Helena.

### **Second Weekly Flight**

Mr Speaker, whilst tourist numbers are currently low, the evidence collected over the past nine months since the commencement of the air service has provided HMG with the confidence to be able to underwrite a second weekly flight over the period December 2018 through to April 2019 with a view to making this a long-term arrangement in the future.

We need to take full advantage of what the second flight can bring and there needs to be a significant marketing push to get St Helena on the international map and turn the interest into firm commitments to visit the Island and bring the benefits that were originally envisaged with air access. The appointment of the Brighter Group as the PR Company to promote St Helena is a real positive step forward, and we must do as much as we can to start planning now for what 2019 and beyond will bring to St Helena.

Mr Speaker, I'm pleased to announce agreement of promotional fares during this low season which are available to all, the details of these fares will be released shortly.

### **Renewable Energy**

SHG is committed to reducing the Island's reliance on fossil fuel and enabling the stabilisation of the on-Island energy costs as set out in the Energy Policy. PASH Global has been identified as the preferred bidder and contract negotiations are well advanced. The specification was clear that we want to reduce our use of fossil fuels,

stabilise the production costs of energy, protect the environment and create local employment opportunities.

This is an example of SHG working with businesses to secure investment for the benefit of the community and the longer term. It is hoped that at some point in the future the community will also benefit from this investment through reduced energy costs.

### **External Funding Coordinator**

Mr Speaker, I'm pleased to also advise that SHG has recently appointed an External Funding Coordinator to work alongside key stakeholders on St Helena to develop a funding strategy which will look to explore other possible funding opportunities for the Island. This is especially important given the likely impacts of the UK's decision to leave the EU. The consultant will be actively exploring all leads and funding sources to maximise the possible external donors for the Island. The Consultant will be on Island from 4 August for two weeks and will be keen to meet with the key stakeholders to understand the needs particularly that of NGOs and where he might be able to help. Further details of the visit will follow shortly

### **Capital Programme**

Mr Speaker, the absence of a Capital Programme and the lack of investment in essential infrastructure is of significant concern to all on St Helena, particularly if we wish to take full advantage of the opportunities that air access brings and some of the other opportunities such as the cable. Whilst there has been no additional Capital Programme funding from HMG for some time, there has however been good news recently and there is a firm commitment from HMG to consider funding for a Capital Programme as was outlined in the letter confirming the budget settlement.

### **Encouraging Investment**

Mr Speaker, in addition to a Capital Programme, we need more investment into the Island, investment creates stimulus for the economy, it brings in new money, creates jobs which increases taxes, increases spending power and provides many positive spin-offs for the rest of the community. The stimulus provided by the Airport project for example was the basis of significant economic growth since the start in 2012. We need more investment and new money coming into the economy - we must and will do more to encourage investment.

The proposed Investment Strategy and the proposed changes to tax policies will help to facilitate and create the right enabling environment to support and deliver the widely agreed outcomes of the SEDP.

### **Conclusion**

Mr Speaker, yes we are facing a difficult period on St Helena, but let us be mindful also of just how much we have achieved in recent times for an Island of just over 4,500 people:

- Start of commercial air services
- Signing of the financing agreement to enable the cable project

- Renewable Energy tender
- Second Flight from December
- SEDP
- Investment Policy
- Orthopaedic operations taking place on-Island
- New Sea Rescue building
- 'Saints Together' campaign
- ASSI open-ended certification
- GCSE exam results up on previous year
- Improved results in Primary education – to name a few

While there is still much to do in many areas this is still an exciting time for St Helena. In moving forward we must mitigate our key risks around our demographics and this budget does that. Yes, we can always do with more, the need for a Capital Programme to provide Islanders and visitors alike with appropriate infrastructure is well documented and we must continue to explore all avenues, however there are only eight months left in this financial year where the public service now needs to get on and deliver against the agreed priorities.

St Helena and its people are resilient and highly adaptable. We have faced many challenges before and overcome them. We are at these crossroads again where we must all do our part to ensure that the future of our Island is secured for generations to come. Let us all rise as one to meet whatever challenges lie ahead, St Helena's future will require an intensified collaboration of all, of every single organisation, every individual, we all need to get through this difficult period whilst ensuring that the most vulnerable members of society are protected, for us to successfully deliver on the promise of fulfilling transformative sustainable economic development.

Mr Speaker, I would like to thank all those who have contributed to this difficult budget process including all of the Elected Members, Directors and their staff, SHG senior officials and my team in Corporate Finance. I would like to make special mention of the Deputy Financial Secretary Nicholas Yon, Chief Secretary Susan O'Bey, Government Economist Nicole Shamier, Management Accountant Nicholas Clark and Head of Finance Services Connie Stevens who have been instrumental in presenting this budget here today.

Mr Speaker, in concluding we are all going through a very challenging period on-Island at this time but there is hope for our economy and opportunities for our people with some of the projects and activities on the horizon. We cannot know good times without knowing difficult times so let us unite in striving towards inclusive prosperity for St Helena and its people.

Mr Speaker, I beg to move.

**Financial Secretary Dax Richards**  
**SHG**  
**27 July 2018**