

## Open Agenda

Copy No:

No: 46/2020

### Memorandum for Executive Council

#### SUBJECT

Appropriation Bill 2020  
St Helena Government Budget for the Financial Year 2020/21

#### Memorandum by the Financial Secretary

#### ADVICE SOUGHT

1. **Executive Council is asked to consider and advise whether the Appropriation Bill, 2020 (Annex A) should be printed, published and presented as Government business at the Legislative Council meeting being held on 26 June 2020.**

#### BACKGROUND & CONSIDERATIONS

2. The draft Government Recurrent budget presented has been developed through the Medium Term Expenditure Framework (MTEF) process which started in June 2019, and sets out the recurrent revenue and expenditure and capital expenditure for each directorate for the Financial Year 2020/21.
3. The budget proposed is the Government's estimate of revenue and expenditure in the Financial Year 2020/21 which will be allocated to directorates to deliver outputs in accordance with St Helena's National Goals contained within the Island's 10-year Plan 2017-2027.
4. The total St Helena Government Expenditure budget for 2020/21 is £49.076 million, allocated to the services described in the 2020/21 Estimates (Annex B). This is broken down as £48.054 million for recurrent expenditure and a further £1.022 million allocated for Capital Expenditure across directorates and service areas.
5. The total amount to be appropriated is the sum of £44.252 million for the purposes and services described in Schedule I and II to the Appropriation Bill 2020/21. The budget for Pensions & Benefits of £4.824 million forms part of the overall Government budget but does not need to be included on the Appropriation Bill.
6. The budget proposed represents an overall net increase in nominal terms in Government expenditure of £3.02 million in comparison to the previous year, an increase of 6.6%. This has primarily resulted in the additional funding provided by the UK Government via DFID of £2.5 million to support SHG in

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preparing for and mitigating against the impacts of the COVID-19 pandemic. However, there are smaller budget uplifts in certain service areas and decreases in others, the detail of which is contained in the Estimates Book 2020/21.

7. The £2.5 million DFID funding for COVID-19 is budgeted to be used for the refurbishment and construction of a Quarantine Centre at Bradley's Complex, the recruitment of technical and specialist medical support, equipment and supplies to ensure that the Island is prepared in the event of a case of COVID-19 presenting on the Island. In addition SHG has provided support to the business community, particularly those within the hospitality sector.
8. Another significant expenditure line for 2020/21 is the anticipated investment of £0.5 million in the refurbishment of and equipment for a fish processing plant following the successful signing of an MOU between SHG and an investor within the fishing industry to support the initial setup costs of the new Cooperative approach.
9. Elected Members have also made provision of an additional £0.2 million in 2020/21 for social benefits in anticipation of implementing the recommendations of the Social Security Working Group to change the definition of 'household'. Further work is required to develop the policies and this will be undertaken during 2020/21.
10. Confirmation of the Financial Aid settlement with DFID was received too late to be able to balance the budget and present it to Legislative Council before the start of the new Financial Year. As a result Legislative Council in March 2020 authorised a 'Rollover' Budget for up to four months to allow sufficient time to balance the budget and complete the necessary processes to bring the budget before formal Legislative Council.
11. Throughout this process Directors and Elected Members, through Council Committees, have had to make difficult decisions around prioritising expenditure to ensure that the significant risks identified as part of the strategic planning and budgeting process, are adequately mitigated as far as it is reasonably possible to do within the resources available.
12. Overall through reprioritising of expenditure areas and making budget cuts in others, SHG has been able to present a balanced budget for consideration.

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### FINANCIAL IMPLICATIONS

### Financing the Government Budget

13. The proposed Government expenditure budget of £49.076 million as detailed in Annex B and Schedule I and II of the Appropriation Bill will be funded by budgeted revenue of £48.326 million, which is made up of:
  - a. Customs revenue of £5.5 million,
  - b. Tax revenue of £5.436 million,
  - c. DFID Core Financial Aid of up to £26.79 million,
  - d. DFID Conditional Call Down Funding of up to £1.5 million,
  - e. DFID Financial Aid for Airport Operations of up to £3.5 million
  - f. DFID Funding for COVID-19 of up to £2.5 million; and
  - g. Other local revenue of £3.1 million.
14. The budget is also supported by a one-off withdrawal of £0.75 million from the General Reserve of the Consolidated Fund. £0.25 million is a contribution to the ICT infrastructure requirements and £0.5 million relates to the investment in fish processing equipment and refurbishment of the fish processing plant in Rupert's.
15. Local revenue forecasts have been reviewed as part of the MTEF process and projections have been based on current forecasts and economic expectations for 2020/21. There are no major changes to taxes as part of this budget, however more work is needed to understand the impacts of Covid-19 on revenue streams.
16. A three-year MOU was signed in 2019 between SHG and DFID for Financial Aid. 2020/21 represents year two of the three- year programme.
17. The total Financial Aid package from DFID is £28.29 million, this is a flat line budget on the previous year and real term reduction after taking into consideration inflation. This is broken down as £26.79 million core financial aid and a Call-down fund of £1.5 million which DFID has acknowledged could be used more flexibly during this year.

### Budget Pressures and Risks

18. There continues to be a number of significant budget pressures in the 2020/21 Financial Year and beyond which need to be carefully managed throughout the year.

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19. The full impacts of the COVID-19 pandemic on the economy is unknown. However, it is accepted that there will be impacts on local revenues as a result. In the 2020/21 Financial Year, we have already seen an impact on imports and on Customs duty. PAYE at this present time is expected to remain stable due to SHG's business support package for local businesses to ensure that they can continue to keep their employees employed. The impact on local businesses particularly in the tourism and hospitality sectors is significant with the current international travel restrictions. This will have a significant impact on business and corporation tax in the next Financial Year.
20. In addition to this, if there was to be a case of COVID-19 on the Island a reassessment of this budget will need to take place to ensure that we are able to respond to the changing needs of the Island. The budget is monitored on a monthly basis both locally at directorate level and corporately by Corporate Finance. Directorates are required to forecast revenue and expenditure to the end of the Financial Year commencing from the end of quarter 1.
21. Transporting of cargo from Rupert's Wharf to Jamestown Wharf continues to be a pressure on the recurrent budget but this is anticipated to be fairly stable during the year.
22. The TC budget has been over programmed as it is recognised that in recent years, in-year movements and changes have meant that the TC budget has historically under spent. The TC budget has been over programmed by 6% equivalent and adds additional budget pressure should this amount materialise in the year.
23. The Aeromedical evacuation and overseas medical treatment budget continue to add pressure to the budget as this is demand led. The Health Directorate continues to monitor and forecast this expenditure very closely. Work has been undertaken to rework the overseas medical treatment and aeromedical evacuation budgets based on the forecasted outturn for this current financial year. However, with the Call-down fund this risk is mitigated.
24. Further to all these risks are the funding requirements of state controlled entities. In particular St Helena Hotel Development Ltd (SHHDL). Provision has been made in the budget for £0.2 million. Executive Council has agreed to mothball the Hotel during the low season, this along with keeping the hotel open will require an additional £0.14 million which will be requested from the Call-down fund of £1.5 million. It is imperative that SHG continues to financially support SHHDL to ensure that

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they are able to meet their financing costs as this directly relates to SHG's £1.0 million guarantee on the SHHDL loan with the Bank of Saint Helena Ltd which if crystalized will require a direct call on the Consolidated Fund and place SHG's investment in SHHDL at risk.

### **ECONOMIC IMPLICATIONS**

25. The proposed Government budget supports the implementation of the 10-Year Plan and the SEDP.

### **CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES**

26. The proposed Government budget supports the Investment Policy principles.

### **PUBLIC/SOCIAL IMPACT**

27. The draft Bill will have a number of positive public and social impacts. It ensures that key public services continue.

### **ENVIRONMENTAL IMPACT**

28. There are no environmental implications of printing and publishing the draft bill and presenting as Government business at the next formal sitting of the Legislative Council.

### **PREVIOUS CONSULTATION/ COMMITTEE INPUT**

29. The proposed budget has been developed through close collaboration between Directors, Officials, Council Committees and Legislative Council.

30. Elected Members have led the process for the development of the budget and all members have been kept up to date with the development of the budget through each stage.

### **PUBLIC REACTION**

31. There is likely to be mixed public reaction to the publishing of the Bill and draft budget. There will inevitably be mixed reactions to the allocation of resources to public services and expenditure areas.

32. Most notable will probably be the investment in fish processing. The message around this allocation will need to be clearly articulated.

### **PUBLICITY**

33. The draft Bill will have to be printed and published before the next Formal Legislative Council session which is anticipated to take place on 26 June 2020. This will include being uploaded to the SHG website and distributed via the normal channels.

34. This should be referred to in radio briefing following the meeting.

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### SUPPORT TO STRATEGIC OBJECTIVES

35. The proposed budget supports the overall objective of the St Helena Island 10 Year Plan which is:

“To continue to make St Helena a wonderful place to live, work, raise children, visit and to do business.”

And supports the National Goals which are:

- a) Effective Infrastructure
- b) Altogether Safer
- c) Altogether Healthier
- d) Altogether Better for Children and Young People
- e) Altogether Greener
- f) Effective, Efficient and Accountable Public Sector
- g) Altogether Wealthier

### LINK TO SUSTAINABLE ECONOMIC DEVELOPMENT PLAN GOALS

36. The proposed budget supports the following goals of the SEDP to:

- a) Increase Exports
- b) Substitute Imports
- c) Attract Visitors and Increase Tourism
- d) Mitigate impacts of inflation on the lowest income groups
- e) Sustain and improve our Natural Capital
- f) Improve Infrastructure
- g) Develop, Maintain and Attract a Skilled Workforce

### OPEN/CLOSED AGENDA ITEM

Corporate Support  
Corporate Services

09<sup>th</sup> June 2020

37. It is recommended that this is held in Open Session.

DLR