

Memorandum for Executive Council

SUBJECT

SHG Subsidies Policy 2020

Memorandum by the Financial Secretary

- ADVICE SOUGHT** 1. **Executive Council is asked to consider and advise whether the attached SHG Subsidies Policy 2020 (Annex A) should be approved to come into effect from 1 August 2020.**
- BACKGROUND & CONSIDERATIONS**
2. St Helena Government provides a number of subsidies to organisations on the Island that deliver services to the community or make available goods that would not otherwise be available. In the 2019/20 fiscal year SHG spent almost £7.0 million on various forms of subsidies across a number of sectors.
 3. It is recognised that subsidies support the important work of organisations within the community to deliver key services for the economic and social development of the Island and that appropriate support through financial interventions contributes to the growth of key sectors within the economy.
 4. The Subsidies Policy 2020 sets out the key issues identified by stakeholders with regards to the decision making process, governance and administration of subsidies by SHG and monitoring the impacts of those subsidies. It is intended that this Policy will set the framework for governance arrangements, outline the intentions and aims of SHG in providing subsidies and provide the mechanism by which subsidies are approved and administered.
 5. Through the implementation of this Policy SHG aims to:
 - a. Ensure a fair, clear and consistent approach to the determination, allocation and award of subsidies;
 - b. Define the governance arrangements for any subsidy approved;
 - c. Ensure that the policy intention behind any subsidy is clearly articulated to key stakeholders;
 - d. Ensure the provision of all financial support through subsidies is consistent within the intervention principles and any other requirements of this policy;
 - e. Ensure that the subsidies are targeted, and are directed to the right sector, organisation or people within the community who need access to a particular set of goods

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or services.

6. This Policy is an overarching policy. Individual subsidies developed and approved under this Policy will have their own specific policy that sets out SHG's intentions, aims and objectives in relation to that intervention that include the means to measure and monitor outcomes and impact.
7. It is not the intention of this Policy to outline the specific objectives or intended outcomes of each of the current subsidies in operation or future subsidies. This will be considered and documented as part of the implementation of this Policy. The aims and objectives under this Policy set the foundation and collective basis on which all financial interventions in the form of subsidies are determined, assessed, approved and monitored going forward.
8. Under this Policy the rationale for intervening in the market in the case of a government subsidy is for one of the following Principles:
 - a. **Missing or incomplete markets:** where goods and services are not provided by the private sector leading to a failure to meet a need for a public good for example water and sewerage services, sports facilities, extracurricular education
 - b. **Negative externalities:** where one or more consumer or producer causes an effect on third parties for example controlling environmental, noise or light pollution
 - c. **Monopoly power:** If a producer has control of over 70% of the market and there is a risk of abuse of power through, for example, eliciting overly high prices, manipulation of markets or the public, government can work to develop alternatives and encourage competition
 - d. **Unstable markets:** When markets become unstable, and the Government deems market stability important to achieve economic development goals, the Government may intervene to ensure equilibrium for example providing support to businesses who have been adversely impacted by a global pandemic
9. All subsidies considered under this Policy must specify which of the four Intervention Principles described above it is seeking to address. No subsidy shall be approved unless it seeks to address one of the above Intervention Principles within a particular sector.

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10. Moving forward, through this Policy, SHG is moving away from a subsidy being defined by the organisation to which that subsidy is given, towards a model whereby the subsidy is defined by the outcome to which that subsidy aims to achieve.
11. A rigorous and robust process of appraisal through the policy process should be conducted before a subsidy is approved and each subsidy should strive to attain or work towards the following requirements:
 - a. A subsidy should seek to achieve the strategic objectives of the Government and avoid, where possible, addressing operational matters and must demonstrate an ability to address a market failure such as unstable market, incomplete market, monopoly or externality problem
 - b. A subsidy should seek, as far as it is possible to do so, to stimulate growth and sustainability in a particular sector with measurable economic or social benefits
 - c. It is imperative for public accountability and transparency that the Government is also able to demonstrate how all government subsidies meet and supports the overall aims and strategic objectives for the Island
 - d. Each subsidy must have a clear exit plan or strategy agreed beforehand between SHG and the sector/ entity (where applicable) to reduce and eventually eliminate that subsidy over time
 - e. As far as it is reasonably possible all subsidies provided by SHG should seek to target the specific businesses, sectors or groups within society that need and would benefit from the intervention.
12. It is recognised that the subsidies provided by SHG can vary in size and risk and therefore a risk-based approach has been adopted in this Policy to ensure that the appropriate level of approval is obtained. Depending on the risk level of the subsidy different controls, terms and conditions and authorisation will apply.
13. All low risk subsidies developed under this Policy shall be approved by a Council Committee and all high risk subsidies shall be approved by Executive Council. A subsidy is classified as high risk when:
 - a. The matter to be addressed is of national importance or is a cross-cutting matter affecting a high proportion of the population;
 - b. The value over the life of the subsidy is expected to be greater than £500,000 or is unknown;
 - c. The duration is greater than one year; or

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- d. The process by which it is to be administered is complex e.g. administered through an additional allowance under the tax legislation.

14. A separate Procedures document is being developed that sets out the detailed procedures for applications, submissions and notification of decisions.

15. Executive Council is asked to approve the attached Subsidies Policy (Annex A).

FINANCIAL IMPLICATIONS

16. There are no direct financial implications resulting from this decision. Annex B shows the current level of subsidies provided by SHG.

17. The Subsidies Policy is an overarching policy. Each subsidy that will be approved through this overarching Policy will have its own identified outcomes and financial considerations which will be considered at that point in time.

ECONOMIC IMPLICATIONS

18. Direct and indirect financial interventions made by SHG through subsidies is a legitimate and often effective means to support and influence behaviours and activities within the community and therefore where the private sector cannot provide the needed goods or services without subsidy it is not unreasonable to assume that SHG will continue to receive requests and proposals for subsidies in the development of policies to ensure that the best outcomes are achieved for the Island.

19. Each subsidy that will be approved through this overarching Policy will have its own identified outcomes and economic considerations which will be considered at that point in time.

20. The new Subsidies Policy provides an opportunity for new start-ups to provide a service, initially with the support of a Government subsidy with the view to becoming self-sustainable in the future.

CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES

21. The Subsidies Policy is consistent with the following Investment Policy Principle:

5. Promote fair, consistent and transparent decision making.

PUBLIC/SOCIAL IMPACT

22. There are no public or social impacts resulting from this decision. Each subsidy that will be approved through this overarching Policy will have its own identified outcomes and social considerations which will be considered at that point in

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time.

- ENVIRONMENTAL IMPACT** 23. There are no environmental impacts associated with this decision. Each subsidy that will be approved through this overarching Policy will have its own identified outcomes and environmental considerations which will be considered at that point in time.
- PREVIOUS CONSULTATION/ COMMITTEE INPUT** 24. Consultation has been made with Chairperson's Assembly as this is a cross cutting policy.
- PUBLIC REACTION** 25. There is unlikely to be any public reaction to this decision. Members of the public will more likely be interested to know how they, as individuals, will benefit from the payment of SHG subsidies to different entities.
- PUBLICITY** 26. Publicity should be made through the Media Briefing following the ExCo meeting. If the Subsidies Policy is approved, the Policy should be made available on the SHG website. It is also recommended that separate publicity around the new Policy including the new model of appraisal and the four Intervention Principles is published.
- SUPPORT TO STRATEGIC OBJECTIVES** 27. This paper supports Strategic Objective 6.1- *Ensure effective governance through efficient and effective systems and processes.*
- LINK TO SUSTAINABLE ECONOMIC DEVELOPMENT PLAN GOALS** 28. In itself this Policy does not contribute to a particular SEDP goal however the subsidies that are approved under this overarching Policy may contribute to the achievement of one or more of the SEDP goals.
- OPEN/CLOSED AGENDA ITEM** 29. Recommended for the Open Session.

DLR

Corporate Support
Corporate Services

25th June 2020

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