

## OPEN AGENDA

Copy No:

No: 40/2021

### Memorandum for Executive Council

#### SUBJECT

Appropriation Bill 2021  
St Helena Government Budget for the financial year 2021/22

Memorandum by the Financial Secretary

#### ADVICE SOUGHT

1. **Executive Council is asked to advise whether the Appropriation Bill, 2021 should be printed, published and presented as Government business at the Legislative Council meeting to be held on 16 July 2021.**

#### BACKGROUND & CONSIDERATIONS

2. The Appropriation Bill 2021 (Annex A) sets out the amounts necessary to deliver public services for the financial year 2021/22 based on the work undertaken through the Medium Term Expenditure Framework (MTEF) process which started in July 2020.
3. The budget proposed is the Government's estimate of revenue and expenditure in the financial year 2021/22 which will be allocated to portfolios and directorates to deliver outputs and outcomes as set out in Council's Strategic Priorities and St Helena's National Goals contained within the 10-year Plan 2017-2027.
4. The total St Helena Government Expenditure budget for 2021/22s £48.462 million, allocated to the services described in the 2021/22 Estimates (Annex B). This is broken down as £46.851 million for recurrent expenditure and a further £1.611 million allocated for Capital Expenditure across directorates and service areas.
5. The total amount to be appropriated is the sum of £43.16 million for the purposes and services described in Schedule I and II to the Appropriation Bill 2021/22. The budget for Pensions & Benefits of £5.302 million forms part of the overall government budget but does not need to be included on the Appropriation Bill.
6. Annex C provides a high level summary of the proposed Budget for 2021/22. The budget proposed represents an overall decrease in nominal terms in government expenditure of £0.614 million in comparison to the previous year. However, the 2021/22 budget excludes the full Foreign & Commonwealth Development Office (FCDO) contingency funding whereas the

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2020/21 budget included the £1.5 million. This means that comparing on a like-for-like basis the budget has only decreased by £0.114 million.

7. Confirmation of the Financial Aid settlement with FCDO was received too late to be able to balance the budget and present it before 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.
8. 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.
9. This means that despite specific funding for COVID-19 not being available this financial year as in the previous financial year, a similar level of expenditure has been maintained. This is primarily due to the cost of maintaining access to the Island through the charter flight arrangements until the end of the financial year. The revenue associated with the charter flights therefore allows this level of expenditure to continue year on year.
10. Other key budget provisions this year includes £0.205 million in for social benefits in anticipation of implementing the recommendation of the Social Security Working Group to change the definition of 'household' from October 2021 and an estimate of the additional cost to implement institutional arrangements under a ministerial form of government. Both policies present a budget pressure for next year because only partial costs are included in this financial year's budget whereas the full cost will apply for next year.
11. Overall through reprioritising of expenditure areas and making budget cuts in others, SHG has been able to present a balanced budget for consideration.

### FINANCIAL IMPLICATIONS

#### Financial Aid

12. A three-year MOU was signed in 2019 between SHG and FCDO for Financial Aid. This is the final year of that three-year programme.
13. The financial aid package in terms of core financial aid remains the same as the previous financial year at £26.79 million. Up to £3.0 million is now available for St Helena Airport operations which is £0.5 million less than in previous financial years which

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better reflects the recurrent costs going forward.

14. FCDO has once again provided contingency funding on a call down basis at an increased level of £2.0 million. This funding will be called upon if the budget risks identified during the planning stage materialises. As part of the financial aid discussions it was agreed that this fund should be expanded to include, in addition to litigation or legal costs associated with historical negligence cases, aero medical evacuation costs, overseas medical treatment costs and cost to maintain access to the Island.
15. In the previous financial year the UK Government provided £2.5 million to support SHG's response to the pandemic and was used for the refurbishment and construction of Bradley's Quarantine Centre, maintaining access to the Island, 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 coming to the Island. This additional support is no longer available as separate budget support.

### **Financing the Budget**

16. The proposed Government expenditure budget of £48.462 million as detailed in Annex B and Schedule I and II of the Appropriation Bill will be funded by budgeted revenue of £47.273 million, which is made up of:
  - a. Customs revenue of £5.393 million,
  - b. Tax revenue of £5.67 million,
  - c. FCDO Core Financial Aid of up to £26.79 million,
  - d. FCDO immediate Conditional Call Down Funding of up to £1.0 million (with £1.0 million remaining),
  - e. FCDO Financial Aid for Airport Operations of up to £3.0 million; and
  - f. Other local revenue of £5.42 million.
17. The budget is also supported by a one-off withdrawal of £1.189 million from the General Reserve of the Consolidated Fund. The breakdown of the withdrawal from the General Reserve is as follows:
  - a. £0.479 million which is funding held in the General Reserve having been over claimed in previous years from FCDO for Airport Operations and which is now agreed for capital investment for the St Helena Airport
  - b. £0.5 million relates to the investment in fish

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processing equipment and refurbishment of the fish processing plant in Rupert's that was not invested as planned in the previous financial year

- c. £0.15 million commitment for investment in essential equipment for the Community Care Complex; and
  - d. £0.06 million requirement for installation of the oxygen plant at Bradley's Hospital as part of our preparedness and response to the COVID-19 pandemic.
18. Local revenue forecasts have been reviewed as part of the MTEF process and projections have been based on current forecasts and economic expectations for 2021/22. Included within Income Tax revenue projections is the tax policy change to incorporate allowances as taxable income. The projections assume implementation from 1 October 2021. There are no other major changes to tax policy impacting the revenue budget.

### **Budget Pressures and Risks**

19. There continues to be a number of significant budget pressures in the 2021/22 financial year and beyond which need to be carefully monitored and managed.
20. As stated above two key policy areas incorporated into the budget this year is for social security with the change from 'household' to 'families' in the determination of Income Related Benefits. The full cost of implementing this policy change is unknown because it is not known who will apply for IRB after this policy has changed. Financial projections have been made and if this policy is implemented later in this financial year, the full year's cost will apply for next year creating an immediate budget pressure. This is similar to the cost of the change to the governance system where there is only part cost this year but the full year's cost will apply from next year creating an immediate budget pressure next year.
21. The full impacts of the COVID-19 pandemic on the economy is still unknown. Impacts on local revenues particularly on business tax has been factored into the revenue projections but the longer term effects are still to be determined. The Business Support package in 2020/21 has helped and this package was withdrawn at the end of March 2021. The impact on local businesses particularly in the tourism and hospitality sectors is significant with the current travel restrictions around the world and the ability of the worldwide tourism market to recover. This will have a significant impact on business and corporation tax in next financial year as well.

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22. In addition to this, if there were to be a serious case of COVID-19 on the Island or community spread of the virus, a reassessment of the budget will need to take place to ensure that we are able to respond appropriately. The budget is monitored on a monthly basis both locally at directorate level and corporately by the Treasury. Directorates are required to forecast revenue and expenditure to the end of the financial commencing from the end of quarter 1.
23. 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.
24. The aero medical evacuation and overseas medical treatment budget continue to add pressure to the budget as this is demand led. The Health Services Directorate continues to monitor and forecast this expenditure very closely. Work has been undertaken to rework the overseas medical treatment and aero medical evacuation budgets based on the forecasted outturn for this current financial year. However, with the Call-down fund this risk is mitigated.
25. 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. It is imperative that SHG continues to financially support SHHDL to ensure that 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 crystallised will require a direct call on the Consolidated Fund and place SHG's investment in SHHDL at risk.
26. The proposed Government budget supports the implementation of the 10-Year Plan and the Sustainable Economic Development Plan (SEDP).
27. The proposed Government budget supports the Investment Policy principles.
28. The draft Bill will have a number of positive public and social impacts. It ensures that key public services continue particularly Health, Education, Police, Social Care and Social Benefits.

### **ECONOMIC IMPLICATIONS**

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

### **PUBLIC/SOCIAL IMPACT**

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- ENVIRONMENTAL IMPACT** 29. The Appropriation Bill, 2021 will ensure that core SHG environmental functions and services are continued.
- PREVIOUS CONSULTATION/ COMMITTEE INPUT** 30. The proposed budget has been developed through close collaboration between Directors, Officials, Council Committees and Legislative Council.  
31. 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** 32. There is likely to be mixed public reaction to the publishing of the Bill and draft budget. There will be inevitably be mixed reactions to the allocation of resources to public services and expenditure areas.
- PUBLICITY** 33. The draft Bill will have to be printed and published before the next Formal Legislative Council session which is scheduled to take place on 16 July 2021. This will include being uploaded to the SHG website and distributed via the normal channels.  
34. If the Bill is approved to be taken to formal LegCo, publicity will follow via a press release.
- 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.”*  
36. And supports the National Goals which are:
- Effective Infrastructure
  - Altogether Safer
  - Altogether Healthier
  - Altogether Better for Children and Young People
  - Altogether Greener
  - Effective, Efficient and Accountable Public Sector
  - Altogether Wealthier

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### LINK TO SUSTAINABLE ECONOMIC DEVELOPMENT PLAN GOALS

37. The proposed budget supports the following goals of the SEDP to:
1. Increase Exports
  2. Substitute Imports
  3. Attract Visitors and Increase Tourism
  4. Mitigate impacts of inflation on the lowest income groups
  6. Sustain and improve our Natural Capital
  7. Improve Infrastructure
  8. Develop, Maintain and Attract a Skilled Workforce

### IMPLEMENTATION OF POLICY/ LEGISLATION

38. Accounting Officers have been made aware of the proposed budget for their Head of Expenditure. Subject to the final approval of the Appropriation Ordinance 2021, these budget limits will be applied for the public service.

*DLR*

### OPEN/CLOSED AGENDA ITEM

39. It is recommended that this is held in open session.

Central Support  
Service

*29<sup>th</sup> June 2021*

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