

AIDE MEMOIRE: Development Assistance Planning Mission, 26th Feb - 6th March 2007

1. A UK Government team (HMG) comprising Malcolm Geere (DFID Programme Manager, South Atlantic), Nirosha Gaminiratne (DFID Economic Adviser), Caterina Alari (DFID Governance Adviser) and Amanda Ross McDowell (FCO Desk Officer) visited St Helena between the 26th February and 6th March. The team was supported on island by Eddie Palmer, DFID representative to St Helena. The team's main objectives were to review:

- the use of budgetary aid over the last year and agree, subject to Ministerial and St Helena Government (SHG) Executive Council (ExCo) approval, a three-year package of development assistance for 2007/08-2009/10
- the draft Sustainable Development Plan (SDP) and departmental business plans, and discuss a framework for monitoring progress towards implementing national and departmental reform programmes

2. Meetings were held with the Governor, elected Members, SHG officials, private sector and civil society organisations. The team was very grateful for the time and valuable insights provided by all the people and organisations met. This Aide Memoire records the issues discussed and agreement reached with ExCo and LegCo. The team would welcome its publication to a wider audience.

Background

3. HMG and SHG agreed last year to move to a three year framework to improve budget predictability and planning on the basis of production of an SDP covering FY2007/08-2009/10 and beyond. This move resulted from a greater clarity about the implications of air access, particularly the wider development that needs to take place in St Helena in parallel with the airport construction and a clearer elaboration of strategic direction by the drafting of the SDP.

4. Last year's DAPM mission reached agreement with SHG on a development aid package for 2006/07 of £14.761 m, a 12% increase on the previous settlement. Discussions focussed on reaching agreement on an appropriate settlement based on the reasonable assistance needs of St Helena over 2007/08-2009/10.

5. The aim of this year's DAPM is to start to put in place a new partnership to lay the foundations for the new era that St Helena is entering with the introduction of air access and the prospects for transforming the economy. The DAPM team recognises the implications this has for the scale of development assistance required and is seeking the approval of UK Ministers and senior management for significant front-loading of investment. The team expects to have a decision on this by mid-year. It is not guaranteed at this stage. The more the team can demonstrate to Ministers in London a commitment on the part of SHG to real, sustained and in places fundamental reform, as outlined in the SDP and to the setting of mutually agreed progress indicators, the greater the likely endorsement by Ministers.

Issues discussed

6. The mission welcomed progress made by SHG towards developing the SDP and discussion of how the plan's objectives were reflected in departmental business plans, operational plans and budget bids. A target date of June was agreed for finalising the strategy following wide consultation on the draft plan with the private sector and civil society.

Realistic indicators will need to be agreed in order to monitor progress against implementation.

7. The DAPM team welcomed presentations by ExCo, SHG Departments and Committees outlining what they had delivered against achievable benchmarks set during last year's mission (such as review of fees and charges), as well as their priorities over the next three years. The team noted continuing concerns regarding capacity constraints across government, declining and ageing population, effectively out-sourcing government functions, as well as on-going difficulties with recruiting and retaining staff. The team took the opportunities to discuss these further with politicians and officials. The team welcomed the proposals put forward by various departments (agriculture, education, energy division within PWSD and police) to restructure activities in pursuit of expenditure savings and/or streamlining government operations.

8. During consultations with individuals and organisations representing the private sector and civil society the team noted the wish to be more fully involved in consultations on policy issues with government and the difficulty experienced competing for skills and business with the public sector. Civil society organisations expressed their willingness to actively contribute to the sustainable development prospects for St Helena. SHG's view was that they had consulted widely on issues such as investment and tourism policies and various legislative bills. All parties would need to ensure effective consultation and positive working relationships to enable St Helena to maximise the benefits arising from major forthcoming investments.

9. Within this context, and in view of the continuing decline in population and rising recurrent budget and aid settlements over previous years, which have not resulted in significant growth, the DAPM team and SHG recognise the need for a new partnership requiring a shift in the way of working.

New Partnership and New Deal

10. "Business-as-usual" has not delivered expected benefits in terms of reversing out migration and loss of skilled staff. While there are some early signs of expansion in the private sector this needs to be further nurtured if it is to become the main driver of economic growth. HMG is committed to working with SHG to take the necessary policy measures and decisions to reduce the footprint of the public sector. This will release resources for activities that will permit genuine economic growth and investment. Progress will be matched by a front-loading of capital funding from HMG. The team agreed that production of the SDP provided the strategic framework to move to a three-year package of support for 2008/09-2009/10. The three-year rolling framework will be reviewed every two years, with the final year of each settlement becoming the first year of the next settlement.

11. As an incentive to implement policy decisions that would enable SHG to deliver on the SDP and maximise economic benefits flowing from airport construction and related development, SHG and the DAPM agreed:

- a) SHG will be able to retain and reallocate any budgetary savings in the recurrent budget made from efficiency measures and/or higher domestic revenues within the three-year framework. However, the recurrent budget is a hard budget ceiling, which means that any overspend will have to be met by in-year reprioritisation or expenditure savings by SHG.
- b) HMG will front load capital investment, which will be linked to progress against mutually agreed progress indicators to be reviewed and updated annually. Both the indicators and the level of additional capital investment will be agreed by mid year. Front loading does not imply additional capital spend over a 20 year period but rather a more beneficial profiling of capital expenditure during that period to maximise benefits from air access.

12. To implement the SDP, all Departments are expected to produce business plans, which are linked to the SDP and achievable within existing resources. Business Plans

should also have indicators against which progress can be monitored and proposals to rationalise staffing structures, release vacancies and retain and attract quality staff as part of a smaller establishment as appropriate. Any savings generated by efficiency of Departments will be retained by SHG for reallocation in accordance with SHG priorities. The DAPM team encouraged Committees and Departments to identify progress indicators that are challenging, realistic and can be readily monitored. Achievement of these indicators will be reviewed annually. Achieving the indicators will trigger the release of front-loading of capital investment funds in addition to the agreed framework in line with priorities arising from the infrastructure review and discussions with the Chief Development Officer.

Support for the New Deal

13. The DAPM team acknowledges current capacity constraints, which may act as a barrier to delivery of the SDP and achievement of the agreed progress indicators. HMG will provide funds for short and long term TC in key areas, the expansion of the key post scheme and support for private sector development, including tourism. A public service modernisation programme to increase efficiency and effectiveness of service delivery and to review the size, structure and functions of the public service will also be funded.

14. As a result of discussions held during the week, the DAPM team also recognises that within the first year of this framework in order to progress structural reforms SHG will need to take a number of preparatory measures in areas such as: pension reform, employment law, tax reform, monopoly and other regulations, cost recovery, outsourcing, strengthening of statistical systems and Departmental restructuring.

2005/06-2006/07 budget

15. During last year's discussion SHG anticipated a balanced budget for 2005/06. The actual out-turn presented during the mission indicated a surplus of £733 k due to a combination of under spending and higher than anticipated domestic revenues. Although SHG's control and management of finances is commendable the team concluded that under spending reflected capacity constraints, first quarter constraints on new spending and realisation of efficiency savings at Departmental level. HMG allowed these savings to be reinvested in 2007/08 in other SHG priority projects. Management accounts to the end of January 2007 suggest the outturn for the current year will be within budget.

Proposed settlement

16. The team will recommend for Ministerial approval an agreed minimum package for 2007/08-2009/10 of £16.15 m, £ 17.9 m, £18 m. This represents an increase in year one of 9.4% on last year's aid settlement and a 22% increase from 2006/07 to 2009/10. Details are as follows.

17. The grant in aid comprises £7.6 m, £7.85 m, £8.1 m. This permits an increase in departmental expenditure and assumes domestic revenues growing modestly over the three-year framework period.

18. The mission agreed a shipping subsidy of £2.58 m, £3.08 m, and £2.89 m over the next three years with SHG on the basis of the current schedule arrangements. This is based on conservative estimates of passenger and freight revenues and includes provision for known Capital Expenditure. Should HMG require a revised schedule to be introduced DFID will revisit the agreed subsidy level accordingly.

19. The provision for Technical Co-operation is £4.12 m, £ 5.32 m, and £5.41 m. This includes individual long term TCO, short term TC, health and education link programmes and other DFID funded programmes (such as the public service modernisation programme)

and provision for new key posts. This major increase, of 87% from 2006/07 to 2009/10, recognises the capacity constraints under which SHG works. Efforts will be made to transfer new contracts (Chief Secretary, Financial Secretary and Attorney General) onto the SHG recurrent budget with an equivalent transfer of funding from the TC budget.

20. The level of Development Aid will be £1.85 m, £1.65 m, £1.6 m. This does not include the incentive package to be disbursed on the basis of progress against mutually agreed progress indicators. The level of incentive will be finalised mid year and is expected to permit a front-loading of capital investment needs.

21. The principle of no claw back of funds applies to the recurrent budget and shipping subsidies.

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Jamestown, St Helena, 5th March 2007

Annex 1 Proposed aid package for 2007/08-2009/10

	2006-07 Budget	Proposed budget 1			NOTES
		2007-08	2008-09	2009-10	
Departmental expenditure	13810	14372	14777	15191	2
Domestic revenue	6445	6772	6927	7091	
Basic budget deficit	7365	7600	7850	8100	
Shipping subsidy	3056	2582	3080	2890	3
Health Link	1200	1500	1700	1800	
Education Link	500	556	500	500	
Other Long Term TC	800	1515	2570	2560	4
Short-term TC	390	350	350	350	
New Key Posts		200	200	200	5
Total Technical Cooperation	2890	4121	5320	5410	
Development Fund	1350	1802	1497	1340	
AVES		48	153	260	
Provision for restructuring	100				
Total development expenditure	1450	1850	1650	1600	
TOTAL HMG CONTRIBUTION	14761	16153	17900	18000	
Plus Incentive Package		TO BE AGREED			6

Notes:

1. Excludes all activities funded out of air access budget as set out in the Project Memorandum: procurement of airport, procurement and first five years of operation of air service, management costs, any required changes to legal and regulatory framework and tourism marketing.
2. Floor for domestic revenues, as presented in SHG 3 year budget estimate to represent. Expenditure projections represent a ceiling unless higher revenues are achieved.
3. Shipping subsidy provides for all known capex spending as of end FY 2006/07, apart from unexpected events outside the control of SHG, which may necessitate additional expenditure.
4. Efforts will be made to transfer new contracts (Chief Secretary, Financial Secretary and Attorney General) onto the SHG recurrent budget with an equivalent transfer of funding from the TC budget.
5. Provision for new key posts will be disbursed as grant-in-aid
6. Incentive package will be subject to Ministerial approvals and agreed progress indicators

