Report
by the Comptroller
and Auditor General

Department for International Development

Realising the benefits of the St Helena Airport project
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Department for International Development

Realising the benefits of the St Helena Airport project

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office
27 May 2016
Our investigation considers the likelihood of the Department for International Development and the St Helena Government realising the expected benefits of a project to build and then operate an airport on the island of St Helena.

Investigations
We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.
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This report can be found on the National Audit Office website at www.nao.org.uk

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What this investigation is about

1. This investigation considers the likelihood of the Department for International Development (the Department) and the St Helena Government realising the expected benefits of a project to build an airport on the island of St Helena. St Helena is a small self-governing UK Overseas Territory in the middle of the South Atlantic. The island has been in economic decline for over 40 years and its population shrank by 20% between 1976 and 2008, a trend which has since reversed. These factors, combined with the island’s physical inaccessibility, have led to St Helena having a substantial budget deficit and long-term financial dependency on the UK government.

2. The government’s long-standing policy is to meet the reasonable assistance needs of the United Kingdom’s Overseas Territories, where financial self-sufficiency is not possible. This responsibility flows from international law including the Charter of the United Nations. It also flows from the shared history of the United Kingdom and its Overseas Territories and a political commitment to the wellbeing of all British nationals, and has been set out in government White Papers since the 1960s, most recently in the 2012 Overseas Territories White Paper.

3. The Foreign & Commonwealth Office has lead responsibility for the constitutional relationship between the UK and its 14 Overseas Territories. The Department provides financial and technical assistance to the three Overseas Territories which are eligible for official development assistance. The Government’s aims for Overseas Territories are to ensure basic services, which in the case of St Helena includes maintaining access for its citizens, and to help them become economically self-sufficient. The second aim should reduce and eventually remove the need for subsidies from the UK government.

4. In 2015-16, the Department gave St Helena a subsidy of approximately £17 million to bridge the gap between the St Helena Government’s domestic revenues and the costs of delivering its public services. It also provided further funding of £11 million for the Royal Mail Ship (RMS) St Helena (which currently provides the only regular cargo and passenger services to the island), to help attract skills and experience not available on the island, and for capital projects.

5. In line with this policy, the Department is funding a £285.5 million design, build and operate contract for an airport in St Helena to improve the island’s accessibility, supporting development of its tourist industry. The Department anticipates that, if the airport boosts the tourist industry as projected, the additional income generated will help to revive St Helena’s economy. The island will then become self-sufficient, no longer requiring a subsidy from the Department.
The airport is now built, and the St Helena Government had planned to start operating it in May 2016. In April 2016, the St Helena Government announced that further safety and operational work was required to address the impact of difficult wind conditions on landing aircraft safely. It therefore has delayed the airport’s opening date. A revised date is yet to be determined. The RMS St Helena is not due to come out of service until July 2016, and therefore can be used up to that date. The Department, with the St Helena Government, is looking at alternative access options beyond this date.

“The main driver for development of an airport and the subsequent introduction of air access is the need to revive St Helena’s failing economy and reduce St Helena’s heavy and increasing dependence on UK budgetary support, provided that this can be delivered at an acceptable cost.”

“The dearth of clear comparable precedents leads to high levels of uncertainty in the level of benefits that air access will deliver, and it must be accepted that this project is high risk.”

The Department for International Development’s business case for an airport on St Helena (2011)

Our previous work looking at the UK’s High Speed Rail projects identified issues related to assumptions in the business case, for example, around projections for passenger numbers. We looked to apply the knowledge we gained from this work to the Department’s business case for the airport.

Our investigation looks at the key assumptions in the Department’s cost–benefit analysis to support its investment in the airport. We also consider the ability of the Department, in partnership with the St Helena Government, to realise the benefits from improved access to the island that they expect the airport will provide. We have focused on three areas:

- the realism of the assumptions in the Department’s business case for the airport;
- progress with preparing the island for an increase in tourists; and
- projections for withdrawing the Department’s subsidy to the St Helena Government in its business case for the airport.

Our investigation considers the likelihood of the Department and St Helena Government realising the benefits of the project. We do not conclude on whether the project offers value for money. Our investigation does not examine the procurement process for the project, which was the subject of a gateway review by the Major Projects Authority in January 2011.

Our methods are set out at Appendix One.
### Key facts

<table>
<thead>
<tr>
<th>£285.5m</th>
<th>£27.8m</th>
<th>4,100</th>
</tr>
</thead>
<tbody>
<tr>
<td>cost to the Department for International Development of the design, build and operate contract for the airport (2011 to 2026)</td>
<td>total subsidy paid by the Department for International Development to the St Helena Government in 2015-16, excluding funding for the airport</td>
<td>number of inhabitants on St Helena</td>
</tr>
</tbody>
</table>

29,208 number of tourists projected to visit St Helena annually by 2042

150 number of tourist beds on St Helena in 2016

£246 million\(^1\) avoided cost of replacing the Royal Mail Ship St Helena (three times during the life of the airport)

£19.1 million \(/1.06\) net present value/benefit–cost ratio for building the airport in St Helena stated in the 2011 business case

2043 year when the 2011 business case stated the Department for International Development could stop paying an annual subsidy to the St Helena Government

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**Note**

\(^1\) At 2011 quarter 4 prices.
Summary

Key findings

The Department for International Development’s objectives for the project

1. The Department for International Development (the Department) supports St Helena financially through subsidies and other funding. For 2015-16, the Department estimates that it will give the St Helena Government £16.7 million to fund the gap between its revenues and the costs of its public services. It will provide a further £2.7 million to run the Royal Mail Ship (RMS) St Helena, the only way to access the island. These subsidies are supplemented by funding to help the island attract the skills it needs (£1.6 million in 2015-16) and to fund capital projects (£7.2 million).

2. The Department has clear objectives for its investment in an airport on St Helena. The Department’s aims for the airport are to maintain access and, by increasing tourism, investment and population growth, to lead to St Helena becoming financially self-sufficient. It anticipates that this will in turn remove the need for a subsidy from the UK. The Department also expects the airport to generate what it describes as non-quantified social benefits, such as improved access to healthcare. The Department recognised that it was uncertain whether the St Helena Government would deliver on its commitments in order to maximise the benefits that could be derived from air access.

The Department’s business case

3. The Department’s decision to go ahead with the project to build an airport on St Helena was based on a business case which considered different sea and air access options. These included continuing to fund access to the island by sea, via successive replacements of the RMS St Helena. In October 2011, the Secretary of State approved the business case to build and then operate an airport on the island. The direct cost to the Department of the project was estimated at £285.5 million – to design, build and operate (for 10 years) the airport.
4 The Department’s cost–benefit analysis for the airport showed a positive outcome in terms of investing in the airport. The Department’s analysis considered the cost of constructing the airport and then operating it for the 40 years, together with the cost of constructing facilities to store and distribute fuel. It also quantified benefits such as not replacing RMS St Helena, an increased number of tourists and therefore spending, and a growth in tax revenues for the St Helena Government from increased economic activity. The Department described the project’s net present value (of £19.1 million) and benefit cost ratio (of 1.06) as ‘relatively modest’ however.

5 The Department strengthened its case for proceeding with the airport when it considered non-monetised benefits, such as reversing the decline in the island’s population, access to improved medical services, and improved employment prospects. These benefits were identified by consultants commissioned by the Department and the St Helena Government. The Department concluded that “it was reasonable to assume a large net positive outcome for the project” when unquantifiable costs and benefits are taken into account. However, its own consultants concluded that the risks of these benefits not maturing were ‘considerable’.

6 The Department forecast that it would stop paying its annual subsidy to reduce the St Helena Government’s budget deficit in 2043, assuming the airport opened in 2016. The Department’s business case include provisions for other financial support – such as other capital projects – up to 2079.

7 The Department’s cost–benefit model for the project is particularly sensitive to two assumptions – the number of tourists who will visit the island once the airport opens and the amount they will spend.

- The Department’s business case presented data for the growth in tourism on four other islands. We applied these rates of growth to the Department’s model. If St Helena followed the trajectory of three of the four cases, its net present value would be positive; only if it followed the fourth case would it be negative. But the Department’s business case explains that none of the four are clear comparators and that there remain high levels of uncertainty about how tourism might grow on St Helena.

- If spending per tourist per day is £195 (a maximum amount based on the Department’s inquiries on the island in April 2016), estimated benefits exceed estimated costs. If spending per tourist per day is £82 (the minimum amount), estimated costs exceed estimated benefits.

8 The Department’s business model assumed that there would be sufficient flights and accommodation for the tourist numbers projected in the business case. The business case refers to the airport’s capacity for increased flights in line with the Department’s projections for tourist numbers. However, it did not consider the availability of accommodation for the tourists once they arrived.
Preparing the island for tourism

9 The Department agreed to finance the airport subject to the St Helena Government implementing reforms to open the island to inward investment and increased tourism. This included changes to its tax regime and to its policy on land disposals. In 2010, the Department and the St Helena Government signed a Memorandum of Understanding setting out their commitments and responsibilities. In 2012, the Department concluded that the St Helena Government was making ‘generally good’ progress against its targets in the Memorandum.

10 The St Helena Government’s ability to attract investment to support a growth in tourism has, to date, been limited. In 2014, the Department concluded that the island’s investment culture was not conducive to larger investments, and identified a number of investment risks. For example, the island did not have a proven track record of attracting tourists. A similar review in 2015 was generally more positive about the investment climate but still aired concerns.

11 St Helena has sufficient accommodation for the number of tourists projected to visit in the first six years of the airport’s operation in terms of bed numbers (assuming visitors are spread evenly over the year and that they do not stay for more than a week). But the St Helena Government recognises that it needs to improve the quality and type of accommodation on offer. It is looking to add to the stock of existing tourist accommodation by building a 30-room hotel. It aims to have this ready by the middle of 2017.

The Department’s potential future liabilities

12 The Department could incur additional costs as a result of delays to the opening of the airport. The Department and the St Helena Government are currently considering options for addressing the impact of difficult wind conditions on landing the aircraft safely. The Department has not yet forecast the additional cost of each option.

13 The Department’s estimates show that its subsidy to the St Helena Government will be less than had it decided to replace RMS St Helena. The Department has estimated that the total subsidy it will pay between 2011 and 2043 (the year work on the airport started and the year it estimates that it will no longer pay a subsidy) is £667 million. In comparison, its estimated total subsidy over the same period would be £834 million had it decided to commission successive replacements of RMS St Helena instead.

14 The Department is underwriting the cost of the air service for the first three years of its operation. The Department told us that, in order to attract interest in operating the air service from South Africa to St Helena, it had to cover the risk that demand was less than capacity for the first three years of the service’s operation. The Department’s potential liability in the first year of the airport’s operation is £1.9 million.
**Conclusion**

15 Given the limited number of precedents for building an airport in a remote location such as St Helena, estimating the likely costs and benefits of a project such as this is an inherently difficult task. The Department’s estimate of the total subsidy it will pay the St Helena Government between 2011 (when work on the airport started) and 2043 (when it forecasts its annual subsidy will end) is £667 million. Sensitivity analysis shows that the year in which the Department stops paying an annual subsidy, and the total paid, will depend on whether the estimates of, for example, tourist numbers and tourist spend are exceeded or missed.
Part One

The Department for International Development’s support for St Helena

1.1 In this part of the report we set out:

- background on St Helena;
- the Department for International Development (the Department)’s financial support for the island; and
- background on the Department’s plans to build an airport on the island.

The island of St Helena

1.2 St Helena is a small self-governing UK Overseas Territory, with a population of around 4,100 (down from 5,500 in 1987 and 4,971 in 1998). It is an island in the middle of the South Atlantic, accessible only by sea (Figure 1 overleaf). The main vessel that serves the island is the Royal Mail Ship (RMS) St Helena, which sails from Cape Town in South Africa to St Helena and Ascension Island approximately every three weeks. RMS St Helena was due to leave service in 2010, but the Department has made further investment in the ship to extend her working life to 2016, when the airport is due to open.

The Department’s financial support for the island

1.3 The Department provides financial and technical assistance to St Helena as one of three Overseas Territories which are eligible for official development assistance. The Department provides several types of financial support to the St Helena Government through a mixture of annual subsidies and multi-year funding (Figure 2 on page 13). The total amount of financial support it provides has increased significantly over the last 30 years. It has risen from around £10 million in 1998-99 to almost £28 million in 2015-16. Figure 3 on page 14 shows total Departmental spend on St Helena over the last five financial years.

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1 Ascension Island is part of the UK Overseas Territory of St Helena, Ascension and Tristan da Cunha under the sovereignty of the British Crown. It lies in the South Atlantic 700 miles northwest of St Helena and covers an area of 34 square miles.

2 Excludes capital costs associated with building the airport.
Figure 1
St Helena is an island in the South Atlantic Ocean

Note
1 Enlargement of Ascension Island and St Helena is not to scale.

Source: National Audit Office
Figure 2
The Department’s financial support for the St Helena Government

<table>
<thead>
<tr>
<th>Type of funding</th>
<th>Forecast 2015-16 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary programme aid</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>To bridge the gap between the St Helena Government’s domestic revenues collected and the costs of delivering public services on the island.</td>
<td>16.7</td>
</tr>
<tr>
<td>Contingency fund</td>
<td>1.2</td>
</tr>
<tr>
<td>To subsidise the RMS St Helena (ie the difference between operating costs and fare revenue).</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Technical cooperation</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Bringing in international expertise to provide skills and experience not available on the island: funded through Enterprise St Helena.&lt;sup&gt;3&lt;/sup&gt;</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Core support to the capital infrastructure programme – for example refurbishing the island’s hospital and improving its roads.&lt;sup&gt;4&lt;/sup&gt;</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total estimated financial support for 2015-16 (excluding the construction costs for the airport)</strong></td>
<td>27.8</td>
</tr>
<tr>
<td>Construction (phase 1) and operation (phase 2) of the airport.&lt;sup&gt;5&lt;/sup&gt;</td>
<td>24.3</td>
</tr>
<tr>
<td><strong>Total estimated financial support for 2015-16 (including the construction costs for the airport)</strong></td>
<td>52.1</td>
</tr>
</tbody>
</table>

**Notes**
1. Calculated annually.
2. Funding for multiple years.
3. Funding for 2013 to 2015 – £4.8 million.
4. Funding for 2014 to 2017 – £16.5 million.
5. Funding for 2011 to 2026 – £285.5 million.

Source: National Audit Office summary of the Department for International Development’s data
Figure 3
The Department for International Development’s financial support to St Helena, 2011-12 to 2015-16

The Department provides the St Helena Government with several different types of financial support

<table>
<thead>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other capital spend(^a)</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>St Helena Airport capital spend</td>
<td>43</td>
<td>75</td>
<td>60</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td>Other resource spend(^b)</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>St Helena budgetary programme aid(^c)</td>
<td>17</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>21</td>
</tr>
</tbody>
</table>

Notes
1. Other capital spend includes individual capital projects between 2011-12 and 2013-14 and the capital infrastructure programme from 2014-15 onwards.
2. Other resource spend includes technical cooperation expenditure.
3. St Helena budgetary programme aid includes the annual subsidy and the RMS St Helena subsidy.
4. 2015-16 values are forecasts not actuals.

Source: National Audit Office summary of the Department for International Development’s data

1.4  The Department’s subsidy for the RMS St Helena (see Figure 2) will end as soon as the air service begins. The Department told us that it would continue to fund its other programmes until St Helena’s economy has developed to such an extent that financial support is not required. The Department’s business case includes, provisions for other financial support – such as other capital projects – up to 2079.
The Department for International Development’s plans to build an airport

1.5 The Department’s aims for the UK’s financially dependent Overseas Territories are to ensure the provision of basic services and to help them become economically self-sufficient, with the aim of reducing and eventually removing the need for subsidies from the UK government.

- In 2004, the Department commissioned a feasibility study into building an airport on St Helena, with the rationale that improved access would help reverse economic decline by opening the island to increased revenues from tourism.

- In 2008, the Department paused the project because of the world financial crisis and increasing costs.

- In May 2010, the Department commissioned a report from consultants looking at options for access to improve St Helena’s economic and social sustainability.

- In 2011, the St Helena Government signed a design, build and operate fixed price contract with Basil Read, a South African construction company to build an airport on St Helena.

1.6 Key dates in the project to construct and operate an airport on St Helena are set out in Figure 4 overleaf. In Appendix Two we set out in more detail the project’s management and governance arrangements.

1.7 The total budget for the project was set at £285.5 million – £238.9 million capital expenditure (phase 1 of the project) and £46.6 million resource, or operational, expenditure (phase 2). The budget included design, build and operational costs (for the first 10 years) for the airport. It also included the costs of associated works and building a permanent wharf; a risk contingency; and management costs. As of February 2016, the Department’s forecast of the total cost to the end of the contract was £295.2 million, 3% more than the budget. The extra £9.6 million is made up of:

- £4.1 million additional capital costs; and

- £5.5 million additional resource costs.

3 For example, higher than anticipated capital costs for the Project Management Unit and Local Environment Management Plan; £16.3 million of variation orders have been offset by £5.6 million savings on the original price for phase 1 of the design, build and operate contract; £4 million returned from the risk pot; and £8.4 million from the contingency budget.

4 Additional resource costs included £5.6 million for phase 2 of the design, build and operate contract (retail price index increases plus additional costs for a fast turnaround time for the plane); £0.8 million for navigational aids; and £0.5 million for fuel contingency costs, which have been offset by £1.4 million from the contingency budget.
Part One  Realising the benefits of the St Helena Airport project

Figure 4
Key dates in the timeline for the St Helena airport project

2002
The St Helena Government undertook a formal public consultation on whether to pursue the development of an airport. 71.6% expressed a preference for air access.

2004
The Department commissioned a full feasibility study into future access options for St Helena. The study concluded that air access was the best option.

2005
The Secretary of State for International Development approved the St Helena airport on 14 March, subject to rigorous environmental assessments and acceptable contracts.

2006
The Department published a ‘design, build and operate’ tender for the airport project. All three pre-qualified contractors pulled out, citing unacceptable levels of risk.

2007
The Department published a revised tender. Two detailed tenders were received. The Department entered into detailed negotiations with the preferred bidder.

2008
The Department paused the project one week prior to contract because of the global financial crisis.

2009
The Department launched a public consultation into future access. 69% of those who responded through campaign letters or petitions and 70% of those who attended consultation meetings voted in favour of the airport.

2010
The UK coalition government agreed to re-examine the case for air access, modifying the design to reduce costs.

The Department and the St Helena Government entered into a Memorandum of Understanding setting out the reforms it would make to open the island’s economy to inward investment and increased tourism.

2011
Two firms were invited to re-submit tenders – one declined and the Department entered into direct negotiations with Basil Read.

The Secretary of State for International Development approved the construction of the St Helena Airport and the St Helena Government entered into a contract with Basil Read.

Source: National Audit Office summary of the Department for International Development's documents
1.8 The design and build phase of the contract (phase 1) is almost complete. The St Helena Government planned to open the airport in spring 2016, subject to certification by Air Safety Support International, the body responsible for civil aviation safety regulation in the UK’s Overseas Territories. On 26 April 2016, the St Helena Government announced that further safety and operational work was required prior to the official opening of the airport to address the impact of difficult wind conditions on landing the plane safely. The official opening event planned for 21 May was postponed.

1.9 On 10 May 2016, Air Safety Support International issued an operating certificate for the airport, allowing flights to begin. As part of that certification, airlines must be informed of the particular challenges in operating at the airport. In the case of St Helena, these challenges related to wind conditions that may be encountered on approaching the island. Airlines landing at St Helena are required to comply with a number of conditions relating to pilot training and experience. A revised opening date for the airport is yet to be determined.

1.10 The Department and the St Helena Government are currently considering options for addressing the impact of difficult wind conditions on the landing the aircraft safely. The Department has not yet forecast the additional cost of each option. The Department, with the St Helena Government, is also looking at alternative access options, including extending the operation of RMS St Helena (which is not due to come out of service until July 2016, and therefore can be used up to that date).

1.11 Realisation of the economic benefits set out in the Department’s airport business case depends on the St Helena Government implementing the reforms required to facilitate the development of tourism infrastructure. For example, relaxing planning laws, immigration rules and investment rules.

1.12 We have taken as our starting point the Department’s approval of the business case in 2011. Our review has focused on three issues:

- the realism of the assumptions in the Department’s business case for the airport;
- progress with preparing the island for an increase in tourists; and
- projections for withdrawing the Department’s subsidy to the St Helena Government in its business case for the airport.
Part Two

The Department for International Development’s business case

2.1 In this part of the report we review:

- the content and quality of the Department for International Development (the Department)’s business case and cost–benefit analysis for an airport on St Helena; and

- the impact of changes to two assumptions in the business case – tourist numbers and spending.

Business case and cost–benefit analysis

2.2 In May 2010, the Department commissioned a report from consultants which concluded that providing air access to St Helena by constructing an airport could lead to the island becoming economically and socially sustainable. This would happen through improved employment prospects and higher income; higher public revenues and spending; and a reversal of its current decline in population and enhancements to family life. The report also concluded that replacing RMS St Helena did not offer the same prospects. The Department calculated that the airport could lead to a 43% increase in the island’s gross domestic product between 2008 and 2020 if it opened in 2016. This compared to a 3% reduction in gross domestic product if the Department chose to continue with RMS St Helena instead. An increase in the island’s gross domestic product would lead to a reduction in the Department’s subsidy to the island.

2.3 On 25 October 2011, the Secretary of State for International Development approved the business case for St Helena Airport. The business case set out three options:

- option 1: continue with sea access by successive replacement of a purpose built passenger/cargo hybrid ship (equivalent to a ‘do nothing’ option);

- option 2: establish air access by constructing and operating a ‘long runway’ airport and supporting infrastructure; and

- option 3: establish air access by constructing and operating a ‘reduced runway’ airport and supporting infrastructure.

5 The Department found that it could reduce the length of the area required to bring overshooting aircraft to a standstill (known as the Runway End Safety Area, or RESA) from 240 metres to approximately 90 metres by using Engineered Material Arresting Systems (EMAS). Placed at the end of a runway in the form of a bed that crushes under the weight of an aircraft, the EMAS decelerates the aircraft and brings it to a safe stop within the overrun area.
2.4 The business case concluded that the reduced runway was better value for money than the long runway, but would only have a limited advantage over a replacement ship; however, the airport offered substantial non-monetised benefits, making it the preferred option in terms of long-term benefits.

2.5 The Department’s cost–benefit analysis estimated a total cost of £333.1 million between 2011 and 2055, made up as follows:

- £285.5 million for the design, build and operate contract for the airport’s construction (2011 to 2016) and operate it for the first 10 years (up to 2026 assuming it opens in 2016) – this is funded directly by the Department.
- £47.6 million for costs associated with a further 30 years of operating the airport, assuming a 40 year life for the airport.\(^6\)

2.6 The Department calculated the project’s benefits where they could be monetised (such as the income generated by the increased numbers of tourists visiting the island) as £352.2 million over the same period.

2.7 Figure 5 overleaf sets out the project’s costs and benefits in more detail. The Department’s business case used the information on costs and benefits to calculate the project’s net present value and benefit–cost ratio.

- **Net present value** is the difference between the discounted value of a project’s lifetime benefits and lifetime costs. It allows different options to be compared on a like-for-like basis. Expressed in monetary terms, a net present value greater than zero is a positive outcome.
- **Benefit–cost ratio** is over-time discounted benefits divided by over-time discounted costs. It is a measure of the relationship between total benefits and total costs and is expressed as a ratio – a ratio higher than 1 is a positive outcome.

2.8 Overall, the Department’s business case showed that the reduced runway project had a negative net present value of £46.7 million and a benefit–cost ratio of 0.86 before tourism spending was taken into account. However, it has a positive net present value of £19.1 million and a benefit–cost ratio of 1.06 if spending by tourists was included as a benefit (Figure 5). The Department described these figures as a ‘relatively modest’ indicator that the project should proceed. The Department forecast that it would stop paying an annual subsidy to St Helena in 2043, assuming the airport opened in 2016.

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\(^6\) In line with good practice for capital projects, the Department assessed the project’s costs and benefits over a 40 year period.
### Costs and benefits of building an airport on St Helena

<table>
<thead>
<tr>
<th>Description</th>
<th>Costs (£m)</th>
<th>Benefits (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital costs of the airport and associated infrastructure including a bulk fuel installation and permanent wharf; airport operating costs; airline costs; freight costs; and other costs.</td>
<td>333.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td>333.1</td>
<td></td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time cost savings – quicker journey time compared with the ship.</td>
<td>72.1</td>
<td></td>
</tr>
<tr>
<td>Resource cost savings – avoided cost of replacing RMS St Helena and savings on the bulk fuel installation and wharf which would be more expensive if built separately from the airport.</td>
<td>246.0</td>
<td></td>
</tr>
<tr>
<td>Compensation claim savings – an estimate of claims that would have been made by investors in the tourist sector if the airport was not built.</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Freight costs – a negative benefit of higher freight costs under air access as a stand-alone freight service would have to be provided if freight could no longer be shipped on the RMS St Helena.</td>
<td>-67.5</td>
<td></td>
</tr>
<tr>
<td>Indirect tax payments by non UK/returning citizens of St Helena – including passenger tax, aircraft landing tax, cruise/yacht visitor arrival tax, hotel tax and import duties.</td>
<td>25.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total benefits (excluding tourism effects)</strong></td>
<td>286.4</td>
<td></td>
</tr>
</tbody>
</table>

#### Net present value and benefit–cost ratios (excluding tourism effects)

<table>
<thead>
<tr>
<th>Description</th>
<th>Net present value (excluding tourism effects)</th>
<th>Benefit–cost ratio (excluding tourism effects)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net present value (excluding tourism effects)</td>
<td>-£46.7</td>
<td>0.86</td>
</tr>
<tr>
<td>Tourism spend.</td>
<td>65.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total benefits (including tourism effects)</strong></td>
<td>352.2</td>
<td></td>
</tr>
</tbody>
</table>

#### Net present value and benefit–cost ratio (including tourism effects)

<table>
<thead>
<tr>
<th>Description</th>
<th>Net present value (including tourism effects)</th>
<th>Benefit–cost ratio (including tourism effects)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net present value (including tourism effects)</td>
<td>£19.1</td>
<td>1.06</td>
</tr>
</tbody>
</table>

### Notes

1. Establishing air access through the construction and operation of a reduced runway airport and supporting infrastructure.
2. Costs and benefits are taken at real or inflation adjusted prices and the comparison of options is done by net present value and benefit–cost ratio with values discounted to second quarter 2011 prices and values.
3. Tourism effects describes the increase in tourist numbers and spending.
4. The Department’s calculations take account of ‘leakage’ (spending generated by tourists that leaves the island. For example, spending on imported goods, through payments to migrant workers, and through foreign-owned assets; and the ‘opportunity cost of employment’ (an assessment of whether a new job generated by the expansion in tourism displaces employment elsewhere on the island).
5. Other costs include: life cycle cost fund (replacement and maintenance expenditure); provisional sum for wharf; capital investment to maintain RMS St Helena to 2015; institutional costs; a project management unit; environmental monitoring; Wirebird action plan; archaeological investigations; local access office; and procurement support.

Source: National Audit Office summary of the Department for International Development’s 2011 business case for an airport on St Helena
2.9 The business case also included non-monetised benefits identified in the socioeconomic impact assessment of the airport in 2007, such as:

- improved employment prospects and higher income for the citizens of St Helena, known as ‘Saints’;
- more private sector investment and greater public revenue to finance public services such as education and health;
- improved medical services and enhanced family life;\textsuperscript{7} and
- a reversal in the decline in population.

2.10 The non-monetised benefits were based on a review commissioned by the Department and the St Helena Government. This review was considered by the consultants responsible for the cost–benefit analysis in the business case. The consultants concluded that “many of the major beneficial impacts recorded in the [review] while...possible are far from assured. The risks on this front are considerable”.

2.11 We found that the Department’s cost–benefit model followed good practice set out in HM Treasury’s Green Book guidance.\textsuperscript{8} For example, the model uses the Green Book discount rate and calculates costs and benefits in real or inflation adjusted prices where appropriate. The model also sets out the net present value and benefit–cost ratio associated with the different options, under a central case and sensitivity analysis.

2.12 We reviewed the assumptions built into the model including two macroeconomic indicators, 13 assumptions related to airport capital and operating costs, four assumptions about avoided costs and 16 assumptions concerning the monetised benefits such as projections for different passenger types, length of stay and average spend. The assumptions are listed in Appendix Three. The Department’s assumptions for airport capital and operating costs seem realistic, given that the costs were taken from an almost finalised tender, and the contractor took the risk for any additional costs arising from problematic ground conditions. We concluded that the remaining assumptions relating to costs and monetised benefits, other than for tourist numbers and spending, were:

- evidence-based;
- supported by a sound rationale; and
- calculated using robust methodologies.

2.13 The rest of Part Two examines the Department’s assumptions about tourist numbers and spending in more detail.

\textsuperscript{7} Reduction in family breakdown as the labour force is no longer forced into offshore employment.

Projected tourist numbers

2.14 In our report *The Completion and Sale of High Speed 1* we set out how organisations can face difficulties in basing a business case for a project on demand forecasts where there is only a limited track record on which to base estimates.\(^9\) For example, we described the High Speed 1 business case as novel, highlighting the absence of comparative data on likely demand.

2.15 In 2005, the Department’s consultants estimated tourist numbers as part of the feasibility study for the airport. Based on primary research into travel by Saints,\(^10\) a survey of tour operators, and a study of a number of similar island destinations, they forecast that just under 59,000 tourists would visit the island each year within 25 years of the airport opening.

2.16 In 2010, the Department’s Chief Economist raised concerns over the high level of uncertainty about whether the island would achieve the tourism growth and numbers estimated in 2005 and commissioned a further review. The Department commissioned a second consultancy firm to complete the review. It reduced the estimated growth rates in tourist numbers for years six to 27 of the project to account for possible optimism bias. These changes reduced the original estimate of 59,000 tourists by around 50% to 29,208 by 2041 (again, 25 years after airport opening in 2016). The Department used this analysis in the business case it presented to ministers. Neither the Department nor its consultants undertook any new primary research to underpin its assumptions. To provide context, the actual number of tourists visiting St Helena in the ten years from 2001 and 2011 fluctuated between 750 and 1,000 tourists per year. The feasibility study projected tourist numbers of around 3,300 per year in 30 years time without the airport – i.e. ship access only.

2.17 The Department’s business case acknowledged passenger forecasts as being one of two primary risks with the project.

**The Department for International Development’s business case for St Helena Airport (2011)**

“There are two key areas of uncertainty. St Helena is a largely untested tourist destination...The other key area of uncertainty is the extent to which St Helena will be able to maximise the benefits that could be derived from air access.”

2.18 The Department concluded in its business case that the case for the airport was “balanced” and that, on the basis of what it describes as quantifiable factors (see Figure 5), the case was “marginally positive”. The Department concluded that “a significant part of the argument [for proceeding with the airport project] seemed... to rest on the unquantifiable, in particular the potentially transformational impact on the island of resolving once and for all the air access issue.”

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10 See paragraph 2.9, 1st bullet.
2.19 The Department’s business case included data for the growth in tourist numbers on four other islands following an improvement in air access (rather than following the introduction of air access, as is the case in St Helena) - Easter Island (famous for its monumental statues); the Galapagos Islands (known for their wildlife); the Solomon Islands (developing as a tourist destination); and Cape Verde (nine hours direct flight from London). Annual growth rates in the period that followed access improvement for which the business case gathered data range from 7.7% for Cape Verde to 23.5% for the Solomon Islands. The Department predicted an annual growth in tourist numbers of 17.2% for St Helena (Figure 6).

2.20 Figure 7 overleaf shows what happens when the annual equivalent growth rate for the four islands in Figure 6 are applied to the Department’s assumption in its model for the number of tourists in the base year. In its model, the Department capped the number of tourists after 27 years’ growth – 29,208 – as it considered any analysis beyond that point was uncertain. Subsequently the Department told us that it considers this number of tourists a ‘prudent and cautious estimate of the number of tourists that the island will be able to sustain’ (assuming accommodation expands to meet that growth). We have therefore capped the total number of tourists under each scenario at this level.

2.21 The Department’s business case concluded that the number of flights could increase in line with the projected expansion in tourist numbers. However, it did not present similar arguments as to whether the island had sufficient accommodation for tourists.

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**Figure 6**

St Helena tourist growth projection compared with examples of island tourism growth used in the Department’s business case

<table>
<thead>
<tr>
<th>Island</th>
<th>Number of tourists in base year</th>
<th>Number of tourists after access improvement¹</th>
<th>Number of years after access improvement</th>
<th>Factor by which tourism has increased²</th>
<th>Equivalent annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solomon Islands</td>
<td>5,500</td>
<td>19,500</td>
<td>6</td>
<td>3.5</td>
<td>23.5</td>
</tr>
<tr>
<td>St Helena</td>
<td>959</td>
<td>21,795</td>
<td>20</td>
<td>22.7</td>
<td>16.9</td>
</tr>
<tr>
<td>Easter Island</td>
<td>5,000</td>
<td>50,000</td>
<td>20</td>
<td>10.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Galapagos</td>
<td>15,000</td>
<td>160,000</td>
<td>24</td>
<td>10.7</td>
<td>10.4</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>45,000</td>
<td>198,000</td>
<td>20</td>
<td>4.4</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Notes
1 For St Helena the number of tourists visiting after access improvement is a projection. For the other four islands actual numbers of tourists are used.
2 Calculated by dividing the number of tourists after access improvement by the number of tourists in base year.

Source: National Audit Office summary of the Department for International Development’s material supporting its 2011 business case for the airport on St Helena
Figure 7
Projected tourist passenger numbers based on growth in tourist numbers for comparable islands used in the business case

Number of tourist passengers

Source: National Audit Office analysis using the Department for International Development’s model of costs and benefits
Projected tourism spend

2.22 The projected tourism spend of £65.8 million (Figure 6) set out in the Department’s business case is based on the assumption that tourists arriving by air will spend £172 per day in 2016, increasing by 1% a year in real terms, during their visit to the island. This amount is based on figures from the Department’s 2004 feasibility study for access options for St Helena, which suggested two levels of spending:

- An average of £124 per day for travellers staying in existing accommodation.
- An average of £171 per day for travellers staying in new accommodation.

In its business case, the Department used an intermediate figure of £140 (at 2008 prices) inflated to £172 to reflect price increases.

2.23 In April 2016, the Department researched costs for accommodation, food, tourist activities, and car hire and taxi rates. Its research suggests spending per day per tourist could range from £82 to £195. These costs are subject to changes in market conditions. For example, increases in the availability of accommodation might reduce its cost.

2.24 Figure 8 shows the impact of different growth rates in tourist numbers and daily spend on the airport project’s net present value. It shows the sensitivity of the net present value calculation for the airport project to changes in these key assumptions. In Part Four, we set out the impact of changes to these assumptions on the Department’s ongoing financial subsidy to St Helena once the airport opens.

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**Figure 8**
Impact of different growth rates in tourist numbers and projections for tourist spending on the net present value for the airport project

<table>
<thead>
<tr>
<th>Annual growth in tourist numbers</th>
<th>Spending per tourist per day¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected in the Department’s business case (16.9%)</td>
<td>£82²</td>
</tr>
<tr>
<td></td>
<td>£172¹</td>
</tr>
<tr>
<td></td>
<td>£195²</td>
</tr>
<tr>
<td>Assuming annual growth achieved by the Solomon Islands (23.5%)</td>
<td>£6.1m</td>
</tr>
<tr>
<td></td>
<td>£49.7m</td>
</tr>
<tr>
<td></td>
<td>£60.6m</td>
</tr>
<tr>
<td>Assuming annual growth achieved by – Easter Island (12.2%)</td>
<td>£10.2m</td>
</tr>
<tr>
<td></td>
<td>£19.2m</td>
</tr>
<tr>
<td></td>
<td>£26.6m</td>
</tr>
<tr>
<td>Assuming annual growth achieved by The Galapagos (10.4%)</td>
<td>£15.4m</td>
</tr>
<tr>
<td></td>
<td>£9.3m</td>
</tr>
<tr>
<td></td>
<td>£15.6m</td>
</tr>
<tr>
<td>Assuming annual growth achieved by Cape Verde (7.7%)</td>
<td>£26.3m</td>
</tr>
<tr>
<td></td>
<td>£11.3m</td>
</tr>
<tr>
<td></td>
<td>£7.5m</td>
</tr>
</tbody>
</table>

**Notes**

1. The Department’s assumption of spend per tourist per day in its business case.
2. The lower and upper amounts of spend per tourist per day identified by the Department in April 2016.
3. The net present value calculation assumes an annual growth in spending per tourist per day of 1% in real terms.

**Source:** National Audit Office analysis of the Department for International Development’s cost–benefit model
Preparing St Helena for tourism

3.1 In this part of the report we look at the:
- preparations for increased tourist numbers;
- progress in attracting investment;
- impact of flight and accommodation capacity; and
- island’s marketing strategy.

Preparing for increased tourist numbers

3.2 In the strategic case for the airport project, the Department recognised that the extent to which the St Helena Government would be able to maximise the benefits that could be derived from air access was a key area of uncertainty. It identified that attracting investment in tourism would require the St Helena Government to revise significantly its policies on land ownership, its investment incentives, and its tax regime. It would also require a step change in the way in which it processed applications for residence and work permits, planning and development permission.

3.3 The Department agreed to finance the airport to enable economic growth on the island, subject to the St Helena Government implementing “the reforms needed to open the island’s economy to inward investment and increased tourism”. In 2010, the Department and the St Helena Government signed a Memorandum of Understanding setting out their respective commitments and responsibilities.

- The Department agreed to support the St Helena Government by providing appropriate funding for technical cooperation to meet the commitments in the Memorandum of Understanding.11

- The St Helena Government confirmed its commitment to establish an appropriate legislative and policy environment for land use and disposal, immigration and investment, with the aim of making these areas less restrictive and removing existing barriers to inward investment.

11 Bringing in international expertise to provide skills and experience not available on the island.
3.4 In September 2011, a team from the Department, independent of the project team, considered whether the St Helena Government had met the targets of the Memorandum of Understanding with milestone dates up to June 2011. A positive assessment was a necessary condition for the Department signing the airport contract.

3.5 The reviewers concluded that the St Helena Government had met the targets, that prospects for achieving the Memorandum of Understanding’s targets for the period up to March 2012 were generally good, and that reforms in land pricing, affordable housing, customs duties and untargeted subsidies should be prioritised.

3.6 In 2012, the St Helena Government established an arm’s length organisation, Enterprise St Helena, to lead and champion the island’s economic development. The Department approved a separate business case to support Enterprise St Helena, committing £4.8 million over three years from 2013-14 to 2015-16. The Department acknowledged that at the same time as helping to achieve the island’s goal of sustainable economic, social and environmental development, funding Enterprise St Helena would also help to provide the economic benefits set out in the Department’s business case.

3.7 Since September 2011, the Department has continued to review progress against the Memorandum of Understanding by:

- reviewing the achievements of Enterprise St Helena annually;
- attending (along with representatives of the St Helena Government, Enterprise St Helena and Basil Read) the Airport Programme Board, which reviews plans and progress with the airport and with tourism and economic development every two months; and
- considering progress as part of its annual visits to the island to set its budget for the following year.
Progress in attracting investors

3.8 In 2014, the Department gave a high risk rating to Enterprise St Helena’s activities that were dedicated to economic development. The Department concluded that Enterprise St Helena’s potential impact had been affected by the St Helena Government’s policies and practices and that the island’s investment climate was not conducive to investment from larger investors, whether on the island or overseas. The review identified the following major investment risks.

- In most investment destinations risks can be quantified because of the location’s track record as a tourist destination. St Helena has no such track record.
- The precise dates and times of aircraft arrival and departure are not yet known.
- The investment climate in St Helena is not attractive and is not competitive internationally or regionally. There are numerous unfavourable factors including high corporation tax and importation duty; an inadequately trained and small labour force; rigid planning and land control laws; expensive telecoms and electricity; and slow and expensive internet.

3.9 The Department’s April 2015 review of Enterprise St Helena’s achievements was generally more positive than the previous year’s. It made three recommendations concerning investment.

- A business enabling environment and investment climate assessment should be undertaken with urgency, with prioritised recommendations aimed at the St Helena Government, Enterprise St Helena, the Department, and the private sector (including private sector membership organisations).
- The options for a new approach to local and foreign investment, including possible incentives to speed up investment decisions, should be appraised in the next phase of Enterprise St Helena intervention (2016-17 to 2018-19).
- Enterprise St Helena should add the following risk to the risk register: “SHG fails to support private sector growth, reduce its labour market footprint and sell off assets and activities to the private sector.”
Tourist accommodation availability

3.10 In 2013, Enterprise St Helena commissioned two studies looking at St Helena’s tourism potential from consultancies, The Journey Tourism\textsuperscript{13} and Whitebridge.\textsuperscript{14} Both suggested that attracting the projected number of tourists would depend on whether the St Helena Government was able to ensure that there was sufficient accommodation of an appropriate standard and develop its tourist attractions by the time the airport opened in 2016.

3.11 The Journey Tourism report presented three scenarios for tourist numbers, depending on the rate and scale of development of the tourist attractions and tourist accommodation on the island – organic growth, modest growth and rapid growth (Figure 9). Of the three growth scenarios, the current position most closely matches ‘organic growth’ – a weekly flight and gradual expansion of existing accommodation capacity. The Journey Tourism concluded that while this approach may be a safe and fairly risk-free strategy, it would not achieve the objective of making St Helena self-reliant and independent.

Figure 9
Organic, modest and rapid growth scenarios for tourist numbers

Of the three growth scenarios, St Helena’s current position most closely matches ‘organic growth’

<table>
<thead>
<tr>
<th>Number of tourists, annually (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
</tr>
<tr>
<td>Organic growth</td>
</tr>
<tr>
<td>1,400</td>
</tr>
<tr>
<td>4,300</td>
</tr>
<tr>
<td>6,400</td>
</tr>
</tbody>
</table>

Source: Extract from The Journey Tourism, Visitor demand assessment after the completion of St Helena airport, September 2013

\textsuperscript{13} The Journey Tourism, Visitor demand assessment after the completion of St Helena airport, September 2013.
\textsuperscript{14} Whitebridge, Tourism Study – St Helena, December 2013.
3.12 In June 2014, the information provided by the St Helena Government to potential air service providers drew attention to the “severe limitations of tourist accommodation on the island”. At that time there were 113 rooms available (some of which will have more than one bed) – 72 self-catering rooms and 41 serviced rooms including 29 hotel rooms, and 12 rooms in guesthouses. Of the 113 rooms, 30 had en-suite facilities. Potential air service providers were advised to assume that growth in passenger numbers would follow the modest growth scenario based on developing a single 45 bedroom hotel on the island. This has not yet been built. As at March 2016, Enterprise St Helena reported a total of 53 serviced rooms, of which 42 are en-suite.

3.13 In July 2015, the Airport Board expressed concerns that planning permission for the hotel development had been refused by the St Helena Government. It concluded that the decision put the entire airport project at risk. The St Helena Government has since granted planning permission. However, the preferred supplier, Basil Read, has pulled out of negotiations to build the hotel. Unable to attract outside investors, the St Helena Government and Enterprise St Helena have established the government-owned Hotel Development Company to fund a 30 room four star hotel in Jamestown, St Helena’s capital. They started work on the hotel in spring 2016, and they expect to open for business in early to mid-2017.

3.14 The St Helena Government’s Sustainable Economic Development Plan 2012 to 2022 estimated that the island could accommodate 30,000 tourists each year by 2021-22. This was based on there being 472 rooms available, achieving an average occupancy of 56%, supported by a daily flight to the island. In September 2015, Enterprise St Helena projected that the island’s stock of serviced (en-suite) rooms would increase from 40 to 75 by the end of 2016, rising to 105 by 2017 and to 148 by 2018. Based on the Department’s projections St Helena would need accommodation for 7,300 tourists by 2021, five years after the airport is expected to open.

3.15 As at September 2015, around 150 tourist beds were available across the island. With this number of beds, St Helena could accommodate the number of tourists to visit the island projected by the Department for the first six years of the airport’s operation. This assessment assumes that the forecast number of tourists is spread evenly over a year. The reality could be that the number of visitors is subject to seasonal variation (St Helena is in the southern hemisphere – its summer therefore runs from December through to February). In addition, the forecast does not consider the impact of tourists staying for more than one week.

3.16 The scarcity of tourist accommodation on St Helena is highlighted by the contingency plans for accommodation in the event that an aeroplane has to stop overnight on the island due to bad weather or other circumstances. The St Helena Government maintains a list of local residents who would be prepared to accommodate passengers at short notice and will provide makeshift accommodation at the terminal building.
3.17 The limited amount of visitor accommodation may impact on the recently announced air service between Ascension Island and St Helena. In October 2015, the Ascension Island Government and the St Helena Government announced that Comair Limited had been selected as the preferred bidder to provide air services between Ascension Island and St Helena. On one Saturday a month, it is intended that the weekly Comair service between Johannesburg and St Helena will be extended to include a flight from St Helena to Ascension Island. This flight will take approximately two hours, with an overnight stay on Ascension Island. The flight will then depart Ascension Island on Sunday morning for St Helena Airport – and then on to Johannesburg. In practical terms this means that on one Saturday a month there will be double the number of tourists requiring accommodation on St Helena – those already on St Helena awaiting departure on Sunday morning plus the new arrivals.

Available flight capacity

3.18 The St Helena Government has signed a three-year contract with Comair Limited, to provide a minimum of one return flight per week between Johannesburg and St Helena. Assuming all flights carry the maximum capacity of 120 passengers to transport 29,208 tourists a year by 2042 (ignoring business visitors and returning Saints) would require 242 flights per annum – five flights per week (and two flights per week to carry the 7,300 tourists predicted to visit the island in 2021). Assuming the number of tourists increases by the maximum growth rate experienced by the comparable islands considered in the Department’s model, five flights per week would be required by 2030 for tourists.

3.19 In addition to the flights detailed above, the St Helena Government has announced an ‘open skies’ policy which means other providers can apply to run scheduled or chartered services to and from St Helena. The big issue facing the St Helena Government is therefore not whether there will be sufficient flight capacity for travellers but where they will stay once they arrive on the island.

Developing a marketing strategy

3.20 In April 2014, a Major Project Authority Gateway Review of the airport project expressed concerns about the marketing for the island. Feedback received by the reviewers during their interviews suggested that a more focused approach should be explored or areas approached again. The Gateway Review recommended that “Consideration should be given to the Department for International Development or the new Chief Executive Officer of Enterprise St Helena facilitating a critical review of St Helena’s tourism promotion activities to assess their impact on the business case” [for the airport].

15 OGC Gateway Review 0e: Strategic Assessment, St Helena Airport, OGC Gateway April 2014.
3.21 In response, the St Helena Government commissioned a marketing review in January 2015. The review suggested that the St Helena Government had some way to go before tourists are fully aware of the island’s location and what it has to offer. A survey of tourists conducted as part of the review found that while 73% of long haul travellers surveyed had heard of St Helena, 62% of them were unable to place it geographically (Figure 10). The new tourism logo for St Helena includes the strapline “Secret of the South Atlantic”.

3.22 In April 2015, the Department’s review of Enterprise St Helena’s achievements in 2014-15 concluded that the organisation had moderately exceeded expectations for better establishing St Helena as a tourist destination. It attributed tourist arrivals to improved branding and marketing of the island through redesigned brochures; an improved website; regular use of social media; publicity in travel magazines and newspapers; and representations at international trade and travel exhibitions.

Figure 10
Survey of tourists about St Helena

Less than 40% of tourists placed St Helena correctly in the South Atlantic Ocean

Source: Acorn Tourism Consulting Ltd, St Helena Marketing Review and Recommendations, January 2015.
Part Four

The Department for International Development’s potential future liabilities

4.1 In this part of the report we consider the:

- implications of the delayed opening of the airport;
- impact of various scenarios on the level of the Department for International Development (the Department)’s financial support to St Helena; and
- Department’s liability for underwriting the air service.

Implications of the delayed opening of the airport

4.2 The Department has not yet forecast how much extra it will have to spend to remedy the issues set out in paragraphs 1.8 to 1.10 which have delayed the opening of the airport. Depending on the course of action it decides to take the Department may need to fund changes to the runway, extend the service of the RMS St Helena beyond July 2016, and pay compensation to the air service provider.

Continuing to pay an annual subsidy

4.3 The Department’s business case for an airport on St Helena shows that the Department’s current annual subsidy of around £20.6 million will come to an end in 2043.\(^{17}\) If this is the case the Department has estimated that the total subsidy from 2011, when the work on constructing the airport started, will be £667 million. This compares with an estimated total subsidy of £834 million for the same period had the Department decided not to build an airport and instead commissioned successive replacements of the RMS St Helena (see paragraph 2.3 and Figure 5).

\(^{17}\) This is made up as follows: payments to the St Helena Government to fund the gap between its revenues and the costs of its public services (£16.7 million); subsidy for the RMS St Helena (£2.7 million); and contingency (£1.2 million).
4.4 Because of the project’s long-term nature, any assessment of when the Department will stop paying a subsidy to the St Helena Government, and the amount of that subsidy are difficult to predict with any certainty. As part of its business case, the Department tested the data’s sensitivity to changes in four of its assumptions. We tested the data’s sensitivity to changes in tourist numbers and spending, as we identified that the Department’s cost–benefit model was particularly sensitive to changes in these assumptions (see paragraph 2.12).

4.5 Figure 11 shows the impact of changes in the four assumptions identified by the Department and the two identified by ourselves on the date the Department will stop paying a subsidy and the total subsidy it will pay up to that point. For example, the Department’s total subsidy would be:

- £611 million – £56 million less than the business case prediction – if the number of tourist visitors to St Helena grows at the same rate as that achieved by the Solomon Islands (see paragraph 2.19); and
- £908 million – £241 million more than the business case prediction – if spending per tourist per day fell to the lowest value suggested by current information (see paragraph 2.23).

Underwriting the air service

4.6 In Figure 2 we show that the Department subsidises the St Helena Government’s ship, the RMS St Helena, on an annual basis. In 2015-16 the subsidy was £2.7 million. The St Helena Government will decommission the RMS St Helena when the airport opens, at which point the Department will stop paying this subsidy to the St Helena Government.

4.7 The Department has agreed to cover financially the risk that the demand for seats on the weekly flight to and from South Africa will be lower than expected. The Department told us that such a measure was necessary to attract interest in operating the service. The Department’s potential liability takes into account the potential break even point for each flight. The Department told us that this arrangement was in place for either two or three years after the airport had opened. Its current estimate of the maximum value of this liability is £1.9 million for 2016-17.

18 St Helena Government’s contract with Comair Limited is for 3 years.
Figure 11
The impact of changes in the Department’s assumptions on the year the Department’s subsidy to St Helena will end and on the total subsidy paid

This Figure shows how the total subsidy the Department could pay the St Helena Government might decrease or increase compared to the Department’s business case forecast of £667 million depending on the size and direction of movements in the Department’s assumptions.

<table>
<thead>
<tr>
<th>Description of assumption</th>
<th>Assumption in the Department’s model</th>
<th>Variation tested by the Department/National Audit Office</th>
<th>Total subsidy (year subsidy ends)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual growth in tourist numbers⁴</td>
<td>16.9%</td>
<td>23.5%⁸</td>
<td>£611 million (2044)</td>
</tr>
<tr>
<td>Spending per tourist per day⁴</td>
<td>£172</td>
<td>£195⁶</td>
<td>£644 million (2041)</td>
</tr>
</tbody>
</table>

The Department’s business case | See paragraph 2.12 | Not applicable | £667 million (2043) |

| | | | |
| Responsiveness of the island’s employees to changes in demand⁵,⁶ | 0.6 | 0.4/1.0 | £655 million/£700 million (2042/2050) |
| Growth in visitor expenditure³ | 1% | 0% | £750 million (2066) |
| Growth in private expenditure³ | 2% | 0% | £754 million (2062) |
| Level of taxes levied by the St Helena Government³ | 15% | 12% | £760 million (2057) |
| Annual growth in tourist numbers⁴ | 17.2% | 7.7%⁷ | £895 million (2054) |
| Spending per tourist per day⁴ | £172 | £82⁸ | £908 million (2073) |

Notes
1. The changes are independent of each other.
2. Also known as elasticity, it measures the impact of a growth in population on the cost of employment.
3. Variation tested by the Department.
4. Variation tested by the National Audit Office.
5. Maximum growth identified.
6. Highest value suggested by current information.
7. Minimum growth identified.
8. Lowest value suggested by current information.

Source: National Audit Office summary of the Department for International Development’s cost–benefit model.
Appendix One

Our investigative approach

Scope
1  We conducted an investigation into three specific concerns. These were whether:
• key assumptions in the cost–benefit analysis for the airport are realistic;
• the St Helena Government has made sufficient progress in preparing the island for the anticipated influx of tourists; and
• the Department for International Development (the Department) will be able to reduce/withdraw the subsidy paid to the St Helena Government as projected in the business case for the airport.

Methods
2  In examining these issues, we drew on a variety of evidence sources.
• We interviewed key individuals from the Department and the St Helena Government to establish the history of the airport project and progress to date. This was to understand the Overseas Territories policy context within which the airport project was approved and to understand the justification for the project and the plans for realising the benefits.
• We reviewed the cost–benefit model used to support the business case for the airport, and conducted sensitivity analysis to assess the likely impact of changes to key assumptions on the project’s net present value and benefit cost ratio.
• We reviewed documents relating to the business case to understand the assumptions and the evidence used to support the assumptions.
• We reviewed documents relating to the actions of the St Helena Government to prepare the island for tourists.
Appendix Two

Management structure for the St Helena Airport project

1. Figure 12 overleaf sets out the St Helena Airport project’s management structure.
Figure 12
Management structure for the St Helena Airport project

The Department’s Senior Management

Project Board
Executive members from:
- the Department
- the Foreign & Commonwealth Office
- St Helena Government
- non-executive members

Access Project Management Unit
(located on St Helena):
- Project Manager
- Construction Supervision
- Environmental Monitor
- Administrative Support

The Department’s Overseas Territories Department Access Project Team:
- Project Manager
- Deputy Project Manager
- Project Support

Cabinet Office:
Gateway Review Process

St Helena Strategic Management Team

St Helena Executive Council

St Helena Airport Directorate

Prime Contractor (design, build, and operate Consortium)

Technical Assistance
- design, build, and operate procurement

Technical Assistance
- Air Service procurement

Technical Assistance
- Fuel Management contractor

Technical Assistance
- Access Project Management Unit

Source: Department for International Development’s business case for the St Helena Airport
Appendix Three

The Department for International Development’s assumptions

1. Figure 13 sets out the assumptions in the Department for International Development in its business case for the airport.

### Figure 13
The Department for International Development’s assumptions in its business case

<table>
<thead>
<tr>
<th>Type of assumption</th>
<th>Macroeconomic</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Growth in gross domestic product</td>
</tr>
<tr>
<td>Airport capital and operating costs</td>
<td>Design, build and operate contract (phase 1) – 2011 to 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Construction of the wharf – 2013 to 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk contingency shared between the St Helena Government and the contractor, Basil Read – 2013 to 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Design, build and operate contract (phase 2) – fixed, 2016 to 2079; same annual cost from 2026 onwards</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Design, build and operate contract (phase 2) – variable, 2026 to 2079</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asset replacement costs – 2016 to 2079</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Air service start up costs – 2016 to 2018</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Procurement support (fuel management contractor) – 2011 to 2014</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Procurement support (air service provider) – 2013 to 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Project management unit – 2011 to 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Access office – 2011 to 2046</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Department for International Development direct costs – 2017 to 2026</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other spend/smaller contracts – 2011 to 2014</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Avoided costs</th>
<th>Bulk Fuel Installation avoided cost – 2012 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wharf avoided cost – 2013 to 2014</td>
</tr>
<tr>
<td></td>
<td>Compensation claims avoided</td>
</tr>
<tr>
<td></td>
<td>Freight costs</td>
</tr>
</tbody>
</table>
### Figure 13 continued
The Department for International Development’s assumptions in its business case

<table>
<thead>
<tr>
<th>Type of assumption</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth</td>
<td></td>
</tr>
<tr>
<td>Passenger projections – tourists</td>
<td></td>
</tr>
<tr>
<td>Passenger projections – returning citizens of St Helena (‘Saints’)</td>
<td></td>
</tr>
<tr>
<td>Passenger projections – business travellers</td>
<td></td>
</tr>
<tr>
<td>Proportion of Saints who are non-resident</td>
<td></td>
</tr>
<tr>
<td>Average stay – tourists</td>
<td></td>
</tr>
<tr>
<td>Average stay – Saints</td>
<td></td>
</tr>
<tr>
<td>Average stay – business travellers</td>
<td></td>
</tr>
<tr>
<td>Passenger spend per day – tourists</td>
<td></td>
</tr>
<tr>
<td>Passenger spend per day – Saints</td>
<td></td>
</tr>
<tr>
<td>Passenger spend per day – business travellers</td>
<td></td>
</tr>
<tr>
<td>Impact of tourism effects on employment and output on St Helena</td>
<td></td>
</tr>
<tr>
<td>Cruise and yacht visitors – numbers and spending</td>
<td></td>
</tr>
<tr>
<td>Time cost savings</td>
<td></td>
</tr>
<tr>
<td>Indirect taxes revenues raised by non-United Kingdom/St Helena residents</td>
<td></td>
</tr>
</tbody>
</table>

Source: National Audit Office summary of the Department for International Development’s business case for St Helena Airport
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