

Transcript

Formal Meeting of Public Accounts Committee held on Wednesday, 11th November, 2015

Chairman	Mr Rodney Buckley
Vice Chair	Mr Stedson Francis
Member	Councillor Nigel Dollery
Member	Councillor Cyril George
Chief Auditor	Mr Phil Sharman
Secretary	Ms Anita Legg
Member	Councillor Dr Corinda Essex (Overseas)

1. Introduction by Chairman.

Good morning, Honourable Members, Ladies and Gentleman, and to all in the community listening to this radio broadcast this morning. Thank you one and all for giving up your time to take an interest in the work and activities of the Public Accounts Committee and thanks also to SAMS Radio for bringing this radio coverage to the community.

There have been some changes to the membership of the Public Accounts Committee since I last reported. Cllr. Brian Isaac stepped down to take up a position in Executive Council and Cllr. Cyril George was appointed to this Committee. Membership today stands as myself, Rodney Buckley, as Chairman, Mr. Stedson Francis as Deputy Chairman, and Cllr Dr. Corinda Essex, Cllr. Nigel Dollery and Cllr. Cyril George; the Chief Auditor, Mr Phil Sharman as advisor to the Committee and Miss Anita Legg as our Secretary. For today's session we are short of Cllr. Essex as she is currently overseas.

For the benefit of first time listeners, the Public Accounts Committee is a select committee of the Legislative Council. In accordance with section 69 of the St Helena, Ascension and Tristan da Cunha Constitution and Order 23, the primary function of the committee is to objectively scrutinise how the government spends the public pound.

Under the Constitution the Public Accounts Committee is protected to act independently and is not subject to the directions and control of the Governor, the Executive Council, or any other body or authority.

However, the statutory power of the St Helena Public Accounts Committee requires a change to the Island's Constitution before it can objectively and efficiently scrutinise how government is currently spending the public purse.

The Committee has no statutory power to review budgets or financial estimates or current spending of government and there is no Scrutiny or Performance Review committee in place. As a result there is no way of following the public pound other than those items normally referred to Legislative Council through the laying of accounts in the Legislative Assembly and reports issued by the Chief Auditor.

There are currently two years of backlogged government accounts and this year's accounts will make that three. This statutory restriction means that something in the region of

£100m of taxpayer's money has been spent on this Island over the last two & half years, with no parliamentary scrutiny or independent external audit.

As Chairman of a select committee of the Legislative Council, I have a duty to ensure that the findings of the work of the Public Accounts Committee are reported to the Legislative Assembly. The last set of accounts dealt with by this Committee was the 2011-2012 accounts laid before Council on 14th October 2013 and dealt with in Public Accounts Committee formal session on 10th February 2014.

That PAC sessional paper report to Council, pointed out that they did not consider asking detailed questions on two year old accounts would serve any useful purpose. We are now up against three year old accounts, but this time it might be a different ball game.

The February 2014 Committee's report to Council accepted that there had been practical problems of consolidation aligning the accounting policies of a diverse group of subsidiary entities. It also accepted an undertaking from the Financial Secretary that the adoption of accruals accounting would be fully embedded in time for the publication of the 2012-2013 accounts. The February full report can be found on the government website.

Currently there are three years backlogged statements to be reported to Council; 2012-2013; 13-14 & 14-15 and in a few months time 2015-2016 will be due.

St Helena Government have come to grips with the fact that there is a three year accounting backlog, plus an accountability gap, in respect of the DFID grant-in-aid to St Helena.

There is now however a programme of technical assistance to clear the backlog in preparation and audit of these Government Accounts. This programme is already bearing fruit and I can now report that the Chief Auditor has completed his audit on the 2012/13 accounts and these will be laid at the Legislative Council in 2 days time.

Moreover the contract accountants and external auditors will now push ahead to clear the remainder of the backlog over the next 15 months. This will close the accountability gap on the UK taxpayer funding to St Helena and enable timely independent scrutiny by this Public Accounts Committee.

I reported in previous sessions of the initiative by the UK Foreign and Commonwealth Office in giving a commitment to the Joint Ministerial Council to assist in the strengthening of audit and parliamentary oversight in the Overseas Territories.

Work is ongoing between the Foreign Office, the UK National Audit Office and Overseas Territories to develop a model framework which will cover legislation and regulation of the different roles of Public Accounts Committees, external and internal audit and how these can best work together using best practice.

This work will continue over the next year or two and will require some changes to the Island's Constitution. Clearly St Helena's Public Accounts Committee's statutory powers, as a select committee of the Legislative Council, need some up-grading to be proactive, rather than reactive, to be effective. Members of the community are encouraged to take full advantage of this initiative by the Foreign and Commonwealth Office and consult with Legislative Councillors in putting their views forward on how best the Public Accounts Committee should function.

I move now to today's meeting of the Committee. There are two items on today's agenda: The St Helena Airport audit report and the operation of the RMS St Helena examined through the accounts of the St Helena Line Ltd.

Our first scrutiny item today is the Overview of the St Helena Airport audit report and I welcome the representatives from the Access Office, Director, Janet Lawrence, thank you very much. I haven't met the gentleman you've brought along for backup support, but would you please make an introduction?

Ms Janet Lawrence (Airport Project Director) –

Good morning, I think everybody's aware of my role in the Access Office, but I'd like to introduce Edward Jarrard, who's recently joined the Access Office as Airport Contracts Manager. To explain our roles, mine is in relation to Phase 1 of the Design, Build and Operate contract with Basil Read, so the Design and Build phase. Edward is going to be managing Phase 2 of that same contract and the associated contracts, the actual Operations phase for the airport, so we're currently in a period of transition and eventual handover to a fully operational airport where Edward will take the lead on the contract

The Chairman –

Thank you very much indeed. Moving to the airport questions set up then.

In my opening address earlier in the year, I advised the public that the Public Accounts Committee, being a select committee of the Legislative Council, welcomed an audit overview by the Chief Auditor on the St. Helena Airport Project, given the significant investment of public funds from DFID development aid, which in turn also have a significant impact on the finances of SHG and the whole community. The audit overview focused on current assurance issues in place, which give confidence over governance, risk management, finances and delivery of the project.

The Auditor's report entitled "St. Helena Airport Project Overview Audit, Providing Assurance" was laid before Council on 8 July 2015 and can be found on the St. Helena Government web site.

The Public Accounts Committee is pleased to report that overall the Committee is satisfied that appropriate project governance and assurance arrangements have been established for the airport design and build 'phase 1' project. As can be expected for a project of this size, the assurance arrangements in place have been reported as good, especially in terms of the structural framework within the project.

The audit team considered these structures and mechanisms to have had a positive effect on project management and continuity for 'phase 1' of the contract, being the 'design and build' stage. The team found the project subject to the UK Government Major Projects Authority standards which requires approvals and related assurances at key stages in the project lifecycle.

Given the timing of this report, the audit service decided that focus would be placed on highlighting gaps in the assurance framework which may have a negative impact on the transition to 'phase 2' and indeed the substantial operation of the airport in its initial 10 year contractual period, valued at £35m.

In this respect, the audit report identifies six issues that could be used to provide assurance in the 'phase 2' operation over the next ten years and made 8 recommendations to the Airport Management and we are pleased to report that all 8 recommendations have been accepted.

A previous matter of concern to the Public Accounts Committee was highlighted in the auditor's report for the St Helena Government financial statements for 2011/2012 that the

airport project was not being properly accounted for. It is of absolute importance that St Helena Government financial accounting be put in proper order. It measures the value of the St. Helena economy and is the lifeline of its people. I am pleased to learn from the Chief Auditor that this has now been achieved with the publication of the 2012/2013 financial statements.

Today's session is Public Accounts follow-up work on the 8 recommendations put forward in the audit report. This will provide the committee with assurance that work on the recommendations is continuing and that St Helena Government will be in good order for the transition to 'phase 2' of the airport project.

The administration of this project is quite complex so for the benefit of the listening public we have grouped our questions into sections and I will give a lead in to these questions and ask the Airport Project Director to verify briefly, just very briefly explain to the public some of the different phrases used so that the public can follow the line of questioning and understand some of the answers.

(I have a request here please, somebody's got their mobile phone on, it's interfering with the reception, anybody who has a mobile phone, to turn off the mobile phones please, it's interfering with the reception going out. Thank you very much, thank you.)

We move now to the section of questions. Our first section of questions is that on Page 18 and 19 of the report, the report identifies a range of persistent risks being managed. For the benefit of the listening public, can you please explain what is meant by 'red risks', very briefly, just an overview?

Airport Project Director –

Okay, we have a risk management system in place under the project. Red risks are those that are classified as a risk that has a high probability of occurring and a potentially high impact on the project. It's also worthwhile pointing out that our risk managements system is split into two parts, both are linked, but we look first of all at operational level risks, those are the risks that might be happening on island in relation to the actual construction on site, but we then have more strategic level risks that impacts the project overall. So when it comes to risks that are high rated operationally, those are the sort of risks that we get escalated to our strategic oversight bodies under the project, our Project Board and others who are involved in overseeing the project functions as well.

The Chairman –

So, in a nutshell, 'red risks' are issues that need to be addressed immediately.

Airport Project Director –

That's it.

The Chairman –

So can you tell us please, what are the current red risks known to management?

Airport Project Director –

Okay, there are a number of risks that are currently flagged. They cover a number of areas so operationally we would be looking at issues around logistics, particularly if you're talking in terms of persistent risks being involved in such a hugely complex project in such an isolated territory. Logistics have been an ongoing bugbear for the project and that's a persistent risk because it's taken place right from the very inception of the project right through to current time, right through to the point at which we actually commence operations we're going to have logistical challenges.

The Chairman –

Thank you for that. Basically relating to risks such as the 'red risk' for the Bulk Fuel Farm, we know that it's a risk, have you any other areas that falls into that category such as the BFI

Airport Project Director –

Okay, we have certain areas of the project so it would be a glossing over to just highlight, say, the BFI. What we have are quite detailed risk registers that explore each of the components under the project, so I may use logistics as an example, permanent BFI, but within the BFI component, for example, we consider the issues around construction at the Bayside because that involves underwater construction and so on, to be higher risks than some of the construction that is taking place in the valley. In terms of airport certification, that's another risk area that we take a great deal of time and attention to look at, but, again, within that not all of those risks are red flagged risks, it would be certain areas of the project, so particularly ensuring compliance with OTARS and we consider our emergency preparedness to be a very high impact, perhaps not a high probability that something will go wrong, but an area of the project where we need a great deal of attention, because that's one where potentially lives could be lost if we do get something wrong. So, again, within each of the areas, we have the airport construction, the construction on Prosperous Bay Plain, we have the general facilitation of the project, the logistics and so on, we have airport certification, we have fuel and we have air services and within each of those areas we have particular risks that are flagged red at this point in time and that's a constantly moving feast.

The Chairman –

How are red risks managed and mitigated, mitigated and managed against?

Airport Project Director –

Okay, it would be dependent on the actual risk itself. In terms of our risk management process, if we start at that operational level. First of all, there is work done and it has been done right from the design phase of the project, so even before the funding was agreed for an airport project, just in the design works, that threw up a number of issues that were potentially things that could impact on the airport project. From that we developed our own risk registers, put in place alongside of each of those risks our proposed mitigation. As the project came into being and we started actual construction works, as we started implementation, we hold regular monthly meetings with Basil Read, with our Project Management Unit, which is where our resident engineering team sit, and with the Access Office, so we're the people that are closest to the actual works on the ground. We go through regular monthly review meetings to look at the state of that risk, to look at the mitigation that is being proposed or is being implemented alongside of it to see if that is effective and if it's bringing down that level of risk. If the risk remains high at that stage,

then we escalate that risk up to our Project Board, so our senior oversight body, to see what additional input might be needed. We also have discussions with our Project Board to say that some risks we simply have to accept that that's just the way of the world and going back to logistics nothing is going to change that we're constructing an airport in this very, very remote location, that logistics are always going to be very, very challenging, it's always going to be potentially something that could have a very significant impact on the project and it's flagged red for that reason, but we do have mitigation alongside of it in terms of our procurement teams, their forward planning in terms of our ability to react to use the NP Glory 4 when it was in service, to use the RMS, to use various suppliers and so on to try and address those logistics, and, of course, to, if needed, to reshuffle the programme to make sure that we, you know, we're doing tasks when we have the materials on island to do those tasks and so on, but it's to point out that at some point in the whole risk management strategy it gets to a level where you say, we're doing our utmost, we need our Project Board to accept that this is a level of risk that the project is going to have to live with.

The Chairman –

Thank you very much for that. The recent announcement with the delay of certification, does that fall into that red risk category?

Airport Project Director –

Okay, the delay of airport certification. The actual timing doesn't quite fall into the red risk category and so perhaps, as background to this, what we've done is we've split the airport certification process into two phases. We completed the first round of audits with ASSI just last week. Those focus on desktops reviews of the manuals and the documentation to be sure that all of the regulatory requirements were being met and that we were producing all the materials we needed. And we also, alongside of that, had Owen Healey from ASSI visit the island to carry out actual checks on our emergency preparedness and our rescue and fire fighting systems. That's the very first round. The second part will be carried out in January and will conclude the desktop parts and will then focus on aviation security and air traffic control systems, those two items being critical to actually have, you know, aircraft based here and in order to test the air traffic control systems and so on, those are the aspects that ASSI recommend we bring in just prior to operations. So it's a timing issue. The delay in itself is not a significant risk, but underneath that there are areas of the project within airport certification which are flagged as red risk and one of the examples I can give here is aviation security, which is an absolute must, it is an essential, we need to comply with the Overseas Territories aviation requirements on this, but we know that aviation security is not something that's static, it's something that's evolved and there are recent events in World current affairs that are likely gonna mean that airport security worldwide is ramped up and tightened and for us, going through it the very first time round, that poses a degree of risk, because being a brand new airport, just going through it as part of our audit for certification, we think that we will be less ready to react to those changes than an already operating airport would, so that's an area of the project that's got a degree of nervousness around it for the rest of us, we're doing our utmost to manage it and, again, there's mitigation that's put in place and we are in very close contact with our colleagues in Air Safety Support International about that.

The Chairman –

Thank you very much. On page 19/20 of the report it identifies that while risk management has some tight no specific risk strategy has been put in place for Phase 1 of the project based on international standards. For the listener first, please can you explain what is meant by Phase 1 and Phase 2?

Airport Project Director –

Okay. Phase 1 is the Design and Build elements of the airport project. Phase 2 relates to the actual operations whereby we will actually have an operational airport and we will have commenced commercial operations and be bringing in flights.

The Chairman –

Okay. Can you tell us please then what risk management strategy has been adopted for Phase 2?

Airport Project Director –

At the moment we are still designing the risk management strategy for Phase 2. We have a number of months in hand in this and this is exactly why Edward is on island in advance of the actual commencement of operations as this is one of the tasks that will fall under Edward's portfolio, to actually set up the systems for Phase 2. One of the things I should point out about Phase 2 also is that whereas Phase 1 is run very much on a projectised basis during Phase 2 we would expect the airport to become day to day business for St Helena, that just as we're used to having the RMS St Helena call we will in future be used to having weekly flights and possibly additional flights beyond that, so this is something that is going to be a quite, or potentially a quite different system to the risk management system that is currently in place for the airport Design and Build phase, because afterwards we expect it to become day to day business. Edward started work on this, has been in contact with colleagues in Internal Audit and so on for support in this and it's a process that's currently ongoing.

The Chairman –

So we can accept that this Phase 2 strategy will conform to be a recognised risk management standard?

Airport Project Director –

Yes. Edward, would you like to comment on that?

Airport Contract Manager (Mr Edward Jerrard) –

Thank you very much indeed, Janet, good morning to everybody. Yes, as Janet pointed out, the whole idea of me working, starting on this, is to look at the risk management process and at the moment I'm still in the development stage. I have had preliminary discussions with the auditors and really now is the time where I start putting it together and making sure when it does come out it will work and it meets to international standards. And, as Janet pointed out, the difference between putting a brick on top of a brick is totally different to something that's operational, because there's variables keep changing because of the operation of that particular day.

The Chairman –

Thank you. The report talks about a three-line of defence for risk and my next question was going to be, have you been in contact with the Audit Department to establish a risk strategy going forward over the next ten years?

Airport Contract Manager –

Again, preliminary discussions have taken place and what's coming out of the Phase 1 and preliminary also discussions with Basil Read, who will be undertaking the operation of the airport on our behalf, is to actually identify the risks, the key performance indicators, in other words, all the items and I identify which is critical and which is.....

The Chairman –

Thank you. Moving on, on page 23, the report highlights some issues with the milestone payment system which led to work performed to calculate Earned Value for the project. Again, can you just explain to the listening public what is Earned Value and how is it basically calculated?

Airport Project Director –

Okay. I'll start with perhaps the milestone payment system, take it one step back. The milestone payment system is actually a contractual arrangement, set out in the DBO contract, that sets up the system of payments and the targets that are contracted under the Design, Build Operate contract need to hit in order to release funding. The system is set up so that part of it is forward funding, so that it is an arrangement that is made in expectation of the works that will be taking place in the following period and part of it is upon realisation of an actual target that needs to be reached on the ground. In terms of Earned Value, what we're looking at is matching that milestone payment schedule, sorry, in the simplest of terms, to the work that has taken place on the ground to see that what's happened on the ground is this its real life value and how does it match against our programme for construction, how does it match against that milestone payment.

The Chairman –

Thank you. I move to Mr Francis. Would you like to take the lead on the group questions, please?

Deputy Chairman – (Mr Stedson Francis) –

Yes, thank you, Mr Chairman. Can you say when was the last Earned Value calculation performed?

Airport Project Director –

Okay. We actually have some very detailed calculations that were carried out when the programme was last revised, but additionally, we employed the service of Ernst Young who are advisers to our Airport Project Board, and at any point in time the Board can call for them to do Earned Value calculations on either the entire milestone payment system or on a particular aspect of it. Recently, as we're coming very close to some of the final, large, milestone payments under the project, the Board just in the last two to three months called for Earned Value calculations on particular components, so it is done as and when is required for additional assurance by our Project Board.

Deputy Chairman –

Thank you for that and could you say when is the next calculation scheduled to take place?

Airport Project Director –

At this point in time we are awaiting a further construction programme from Basil Read, so we're coming near to the completion of Phase 1 and we've asked our contractor to prepare a revised programme to see that everything is singing together, that everything is going to come together. That programme will influence the milestone payment schedule of when they expect particular tasks to be completed. If there is significant variation to the current milestone payment schedule resulting from this change in programme, then we rather expect that the Project Board will, as it has done in the past, call for Earned Value calculations at that point in order to assess whether we are frontloading the funding too much or so on, to help us design that milestone payment schedule. So it's possible that one could be taking place within the next one to two months as a result of this change in programme. If there's no significant variation then the Board in the past has said that it's not necessary to undertake Earned Value calculations at that time and they would leave it to the end of the financial year.

Deputy Chairman –

Thank you for that. Has Earned Value calculations been commissioned for financial years ending 31st March 2014 and 31st March 2015 and 31st March 2016 for the purposes of preparing the financial statements of government?

Airport Project Director –

Okay, the Earned Value calculations were not commissioned at the year end for 14/15, they might be called for at the end of this current financial year, but for the last financial year our Project Board took a view that having done an overview of the entire milestone payment schedule within that financial year that it was not necessary at the closure of the financial year, they instead took advice from EY and from Halcrow in terms of our financial and construction advice, to say that at that point in time there was a great deal of confidence that the milestone payment schedule was closely aligned to the construction programme and so that what was set out was meeting our expectation on the ground.

The Chairman –

Is there plans in hand for Earned Value for this current year or we need for 2015/16 then?

Airport Project Director –

Okay, this would be for our Project Board to determine whether they will do a complete review of the milestone payment schedule and do Earned Value calculations for every single component. They will likely take that decision very shortly based on the new construction programme that Basil Read is preparing. If there are no significant changes to that construction programme then the Board would likely deem that it is aligned to our milestone payment schedule and that it is not necessary to undertake additional Earned Value calculations at that point, so it rather depends on the outcome from the revised construction programme.

The Chairman –

Are members content with the answer? Okay, moving on to 4 then, section 4. This is relating to page 28 of the report. The report notes that as a result of the Earned Value calculations, attention was drawn to financial exposure between the value of work done and milestone payments paid. This led to additional top up funding for the project. Can you explain please why milestone payments are greater than the value of work carried out?

Airport Project Director –

Okay. Milestone payments are frequently greater than the value of work that's carried out and this was a particular issue for the commencement of the project. It's worthwhile noting that with the severe logistical challenges of building an airport in St Helena a great deal of funding had to be frontloaded so almost 50% of the spend was spent in the first two financial years of the project in order to meet those logistical challenges. Again, some of this was, or perhaps an easier way of explaining this, is that each milestone payment is based on a physical milestone that needs to be met on the ground, but it also is a forward paying for what is expected in the period following that for the upcoming task and this is because the project contract was signed at the end of 2011 when there was still repercussions worldwide from the financial crash. What we learned at that point in time is that for our contractor to be forward funding each of those milestones, particularly with that immense level of investment needed in the logistics and the setup, the mobilisation phase of the project, that it would require significant amounts of borrowing and call down at a time when the whole economy worldwide was still in a weakened position. The advice from financial advisers to our Project Board and those included EY, but also others, so it was independently reviewed as well, was that it would give the Project Board more surety to actually forward fund some of this ourselves rather than having our contractor exposed to that level of risk and then to have the Board cover this through bonding so that we managed that financial risk rather than putting that immense financial risk back on a single contractor.

The Chairman –

Thank you. Councillor Dollery, would you like to take the lead on this script please?

Councillor Dollery –

You've given a very clear explanation. Presumably the alternative was if we, if the Government did not prefund they'd have had to go commercial and they probably could not have raised the money necessary to make the build?

Airport Project Director –

We did have that issue; there was a degree of nervousness about this. I think it's also worth you know, in pointing out that at that time we were down to a single tender, we wanted to do our utmost to make sure that our contractor, you know, having the whole world economy at that point in time coming through a very difficult period, to ensure that they would be protected, that they would not be taking on undue financial risk that would then impact upon Basil Read's wider holdings, so this was an issue for Basil Read throughout the negotiations for the airport project, that the airport project is being managed as a stand alone singleton within their organisation, it has no impacts on their wider business and it was of grave concern to them the degree of borrowing that they would have to go through in order to be able to forward fund this, especially with the degree of funding, we're talking over 50% needed in that initial start-up phase for the mobilisation to the island, for the

logistics of doing the temporary jetty, the road, the haul road, getting contractors site set up on Bradleys, there is significant costs involved here and this was something that was becoming a make or break issue and one which we thought that if we'd forced it on to our contractor would have put them under undue pressure whereas the wider project having the funding there and dedicated for this purpose was able to manage it through some forward funding, but then manage that financial risk through the bonding arrangement.

Councillor Nigel Dollery –

So presumably part of it is due to geography and part of it is due to the relative strength of the company taking on the work?

Airport Project Director –

That's the case.

Councillor Nigel Dollery –

Thank you very much. Because these milestone payments are made and they're high, there must be quite a large gap between the value of the work actually carried out to a point in time and the milestone payments that have been received to that point in time?

Airport Project Director –

That would have been the case in, say, the first two to three years of the project. What we're finding in this final year of the DBO contract is that things are catching up. The rate of milestone payments has decreased and also the amount of payments that are left in these milestone payments is decreasing so that the amount of work on the ground has caught up with the level of funding. There is only now in the milestone payments that have been made a very, very small percentage of forward funding, all of the milestone payments that have been recent throughout 14/15 have been more based on the actual targets that are on the ground, whereas we found in earlier milestone payments over the initial establishment phase of the project that there was far more, a far greater percentage that was forward funded.

Councillor Nigel Dollery –

I can see that as being what will happen in any large project which is frontloaded, you know, the enormous costs we pick up early in the project, I can see that happening.

The Chairman –

Stedson, do you have a question?

Deputy Chairman –

Yes, thank you, Mr Chairman. At the end of milestone 38, £190m or 93% of the airport contract price for Phase 1 would have been paid. Remaining however is the entire certification of the airport, including the aerodrome manuals, flight calibrations and the electronics, but it attracts relatively low milestone payments, how confident are you that there will be adequate funding to complete Phase 1 of the contract?

Airport Project Director –

At this point in time we have had both Halcrow and EY give us monthly updates on this, it is an issue, as you quite correctly point out, but it's an issue that we're fully aware of and which is very closely monitored. I should point out to the Committee that we have had to dig into contingency funds, so in the interest of openness and transparency I would say this here and now, as it's something that didn't come through at the time when this report was prepared. We are digging into contingency funds at this point in time, but I should stress that this is not to bail out any aspect of the ongoing works. We've been using contingency funds to fund items that are additional and that have arisen during the course of the project, so an example of this would be the JIG's standards, sorry, to clarify, Joint Inspection Group's standards that govern the fuel industry, have changed drastically in the last few years as a result of tightening up of standards in the UK. Our contract says that we must apply those standards but it is a real game changer when you look at this in comparison to what was built into the contract in 2011. This has resulted in the need for additional fire safety systems, additional infrastructure in connection with the Bulk Fuel infrastructure and so this additional infrastructure is being funded through the Contingency funding, that's the sort of thing that we're using it for, so we are confident that we are going to reach the conclusion of Phase 1 of the project, we have had to use contingency funding, but in each of those cases it has been for stuff that is additional to the requirements that were seen at the time of contract signature.

Deputy Chairman –
Thank you.

The Chairman –
Content?

Deputy Chairman –
Yes, thank you.

Councillor Nigel Dollery –
Can you tell us what the current gap is between the total receipt for milestone payments and the value of work gained?

Airport Project Director –
I do not have that information to hand, but I'd be happy to provide a written response.

Councillor Nigel Dollery –
I'd appreciate that. Thank you. Can you explain what a project bond is?

Airport Project Director –
Okay. I will do my best, this is where, perhaps, my financial colleagues would like to jump in with the layman's terms? No, Nicholas not going to rush to help me with this one? Okay, the project bond is actually a bond that is taken out so that there is a financial guarantee in the background should we ever get into a position where the project encounters difficulties for one reason or the other. We do, in fact, have a number of project bonds and for different reasons so there is bonding in place to cover us against currency fluctuations, to cover us against oil price fluctuations, there's other bonding there that is just to do with

contract requirements that are based around contractor's performance, for example. So, again, it is basically a financial guarantee that is there in the background, in the simplest of terms.

Councillor Nigel Dollery –

Fair enough. I notice the support from your colleagues, but you managed it very well. And you're content that the bonds you have in place are sufficient to cover the gap?

Airport Project Director –

We are content and, again, this is where the role of, first of all, Halcrow, so most people are aware of Halcrow and the on island resident engineering team and what they do, but we also have Halcrow UK where we have contracted in their contract advisers, there's financial support to the project, they are our first step in doing those assessments which are carried out through their monthly report. That then goes for an independent review to EY and, again, that's information that's taken to our Project Board on a monthly basis, so this is something that is very closely monitored indeed.

Councillor Nigel Dollery –

As you'd expected, thank you. Has work been paid for that has actually not been completed?

Airport Project Director –

At this point in time, no. We have had instances where Basil Read have put in claims for milestone payments based on an overall component and we have had to use the Resident Engineer's assessment to say that either that component is not sufficiently complete to meet the milestone payment or that additional works might be required, again, in terms of changing scope as things evolve compared to the original design under the project. So we have, in some cases, made partial milestone payments for that very reason.

Councillor Nigel Dollery –

So it's managed in a lively way then?

Airport Project Director –

That's it.

Councillor Nigel Dollery –

Yeah, good. I do have a supplementary question which I will not ask because you've already answered it in one of your previous questions. In the public eye the payment of milestone payments far in excess of the value of the work carried out is disturbing, to put it mildly, one does wonder whether a, I have to be careful how I word, so a human based explanation could have been given as to why this was necessary. You made a very clear explanation, I'm quite content with what you've said, but it would have been good had that been carried out into the public domain where practical, we don't need numbers, we do need principles?

Airport Project Director –

Okay, thank you for that.

Councillor Nigel Dollery –

Thank you very much.

The Chairman –

Okay, we then move on. Section 5, we're going back to page 5 now. Some £200m in UK taxpayers' funds have been used to build the international airport on St Helena, with this scale of public investment the defect guarantees and maintenance obligations are also of interest during the life of the infrastructure assets. Councillor George, would you like to take the lead?

Councillor Cyril George –

Yes, thank you, Mr Chair. What is the financial bond held for the defects areas?

Airport Project Director –

Oh my goodness, I'm afraid I don't have that information to hand and I should also advise that there is no one single bond, that there are different arrangements for different components under the project. Perhaps to give you some clarity on this, there are contract provisions that apply on this. Essentially the Resident Engineer, so our colleagues in the Project Management Unit, our Halcrow team, they are responsible for accepting the works under the Phase 1 of the project, if they accept the works it gets to a point where upon completion of components that they issue a taking over certificate. That taking over certificate will set out any defects that need to be corrected and we then enter into a contractual defects notification period. It is Basil Read's responsibility also as the Airport Operator to be responsible for that defects notification period and for any rectification, Halcrow are contracted right through to the early stages of Phase 2 of the project to oversee this and to make sure that the rectification is taking place, so there is an ongoing role for the PMU there and for the Airport Contract Manager addressing defects, you know, the actual management around the taking over certificate is also built into the key performance indicators for the Airport Contract Manager to also have oversight of this. I'm afraid there is no one answer here because it's a complex project, it covers a variety of areas, it covers each of the buildings singly, it covers performance on the ground, it covers equipment, it covers all of the works in Ruperts wharf, it covers the BFI, the road, and so on, so there is no one standard answer in terms of bonds or defects, but just to reassure Committee that there are contract measures in place for each of those.

The Chairman –

Would it be possible, for the sake of openness and transparency, to give a written thing to the Audit Department on that aspect?

Airport Project Director –

I can do that, that's no problem.

The Chairman –

Thank you very much, yes. Councillor?

Councillor Cyril George –

What is the guarantee period for the infrastructure works completed under the contract?

Airport Project Director –

Okay, again, there's no one standard answer to this, it really differs depending on the component you're talking about. I think it would be easier, given we're talking literally dozens of different components and we could be talking into hundreds of pieces of equipment here, so I think it would be easier if I gave you a written response, if that would be acceptable to Committee.

Councillor Cyril George –

How will SHG ensure the contractor remedies any defects identified?

Airport Project Director –

Okay, this is where the role of both the PMU, our resident Engineering team and their continued role into Phase 2, as well as the oversight from the Airport Contract Manager comes into play to manage that process. Again, their roles and Basil Read's responsibilities are clearly defined within the contract.

Councillor Cyril George –

Thank you. When commissioned and operational, what is the anticipated life of the completed infrastructure assets for the purposes of calculating further depreciation?

Airport Project Director –

Again, this would differ component to component and also item of equipment to item of equipment, if the Committee accepts I would be happy to provide a written response on this.

Councillor Cyril George –

Thank you. Can I ask, the runway, how long would that last for?

Airport Project Director –

The runway, of the top of my head, I think it's, of the top of my head, it's either an eighty or a ninety year design life. That is the basic runway, but, again, there are different aspects to the runway, so when you're talking runway itself you mean the straight line of the runway, it's a different lifespan for the apron, the taxiway and, of course, for the runway markings and the runway grooving, those will have far earlier periods.

Councillor Cyril George –

Thank you. Who will be responsible for the ongoing maintenance of the assets within their useful life period?

Airport Project Director –

Okay, Basil Read are contracted for Phase 2, the Operations phase of the airport, so they will, in fact, have overall responsibility for the maintenance going forward. We are aware, and, again, there are contract provisions around the need for specialist maintenance for certain components where Basil Read will be using specialist sub contractors as per Phase 2 of the contract.

Councillor Cyril George –

Thank you.

The Chairman –

Everyone satisfied? Okay, we move forward then. Now we're on to page 25, the report highlights that assurance was lacking for Phase 2 of the project, given the uncertainty in projections for cash requirements; can you explain to the listener why this matters?

Airport Project Director –

Okay, one moment please while I find the page.

The Chairman –

25.

Airport Project Director –

Thank you. Okay. This is another of the areas where going forward the management of the Phase 2 of the airport is going to fall back to SHG. We are trying to get the airport to become day to day business and we are in the process of setting up an Airport Contract Management Unit which will be led by my colleague, Edward here, as Airport Contract Manager, to manage that Phase 2. Of course, in order to do that management and in order to turn it into day to day business we do need full and proper financial forecasts. Again, this is something that we are currently working on with our contractor, with the Project Management Unit and our Resident Engineering team in order to make those plans for Phase 2 going forward.

The Chairman –

Thank you, Janet. Councillor George?

Councillor Cyril George –

Thank you. How will the £35m be structured over the ten years?

Airport Project Director –

Okay, the 35, I think, off the top of my head, it's £35.1m, it will be structured in accordance to contracts that have been signed with Comair to provide air services, so there is a payment schedule that has been set out as part of that; with Penspen as our fuel management contractor and according to their payment schedule as per their contract; and with Basil Read according to the payment schedule as part of their contract. There's also an element of funding that will be used for the Airport Contract Management Unit, there is, of course, some degree of flexibility, but the other aspect of funding that we certainly hope is going to be coming forward and which will need management during this period are the revenues that will come in from the airport, so from landing fees and so on, so all of this built into that picture.

The Chairman –

On a point of clarification, is the fuel farm, BFI Management, is that included in the £35m?

Airport Project Director –

It's outside of that, but, again, sorry, I think the point I was trying to make is that the fuel management farm and the air services and the DBO contract, all of them are linked contracts, they all have payment schedules and they all sing to each other, for the management purposes going forward it's very important that they sing together.

The Chairman –

But that £35m is basically for the Basil Read ten-year operation, the question was, how is that structured over the ten years?

Airport Project Director –

And, again, it's according to a set payment schedule that is being determined.

Councillor Cyril George –

Have management begun to develop an integrated assurance and approval plan for the next stage of the airport operations?

Airport Project Director –

We have certainly begun that and this, again, is the piece of work that Edward referred to earlier that he's leading on and which is an essential part of this transition phase so that at the point at which the airport effectively becomes operational that all of those arrangements are in place ready for Edward to open the airport doors.

Councillor Cyril George –

Given the above, have management considered what particular audit work may be required to provide assurance over the Phase 2 operations?

Airport Project Director –

Well, we have had some very preliminary discussions with internal audit, again, recognising that in future the airport, the Airport Contract Management Unit and SHG's management of any airport function will become day to day business for SHG. Again, those discussions are at very early stages, they'll be taken forward.

Councillor Cyril George –

Thank you. Does management require any further guidance for securing specific assurances for targeting specific audit work?

Airport Project Director –

This might be one for Edward to determine as that piece of work goes forward. It is very early stages, we're going through reviews of the Phase 2 of the contract, we're putting in place the systems and procedures that are needed alongside of that, it's early days yet, we have some months in advance in hand in order to prepare this and I think that that piece of work will give light to whatever additional requirements there might be.

Councillor Cyril George –

Thank you.

The Chairman –

Members, have anything? Moving on, unfortunately the report of financial and other data, such as environmental reports are not being published in a timely manner, that is reported on the page 28, Councillor Dollery, would you like to kick off on that one?

Councillor Nigel Dollery –

What are you doing about speeding up the reporting process?

Airport Project Director –

Okay, first of all, we fully accept that it's the public reporting process where we have a number of weaknesses. This is as a result of all of our teams being tied up with internal assurances, so you use here the example of the environmental report and I will hold both hands up and say that the annual environmental report for this most recent financial year is again delayed, it's only due to be released round about now, but on the other side, what we do have is a very complex system of assurances internally ranging from site walkovers to weekly environmental reports, monthly environmental reports, reports on each and every site, reviews of methods statements and so on. We fully recognise that in trying to deal with the fast moving pace of the project and to keep things moving that we've been focusing on all of the internal assurances and that it takes us a while to then take these and to put them into a format to collate information and to get it out to the public. We are putting more resource into this at this point in time and what we're doing as a stopgap is that whilst we can't get the full reports up as readily as we would like, we're trying to drop more articles into our Airport Updates, so you might have seen more environmental themed articles, there's been a lot on the LEMP, there's been a lot on finds on site and so on recently so that as an issue arises that we cover that issue, but maybe not the fullness of a full report to get it out into the public domain.

The Chairman –

Thank you very much indeed. Ladies and gentlemen, it's a few seconds to go before 11 o'clock, members will be aware that it is 11th November, we will stop in a few seconds time for one minute's silence.

ONE MINUTE'S SILENCE OBSERVED.

The Chairman –

Thank you. That brings us on to our final section for the Airport Audit Overview and our final section is the current transition from Phase 1 - Construction through to Phase 2 – Operation is seen to be an intense period for both management and the contractor in particular ensuring readiness for air certification. Can you please explain simply what makes this an intense period for both management and contractor?

Airport Project Director –

Okay, it is the sheer complexity of bringing everything together and ensuring compliance with what is a heavily regulated industry. So, as background, we are going to be an international airport, we need to comply with the standards that are set by Air Safety Support International, which would apply to any other international airport. Air Safety Support International is a branch of the UK Civil Aviation Authority, it deals specifically with the Overseas Territories, but the standards are exactly the same for any other international

airport in the UK, scale may be different, of course, but the standards that we need to meet are so important. We're at a stage in the project where the construction is winding down, all of the big, bulky earthworks are in place, but it's now the finishing touches and that attention to detail. The example that our Engineering Teams use most often is that when you're building a house, building, putting up the block work it takes time, but it's a straightforward process, but it's all the little fixtures and fittings that take the time, the attention to detail. In this case, if we get that attention to detail wrong it could potentially impact on something that's related to either airport safety or security, the most fundamental criteria that are the basis of the regulatory requirements, so the potential for something to go wrong, if we get it wrong is potentially devastating, so we have, on the one hand we have the construction elements, we have elements for airport certification; those are paper-based elements in terms of drafting manuals, in reports and so on to ensure to log our compliance and to demonstrate that, but we also have to do the actual demonstrating the compliance on the ground to be sure that we are operating it, that we have the fully trained staff in place, that all of the systems and processes are in place. And then there's a final element afterwards which is at the end of every project and is always the most complex bit which is just about being sure that you are ready for operations, so we can go through, and there's potential, and I touch wood as I say it, that we'll get our airport certificate, that ASSI will sign off on safety and security aspects, but we want to go a step beyond that. We are gonna become the gateway to St Helena, we are gonna be an international airport, we want to be a world class facility and we want to ensure the best passenger experience for our visitors to St Helena Airport as possible, so there's an element of operations there alongside this as well. Perhaps I could illustrate this with an example and let's use the baggage systems. So there's an element of construction in that we needed the terminal building, we needed Basil Read to procure the equipment to actually bring in the scanners and the roller beds and everything. There's an element of certification because the baggage screening process is essential for airport security, but finally there's an element of operations to make sure that the baggage handling actually goes smoothly, that it's done as quickly as it possibly can be and that it doesn't delay the turnaround of that aircraft, because we're gonna operate a sixty-minute turnaround time. If we lengthen that, if we draw it out, there's the potential that people won't meet their connecting flights back in Johannesburg and then that reflects very badly on their passenger experience, so it's bringing together construction, certification and practical operations all at this very one time and that's the complexity we're dealing with.

The Chairman –

Thank you very much. Mr Francis, would you like to?

Deputy Chairman –

Yeah, you probably mentioned some already, but I was gonna ask, you know, what are the current gaps and pressure points and what's been done to prioritise and resolve some of them?

Airport Project Director –

Okay, we are at this point in time, as I mentioned earlier, Basil Read are producing a hopefully final construction programme and linked into that we will tie in our programme for airport certification and also for operational readiness so that we do have periods to

actually trial and test all of the systems. There are some big name airports around the world that have got it wrong, I mean, everybody still talks about Terminal 5 at Heathrow and they had problems with their baggage systems, but they had far greater resource, okay, I admit they're a larger scale and it was a lot more public than it would be in St Helena, but we're trying to learn the lesson from that and say that we don't wanna go through all of that again, so there's been a lot of actually looking at lessons learned from other airports, what they went through, trying to pin down the trials that we need for airport certification, but alongside of that, all of the trial and testing for operational readiness and there's a full programme there that we're working with Basil Read on to bring all parties involved in operating St Helena Airport together to be sure that we can pull this off as smoothly as possible, and I touch wood as I say all of this.

The Chairman –

Miss Lawrence, thank you very much indeed for your detailed explanations and replies to the questions, thank you very much indeed for giving up your time and we wish you well going forward with the amount of work still to be done.

Airport Project Director –

Thank you.

The Chairman –

Thank you very much for coming in. We will take a ten-minute recess to get a breath of fresh air and have a cigarette and come back.

MEETING SUSPENDED

MEETING RESUMED

The Chairman –

Alright, ladies and gentlemen, thank you very much for rejoining us. Let me extend a warm welcome to Financial Secretary, Colin Owen.

Financial Secretary (Colin Owen) –

Thank you.

The Chairman –

Thank you very much, Colin, for coming in and Acting Assistant Financial Secretary, Nicholas Yon.

Ag Asst Financial Secretary (Nicholas Yon) –

Good morning.

The Chairman –

Thank you both for coming in. We have a few bits on the RMS St Helena.

It is expected that the RMS St. Helena will be decommissioned in 2016 and concerns were raised as to whether SHG are receiving professional advice on the disposal of the vessel and the need for tight control over capital expenditure during this year of operation.

The Chief Auditor and members of the Public Accounts Committee regard the accounts of the RMS St. Helena as a matter of importance and therefore accordingly the provisions of section 69 (6) of the Constitution and Order 23 (2) of Standing Orders are hereby applied to cause the matter of importance to be referred for scrutiny.

The company St. Helena Line Limited (SHL) was created as a nominee company for the holding and operation of the RMS St Helena. The legal title of the ship is held by the company as trustees on behalf of the government of St. Helena.

The St. Helena Government have control of the company by virtue of 99% holding of its issued share capital and through the appointment of Directors who include the St Helena Representative Mrs. Kedell Worboys MBE.

The operational management is undertaken by Andrew Weir Shipping Limited under contract with St. Helena Line Limited and the direct cost of operating the ship and associated aid-funded subsidy are captured within the company accounts. The Government of St. Helena provide financial support to the extent that operating costs exceed the income generated by passengers and freight in order to give a nil profit in the financial statements each year.

The accounts are prepared and audited by the UK accounting firm Bishop Fleming LLP for the fine sum of three thousand pounds (£3,000.00) – this being a straightforward financial audit without extended scope and therefore, would not provide assurance on the quality of operational management, or financial controls, or any opinion on whether value for money is secured.

The accounts in hand, shows SHG subsidies for 2012 as £4.9m, 2013 - £6.1m, 2014 - £3.7m & 2015 - £2.2m. Clearly this taxpayers money, totalling £16.9m, have not faced comprehensive audit or scrutiny by the Public Accounts Committee and the only way the public pound has been followed is through a subsidy line presented in the budget to Legislative Council each year in preparation for the ensuing year.

The political arena in this community have always held the view that the operations of the RMS St Helena required independent scrutiny to provide assurance that best value for the subsidy were being obtained. The accounts for the last four years, now received by the PAC, implies a relaxed approach, both by DFID and SHG, in providing assurance that the aid funds used to subsidise the RMS was being properly audited and scrutinized.

This reinforces the need for increased powers of the St. Helena Public Accounts Committee, not only for the scrutiny of public funds, but also the power to scrutinize budgets.

The RMS St. Helena is now approaching the end of cargo and passenger operations to the Island and the Public Accounts Committee are switching its focus towards the final months of operational service and will endeavour to ensure that absolute clarity around the disposal plans for the vessel.

Our session today commences with that process. So thank you very much Financial Secretary and Assistant Financial Secretary for giving up your time to come and answer our questions.

The St Helena Line Ltd, established by the St Helena Government as a nominee company for the holding and operation of the RMS St Helena. From scrutiny of the St Helena Line accounts, Public Accounts Committee is interested in the current operation of the RMS St Helena and the management of the contract placed with Andrew Weir Shipping. Mr Francis, would you like to take the lead on these questions, please?

Deputy Chairman (Mr Stedson Francis) –

Yeah, thank you, Mr Chairman. How in practice is the contract managed by SHG for the operation of the ship by Andrew Weir?

Financial Secretary (Mr Colin Owen) –

Thank you. Obviously I'll try to answer my best today, I just want to make it clear right from the start that I'm not the Shipping Officer for SHG, that is a position held by Dax Richards, even though I'm his Line Manager, the responsibility of shipping comes under him, so what we've tried to do today is try to pre-empt some of your questions by speaking to Mr Richards whilst he is away on work business, so hopefully we can provide as much response as possible, if we can't we'll have to get back to you in writing on a number of questions as we go through today. The way it's managed is through SHL is the managing body, they manage the operations of the ship, I've been provided with a very detailed note which I assume I wouldn't want to go through in much detail today, but it gives you very much how SHL manage that process, so basically there's a tripartite agreement in place, there are other management agreements in place, which very detailed specific about how that's controlled, how it's managed, the reporting structure, the costs that have to be covered on that basis, so what SHG did in previously, we, basically the management of the company is through SHL.

Deputy Chairman –

Okay, thank you. The total management charge, including the RMS operating costs levied by Andrew Weir is around £10.3m to £11.1m per year, can you say exactly how is the Andrew Weir charges structured?

Financial Secretary –

No, I'm afraid I don't have that level of detail to hand, that's quite a detailed question on that. If you, you know, the only way I can do that is providing you with a written response or if you've got any further detailed questions?

Deputy Chairman –

No, the next one coming up, I will ask it anyway. After deducting income from freight and fares, there is an operating deficit of between £3m and £5m per year, given the deficit is substantially grant aided by DfID, can I ask what incentives are there for cost efficiency in the operation of the ship?

Financial Secretary –

That'll be through SHL, they deal with that, they look at the management and how the company is run, there'll be various caution initiatives that go on, but I don't have that level to detail to hand, I'm afraid.

Deputy Chairman –

Can you say how much shipping subsidy will there be for the final year given that this is a third or four months of year effect through to 31st July next year, 2016?

Financial Secretary –

Yes, so what we do, we're currently going through that process. As everybody's well aware BAM, the Budget Aid Mission will be on island in November, the end of November from 21st.

Traditionally as part of that discussion the subsidy is discussed, that subsidy will be agreed with DfID in January of next year and the reason we do it in January is because it gives us a much better focus of where we are, we've got much more detailed review of actuals at that time, so at the moment we're assuming anywhere between the subsidy, well actually, the way that we look at it we tend to manage it on what, there could be savings, so we're looking at maybe between £1m and £1.2m saving on this year, but that's yet to be discussed with DfID so the decision making process hasn't gone through on that.

Deputy Chairman –

Okay, thank you. Thank you, Mr Chairman.

The Chairman –

Will, the new deal, Financial Secretary, 'use it or lose it' be applied?

Financial Secretary –

In what aspect, sorry?

The Chairman –

Of the going forward, for the operation for next year, with your discussions with BAM?

Financial Secretary –

That I can't really comment on, there are obviously discussions that go on with BAM, my understanding at the present time is the way the service is set up, the way the agreement is set up will be the same into the future. Obviously there's a lot of discussion going on at the moment about the timing of the ship and when that will be, the only comment I can give you at the present time on that is without an air service in place the RMS will still continue and DfID have given a clear commitment to that, but the, you know, the 'use it or lose it' deal, as you say, the ...?.... new deal principles, that's something that needs to be discussed with DfID as part of the discussions and they tend to make that decision later on in the year, my understanding at the present time, that it still applies.

The Chairman –

What is your preference?

Financial Secretary –

How do you mean, my preference on?

The Chairman –

Use it or lose it.

Financial Secretary –

Difficult, again it's not my decision to make at the end of the day, we.....

The Chairman –

I asked what was your preference, as an adviser to this economy.

Financial Secretary –

So, I'm unclear of the question, so.....

The Chairman –

What would be your preference on the 'use it or lose it' deal?

Financial Secretary –

What are we losing and what are we using, I'm a bit unclear on what the question is.

The Chairman –

In negotiations with BAM

Financial Secretary –

Yeah.

The Chairman –

For the budget going forward for the next year?

Financial Secretary –

We're going along the same lines that we always have, so that the principle is that DfID cover the loss of the ship and they have done since I've been here and since the records have shown, so that will be the continuation that we'd hope, that is to the benefit of St Helena and the island.

The Chairman –

But you still haven't answered whether we're gonna use it or lose it?

Financial Secretary –

If want to define what the question lose it use it or whatever it is I'd be quite happy to answer it, but I'm very unclear of what you're asking for.

Chief Auditor (Mr Phil Sharman) –

Chair, I'll.....

The Chairman –

Well, yes, Chief Auditor?

Chief Auditor –

Perhaps I might assist the Committee on this point. I think probably what you're seeking to get from the Financial Secretary is whether he will agree with DfID a fixed subsidy for the final period 2016/17 or whether actually it will be a variable amount, in other words, whatever the loss will be will be met by DfID and it's the extent to which SHG might be exposed to either a saving, if it came out as being less than, or a cost ...

The Chairman –

Or a cost.

Chief Auditor –

The operating cost ended up being more than the subsidy; I think that's what you're trying to ...

The Chairman –

Yes, yes, that's where we're coming from, yes.

Financial Secretary –

Thanks for the clarification. So the way it's worked previously, as part of the BAM discussions there will be a figure that would be agreed, that is based on detailed accounts from SHL, what we think the operating loss on the RMS will be. Over the last three to four years we have come under that significantly and that's due really to the better operations of the ship, the demand, the passengers, the increased cargo that's come on because of the Basil Read enterprise on island, so going forward from next year, you know, we always look for a subsidy that will cover what we believe to be those additional costs. The way it has worked in the past, so last year we had that agreement, we had a figure agreed, but there was massive uncertainty about the price of oil last year, where that would go, so DfID agreed there could be a contingency fund that would cover that cost in the eventuality that that came true. Now, that obviously hasn't happened, which meant the ship has run more efficiently, more costly, to the benefit of St Helena and we didn't use that contingency fund for that element, so we'll be seeking something very similar this year, so we have a fixed agreement, but we look for contingency as well just in case the price of oil, says, increases. For next year there will need to be some flexibility, obviously, and DfID are very well aware of that. We're planning to end the ship on 17th July, but that might have to be extended if airport operations are not in place by May time. I'm not saying that could be the case, what we're doing is looking at contingencies and so part of the discussion with DfID is there could be a possibility that happens, can we please have a contingency to make sure that if there is additional cost there would be. To be fair, I think DfID have covered the running of the ship all the way through, I don't see that changing in the final year of the RMS.

The Chairman –

Okay, thank you. I'm unclear, I need clarification on your reply to the first question, how exactly is Andrew Weir charges structured, are you suggesting or telling us that St Helena Government do not have knowledge of how the Andrew Weir charges are structured?

Financial Secretary –

No, I didn't say that, I said I don't have that knowledge with me at this present time and I would provide a written response to it.

The Chairman –

Okay, thank you. We look forward to your written response then. Are members satisfied with section 1 of the questions? Okay, we move on to 2. 2 – the ship is now in its final voyages before decommissioning in July 2016, Public Accounts Committee is interested in how the operations will be managed over this next six-months period. Councillor George, would you like to take the lead, please?

Councillor Cyril George –

Thank you, Mr Chair. How will expenditure on the renewals and replacements on the RMS St Helena be closely monitored in the final two periods of accounts, 2015/16 and 2016/17?

Financial Secretary –

In the same process that it's currently monitored, so we have an agreement with SHL, that covers how they manage the costs, how they look at it, how they look at the operations of the ship, we on a monthly basis get very detailed reports from them showing exactly where the position is and that includes lots of reports, you know, from the Captain through to the Purser so that there is various information reporting structures that are in place, SHL do that, they have a constant dialogue with the ship and that's the way it's managed, so, as we see it, that will continue the same for this year. As I previously said, there is obviously issues around maybe extending the life of the RMS further on the back of when the airport opens.

Councillor Cyril George –

Thank you. Who will provide the day to day oversight of the contract management during the next six months and will they have the necessary expertise?

Financial Secretary –

Well, as I said previously, SHL are the one that manage that contract, they've shown to be expert in this field for a long time, we get the monitoring report, our Shipping Officer has been in place for a number of years and reviews it through that.

The Chairman –

Can I ask you a question on that? The RMS is being decommissioned, planned to be decommissioned next year in July, yeah? Are you telling this Committee that there is no other management being put in place for the final disposal and operation of the, to be closely monitored within the final stages of the vessel?

Financial Secretary –

We're talking about the disposal here or the operations of the ship?

The Chairman –

We're talking about the operation, the ship is being, are you telling the Committee that the last two periods of the operation of the RMS St Helena before decommissioning will have no other management attention than is currently in place?

Financial Secretary –

We believe the process and the controls on the operations that we have in place at the moment to manage the ship is adequately placed. I don't see as why we need to change all of a sudden, we're happy with those arrangements in place, there's a clear agreement between SHL, there's a tripartite agreement between SHG, SHL and DfID as well, those controls and operations and procedures are in place, they will continue as is. Coming to the disposal of the ship is a different matter and that will be, I'm sure, further questions that the Committee would like to ask.

The Chairman –

I'm afraid I have to disagree with you. The RMS St Helena has had no comprehensive audit or scrutiny in its operation over its lifetime so to say that we are content that the operation of the SHL is satisfactory, that we, as a Committee, and I, certainly as Chairman, cannot agree with it. There has been no audit or comprehensive independent audit on the company operations in the lifetime of the ship.

Financial Secretary –

Can I respond to that? I'm not the auditor of Bishop Fleming but I'm sure they would have a very clear opinion on that, being the auditors who have given a very clear opinion in their financial statements, to actually say there is no audit in place of these financial statements is incorrect.

The Chairman –

I said comprehensive audit.

Financial Secretary –

Well, I'm sure Bishop Fleming might have an opinion on that too, they're Auditors, they give a clear opinion in here of that. You know, we place reliance on the work of an Auditor's, from a financial statement's point of view. We then moved on, because I've explained to you there is operational ongoing management control on a monthly basis.

The Chairman –

That's fine, I respect your opinion, but I do not agree with that opinion. The audit by Fleming is a straightforward audit and it didn't have extended scope to provide information on whether value for money is being gained, operational management or financial controls, so it is a straightforward audit, it cost three thousand pounds, it cannot provide any detailed audit information.

Financial Secretary –

I'm sure.....

The Chairman –

I respect your opinion....I beg your pardon?

Financial Secretary –

I'm sure we'll put that to Bishop Fleming, the Auditors of those accounts and I'll provide a response to you on that, because I think it's quite a serious aggregation to be saying that the auditors have not carried out an appropriate audit.

The Chairman –

I didn't say that, I said a comprehensive audit and scrutiny.

Financial Secretary –

They've carried out a comprehensive audit in line with what they've been asked to do.

The Chairman –

Yes and what they've been asked to do will not provide value for money details or whether there is proper management, operational, financial controls, stock.....

Financial Secretary –

Statutory audit wouldn't ask for a value for money review, that's why we didn't discuss this at the beginning. If we're talking about a value for money review; that is a totally different question against the operations on the opinion given within those financial statements.

The Chairman –

Nor does it provide any financial advice on financial controls?

Financial Secretary –

It's an audit opinion and I think the question.....I'm just very conscious that I can't agree with you on that because there's an audit that's been carried out.

The Chairman –

I respect your opinion. Councillor George, carry on, please?

Councillor Cyril George –

Thank you. Is SHG confident that the redundancy provision is sufficient to meet the costs of the statutory termination benefits payable to officers and crew of the RMS St Helena who are employed by AWSL?

Financial Secretary –

Yes, we are and members will see there's a figure of £850,000 that's been put into the account, there's been an increase in that provision this year which I'm sure you would have seen from the financial statements, this has been monitored through SHL, we had a discussion the other day on the matter and they're reviewing that again. Obviously with the ship, if it was to extend its life, there would need to be further provision put in place and SHL and certainly Matt Young is one of the Directors of the Company, is very well aware of that, he is doing some contingency work now to ensure that if it was to extend that they would have to increase the provision for redundancy costs.

The Chairman –

A supplementary question, please? If there was to be an additional extended period, would the commitment given to the crew onboard ship for end of July for their redundancy payments be upheld or would that be extended to the lifeline of the ship?

Financial Secretary –

My understanding is the redundancy notice is being given to the end of December next year, so that's the current position that's in place, if the ship was to extend then those people would be employed another month longer, another two months longer then the redundancy provision would have to be changed on the back of that, hence why we're looking at the future provision of redundancy.

The Chairman –

Can you give this Committee please a written statement to that effect that the crew have been given notice to the end of December and not the end of July?

Financial Secretary –

That's my understanding. As I've said previously, I'm not the Shipping Officer, so I can put that question to them, but that's my understanding at the present time, that it's December 2016.

The Chairman –

Okay, I'd like to have that in writing please because my understanding is that notice have been given to the end of July, not the end of December.

Financial Secretary –

I'll confirm with the Shipping Officer and provide you that information.

The Chairman –

Thank you.

Councillor Cyril George –

Thank you. What provision has been made for any exceptional restructuring or decommissioning costs that are likely to arise on disposal?

Financial Secretary –

Yeah, the disposal of the ship is an ongoing issue that SHL are dealing with. We have looked into the appointment of a broker who will deal with that matter. Currently as it stands though, we can't get into negotiations until we're absolutely sure that the ship will be decommissioned in July of next year.

Councillor Cyril George –

Thank you.

The Chairman –

Thank you. Members satisfied?

Chief Auditor –

The Chair, if I could just again clarify, I think members are interested in whether there are expected to be any significant restructuring or decommissioning costs beyond the provision that's been made for redundancy, I think that's the key thing that you wanted to examine in this instance.

Financial Secretary –

I can answer that, yes, you know, certainly SHL are looking at all the costs that will be incurred, obviously that will be part of the work that goes on over the next seven to eight months and obviously that might change if we're going forward, so one of the considerations at the moment if the ship was to continue past July then a drydock would be needed and we've already had discussions with DfID to ensure that any drydock that was needed would be covered, so that's one of the areas that we're looking at, at the present

time, so SHL are very well aware of that and are managing the costs on that and that will be part of the discussion that goes on with BAM going forward.

The Chairman –

Thank you. We move on to the disposal of the RMS St Helena. Public Accounts Committee has been advised that St Helena Government will obtain expert advice on options for the disposal of the RMS St Helena upon cessation of the current shipping service. Can SHG say when and how they propose to dispose of the RMS?

Financial Secretary –

No, it will be the broker through SHL; we've had discussions with them, as I said previously, the final date, until we're absolutely certain on that we're not going to enter into detailed conversations. We are looking at January next year to start those more detailed ones which will give us a six-month window on that aspect. Obviously with all this, the RMS is a significant asset, well loved by the people of St Helena and ExCo will make the final approval on what we do with the ship and what disposal and obviously that will be through an ExCo Memo with all the relevant information so they can have an informed decision.

The Chairman –

Will that include expert advice on different options for disposal?

Financial Secretary –

Yes, that will be through our, the broker will be appointed and the broker.....

The Chairman –

You have an appointed broker as yet?

Financial Secretary –

SHL are in discussions with the broker at the current time, but we haven't fixed that broker, because we're in, we want to be very clear about when that will happen, so there is a broker set up through SHL, but no firm discussions have been had as yet.

The Chairman –

So you're saying that that's likely to be January?

Financial Secretary –

We're looking to do that in January, yeah, end of January, beginning of Feb.

The Chairman –

We are assuming that that will include terms of reference to be developed for that?

Financial Secretary –

Yeah, absolutely, certainly.

The Chairman –

Yes. Who will make the final decision on the disposal method?

Financial Secretary –
ExCo.

The Chairman –
ExCo. Will they have any expert advice other than local advice?

Financial Secretary –
All decisions of ExCo are provided with a very detailed ExCo Memo, that will include detailed expert advice, detailed reports, information that covers a variety of aspects, any ExCo decision is made on an informed process and it will follow that exactly the same process.

The Chairman –
How can we, as a Committee, gain assurance that best value will be obtained when complying with the requirements of the Financial Regulations, what assurance can this Committee be given?

Financial Secretary –
We're going to put expert advice, as you've clearly said, we'll make sure the terms of reference clearly indicate that, options will be obtained, they'll be analysed using the financial advice we have in Government here, the Economist will be involved, there'll be a raft of people, DfID will obviously have an interest too, I'm sure they'll provide any expert advice that we need if we feel it's additional to what we've got, but the main advice will be for the broker, SHL certainly will be heavily involved in that process too in managing the ship over the last number of years.

The Chairman –
Do you expect any decent value from the ship on disposal, what value were you expecting to get?

Financial Secretary –
I can't really give a figure on that at the present time. The broker will provide that expertise, advice, I'm not really the right person to give that; I think we need to go through the process, we need to get the information and question that information when it comes. The aim is to get the absolutely best price and best value for money for the ship.

The Chairman –
So we can accept your assurance that best value for the disposal options are being sought by expert advice?

Financial Secretary –
Absolutely, as in any disposal of Government we would seek to get the best value for that asset.

The Chairman –
What do you think, you think scrap value would be the best value?

Financial Secretary –

I can't provide any further information. To be honest, I'm unclear on it myself, that's why we're appointing specialist people to do the work, it's not something that SHG have ever done before and certainly we need to get experts in to ensure that happens correctly.

The Chairman –

We are a little bit surprised that that's not already happening and not in place already, but I accept your response that it will be in January. Who will receive the monies from the sale of the RMS? Is DfID making a claim to the sale price?

Financial Secretary –

I can't really give comment on what DfID would think and want to do. As far as it stands, the asset is SHG's.

The Chairman –

So we'll look forward to a few million pounds on sale value, will we?

Financial Secretary –

Hopefully, yes.

The Chairman –

We move on to question 4. The RMS St Helena is part of the heritage of the island, and, indeed, there are aspects of the ship, in terms of memorabilia which should be earmarked for retention by the island to remember that service. Councillor Dollery, would you like to take the lead, please?

Councillor Nigel Dollery –

I'm a life member of the Heritage Society and I am the Treasurer of the Heritage Society, but the Committee have accepted that that is mostly fairly normal on the island, all of us have an interest in heritage.

You probably will not know the answer, but I'm sure you can arrange to make it happen. Is there an inventory of assets and heritage items on the RMS where, as I walk around the ship I see this picture, I see that picture, this photograph, this item, this thing, they're all over the ship, it's part of our heritage so we like to have it there, is there a listing of those items and if not can one be drawn up? What I do not want is the ship to be destroyed with those artifacts aboard?

Financial Secretary –

Fully agree with you, Nigel. You know, as far as I'm concerned, there are lots of artifacts that are on the RMS, some of significant importance to the island. I can't give you a definitive answer, I don't know if there's, I would assume there is a complete list of all assets, just like any business you would make sure you have an asset list up to date and that will include everything. Does it identify if they're heritage or not, I'm not sure, but it's something that we will look into and consider and certainly when we get to the disposal, I think, you know, that's where Executive Council will have to make some decisions really again about what happens to those assets and where we go. So, I'll give you a commitment that we'll ensure there is a complete inventory list and I think what we need to be doing, as you suggested, we need to be looking at those assets and defining them, are they of

importance to the island, could we use them in a different way, that will have to be a decision then made by Executive Council, cause some of those could have high values.

Councillor Nigel Dollery –
Indeed.

Financial Secretary –
And we will need to be very clear that, say, if you are going to keep it for heritage, that the decision making process and thinking about that is clearly defined and managed so we know if we are donating it, say, possibly, maybe to a museum, that you're actually, in effect, losing the resell value of that, but it's important to the island.

Councillor Nigel Dollery –
That's very clear and I like the fact that you will ensure that it happens and we do get our list and we can take it on from there.

Financial Secretary –
Absolutely.

The Chairman –
Can I just ask?

Councillor Nigel Dollery –
Please do.

The Chairman –
Can you give us also an assurance that that will happen now. What we wouldn't want to happen is items disappearing in the meantime while negotiations are going on. You don't have one at the moment, but there is some time to go and we know from experience items disappear.

Financial Secretary –
I think what I said, I'm not aware of a list, that I'm sure there is, I'll pass that on to SHL and I'm sure they will maintain and look after those assets and if there isn't a list in place we will ask for it to be partly done, to be done. I think it's the heritage side of things that I'd be more interested in, to be honest that what, you know, I'm sure that doesn't include, the list doesn't include that, so I think we'll do that. So, yes, I can give a guarantee that's what we're going to do if it's not already in place already.

Councillor Nigel Dollery –
Thank you very much. Our feeling is that the majority of the things on the ship in that category should come back to the Museum rather than being given in recognition to individuals. That is our opinion.

Financial Secretary –
I would say that Executive Council will make that decision based on evidence.

Councillor Nigel Dollery –

I'm sure. When we have this list, there are probably likely to be items on it where we could squabble about whether it should come straight to the island as heritage or perhaps disposed off in some other way. It would be good to think that when that decision was made amongst those making the decisions are people who have knowledge of heritage rather than just, not being funny, a ticking box exercise in an office somewhere.

Financial Secretary –

I totally agree and I think that goes back to my initial comments about heritage, an asset list, as it stands, would not have that on there at all and I think that's something that needs to be arranged that we need somebody to go around there and look and what is important to the island, so, yeah, I'm in agreement with that.

Councillor Nigel Dollery –

Thank you very much, very positive. Right, the other one's a bit like personnelish. We know the RMS St Helena has trained a lot of our people to a very high standard and anyone who's ever travelled on the ship or is looking forward to travelling shortly will reap the benefits of our staff. Is there a formal system to assist crew members back into employment onshore should they choose to do so rather than remaining?

Financial Secretary –

I'm not aware of one, but I can put that question to the relevant people to find a response. It doesn't come under my remit as such, but I'm quite happy to put that, if the PAC would like to put that as a recommendation, we can follow that up.

Councillor Nigel Dollery –

I would rather think so, yes please. Again, it's personnel, so it's not really under your remit. I assume that any member of the crew has a right to get advice within the system on where their best chances of future employment could lie. It's a tricky one, because they're all individuals, but I would hate to think that someone on ship who could match a job onshore did not know that such a job was available to them. You understand the point I'm making? It's very much personnel and a caring personnel organisation rather than just a system, do we believe that will be happening?

Financial Secretary –

I can't really answer that, to be honest, I wish I could, because it doesn't really come under my remit. You know, Andrew Weir Shipping, SHL, I assume it might be better to put that question directly to them on what's happening with the management of the staff and be explicit what you want to ask. I can't really give you the assurance of what the process is at the present time.

Councillor Nigel Dollery –

If you could raise it with the Shipping Officer, that would be fine.

Financial Secretary –

I can do that.

Councillor Nigel Dollery –

Thank you. Okay?

The Chairman –

Okay, we move on to 6. On to 6, the air service will provide passenger-based air bridge to the island and there will be continued need for cargo and freight, I think Mr Francis has a question on this one.

Deputy Chairman (Mr Stedson Francis) –

Yeah, I would like to ask what progress has been made in the provision of a freight service to the island.

Financial Secretary –

Yeah, there's a preferred bidder has been selected and there's ongoing contractual discussions with that preferred bidder at this present time to try to reach an agreement on the shipping service.

Deputy Chairman –

Are you in a position to say when it is likely that this service will commence?

Financial Secretary –

The service will commence after the RMS ceases operations, we were hoping for a possible crossover, but that's still yet to be considered and will be part of the negotiations with the shipping provider. What I can do is give reassurance that a service will be in place when the RMS comes offline, if that is not in place at the time then we would seek to continue the RMS or provide a different level of service, so we're looking at the present time, that will probably come into place around July or August of next year, but again it's all dependent on other factors, one being ensuring that the air service is full operational in place.

Deputy Chairman –

And are you in a position to say the frequency that the ship will make and from what port will the freight service operate?

Financial Secretary –

I can give you the fact that when we've looked at it we've looked at a maximum six weeks, and that's been general knowledge for quite a while. The actual frequency will be a discussion with the provider. As in all these things if you want a more frequent service, if you wanted a three-week service then there'd be a cost implication to that against a five-week service, so that will be part of contractual negotiations on the level of service depending on the need, so that will be looked at as part of the contract.

Deputy Chairman –

And from what port will the freight service operate?

Financial Secretary –

All the providers that we've, came forward were Cape Town.

Deputy Chairman –

Okay, thanks very much. Thank you, Mr Chair.

The Chairman –

Thank you. I'll only conclude with one, that brings us to the end of our questions, but I will conclude with a general comment and it's quite surprising that we have one Shipping Officer and he's away and there's no Deputy Shipping Officer to carry on this crucial piece of work during this next few months which is not very far away, but in any case that's just a comment I make. Thank you very much, Financial Secretary, for your attention.

Financial Secretary –

Thank you. Can I just make it very clear, Dax Richards as the Shipping Officer, part of his work over the last two months has been going to see and doing a lot of shipping issues whilst he's been off island so there's a clear reason why Dax is not here and part of his role over the last two months has been to keep going with that, that shipping operation.

The Chairman –

My comment was just that he don't have a deputy, that's all. Thanks very much for your attention and thank you very much for your response; we will look forward to the written reply on the few items that we've asked for. Thank you very much. Thank you members of the public for your attention today and thank you to the listening public, I hope you have gained some valuable insight into what the work of the Public Accounts Committee do and why there is a need for scrutiny of the island's financial systems. Thank you all very much indeed and have a nice day.

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