

**Transcript**

**Formal Meeting of**  
**Public Accounts Committee**  
**held on Wednesday, 11<sup>th</sup> May, 2016**  
**(Day 2)**

Chairman	Mr Cyril Gunnell
Vice Chairman	Mr Stedson Francis
Member	Councillor Nigel Dollery

Chief Auditor	Mr Phil Sharman
Perf. Audit Manager	Mr Anesu Happyman Makamure
Secretary	Miss Ayla Phillips

**Absent:**

Member	Councillor Dr Corinda Essex (Overseas)
Member	Councillor Cyril George (Currently serving on ExCo)
Member	Councillor Wilson Duncan (Apologies)

**1. Introduction by Chairman.**

Good morning, Honourable Members, ladies and gentlemen and we once again extend a warm welcome to those listening via the radio, thank you all for your interest in the work and activities of the Public Accounts Committee, thanks also to SAMS for broadcasting this live meeting from the Court House building in Jamestown.

This is the first formal session of the PAC for 2016, a two-days meeting which started yesterday, 10<sup>th</sup> May. Four sets of public accounts were scrutinised, namely, Enterprise St Helena, St Helena National Trust, St Helena Hotel Development Limited and St Helena Fisheries Corporation and Marine Resources Limited.

I should remind you the composition of this Committee. I am Cyril Gunnell, recently appointed by the Governor as Chairman, Stedson Francis who is Deputy Chairman, also appointed by the Governor and Councillors Cyril George, Nigel Dollery and Dr Corinda Essex, currently overseas on CPA business, who were chosen by majority vote of elected members; the Chief Auditor, Phil Sharman, is our Adviser and Miss Ayla Phillips, our Secretary. Normally Miss Anita Legg is Secretary, she is off island presently and Ayla from the St Helena Audit Service is doing a splendid job helping out. Also assisting us is, if necessary today, is Anesu Happyman Makamure, Performance Audit Manager. Councillor Cyril George is currently a temporary member of ExCo and as such is not able to take part in the proceedings. Wilson Duncan is a temporary member of the PAC and although he was able to attend yesterday, has extended his apologies for today.

## 2. Connect St Helena Accounts.

### Chairman -

Let us now move to the business programmed for today. Three sets of public accounts to consider – Connect St Helena, Currency Fund and Defined Contribution Pension Scheme. We will start with Connect St Helena and I call on the Accounting Officers present to take their place at the table. I see you have already taken your place at the table, thank you very much, would you now introduce yourselves please?

### Mr Barry Hubbard (CEO, Connect St Helena) –

Hello, I'm Barry Hubbard, I'm the CEO for Connect St Helena.

### Mr Makion Chiwade (Financial Consultant) –

I'm Makion Chiwade, I'm the Financial Consultant.

### Sarah Thompson –

I'm Sarah Thompson, I'm the Business Support Manager and also Company Secretary.

### Chairman –

Right, thank you very much for that. These are the Connect St Helena accounts for 2013/14 and 2014/15 and it seems that after this we will be, sort of, up to date, which is very good news. Honourable Nigel Dollery, I believe you have some questions you want to ask?

### Councillor Nigel Dollery –

Indeed, Chair. Connect 2013/14 and 2014/15 accounts have been qualified by the appointed External Auditors, Moore Stephens, and the basis for the qualification was, the Auditors did not observe the counting of physical inventory at the beginning and end of the period and could not satisfy themselves by performing alternative procedures to determine the inventory balance. Content with that? Right. How did Connect satisfy themselves on the completeness and valuation of the opening stockholding transferred from SHG as at 1<sup>st</sup> April 2013?

### Mr Barry Hubbard –

Each year we conduct our own stock check and we bring in independent people to do that. We did that when we divested from SHG and we did that the subsequent year. Now all this is at a time we were with St Helena Audit Service but we have the qualifications there because the, because Moore Stephens were appointed two years after the Company was formed and due to capacity constraints within the St Helena Audit Service who helped us very much in the tendering process for the new auditors. So we'd done our stock checks, we were content; obviously the Auditor has to follow certain procedures which are documented and more stringent than the things that we find. What we subsequently found, we are actually looking at the valuations and just done an awful lot of work on stock and we're finding that we don't have any issues with our store stock now but we expected it when we divested.

Councillor Nigel Dollery –

Alright. Has any of the stock that you took over been written off as obsolete?

Mr Barry Hubbard –

Yeah, we write .....

Councillor Nigel Dollery –

A routine process?

Mr Barry Hubbard –

When we divested we tried to take stock which was relevant to our business, left stock which wasn't relevant to our business behind. Irrelevant stock stayed with SHG but we do find things move on and there's materials that are only applicable for, sort of, electricity and water infrastructure which now we wouldn't want to use so, just thinking off the top of my head, you've got things like galvanized pipe and you wouldn't want to use a galvanized pipe anymore, so if we had that we would want to write it off and other things will be written off, of not particularly huge value.

Councillor Nigel Dollery –

Can you give us an idea of the value of the total that has been written off; the total sum would be good?

Financial Consultant –

I don't know if we've done it for this last financial year, I think about £10k.

Councillor Nigel Dollery –

That's for this year?

Financial Consultant –

Yeah.

Councillor Nigel Dollery –

Yeah, and you don't have the figures for the previous year?

Financial Consultant –

Previous year, I think there was no write off.

Councillor Nigel Dollery –

Right.

Mr Barry Hubbard –

So we've got our stores system very much more up to date in this last year, so it's been an awful lot of focus on getting that right.

Councillor Nigel Dollery –

So you'd be very happy to say that the current stocks you hold are all correctly valued and accounted for?

Mr Barry Hubbard –

On the stores stock we're happy, the project stock which has come across from SHG and we've subsequently purchased as well, that's not as well organized and there's still some work to do on that, but what we'd like to have is a sort of like controlled stores stock ...

Councillor Nigel Dollery –

Yeah.

Mr Barry Hubbard –

...stores stock, that's very well under control.

Councillor Nigel Dollery –

And roughly when would you think you would satisfy yourself that you've got rid of or written off the project stock that you know you will not use?

Mr Barry Hubbard –

I'm not saying we won't use the project stuff, we're just saying that it's not properly controlled, hasn't been properly controlled, not convinced was used...., I don't think anyone bought the wrong stuff. The way the capital programme works sometimes you have to hit financial targets which means you have to purchase stuff and prior to awarding contracts, so for example, there was a lot of sewer pipe which is there in stock. I don't think we're going to write it off because we're going to use it in Ruperts and HTH.

Councillor Nigel Dollery –

Yeah, I would only suggest writing off if it had no value, but you're saying it does have value and the value might be arguable, but it's fair enough.

Mr Barry Hubbard –

So the project stuff there's still work to do, I think the normal day to day stuff is very much as management was when management wants.

Councillor Nigel Dollery –

Okay, thank you very much. What action has been agreed with the external auditors to resolve the qualification, are they happy that it's been resolved?

Mr Barry Hubbard –

This end of financial year what we've done is, we're using the St Helena Audit Service, they will verify both stock checks, so those are contracts which Phil has, they've been in and verified on Moore Stephens behalf, that stock is correct, so that's the conversation I think between the two auditors, and obviously they're working on Moore Stephens behalf.

Councillor Nigel Dollery –

And that will be as at 31<sup>st</sup> March 2016?

Mr Barry Hubbard –

Yes.

Councillor Nigel Dollery –

Yes, so now you're square. Thank you. Right, this one I know there will be public interest in, this particular question, cash balances at the end of the period have been highlighted in the audited financial statement and at 2013/14 you had about £2.1m in cash and cash equivalent, at the 31<sup>st</sup> March 2015 you had £3.9m, just short of £4m, do you know off the top of your head what the balance is as at the 31<sup>st</sup> March 2016?

Financial Consultant –

2.5m

Councillor Nigel Dollery –

So it's gone down?

Mr Barry Hubbard –

Yeah.

Councillor Nigel Dollery –

Interesting.

Mr Barry Hubbard –

The reason, I mean, our cash balances go up and down like crazy, you look at our billing cycle one quarter brings in most of the revenue, we get our subsidy from SHG, that comes in in four tranches, we also get for capital project works, we put claims in on SHG for that. At the end of the financial year I think SHG are very keen to make sure that their books are straight so in this particular year a million pounds of that was for a solar plant which SHG have paid us a million pounds which is still in our bank because we haven't paid the contractor. We also had in that year £7m to £9 million of cash flow which was going through the books, so the business isn't one where you have the same amount of income and expenditure every month, you know, some months you wonder how you're going to pay all the bills and other months you're a lot more flush, so that's the nature of the business.

Councillor Nigel Dollery –

So you have very large volatile cash flows.

Mr Barry Hubbard –

It's a volatile cash flow which is why we try to maintain a healthy, sort of, cash balance so we can always pay our debts.

Councillor Nigel Dollery –

You can see why I ask the question though, can't you, because to the public's eye there are either one or two things happening, you are overcharging the public, which is why you've got so much cash salted away or you do not need the grants which you get from SHG. Your explanation is fine, I'm content with that. Yeah, but you may want to consider telling the public about that so often, just to remind them.

Financial Consultant –

Looking at the cash balances, in isolation from the cash requirements of the business may be misleading because when you look at the current status the capital requirements at the moment is over £10 million to replace fully depreciated assets, so gradually it is to build up a fund towards a capital replacement programme.

Councillor Nigel Dollery –

I take your point entirely.

Financial Consultant –

At one point you can have £5m, but when you require £10m to replace old infrastructure.

Councillor Nigel Dollery –

You're in finance and I've been in finance, we understand, the public don't, they just think that Connect are piling up money in a sack somewhere, so maybe a bit of, when published accounts are made a nice human type explanation that you are not just rolling in, it would just be a useful thing to do just to let people know, but I'm quite content with your explanation, I can understand what's going on and why. Thank you. Right, an exceptional item has been disclosed in the accounts 2013/14, I'll read out this statement, which is one paragraph, it won't take too long.

Mr Phil Sharman –

Councillor Dollery, if I could just interrupt a moment. I think it would still be worthwhile you asking about the need for a Government grant at the same time as the cash reserves are being generated for asset replacement.

Councillor Nigel Dollery –

I could do that, but I actually thought they handled that you know, but I'm happy to go back.

Mr Phil Sharman –

I think it would still be valuable for the record.

Councillor Nigel Dollery –

For the record, as you do at times have very large cash balances, why do you need to go to SHG for grants?

Mr Barry Hubbard –

We have a fully depreciated asset of say of about £10m was huge amounts of work to do, this isn't money that just sits in a bank, you can see the work which we've done, so more recently we relined three reservoirs, the value of that was about £300k. If we could, you know, the money, when that's invested in infrastructure is to the benefit of the island, it's bringing the infrastructure back up to scratch. The public were assured when we were divested that SHG would not relinquish its responsibility to support these assets, because remember at the time the public was concerned that Connect would be formed, it would be divested from SHG and then the bill paying public was going to be left to pick up the tab and if, you know, if the subsidy goes then the bill paying public who's going to be left to pick up the tab have said that there's, we just spent best part of a third of a million pounds worth of

lining of those three reservoirs or the total income from water was about a third of a million pounds. Next year we want to do sort of the same so there's been an awful lot of infrastructure which does need replacing and upgrading and that's what the reason for the subsidy is for and agreed by Councillors two years ago that we would take the burden off the depreciated assets away from SHG because then the business, it would come to be more like a business rather than us having to go back to SHG whenever assets require replacement.

Councillor Nigel Dollery –

I will put in my words what I think you've just said and you can tell me if I've got it right. There is an enormous backlog in the infrastructure to do with Connect's area of expertise, it will take years to put right, particular problems with power, water, sewage, there should come a time, when you're a totally commercial organisation and not having to go and get funding from elsewhere and the public purse to support your business. Is that a fair statement?

Mr Barry Hubbard –

Yeah, it is, and just to add to that actually, you know, our subsidy when we divested was £1.1m, that reduced in the first year to £845k, last year £777k and this year our subsidy is £605k, so we've knocked about just over half a million pounds out of the subsidy and our money which we set for like the depreciation is of the same order, so had we not changed the business plan, had we not agreed with members that we would take responsibility away from SHG to replace all of that, you know, it was decades of under investment, then we wouldn't need any subsidy, but what we've done is to form like a proper business and operate in a commercial manner, for the advantage and benefit of the island we've taken that official responsibility on while we need to continue to receive a subsidy, although that subsidy is reduced and we're committed to reducing that subsidy and you can see the track record, each year we're reducing it.

Councillor Nigel Dollery –

Thank you, I think the public will be content with that. Okay, my next question, an exceptional item has been disclosed in the accounts as follows, 2013/14 £665k was a write off. An exceptional charge was made to the income statement for sustainable water solutions design and consultancy works before the formation of the Company, this was before Connect was set up. These consultancy charges relating to long term water supply strategy and initially capitalised by SHG were written off to the Income Statement as they did not result in the construction or acquisition of any tangible assets. Can you advise the nature of this consulting work in terms of long term water supply and management?

Mr Barry Hubbard –

Yeah, although, obviously this was the water, people in SHG that commissioned this work, and it was a long time ago, this work was originally commissioned by the late Sharon Wainwright and was managed by Martin Squibbs when he was here and as you rightly say this is just something which has appeared as a number which has been transferred to us, but looking back at the documentation I can find, Fairhurst were the company that were employed to do a number of things. One of the things which did result in an asset was the work around the water treatment plants so there is some work which they did which

resulted in the upgrading of all of the water treatment works and there was other stuff like a twenty-year water resources plan, which obviously isn't an asset in terms of this document, behind that is a lot of work, a lot of measurements, a lot of consultancy, there was work that they did with the water standards and procedures, some health and safety manuals they helped with, the construction of those, they also did some work looking at the, sort of, restructuring of the Water Division which, sort of, pre, it linked into the divestment work which we did, so there was like a load of stuff there, but when we came with our Auditors to look at assets, because obviously we have physical verification of assets, then this asset under construction, there was nothing to physically verify it, which is why I think that according to normal accounting procedures you'd write it off.

Councillor Nigel Dollery –

I'll carry on through and I'll come to the Chief Auditor if I need to in a minute, yeah? So within this design report there's bits of information you can use or not?

Mr Barry Hubbard –

I think the stuff, it's there as documentation, as useful references, I'm thinking of stuff I looked at recently which was surveys of catchments and condition surveys of water catchments, it's, you know, you can look at a report and you can see what's there or you can put your walking boots on and hack your way through the undergrowth to find them, so there's stuff there which is useful without a doubt, but it's, it doesn't constitute an asset, so, in accounting terms, you know, I'm not an accountant, but as I understand it, in accounting terms if you're building something you create an asset, you depreciate it, but if you're not building something then it's an expense item.

Councillor Nigel Dollery –

So would you trust the information in the report if it said something about water catchment or would you walk out there and have a look?

Mr Barry Hubbard –

The fact that it was done some time ago now, you would now be probably verifying.....

Councillor Nigel Dollery –

You would have to walk the ground?

Mr Barry Hubbard –

Yeah, I think so, these things have a life, they're useful at the time and things change, so it's a useful starting point, you'd refer to it, and then you would decide whether or not you trusted what was there or whether or not you would do any other works to verify it.

Councillor Nigel Dollery –

Thank you. So given the exceptional write off do Connect consider this consulting work as providing value for money? You obviously.....

Mr Barry Hubbard –

This was stuff that we inherited.....



Councillor Nigel Dollery –  
Yeah, so you would not.....

Mr Barry Hubbard –  
All we're doing is, we're trying to account for it because it needs to be accounted and obviously we can't have a large asset which we can't take an Auditor out to look at.

Councillor Nigel Dollery –  
Fair enough. Before you wrote off this sum of money, which is a large sum of money, what sort of process did you go through to decide whether it should be written off or not?

Mr Barry Hubbard –  
This is something we're just considering now actually, we're, having sort of dealt with the Tax Office we're, the issue is if we had spent the money then we're entitled to write it off, the issue that seems to be like a technical issue is that SHG have spent the money, so we've issued shares to SHG to the value of £665k for an asset that doesn't exist, so what we're currently talking to the Financial Secretary about is to, is for a reversing of that, we haven't got an asset worth £665k so therefore can we have our shares back, so that's a conversation. I think we're agreeing that's probably the right way to be tackling it now and I've asked Colin if we could have some sort of agreement prior to this meeting but unfortunately we haven't got that agreement at the moment, but that's the conversation that's currently taking place.

Councillor Nigel Dollery –  
I think PAC will take a lively interest in the end result of that conversation, yeah?

Mr Barry Hubbard –  
Yeah.

Councillor Nigel Dollery –  
Yeah, I think I'm content with that answer and we will handle that subsequently. Just generally in Connect, if something crops up and you do want to do a major write off, what's the procedure you follow?

Mr Barry Hubbard –  
We have, like, authority limits, I think my limit is something like a thousand pounds and I think anything more than a thousand pounds it goes to the Board of Directors. We're writing off, say, the debts of something, then we need to be assured that we've taken every reasonable steps to recover that debt, there's a process to do that, we're not in a situation, we haven't encountered a situation where we have a large asset that we want to write off so unless that happens, I've not got anything further to add to that, I don't think we've actually got any proper procedure yet because we.....

Councillor Nigel Dollery –  
It hasn't happened.

Mr Barry Hubbard –

.....considered, but when it happens I think we'll consider how we'll deal with it and then that will, in the normal fashion, go to the Board of Directors for approval and once that approval has been given then we would operate in accordance with that.

Councillor Nigel Dollery –

I will make a comment which may be right or wrong, I'm quite surprised the write off limit that you have is so low and anything of, you said a thousand pounds?

Mr Barry Hubbard –

I think it was....is it £10k

Financial Consultant –

Yeah, it does.....

Mr Barry Hubbard –

But we don't anticipate writing lots of stuff off.

Councillor Nigel Dollery –

No, I appreciate that.

Mr Barry Hubbard –

So it's not an issue because.....

Councillor Nigel Dollery –

Not for you, but it's just an interesting point that your limit is set so low and anything higher has to go to the Board?

Mr Barry Hubbard –

Yeah.

Councillor Nigel Dollery –

Yeah, I'm content with that. Thank you.

Chairman –

Thank you. Connect was divested in April 2013 with assets transferred from SHG – assets under construction were £2,512k and tangible fixed assets were £9,517k, were you content with that?

Mr Barry Hubbard –

£9.51m?

Chairman –

Yes, I beg your pardon, yes.

Mr Barry Hubbard –

Yes.

Chairman –

Right. Are you satisfied that a complete fixed asset register has now been prepared for Connect?

Mr Barry Hubbard –

Well the whole process here was we started off with SHG's set registers and inventories, we then went for a process of verifying that, there was a protracted discussion between the various accounts departments to make sure that those were correct and we were all happy with those and then we formally wrote to the Financial Secretary explaining the process, giving him the details of the assets and lands and once he had agreed, we'd issue shares to that value. We have a fixed asset register, we have our stores, stock is controlled on access dimensions, we created a new position for, sort of, like a Stock Controller, there's, sort of, the stores, obviously with a qualification in stores stock, it was an issue for us and we wanted to make sure that we get hard and dealt with it and sorted it out, so yeah, I think, what was the question, the question was are we happy, yes, we're happy.

Chairman –

You're happy. Okay. I think I'd better make plain the numbers that I mentioned earlier. Of course assets under construction were £2,512m and tangible fixed assets were £9,517m, just to correct that for the public. Thank you for that. What has Connect done to confirm the condition and valuation of the assets taken over from St Helena Government?

Mr Barry Hubbard –

The condition of our assets is always under review, we've just, just looking at the electricity assets now, we've just this last month completed a full survey of all of our high voltage infrastructure, this has involved someone going out with a GPS locator visiting every electricity pole and looking at the condition of that pole and logging the condition and then back in the office all of that is now plotted on our GIS system. We've got a, I think there's an agreement with SHG that we share information on the GIS so that all of the mapping information that we have will be shared with SHG and then SHG will be able to accurately plot where all of the electricity lines are on the ordinance survey maps. It is important. I've got six ordinance survey maps and you put them together and make one map and nothing joins up. Similar thing is being undertaken with water. We've got, since we formed we didn't have any GIS, we didn't have any survey maps, we didn't have any records, all of the records which we inherited, well, we didn't inherit records from SHG, the records were in people's heads, so things like the water assets, you know, you couldn't see them physically, then we wouldn't know where they were, sort of, underground, so we've got an on-going survey commitment to map all of our assets, do a conditional survey of all of our assets, one of the things we need to do is we need to have right of access, so things like water pipes and sewers, you know, in the past they've been, sort of, put wherever Government wanted to place them, but as a private business we need to have the ability to be able to access our equipment and service our equipment and all of this surveying will go into that process. It's a long process, there's an awful lot to do, but the starting point was a very, sort of, low starting point, so that's what we're currently doing. I think with the buildings there's an initiative, an SHG initiative for a revaluation of buildings and we're part of that. Obviously there's no active market. I remember one of the questions back in August last year I was

going to have, you know, your value, if the buildings are valued, and there's no market, you don't know. The values we used came from a survey that Mr Stuart Planner did when Stuart Planner was working for SHG, he did a survey of all the building assets and he used some different formulas and valuations to come up with some method of creating a value that would work which SHG will probably verify now.

Chairman –

So you are now happy with the condition and valuation of assets taken over from SHG?

Mr Barry Hubbard –

Sort of, yeah, I could qualify yes, it's work in progress, but with the knowledge which is available at the present time we're happy with what we've got.

Chairman –

Okay. Are there any other major capital costs included in the balance sheet which are expected to be written off?

Financial Consultant –

No, not at the moment.

Chairman –

No?

Financial Consultant –

No, no major expenditure that needs to be written off. The verification exercise that Barry was referring to is the same exercise that picked up the £665k, it was, the £665k was transferred to Connect as part of the assets under construction, so at the point where Connect was taking those assets to be recognised on Connect's balance sheet there was a verification to identify particular assets that were under construction and that's when the £665k was picked, so at the moment all expenditure booked on projects is towards certain, specific assets, so there's nothing that is likely to be written off and is not related to a project. If it's straight operational expenditure then it's going straight to operating expenditure and not the balance sheet.

Chairman –

Alright, thanks for that.

Mr Barry Hubbard –

That part of the balance sheet is minor, I'm thinking, things like, we're changing the way that we, changing the style of high voltage insulators, for example, which will be much more reliable, so there'll be small quantities of incompatible equipment which will end up writing off, but it's not significant amounts of money that anyone would be interested in.

Chairman

Right, thank you for that further comment. Stedson Francis, you had some concerns you're going to ask about?

Mr Stedson Francis (Deputy Chairman) –

Yes, thank you, Mr Chairman. Connect St Helena is the sole provider of utilities on the island and it's good that now you are up to date with your audits. However, assessing Connect St Helena's performance is difficult without any industry benchmarks on its financial return on investment and liquidity ratios. Can I ask when is Connect St Helena going to set non financial performance targets and report against these in the annual financial statements for users and readers of the accounts to be able to benchmark performance and compare them with global trends for similar industry players?

Mr Barry Hubbard –

I suppose the financial performance is as stated in here, but you'll be aware, Stedson, with the Regulatory Authority the performance achievements and targets are set out in stuff that we do with the Regulatory Authority so it would probably be a duplication of work and the Authority obviously gives out a great deal of scrutiny and the Authority reports that publicly, so that information exists, and your question was should we put it in our financial statements, then possibly we could do, it would be a duplication of information but there might be some interesting just to put in there, so we can bear that in mind.

Mr Stedson Francis –

Thank you for that, Mr Hubbard. The receivables turnover rate appears high taking an average of 44 days to collect after billing, can you explain why it is this high?

Financial Consultant –

The billing procedures are when a customer is billed today they have to pay in 28 days so they're given 28 days to pay up their utility bill, so it's only usual when it's over 28 days that's when we start looking at it as overdue. Comparing the two financial years, it took on average 46 days in 13/14 to collect a bill, and in 14/15 it just took 42 days and that is also reflected in the amount of debts over 90 days. When Connect started, it was given £275k of debt due over 90 days, that reduced to 127,000 by the end of 13/14 and by March 2015 reduced to 111,000, for the recent aged debtors report it's £74,000, so it looks like debt recovery strategy is a kind of working efficiently when you look at the statistics.

Mr Barry Hubbard –

Yes, obviously, that, you know, we've, that 274,000 we've now converted the debt asset which we inherited from SHG and obviously paid shares for, £200k of that is now cash which obviously can then go to benefit the business and the infrastructure upgrades and that's all done without taking lots of people to court, it's been done without huge numbers of disconnections and it's been done by, sort of, like, you know, negotiations, hard work from the billing people just to try to coax some money out of people that owed the money.

Mr Stedson Francis –

Can I ask you, what is the target asset turnover rate given that the average over the two years is 18% and in broad terms what is the expected payback period for investments and renewal of electricity infrastructure? I suppose that's two questions, what is the target asset turnover rate given that the average over the two years is 18%?

Financial Consultant –

Because the asset base, which is mainly infrastructure is at the moment like we've something like £10m worth of asset replacement needed and there's ongoing investment in infrastructure, it's like a growing base, the asset base, because there is need for the investing and upgrading, so to have target now when we don't know the actual amount infrastructure asset replace, we don't have like a target, we can only work with the current budget as a target.

Mr Barry Hubbard –

Obviously this is infrastructure, this is stuff that sometimes will last for, sort of, like reservoir wires and that will last for like forty or fifty years, so there's a lot of generators, like twenty-five year licence, so we don't term the assets quickly, the quickest turnover it's probably computers.

Mr Stedson Francis –

And have you answered the one about, you know, what is the expected payback period for investments and renewable electricity?

Mr Barry Hubbard –

Renewables in electricity, all the renewables so far has been funded through Government grants so it's free money so all of the benefit from that investment goes straight back into the reduction of the subsidy. Once we get to the point where, you know, grants are no longer available then we'll have to look at the different options about, the different ways of purchasing renewable energy, so at the moment there's a lot of talk, whether or not it would come to fruition through obviously climate change grants and that would be funded through the EU, there's lots and lots of discussion about it, you know, that is the most efficient way of tapping into the renewable energy. If that money comes through grants then we're in a much better situation than we would be if we were, sort of, like in the UK or somewhere where you'd actually have to then go and finance it yourself.

Mr Stedson Francis –

Do you have a, or I was thinking about an ongoing programme for renewable energies as far as when wind is concerned and also solar production?

Mr Barry Hubbard –

Well, what we did is, we – remember a couple of years ago we jointly, Connect and SHG, we appointed a consultant called Aguisol and they looked at the, sort of, the roadmap to a hundred percent renewable for us and they came here without the knowledge of any previous reports, because you had lots and lots of previous studies been done over the years, so we thought, instead of providing those and then the Consultant regurgitates the last consultant's report, we gave lots of information but we didn't give them any sort of opinions so they came to the conclusion that solar was going to be the most financially viable solution going forward, that the wind and the maintenance with the wind turbines just creates like a whole lot of problems for a small island, but solar is simple, it comes in containers and you bolt it together, connect it to an inverter, wash the panels occasionally and you're getting, you know, you're getting a good maintenance free, sort of, sort of generation. We then moved on, we had the DfID Infrastructure Adviser here a couple of

months ago and we looked at the, sort of, phasing of investment, we looked at the types of energy storage which we will need, because as you try and integrate more and more renewables into the grid then you always have to have somewhere to send electricity and at the moment we're in the situation where at times, we're now just maxing out, so going forward energy storage is part of the solution. Energy storage is a technology that is developing at a rapid rate so what you would buy next year or the year after is probably different to what you'd be buying this year and you'd probably be buying something much better and much cheaper, so it's one of those investments that you don't want to defer it forever or you'd never get there, but you want to make sure that you're investing in the technology that's going to work for us. So what we're planning, what's in our later version of the Strategic Plan which we currently drafted and we're just consulting with key stakeholders on, is a full population of the Rifle Range site. Remember, we gained outline development permission for what we thought was 2 megawatts, that that site would accommodate and we then got full development permission for the half megawatt plant which is currently there and working, so now what we're doing is we've applied through the Planning Department to convert that outline permit into full development permission and then what our intention is, is to obviously put the solar panels on that site which we would probably do as the first step of this phase with the second step being to invest in the storage and once you have the panels and you have the storage then you have the output of the panels, on their own won't give you very much benefit, the panels and the storage is what would give the benefit, but by deferring, you know, there's quite a lot of investment there which we doubt would ever get funding for this investment in one year, so we want to look at it where we do the simple bit and defined bit first and then put the storage as the second bit when the technology and the prices have started moving favourably for us. And where that will get us to, that will get us to about 40% of renewable which currently we're doing really well, but just under 30%, but 40% would be another big step in the right direction. Then what we want to do is to retackle the next phase in one, sort of, big step. That phase should give such large cost reductions but it would take Connect to have subsidy and what it will also do is it will take us into, like, profit. Obviously if there's profit there then there's money that's available for financing, so this is the bit where we go from being so dependent on SHG to now knocking so much cost out of the business, that we can then borrow money and finance other projects without passing that cost on to the customers and it may even reduce the cost to the customer, but that's what we're planning I think in 18/19 so a new strategic plan is our 20/20 plan and it's at the end of this and that gets us off subsidy I think three years sooner than the ten years which is the commitment made to ExCo when we divested.

Mr Stedson Francis –

Can you say what is the expected payback period for renewable?

Mr Barry Hubbard –

I don't have it to hand. Much of it, all the time that it comes in with grant, obviously it's free money, but you've got the payback I suppose, but if we look at other, if we have to then sort of self-finance, which is like a load of different options and it's one of those things that we would need to consider very carefully what those options are, whether or not it's a capital purchase, whether or not there would be some power purchase agreement. There's loads of different ways of doing it, but we don't have the figures for those at the moment.

Mr Stedson Francis –

Just one final question on the solar farm. If you ever get to the stage where you have enough panels put in place to run the island fully from the solar farm would you still need diesel to run in conjunction with it like you would do with the turbine, a certain percentage of wind turbine to go with the solar panels?

Mr Barry Hubbard –

You always need firm generation, you always need to have something there which isn't governed by the wind or the sun, but when you switch your TV there's going to be electric there and currently the diesel generators are what does that. When storage is introduced then storage which is effectively another generator, almost like a solid state generator, imagine there's some batteries and inverters in a number of containers, so then that allows, if that storage is well charged, then that could provide that firm generation capacity and you might decide that you want to, you know, it would be running you could then switch your generator off. At the moment we obviously have so much renewable that when we're running generators, if we've got a small generator and we're running it, sort of, as the firm supply, then if you get the wind drops and the clouds come over at the same time, well that generator is now going to struggle to pick up the load straight away, so there's a whole lot of technical issues and we'll need to work on the control systems to make sure that all of the scheduling of the generators and how the wind and how the solar interact, it's a, there's a lot of technical work to do there, but it's something we're going to need to do to get high levels of renewable generation.

Mr Stedson Francis –

Thank you.

Chairman –

The annual report and accounts does not provide financial performance for different operating segments, namely electricity and water. Further analysis in the electricity segment between the diesel, wind and solar divisions would also show performance of the different electricity divisions, what is the financial performance of the different operating segments in Connect?

Mr Barry Hubbard –

We're reporting to the financial reporting standard which is the required segmentation, but at Board level the monthly accounts, sort of, present in detail all of the different areas so that's considered by the Board each month, but it's not, it doesn't form part of our financial statement, so in summary the electricity is now forming particularly well, compared to water, most of the subsidy received from SHG goes into water. However we need to operate as a commercial business, we need to be batching charges to costs and that's something that we're working on at the moment, we need to move away from just, sort of, standard percentage rises, because now there are parts of the business which are covering the costs and we can't allow, sort of, huge amounts of subsidisation within our business, SHG can subsidise if they want to and they can target subsidy to different people, but we need to try to get our costs more in line to where the income is and whilst you question, water is the one that is significantly subsidised at the moment.



Chairman –

So there is cross subsidy between Energy and Water?

Mr Barry Hubbard –

Not a huge amount, we got it to the point now where, you know, like a year ago we would probably have had subsidies to one extent or another in each of the areas, but with the improvements we made in renewable energy obviously what that's doing is that's now latching the cost of electricity to water much more closely and the work we're doing at the moment we're using SHG's Socio Economist, is we're looking at what would happen to the household situation if there were, sort of, costs which would be more geared to water and less towards electricity, the problem is with water, there's so little income for us for water, so it's less than 10%, so if, for example, we had to have a, say, a 4% increase in our tariff and we want to put it on water, well that would be a 40% increase on the water tariff, which, you know, is a shock, but we, you know, that's something we need to work through, you know, we need to understand how to structure the tariff in a more smart way now we're at the situation where, you know, the majority of the subsidy directed to water, something which needs to be worked out.

Chairman –

Okay, let's go a little bit further and we have quite a few more questions actually written down to ask. What will be the impact of renewable energy generation on diesel fuel consumption in the Power House? Could you answer that sort of directly?

Mr Barry Hubbard –

It reduces, the 30% renewable which we currently have is reducing the fuel consumption by 30%, so it's as simple as that. Then obviously that reduces our power costs.

Chairman –

Alright, so does each unit of renewable energy save an equivalent amount of diesel fuel?

Mr Barry Hubbard –

Yeah.

Chairman –

Thank you for that. Surely the more significant fuel savings only rise when sufficient renewable power is generated to close down a generator, what is the quantity of renewable required for that?

Mr Barry Hubbard –

I think this is a technical area where so many people tend to get it wrong, right?

Chairman –

Right.

Mr Barry Hubbard –

The generator uses diesel depending on the load that's on the generator, it's like your car, you know, if you're driving your Landrover at a 100 mph you will be getting like five miles per gallon, wouldn't you? If you drive it sensibly you'll be getting decent miles per gallon. What happens with the generators is as the load increases the amount of fuel it consumes increases so, you know, loads of people think that just with the generator running, if the generator sat there idle it hardly use any fuel, but if the generator is sat there, it's a 1.6 megawatt generator, and it's not yet 1.6 megawatts then it's using a lot more fuel than it would have done if it was sat idle, but it's correct to say that a generator that's not heavily loaded isn't as efficient, so there's a curve, it's not a straight line, if your generator is a hundred percent and it's down at 70 or 60 percent it's probably operating to a fairly efficient rate, if that generator was down at, say, 30 or 40 percent then it wouldn't be operating as efficiently and that's why we have different sized generators in the Power Station, that's why we have an 800 kilowatt generator and we've got two 1 megawatt generators and three 1.6 megawatt generators and the control system that is looking at the load and working out which is best to run, so it's not as simple as you say, but the overall diesel efficiency just, you know, is better. These new generators are much better than the old generators certainly, but the discipline of running regime they're optimised to provide what is needed and it is irrelevant, the amount of renewables is irrelevant pretty much for the diesel generation, the diesel efficiency remains fairly consistent.

Chairman –

Thank you for explaining all of that. What is the current level of renewable energy?

Mr Barry Hubbard –

About 29%. 29% last year in total.

Chairman –

Right. Given that the Power House currently consumes almost half of the island's total imported fuel, what will be the impact of increased renewable energy and reduced fuel consumption on the operations of the new Bulk Fuel Installation?

Mr Barry Hubbard –

That's a question for the Bulk Fuel Installation. You know, we're.....

Chairman –

Want to have a stab at it?

Mr Barry Hubbard –

Yeah, it's, their deliveries in diesel fuel will become less. Hypothetically say that we were a hundred percent renewable and we weren't using much diesel then the tanker wouldn't need to bring as much diesel. Whether or not the tanker still needs to come as frequently because aviation fuel has a life or whatever, you don't know, it's something that someone who manages the Fuel Management Contract would be able to answer very concisely, but I don't know the answer.

Chairman –

Alright, I respect that. Connect's subsidy from SHG is decreasing, you said earlier on, annually, and has decreased by 24% from 2013/14 to 2014/15, 2015 £845k, 2014 - £1,110m, are you currently happy with Connect's operational efficiency?

Mr Barry Hubbard –

There's always improvements that can be made. Obviously there is a huge reduction in the subsidy this year, it's down at £605k, but people may think, you know, this is because the charges keep going up, but the charges have been inflationary, so the charges really only increase or cover the increases of inflationary costs, so these are real savings that have been made, but the biggest financial saving is always with renewable energy because the fuel costs are so high, but when we're looking at efficiencies and what we're saying now in this new business plan which we're just consulting on, is that efficiencies need to be, sort of, ploughed back into the business. The infrastructure which we described before has been neglected for decades so any efficiencies don't mean just saving some money, what it means is putting that money back into make things better, making the infrastructure, sort of, more predictable and more reliable which is one of the, that's one of the main concerns of the Regulator, the Regulator needs to be sure that we have a reliable and predictable network so the savings, yeah, go back into the business rather than into reductions in charges.

Chairman –

The public is always asking, so I want to ask the same question really, what measures have you put in place to improve the Company's efficiency?

Mr Barry Hubbard –

The cost efficiency is very much about the renewable. When it comes down to, sort of, like, people efficiencies, we're moving more and more towards, like, planned maintenance rather than like breakdown maintenance, we look more, I think, and particularly the water side, for example, there's a huge, well each fault, this is general actually, this is sewage, this is water, it's electricity, each fault we have on our network it is recorded, there's a GPS location now taken of it along with a description of what the type of fault is, that stuff is all in the process of being put into a database, but in the interim it's being looked at manually, so what we have being measured under your water network, what we have is someone with a pen just putting a dot where there's leaks or bursts and therefore we can see very quickly where the problem areas are. With electricity, there's a lot less faults so it doesn't actually tell the same story, but what that's enabled us to do is to significantly reduce the amount of water outages which we've report to Regulator, I can't remember the numbers now, but it's gone from something like, say, 1400 down to about 800 in a year and obviously all the time that we're not dealing with bursts, we're actually out there, sort of, doing some proactive work with things like, if you think about the reservoir linings that we've replaced. Last year we drained down the Scotts Mill I think three times when it was leaking, this takes the whole team a lot of time and they drain it down and they sluice it all out and they try and sort the leak out and then they fill it up and then it's okay and then the next week it's leaking again and they drain it all down, now they've put a new lining in there, nobody's doing that. People are now going out and their time is better spent, but what we're also doing, bought some new vehicles and we have canopies arriving for these vehicles so the vehicles will be much better equipped so that when people go out they've got everything

they need in a proper and ordered fashion so that they don't go to the job and then work out what they need and then have to come back and draw stuff out of the store, so it's sort of moving efficiencies there and if Leon was here I'm sure he would continue talking about all of the stuff he's doing with the guys with a lot of focus on getting the efficiency up and savings from efficiency goes back into the business.

Chairman –

I'd like to get on to cars and such a little bit later. Are you able to measure system losses on the various distribution systems on water and electricity?

Mr Barry Hubbard –

Yeah. On electricity we've always been able to do that, we have a loss of up to 11%, that 11% is mainly through like line losses copper and iron and losses in the transformers and stuff but it is a genuine loss dictated by the laws of physics. Water, water is a bit more tricky because the lack of bulk metering, so we meter out the Water Treatment Works and we meter in people's property and we can look at the difference there but it doesn't really tell you very much, so what we're currently doing is we're installing bulk meters on the outlets to the various tanks, that's a much better way because you know what consumers are connected to the tanks and you can look at what their meter readings are and what's gone out of the tank and, you know, there's a lot more focus on being able to resolve where there's any leaks but there was a lot of tanks and a lot of these to do, but the billing system, we have reports and we put those reports straight in once when we designed it so that all the reporting everything is there, but, yeah.

Chairman –

Okay, it must be difficult. Can I ask you a question about the present subsidy? When is the Government subsidy planned to be phased out and is that timeframe proving realistic?

Mr Barry Hubbard –

As I said before, I think if we'd had stuck to our original business plan we would be out of subsidy now, but SHG would still have a load of depreciated assets that we would need to deal with, so we've already achieved in three years what we set out to do in ten, but we've done is that we've now taken on that liability from SHG and with the intention of still sticking to that same ten-year timeframe. This new business plan, 20/20 plan that we're currently talking to SHG about, we're proposing that we'll be off subsidy within eight years.

Chairman –

Eight years?

Mr Barry Hubbard –

Seven years, sorry, three years ahead of the plan, but assuming this plan that we're considering is finally agreed then that's what we do. It's not proving difficult, you can see we've already knocked half of it out within four years.

Chairman –

Well, I wish you luck with that. I have a final question for you, unless there's some supplementaries to ask, is the company making mechanisms like usage of a register of car usage to reduce or eliminate any misuse of Company resources?

Ms Sarah Thompson –

We have a policy approved by the Board on use of Company vehicles, Company vehicles are not generally authorised for personal use unless by exception, so that there shouldn't be personal use of Company vehicles.

Mr Barry Hubbard –

There's log books in all the vehicles so the vehicle all the journeys are now logged.

Chairman –

Does the log book tell you a complete history of where the vehicle went to?

Mr Barry Hubbard –

It doesn't go house by house, it's summarises the journey.

Chairman –

So it might say, go to Longwood, it don't say which area of Longwood?

Mr Barry Hubbard –

But we trust our employees and we start from a position of trust and if we then have any suspicions that that trust has been breached then we've got procedures to deal with them, but, you know, I think it's a different now having worked for Government, you know, Government starts from a position of like mistrust, we start from a position of trust, we employ people, good people that do a good job and....

Chairman –

Yeah, I'm sure you do and that is all very well, but what monitoring takes place then of all of that, how is it monitored?

Mr Barry Hubbard –

As I say, through, we have the log books, we have the vehicles servicing that which goes on to a, like a database type system so the use of vehicles is quite a long way down the list of concerns that I have, to be honest.

Chairman –

But they're not the concerns, you see, there's the public that we're asking questions on behalf of, so you will appreciate the kind of questions we need to ask.

Mr Barry Hubbard –

Yeah, so what are the specific concerns?

Chairman –

Well, sometimes we are told vehicles are seen in areas where perhaps they oughtn't be, they have no way of knowing obviously, but in the person's mind well, why is that vehicle parked around here?

Mr Barry Hubbard –

Yeah, I mean, they're valid questions and people have raised those directly with us, every time we've investigated it is a legitimate reason so each time we've looked we've never found anything untoward but if there is some specific stuff give us the specifics, we'll investigate it, if people are doing stuff that they shouldn't be doing we've got disciplinary procedures and we'll deal with people that way.

Chairman –

Well, thank you for that, it's been quite a long session this and you've done a great job in asking questions and answers turn into supplementaries and that sort of thing. Unless we have any more questions from anyone, then we would like to thank you very much for coming along and giving us your time for that. It's Barry Hubbard, Sarah Thompson and Makion Chiwade, I hope I pronounced that correctly.

Financial Consultant –

That's okay.

Chairman –

Thank you very much for your time. Thank you.

And I think this will be a good time to have a recess for about a half an hour, so let's say a quarter past eleven we will come back here, yes? Thank you very much.

**Meeting in Recess.**

## Meeting Resumed.

### 3. The St Helena Currency Fund Accounts.

Chairman –

Alright then, we shall carry on. The next accounts before us is the Currency Fund 2013/14 and 2014/15, Responsible Officers are already at the table, can I just ask you to introduce yourselves please for the public?

Mr Colin Owen (Commissioner, Currency Fund) –

Yes, Colin Owe, Commissioner of the Currency Fund.

Mr Dax Richards (Currency Commissioner) –

Mr Nicolas Yon (Currency Officer) –

Nicholas Yon, Currency Officer.

Chairman –

Okay, I think as it stands Nigel you have some questions you were going to ask, concerned about some things?

Councillor Nigel Dollery –

Indeed. One would be very straightforward and I would expect just a very short answer back. The clearing of some recommendations made by the PAC and the Chief Auditor appeared dependent upon the change of the Ordinance. These include the current requirement to produce six-monthly financial statements and the proposed requirement to lay the account before Legislative Council. Can you please confirm that that is in hand and will take place?

Mr Colin Owen –

Yes, Councillor, as I'm sure you are fully aware, an ExCo Memo went on 3<sup>rd</sup> May to be approved by ExCo and it's on official business for the 18<sup>th</sup>, next Wednesday and it's Sessional Paper 30/2016 and covers all those points.

Councillor Nigel Dollery –

Thank you very much for such a straightforward answer.

Chairman –

Alright. In the examination of the 2012/13 Currency Fund accounts the PAC enquired into what research had been done on the future currency needs of the island, has that proposed currency review now been completed and reported?

Mr Colin Owen –

We officially undertaking a report on it, what we've done through looking at the Bank of St Helena is what they're doing to reduce the need for currency on island, there's various schemes that is going through on there, so we haven't done any formal reporting of the value that's there.

Chairman –

Are you intending to do one, formal reporting?

Mr Colin Owen –

I think, was nothing I've considered at the present time, if my colleagues would like to add?

Mr Dax Richards –

We are preparing a paper in due course to go to Executive Council for consideration of whether or not or looking at the benefits and the no benefits of actually keeping the St Helena currency, so that's been requested on a number of occasions by members of Council and a report will be presented in due course.

Chairman –

That report will make its way to formal Legislative Council?

Mr Dax Richards –

Yes, if it's endorsed by Executive Council then it will be taken to LegCo for support of any of the proposed changes that they are, indeed, endorsed. If there are changes needed to the legislation in terms of the Currency Fund either way then obviously that will have to go to formal Legislative Council to be approved.

Chairman –

And thereafter it becomes a public document?

Mr Dax Richards –

Yes.

Chairman –

Thank you for that. Mr Francis?

Mr Stedson Francis –

Thank you, Mr Chairman. The accounts report some £5.6m of notes and coins in circulation and these demand liabilities are more than covered by the £6.3m held on deposit. What plans do the Commissioners have for the £1.4m held in reserves?

Mr Dax Richards –

There are a number of calls on that addition in terms of the reserve. As you mentioned, the audit... as it stands says that we need to ensure that we have cover at least 10% of the demand liability for the Fund. At the moment our general reserves is in excess of that, but if there are any proposals put forward in the year, for example, minting of new coins or production of new notes, then generally those will be funded from the general reserve and obviously that will then have an impact on the differential between the amount of investments held and the amount of currency in circulation.



Mr Stedson Francis –

Thank you for that. It is noted that some £600k is budgeted to be transferred to the Consolidated Fund and can I ask, what is the minimum reserve balance that is required to be held?

Mr Dax Richards –

I mentioned that time, it's 10% of the....

Mr Stedson Francis –

I'm sorry, I was thinking ahead and never hear you.

Mr Dax Richards –

....of the demand liability.

Mr Stedson Francis –

Right. The performance of the Currency Fund over the two years 2013/14 and 2014/15 shows an operating loss before recognition of movements on investments. With interest receivable remaining at a low level, does that indicate that the Currency Fund should be wound up?

Mr Colin Owen –

They're certainly not. The loss that you refer to was £2k. The purpose of the Fund is not to make money, that's one of the aims but there is the security of the monies on island, so that's the real purpose. Obviously interest rates at the current time are probably on the lowest levels we've ever seen at 1.5% in general that we look at our funding that comes through, even then we're still making around £70k off the Fund. We've got, as you said previously, a considerable reserve in the pace there and that's the idea of the reserve really, it would be to cover any blips up and down, but it can't really, you know, we're still only using last year it was on £2k on such a high reserve. Nicholas, do you want to add.....

Mr Nicholas Yon –

In addition to that, one of the changes this year is the adoption of IPSAS, is that, you know, accounting standard used to report on and one of the things in IPSAS is accounting.....

Mr Stedson Francis –

....could you explain a little bit, IPSAS?

Mr Nicholas Yon –

IPSAS is International Public Sector Accounting Standards, IPSAS, and as part of that one of the things is to recognise stock. Previously when we used to account for when we purchase coins or notes, we used to take it straight from the, through the PNL to the reserve, but now we only recognise that cost when we put money into circulation, so in the accounts you will see that there's a line under expenditure for current circulation currency and that's in 14/15 is £52k and so that is an accounting treatment that we use to, you know, to account for the stock in that year, so if you take that away then you see that's one of the reasons why we got a small loss in this year, but that's due to the change of accounting treatment.

Mr Stedson Francis –

So hopefully in the future that loss will turn into a small profit or positiveness?

Mr Nicholas Yon –

Well, if you look at the revenues that we have, you can see that if you don't take into account that accounting treatment for stock then the revenues cover other operating expenses of the Currency Fund.

Mr Stedson Francis –

So you could say that's a justification for returning it then?

Mr Nicholas Yon –

No, I wouldn't say that.....

Mr Stedson Francis –

Oh. Okay.

Mr Colin Owen –

I think, just ..... you know, the, we have a huge reserve there and that's one of the issues that you will have ups and downs on your interest and that's the main, and I know we talked about stock there, but interest rates being as low as they are at the current time for the Fund still to be making just a £2k loss I think it's pretty minimal on such a reserve that we hold.

Mr Stedson Francis –

Thank you.

Chairman –

The market value of investments has moved significantly year on year with a loss of £176,000 in 2013/14 and a gain of £197,000 in 2014/15. The new investment strategy was agreed by Commissioners in December 2015, what are the objectives of that strategy, please?

Mr Dax Richards –

The strategy has two key objectives. The first is to preserve the value of the Fund, as already been mentioned by Colin previously, so the first priority of the Fund is to ensure that we're meeting all of our liabilities in respect of currency in circulation. The second objective of the Fund is to maximise the value of the Fund, so maximise revenues that we can actually attain from that Fund.

Chairman –

Okay, thank you for that. What are the target returns for the Fund in terms of annual revenues and capital growth?

Mr Dax Richards –

It very much depends, as Colin has said before, you know, at this point in time we know interest rates are probably at the all, time low and probably will remain so for a few years to

come, according to the estimations of the UK Treasury. However, we are looking at other alternatives for raising some revenue, but as the strategy says our first priority is to maintain the Fund, the second priority is to actually maximise the value of the Fund, so we are looking at alternatives in terms of the commemorative coin business and seeing where we can maximise revenues through there, providing that we maintain the St Helena brand and that's been one of the key changes also, that the Commissioners has adopted over the last year or so in that St Helena is a well sought after commodity in terms of the coin industry across the world and we have now decided not to issue as many small, low value coins with very little precious metal content included in them, they're known as cupronickel coins, but instead we're focusing on the higher, more precious metal content coins, so your gold and your silver and your platinum which again adds to brand St Helena, so we're working very closely with Enterprise St Helena in terms of ensuring that whatever we do issue is of the quality that we want to do to promote St Helena going forward.

Chairman –

Interesting and thank you for that. What are the potential risk exposures and how are they being managed within the portfolio?

Mr Dax Richards –

All of our coins at the moment are backed by funds held in the UK, as members are aware, so in terms of our exposure for those specific markets we've already had the liability covered under the amounts we have invested with the Fund Managers in Crown Agents, so if somebody was to come and try to redeem the value of the coins that are in circulation at this point in time, we have sufficient funding sitting in the Fund to be able to cover those liabilities.

Chairman –

Thank you. Anybody else have any further questions?

Councillor Nigel Dollery –

I'll come back quite quickly on that. So you think there's money to be made in selling high value commemorative coins?

Mr Dax Richards –

We do make some money, yes, as you can see there are sales that we see going through.

Councillor Nigel Dollery –

And precious metal ones?

Mr Dax Richards –

Precious metal coins, so at the moment we are focusing on the gold and silver and some platinum coins.

Councillor Nigel Dollery –

Does that market have anything to do with the currency we have in circulation on the island or is it something totally separate?

Mr Dax Richards –

It is slightly separate in terms of currency in circulation, but as you know, each of these coins that we issue as the St Helena Issuing Authority has a face value on that coin, so our liability is for covering the face value on that coin in the eventuality that it was to be redeemed.

Councillor Nigel Dollery –

Yeah, I accept that. You will know far more about it than me, but I cannot see any reason at all why there shouldn't be a market in commemorative coins quite separate from the Currency Fund.

Mr Dax Richards –

You mean in terms of the private sector?

Councillor Nigel Dollery –

Yeah.

Mr Dax Richards –

Most definitely, we would encourage, and that is exactly what happens anywhere else in the world, unfortunately at this point in time I don't think there's a big enough market here on St Helena to be able to sustain a business, but that isn't to say that that isn't a possibility going forward.

Councillor Nigel Dollery –

No, I would agree with you on that. In the future it could be.

Chairman –

Thank you. Just a bit of advice there from our Adviser. Yes, and of course you will now remember it, you mentioned the, to see if we should keep the sterling or keep the St Helena pound?

Mr Colin Owen –

No, sorry, I didn't mention that we should keep it; that will be a decision for various bodies to do, I didn't state that we should keep it.

Chairman –

Okay, but.....

Mr Phil Sharman –

Chairman, I think if I can just clarify.

Chairman –

Yes, I would ask you for some clarification on that.

Mr Phil Sharman –

The Financial Secretary or the Currency Commissioners were indicating that the Fund should be maintained and therefore your interpretation is that means the St Helena pound is retained, that's the question you need to ask.

Mr Colin Owen –

I'm not going to clarify that then, because you asked me should the Fund be wound up because of its current performance at £2k loss, I said no, so that doesn't say ..... you asked me about the Currency Fund, not, should we remove sterling from St Helena. That's very clear, just to clarify that, be absolutely certain.

Chairman –

Thank you for that. That then brings us to the end of that particular set and thank you all very much for that. The same officers though are named for the next one that we're going to have a look at and that's the Defined Contribution Pension Scheme 2013/14 and 2014/15 and may we continue.

#### **4. Defined Contribution Pension Scheme Accounts.**

Chairman –

May we continue? The Defined Contribution Pension Scheme has changed fundamentally from that envisaged in the Trust Deed with the advent of the MiSaint pension savings plan in April 2010. For the benefit of listeners, could the Trustees explain what is the current form of the SHG Defined Contribution Pension Scheme.

Mr Colin Owen –

Thank you. I'm sure Nicholas will answer that. Just to clarify I'm here as a Trustee and we have changed roles now, we all have different hats in SHG, so no longer a Commissioner, but I'm here as the Trustee, I just wanted to clarify that.

Mr Nicholas Yon –

Sorry, can you repeat the question?

Chairman –

Yeah, for the benefit of listeners could the Trustees explain what is the current form of the SHG Defined Contribution Pension Scheme.

Mr Nicholas Yon –

Okay, so probably just for a little bit of background information?

Chairman –

Please.

Mr Nicholas Yon –

Before 2010, SHG used to operate the Defined Benefit Pension Scheme for all employees. In 2010 that was closed and SHG set up a Contribution Pension Scheme where SHG contributed a fixed amount into your pension fund. Each person had their own individual pension fund or pension pot and that was in 2010. Subsequent to that MiSaint Pension Scheme was implemented and SHG made a decision to going forward that people would be put on to the MiSaint Pension Scheme. Since then, again, well, because of that, the purpose for which the scheme was, the SHG Defined Pension Scheme was originally set up for was no longer the same, the purpose was different because we had an alternative scheme in which to place peoples contributions and so in March/April this year the decision was made by Executive Council to actually close that scheme of the SHG Defined Contribution Pension Scheme and that all future payments will be made into approved contribution pension schemes for all employees going forward rather than the actual SHG Scheme, so that Scheme is closed.

Chairman –

So no employees, they become part of the MiSaint Scheme, immediately?

Mr Nicholas Yon –

Well, sorry. Under their contract now it basically says that SHG will contribute into an approved Contribution Pension Scheme so it could be MiSaint, as one option, but it could be

that an employee comes and says I have another scheme but it has to be approved by the Commissioner of Income Tax as an approved scheme.

Chairman –

Oh, so there's an option there?

Mr Nicholas Yon –

Gives you an option, it doesn't necessarily have to be by a Saint, but generally because that's the one that's available.

Chairman –

You mean pressing and very certain public would be invested in that actually. I certainly didn't know that was public, that was an option. Sorry?

Mr Stedson Francis –

Could it be a scheme offshore if there is such a scheme?

Mr Nicholas Yon –

It could be such a scheme, but again, the Income Tax Ordinance is quite clear as to.....

Mr Stedson Francis –

Oh, okay

Mr Nicholas Yon –

As to what qualification .....

Mr Stedson Francis –

It would need to know if it is genuine.....

Mr Nicholas Yon –

For that scheme it would have to .....to make that decision.

Chairman –

Right, thank you very much. What responsibility remains with SHG with regard to the externalised MiSaint pension plan now being operated through Solomon and Company?

Mr Nicholas Yon –

So there is, SHG has no involvement yet in the management of that scheme, that scheme has its own trustees to manage the scheme on behalf of each member.

Mr Dax Richards –

Can I just add that there is, we do have a Liaison Officer who actually sits on the Trustee meetings and reports back to SHG any changes in circumstances that might arise, so we do have a representative who actually sits on that Board.

Chairman –

Okay. What information is made available to SHG as an employer and individual members about their pension accounts and the performance of their fund holdings?

Mr Nicholas Yon –

With MiSaint? MiSaint. So basically the relationship is directly between MiSaint and individual employees and that's because the fund that they have is their own fund, it isn't, you know, SHG's or supported by SHG.

Chairman –

I think we should have picked up on that, but we're asking the questions that the public would want to be asking and so feel that we ought to ask them. I have a, it's the final question for you, what safeguards are there to ensure the security of the pension funds held by the external provider on behalf of members?

Mr Nicholas Yon –

So, SHG doesn't have any involvement in the management of those funds, management of those funds is done by the Trustees.

Chairman –

Okay, thank you for that and I think Francis, you have one or two things you want to bring up?

Mr Stedson Francis –

Just moving slightly away from what we were speaking about earlier, the Chief Auditor's report under Financial Statement is qualified in respect of the payments being made to leavers in the amount of £47k which were not allowed to be made by the Trust Deed, how did these pension contributions come to be paid out to staff who left the service of SHG?

Mr Nicholas Yon –

The error was identified that that was an error was made, we highlighted that to the Chief Auditor when we sent the statement over to them and I can say that that stopped as of that day, no more was paid out than those cases.

Mr Stedson Francis –

Can I ask how many individuals in total received these wrongful payments and what was the highest amount paid to any one of them?

Mr Nicholas Yon –

So I can say that in 12/13 there were thirty-five individuals; 13/14 there were five and 14/15 there were ten. The highest amounts paid totalled any one was about £2,900 or thereabouts and the lowest .....

Mr Stedson Francis –

Thank you for that. Can I ask what steps have been taken to recover these wrongful payments from these individuals?



Mr Nicholas Yon –

As you can see, high in our response to the Chief Auditor's recommendation, it was considered but a number of these people aren't on island anymore, some have moved on and so we did consider, but the decision was made that we were unable to collect that.....?

Mr Colin Owen –

I think, sorry Chair, if I can just add to that as well. Obviously the debts, it would be a debt, it varies considerably, the amounts, and it goes back to various years, this is an SHG error, I think if we were to try to recover that legally I think we would find that very difficult to do and certainly consideration was given when it was discussed at the time. I must emphasise that these are payments that have been put in, what should have happened is they should have been paid into an approved pension scheme and so the monies were incorrectly paid to the individual rather than into a pension scheme so the monies would have been paid out from the scheme in any case, it's just been paid out incorrectly and, I think, as Nicholas said, when we found that error in September that was immediately stopped and the Chief Auditor was informed of the error and that certainly hasn't been the case since.

Mr Stedson Francis –

And just one final one from me, can I ask or how have procedures since then been improved to prevent a reoccurrence of this situation?

Mr Nicholas Yon –

So we have a number of controls in place, undertaken a review of those controls now and an assessment of how effective they were in last year's preparation for this year's financial statements. One of the main things is making sure that the information that it flows through the system from contracts down to when the actual money is paid out into the pension scheme, those controls are in place now and have been proved. In terms of going forward, because the scheme has closed, then a lot of that, you know, we wouldn't be paying out anymore to the individuals any further because the scheme has .....

Mr Stedson Francis –

Right, thank you for that.

Chairman –

Honourable Nigel Dollery?

Councillor Nigel Dollery –

I think we're all aware that anything to do with pension schemes is quite a specialised area, so the questions I ask are really the sort of thing the public might ask. The Defined Contribution Pension Scheme replaced the previous one, which was closed, as you've already explained in 2010, yeah? What's the size, roughly, of the pension liability on SHG of the Defined Benefits system, that's the one for people before the system changed?

Mr Nicholas Yon –

A really top of my head figure, because I haven't got it in front of me, I think it's about £35m liability as .....

Councillor Nigel Dollery –

I smile, I had 38 mentally ticked off, I have no problem with 35. How's it going to be paid because presumably that is a liability on SHG, any pensioner as they come up to pick up their pension is going to have to be paid. As far as I know it is unfunded, or am I wrong?

Mr Dax Richards –

Yes, you're correct.

Councillor Nigel Dollery –

So what's going to happen?

Mr Dax Richards –

At present it's accounted for annually under the SHG budgeting process, so we, as Officers, work out exactly who is due to come on for retirement in the year and on that basis we make the necessary calculations to say what funding needs to be set aside to cover those pension payments. At the moment, as you say, we don't have any assets specifically within the scheme itself but at the moment it's funded on a yearly basis through the SHG budget process.

Councillor Nigel Dollery –

And because that is where we are and you know who all the pensioners are you can forecast it with no difficulty?

Mr Dax Richards –

That's correct.

Councillor Nigel Dollery –

When it's going to click in.

Mr Dax Richards –

Yeah, the only difficulty we had obviously will be if someone decides to resign during the year which will have a small impact on the outcome.

Councillor Nigel Dollery –

An interesting position to be in. Are you content?

Chairman –

Yeah.

Councillor Nigel Dollery –

The other one is we have a Pensions Ordinance which dealt with the Defined Benefits system, is there a statutory document for the current system?

Mr Nicholas Yon –

The contribution system you mean?

Councillor Nigel Dollery –

Yeah.

Mr Nicholas Yon –

No, because that's covered by the individual employee contracts where the terms and conditions are agreed with employees as to what the contribution is, also the Code of Management also says that SHG will make contributions to the scheme, but there's no legislation for .....

Councillor Nigel Dollery –

So, again this is a very, specialised area about which I know not a tremendous amount, but that means rather than having one document you have eight hundred documents, each one an individual contract with a pensioner rather than a single piece of legislation which defines the rules.

Mr Nicholas Yon –

With each employee.

Councillor Nigel Dollery –

Yeah.

Mr Nicholas Yon –

That's right.

Councillor Nigel Dollery –

Thank you. You're content with that, Chief Auditor?

Mr Phil Sharman –

They're your questions....

Councillor Nigel Dollery –

They are indeed.

Mr Phil Sharman –

Councillor Dollery, but yes.....

Councillor Nigel Dollery –

I'm aware of my limitations in this area, so I was making sure I hadn't missed anything I should have asked.

Mr Phil Sharman –

The answers meet your questions as put. Thank you.

Councillor Nigel Dollery –

Thank you very much. Thank you.

Chairman –

Thank you very much for that. Can I just ask a general question though and it just follows on from things that have been happening over the years and a number of years ago there was a move to try to bring in place a National Pension Scheme and a previous Financial Secretary was taking the reins on that and certain things have happened along the way, through your good selves as well. Is there now a need for a National Pension Scheme or is there one now actually in place?

Mr Colin Owen –

No, you're right, Chair, that lots of work was done on that and the, if I recall correctly, the paper went to ExCo and it was decided that it wouldn't be introduced at the current time, but we haven't revisited that in the recent past.

Chairman –

So things have moved on now and maybe there's not the need for a National Pension Scheme, would that be your view?

Mr Colin Owen –

Really not for me to give a view on that, but, you know, there was a significant amount of work done and I think there was concerns around to putting the costs on to the employer and really pushing an issue on to the employer, so that's my understanding at the time. I think if there's an issue and members would want to consider in the future then further work would be done on that.

Chairman –

Thank you for that, I think it's a question that should have been asked, you know, on behalf of the public who were very concerned, but they have seen things moved on in the meantime.

Mr Colin Owen –

Yeah, there's been lots of work in the background that have gone on, changes have happened and gone through the Ordinance as you see.

Chairman –

Thank you very much for that. Is there anything further?

Mr Stedson Francis –

I'd like to ask a question, I'm not so sure how to put it in words, but I think you did say earlier that the size of the pension liability is £35m?

Mr Dax Richards –

Thereabouts.

Mr Stedson Francis –

Oh okay, alright, so am I right in thinking that within the next fifty years or so there would be nobody left to draw from it because your pension is already closed now and until these people dwindle away there'll be nobody else on it?

Mr Dax Richards –

Yes, that's right.

Mr Stedson Francis –

So, can I ask the question, how much do you reckon will be left in this liability or pension pot at that time, or that's impossible to answer?

Mr Dax Richards –

There shouldn't be, if all the liabilities are covered there should be nothing left in that in terms of the liability.....

Mr Stedson Francis –

That £35m should see it through and....

Mr Dax Richards –

Will reduce to .....

Mr Stedson Francis –

.....close enough to zero balance?

Mr Dax Richards –

Yes.

Mr Stedson Francis –

Okay. I thought there would be quite a lot left over, I don't know why I thought that, but thanks very much.

Mr Nicholas Yon –

In these next couple of years there's likely to see an increase and that's because of.....

Mr Stedson Francis –

On increases?

Mr Nicholas Yon –

That's because of interest rates and staff salary increases etc.

Mr Stedson Francis –

And sometimes the pension it increased.

Mr Nicholas Yon –

But over time as you get further towards the last person who would be on the list then you will see the .....

Mr Stedson Francis –

Interesting, thank you.

Mr Colin Owen –

I think, just to add to that, that's why actuaries are paid such huge amounts of money to predict these things. Actuaries are paid huge amounts of money to predict these things, honestly, it's a lot of looking into the future and deciding on figures.

Mr Stedson Francis –

Thanks very much.

Chairman –

Well, Mr Owen, Mr Yon and Mr Richards, wearing different hats sometimes, you were involved in two sets of accounts there, the Currency Fund and, well, today I mean, the Defined Contribution Pension Fund. Thank you very much for your time.

Mr Colin Owen –

Thank you.

Mr Dax Richards/Mr Nicholas Yon –

Thank you.

Chairman –

Well that concludes the business scheduled for the two days period, the Public Accounts Committee will consider all that has been said and eventually, as obligated, prepare a report of these proceedings for the Legislative Council to be formally laid on the table. I understand this could be in July. Thereafter that document will become public. Thank you, the public, for investing your time with us listening to the proceedings taking place, which I hope you found interesting, thank you to the various accounting officers over the last two days who gave evidence and thank you SAMS for your live broadcast.

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