

## **The Saint Helena Public Accounts Committee**

### **Report to Legislative Council on the Formal Session of PAC held on 15<sup>th</sup> April 2011**

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**1. INTRODUCTION**

In accordance with section 69 of the Constitution and Standing Order 24, the primary function of the Public Accounts Committee (PAC), is to objectively scrutinise how Government spends the public purse. It aims to ensure that robust financial systems are in place, which reflects the highest possible standards of fiscal management. It may propose any measures considered necessary to ensure that government money is properly and economically spent, thus ensuring that the necessary architecture of accountability is in place as required by the international principles of good governance.

The work of the Committee includes consideration of Financial Statements and Audit Management Letters and Summaries of Value for Money (VFM) work which PAC is then required to report on to Legislative Council.

The current membership of the PAC comprises the Chairman: Mrs Lynnette Rees-Styles (since 23<sup>rd</sup> November 2010); the Deputy Chairman, Mr Anthony Leo (since 6<sup>th</sup> April 2011) and three Council Members chosen from and by the Elected Members of Legislative Council: Hon. Michael Benjamin, Hon. Stedson Francis and Hon. Brian Isaac. The committee is advised by the Chief Auditor, Mr Colin Owen and assisted by Miss Anita Legg as Secretary.

This report follows from a Formal Public Accounts Session held on 15<sup>th</sup> April 2011.

**2. INFORMAL SESSIONS PRIOR TO THE APRIL FORMAL SESSION**

PAC's last report following its formal meeting held in October 2010 was finalised and laid at the Legislative Council sitting in March 2011. It highlighted five recommendations for action by SHG. PAC has monitored progress on these.

Fourteen informal meetings of the PAC took place between the October and April formal sessions in order to discuss the following:

- Presentation by the Chief Auditor on Value for Money
- Outstanding recommendations from previous years Audit Plans
- Posting of PAC documents on SHG website
- Performance Management at the strategic level
- Review of PAC's report to the March 2011 LegCo
- 2009/10 Annual Accounts for the National Trust, the News Media Services, the Fisheries Corporation.
- Electricity Generation VFM
- Pilling Primary School VFM

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- Use of Empty SHG Buildings VFM
- Contracts for Works & Services VFM
- Procurement of Electrical Equipment VFM
- Response to a letter from a member of the public
- Technical Co-operation budget under-spend
- SHDA Loans Fund Audit Review VFM

**3. RECOMMENDATIONS NOT IMPLEMENTED FROM PREVIOUS PAC'S**

Heads of Department Staff appraisals: It was recommended that a report be submitted to PAC once this exercise was completed.

Post Office Delivery Service: PAC recommended a progress report be issued on which service delivery option is expected to ensure best value for money.

Monitoring of BFI Maintenance: PAC recommended that the inspection arrangements be the subject of an external review.

Over Sixties Pensions: PAC recommended that further research is needed to establish how the pension liability could be funded.

**4. FORMAL SESSION HELD ON THE 15th APRIL 2011**

This was the fourth occasion on which the Public Accounts Committee had met in formal session since its establishment in March 2010. In noting the changes to its membership during the year, tribute was paid to the previous Chairman Mrs Ethel Yon OBE for her contribution to the work of the PAC during her tenure. Mrs Anne George, who had also served as a member of the committee during the year, was also thanked.

The focus of this session was on three matters of concern:

The Management of Empty SHG Buildings  
Contracts for Works and Services in the Energy Division  
The Procurement of Electrical Equipment by the Energy Division.

The Land & Buildings Officer, Mr Gavin George, and the Estates Management Adviser Mr Stuart Planner were in attendance to answer questions on the Empty Buildings report along with the Financial Secretary, Mr Paul Blessington and Mrs Lilla Oliver, Director of Education and Employment who was called to answer specifically on the use of empty school buildings.

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The EMA reported on his plans to establish a comprehensive Estates Strategy which would identify plans for the future use or disposal of buildings as they become empty. However, it was expected to take nine to twelve months to complete. PAC considers that this, together with the new Lands Disposal policy, should provide a more holistic approach to the management of all Crown assets and vacant government buildings in particular but we remain concerned about the lack of clear action plans for managing the transition of buildings between departments in the interim. It is clear that buildings have been allowed to fall into considerable disrepair with no planned maintenance programme for either the buildings themselves or the grounds in which they stand. Furthermore, there is currently no comprehensive Crown Estate database to enable more accurate forecasting to take place.

The 2010/11 budget of £11,000 for grounds maintenance is considered by the committee to be totally inadequate. We noted that there was a significant under-spend on maintenance budgets generally, which the committee considers unacceptable given the parlous state of some of the buildings referred to. We further noted that, in the EMA's view, the maintenance budgets for the current year are anticipated to be inadequate to deal with the backlog of maintenance and there is no budget provision for re-development for alternative use. The committee supports the need for a revolving fund in which part of the proceeds from the sale of buildings would be used for maintenance and refurbishment so as to maximise proceeds from future disposals.

With regard to the functional responsibility for buildings maintenance, the committee would like to see greater clarity as to where the ownership of this function lies and we look forward to it being placed more appropriately within the revised Directorate structure.

With regard to the disposal of buildings on a leasehold basis, the committee asked questions about the rationale for doing so as this policy has the potential for limiting rather than maximising capital receipts. The committee will seek a more detailed response on the financial limitations of leasing.

Due to specific concerns arising from a VFM study by the Audit Service, PAC asked questions concerning the state of Half Tree Hollow First School and Longwood First School in particular and were concerned at the extent of disrepair of these and other currently empty government properties.

It remains of concern that, at the time of the preparation of this report, there had been no further action yet on these buildings leading to yet further disrepair.

At the strategic level, questions were asked of the DEE regarding the likelihood of currently empty school buildings being required for an increased school-age population within the next 5-10 years with the advent of the airport construction. PAC remains concerned that the only contingency plan to ensure sufficient capacity is predicated on building additional classrooms on the few remaining Primary school sites. DEE

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confirmed that the Education Department has no short or long-term use for either Longwood or Half Tree Hollow schools and that no maintenance has been carried out at these buildings during the years they have stood empty. PAC considers this to be an unacceptable situation. HTH School has however been in use as a store, which PAC considered inappropriate.

**Contracts for Works and Services in the Energy Division**

Following a VFM study in this area, PAC wished to be informed and updated on what progress had been made to implement the recommendations made.

Mr Barry Hubbard, Head of Energy was able to assist the committee with its deliberations on this matter. Mr Derek Richards, Head of PW&SD, was also in attendance.

Questions and concerns included the following:

The adequacy of contract documentation, why Financial Regulations and Contract Regulations were not being followed in some instances, why some verbal contracts were not supported by written documentation, how deficiencies in Stock Control and Requisition procedures were being rectified and when and how the obvious training requirements for staff employed to carry out these functions would be attended to.

Further concerns related to the adequacy of procedures for assessing Contractor performance and for the return of materials on job completion.

Whilst progress was slowly being made to rectify the catalogue of issues raised, PAC hopes to be reassured that the newly appointed Director of Infrastructure will oversee the implementation in full of the much-needed improvements.

PAC will request a formal follow-up Audit on these issues in twelve months following the wider Audit investigation into the letting of Contracts which is planned for 2011/12.

**Procurement of Electrical Equipment by the Energy Division**

Officers in attendance to assist PAC with matters arising from this VFM report were Mr Hubbard, Head of Energy, Dr Corinda Essex in her new role as Director of Corporate Procurement and Mr Derek Henry in his role as Chairman of the Tender Board.

PAC wished to know what changes had been made to procurement practises and procedures to ensure fitness for purpose and value for money in relation to purchasing decisions.

PAC were informed that a system of requisitions had now been put in place to tighten up the process and a broader range of suppliers were being used. Questions concerning ordering errors and obsolete /incompatible equipment were adequately explained. With

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regard to corporate procurement more generally, PAC were re-assured that the new management arrangements under the control of Dr Essex should lead to further identifiable savings as a result of optimal approaches to procurement being taken. As the function had only very recently been created, PAC will request the DCP to report progress to an informal PAC meeting in six months.

PAC is concerned about the lack of productivity by the Tender Board and requests clarification of its remit and the skills available to it, in order to ensure that it can function effectively.

### **5. Summary of issues arising from this Formal Session**

Through a process of questions and answers on the three reports discussed, we have established a commitment to a series of management actions which we expect when fully implemented will result in significant improvements in the management of Government assets and the co-ordination of management processes within the Public Works Department.

PAC is expecting to see, firstly, a more holistic approach to the management of vacant government buildings with a clear policy for making the transition of buildings between departments where alternative uses have been identified. We also expect to see a rapid disposal policy for those buildings which are to be sold or otherwise disposed of. We expect to see a properly planned maintenance programme to ensure that buildings and their surrounding grounds do not fall into disrepair and end up requiring more funding to rectify.

With regard to Works contracts, we expect to see Financial Regulations and Contract Regulations being fully adhered to and if the Regulations themselves are not fit for purpose that they be changed so that they are robust, fair and workable. We also expect to see substantial improvements in internal controls and procedures in relation to both contracts and procurement. In that regard, we welcome the creation of a cohesive Procurement directorate and we also hope to see a more proactive Tender Board in future.

Specific and detailed recommendations are set out in section 6 of this report.

A copy of the transcript of this formal session can be obtained from the PAC Secretary via e-mail [sec.em@cwimail.sh](mailto:sec.em@cwimail.sh) or can be viewed on the SHG website [www.sainthelena.gov.sh](http://www.sainthelena.gov.sh)

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6. RECOMMENDATIONS TO SHG

No	PAC Recommendations	SHG Response
1	<p><b><u>Empty Government Buildings</u></b></p> <p>The intention to create a new Estates Management strategy is noted but interim plans are not clear. PAC considers that it is unacceptable for there not to be an approved management plan for each property before it becomes empty.</p> <p>The rationale for releasing property for sale on a leasehold-only basis appears not to have taken into account the reduced capital receipts in comparison with freehold sales.</p> <p><b>Recommendations:</b></p> <p>1.1 Clarify the management responsibility for buildings maintenance.</p> <p>1.2 A specific, time-sensitive action plan be drawn up for buildings which are currently empty with immediate effect.</p> <p>1.3 An adequate budget for maintenance of vacated buildings and their surrounding grounds be established.</p> <p>1.4 Establish an action plan to rectify the backlog of maintenance.</p> <p>1.5 The financial implications of a lease-only sales policy be re-visited.</p> <p>1.6 Review the contingency plans for responding to a rapid increase in the school-age population.</p>	<p>1.1 With effect from 1 August 2011, overall management responsibility for Crown Estates has been assigned to the Director of Infrastructure and Utilities. This will enable the introduction of planned and preventative maintenance programmes alongside the reactive maintenance.</p> <p>1.2 A new maintenance management policy has been drafted to take account of priority needs across the estate and the limited budget available. There will also have to be a read across to the new Lands Disposal Policy. In addition, work has begun on the development of an Estates Strategy which will set out current and future use of buildings including those that are currently empty.</p> <p>1.3 Maintenance requirements will be assessed in accordance with the new maintenance management policy and the disposal policy. A maintenance budget will be developed thereafter.</p> <p>1.4 A programme of surveys to assess current condition of the Estate (some 500 buildings) is underway and priorities will be set in accordance with the maintenance management policy. The aim is to start implementation of backlog maintenance programme from 1 April 2012.</p> <p>1.5 Financial implications of different disposal methods will be revisited as part of the ongoing review of the</p>



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No	PAC Recommendations	SHG Response
		<p>lands disposal policy.</p> <p>1.6 Contingency plans for responding to a possible increase in the school-age population will be reviewed as part of the ongoing strategic planning round.</p>
2	<p><b><u>Contracts for Works and Services</u></b> PAC notes that an Audit on the management of letting of contracts is already planned but considers that further work is necessary as a consequence of the catalogue of errors identified by the Audit review.</p> <p><b><i>Recommendations:</i></b> 2.1 Request CA to undertake a follow-up Audit on Works Contracts in 2012.</p>	<p>2.1 The follow up audit will be carried out as part of the St Helena Audit Plan for 2012/13, the Plan will be agreed with the PAC in March 2012. Work will be carried out in April and May of 2012.</p>
3	<p><b><u>Procurement of Electrical Equipment, Energy Division</u></b> As well as procurement issues, the role of the Tender Board in both procurement and the letting of contracts is considered by the PAC as unsatisfactory.</p> <p><b><i>Recommendations:</i></b> 3.1 Director of Procurement to report back to PAC on progress in approx Oct/Nov 2011 following her review of procurement practices and procedures.</p> <p>3.2 There is a clear need to strengthen the skills and experience available to the Tender Board. A review of the terms of reference of the Tender Board and the skills and</p>	<p>3.1 Recommendation accepted in principle. The Director of Corporate Procurement will report back to PAC on completion of review which is scheduled for completion within six months of establishment of the Corporate Procurement Section which it is hoped will be staffed in September 2011.</p> <p>3.2 Recommendation accepted in principle. The existing Contract Regulations provide for the appointment of a Tender Board and for meetings of the Board. There are no specific terms of reference although one could argue that these are inherent in the relevant</p>

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No	PAC Recommendations	SHG Response
	<p>experience of its membership is recommended.</p>	<p>existing Regulations. The Board exercises a scrutiny role; it has to ensure that due process has been followed by directorates in terms of compliance with Contract Regulations and to ensure that contracts are appropriately awarded in terms of achieving value for money. However, it should be noted that the actual evaluation of tenders are carried out by the relevant directorate and then subjected to scrutiny by the Board and that the Board only becomes involved with the tendering process when contracts/ tenders are valued over £20k.</p> <p>The remit and membership of the Tender Board will be reviewed as part of the overall review of Contract Regulations which will be led by the Corporate Procurement Directorate and will take account of anticipated economic growth and ongoing reforms within SHG.</p>