

Transcript - Day 1

**Formal Meeting of Public Accounts Committee
held on Monday, 14 May 2018.**

Chairman	Mr Cyril Gunnell
Vice Chair	Mr Mark Yon
Member	Councillor Dr Corinda Essex
Member	Councillor Clint Beard
Member	Councillor Brian Isaac
Chief Auditor	Mr Phil Sharman
Head of Audit Services	Mr Happyman Makamure
Clerk	Miss Anita Legg

1. ADDRESS BY CHAIRMAN

Good morning, Honourable Members, Ladies and Gentleman and we also extend a warm welcome to all those listening via the radio or live streaming. Thank you all for your interest in the work and activities of the St Helena Public Accounts Committee. Thanks also to SAMS for providing this live radio coverage from the Council Chamber at the Castle in Jamestown.

PAC is a select committee of the Legislative Council. In accordance with section 69 of the Constitution and Standing Order 23, the PAC's function is statutory. Its primary function is to objectively scrutinize how the government spends the public purse. The PAC is protected to act independently and is not subject to the direction or control of the Governor, the Executive Council, or any other body or authority. It has power to call any government official to give evidence orally.

The scrutiny role of the PAC is seen as a mainstay of good governance in terms of holding government to account. As I mentioned earlier when introducing the 2017 sessions of this Committee, the Foreign and Commonwealth Office is currently sponsoring a programme of institutional development across the British Overseas Territories directed to strengthening the PAC alongside the audit functions here in St Helena. PAC members and our Clerk attended the UK in November to observe PAC workings in Westminster and the Isle of Man. And we have on attachment the Clerk to the PAC for the Assembly of Wales, Fay Bowen, present with us today.

The composition of the Committee for this session comprises the following five permanent members: Myself as Chairman - Ferdie Gunnell; Deputy Chair - Mr Mark Yon; Member - Councillor Dr Corinda Essex; Member - Councillor Brian Isaac; and Member - Councillor Clint Beard.

To ensure the Committee may operate independently and free from any bias or conflict of interest, arrangements have been made for temporary members to cover for members conflicted by the item of business under scrutiny. For this purpose the following alternate members will be invited to serve on the Committee at specific points in our proceedings:

- Councillor Gavin Ellick replacing Cllr Dr Essex for our enquiries on ESH and Cllr Isaac for our enquiries on Public Health
- Councillor Kylie Hercules replacing Cllr Dr Essex on ENRD matters
- Temporary independent member Cyril George covering for the Deputy Chair Mark Yon on Connect St Helena Ltd

The Chief Auditor, Phil Sharman is our advisor working closely with the Head of Audit, Happyman Makamure and with Committee support from Miss Anita Legg our Clerk.

This is the second formal session of the Public Accounts Committee for 2018. The first formal session held in January 2018 focused upon scrutiny of the Statement of Expenditure in Excess. At this session the Committee will conclude its enquiries on Excess Expenditure and move to other business including the scrutiny of a range of audited public accounts for 2016/17 and a report on the Governance of the SHG Group Entities.

Given the volume of business to be transacted the sitting will be divided over today Monday, 14th May and tomorrow Tuesday, 15th May.

Today's session will consider the 2016/17 audited accounts for:

- St Helena Government
- St Helena Hotel Development Ltd

Together, with the Chief Auditors report on the Governance of the SHG Group Entities and separately the Statement of Expenditure in Excess.

Tomorrow we will examine the 2016/17 audited accounts for the following three parastatal bodies:

- Connect St Helena Ltd
- Enterprise St Helena Ltd
- Bank of St Helena Ltd

Let us now move to the main business of today and that's the Government of St Helena. We will start with audited accounts and management letter for the Government of St Helena and I call on responsible officials to take their place at the table please. If anyone has any mobiles on them they need to be either switched off or in airplane mode now because otherwise it could impact on the radio and people listening.

2. ST HELENA GOVERNMENT

Thank you, please now introduce yourselves.

Financial Secretary (Mr Dax Richards) –

Good morning, Mr Chair, I'm Dax Richards, the Financial Secretary.

Assistant Financial Secretary (Mr Nicholas Yon) –

Good morning, Nicholas Yon, Assistant Financial Secretary.

Head of Finance Services (Mrs Connie Stevens) –

Good morning, I'm Connie Stevens, Head of Finance Services.

Financial Accountant (Ms Jessica Harper) –

Good morning, I'm Jessica Harper, Financial Accountant.

The Chairman –

Thank you.

The Government accounts for 2016/17 were prepared by the Financial Secretary, audited by the Chief Auditor, and referred for PAC scrutiny as required by law. The audit process was concluded on 28 March 2018 so within 12 months of the financial year-end, and the audited financial statements will be laid at the next meeting of Legislative Council.

The Government accounts are accompanied by the Chief Auditor's Management Letter which sets out the main findings arising from the audit and areas for attention by the Financial Secretary. The financial statements were qualified by the Chief Auditor meaning that there are reservations which affect the fair presentation of the accounts along with other significant matters which are drawn to the attention of Legislative Council.

It is now the business of this Committee to take evidence on matters reported in the government accounts and I will commence our questions.

In his Management Letter the Chief Auditor has drawn attention to the delay in production of the SHG financial statements. What was the cause of the delay in the production of financial statements for 2016/17?

Financial Secretary –

Thank you, Mr Chair. There were a number of delays, Mr Chair, the first being that this was the first full year in which we had to recognise SHG's assets within the financial statements and as a result of all of the work that was required for that the technical nature of that piece of work was slightly underestimated in terms of the amount of time, but also the amount of resources that was needed to actually pull that piece of work together to ensure that it was reflected in the financial statements, so really a combination of underestimating some of the technical nature of the work for the first time adoption, but also having the resources to be able to do that piece of work as well.

The Chairman –

Thank you for that, Mr Richards. What remedial measures have been taken to prevent this from reoccurring?

Financial Secretary –

So obviously that was the first year of first time adoption and there will be a number of lessons that were learned as a result of that process and we would have also had the first year basis now on which we will build going forward for future years financial statement preparation. In addition to that, we're also looking at resources across the board in Corporate Finance to be able to assist with the ongoing preparation of financial statements, but also to deal with the other public financial management responsibilities of Corporate Finance going forward, so it is our intention, for example, to try to ensure in this financial year the timely reporting of the 17/18 financial statements which will hopefully be completed by the end of June or early July with the intention of having the accounts audited hopefully by the end of November 2018.

The Chairman –

Are you going to be comfortable doing that?

Financial Secretary –

At the moment our work programme is really tight, however, we are hopeful, we are confident that we should be able to complete that within those timeframes.

The Chairman –

Thank you for that. Is there generally a lack of capacity, I mean, you have to ask the Corporate Services for some assistance, is there generally a lack of capacity within the St Helena Government or in the work that you do?

Financial Secretary –

So what we've found, Mr Chair, is that as a result of previous decisions that we are taking around staffing in general within the Public Service, but more specifically in Corporate Finance, we lost quite a significant proportion of our head count in 2013 as we tried to lead the way on reducing the head count for SHG and what we didn't do as a result of that though was to do an assessment of the implications that that had for the service and so now that we've had an opportunity to reassess our current situation we are in a position now where we've put forward a proposal to restructure Corporate Finance, which is being supported which will ensure that we have additional resources to help not only within the Financial Reporting team, but also within our Management Accounting functions going forward.

The Chairman –

So glad to hear that. Thank you very much. In his Management Letter, the Chief Auditor has drawn attention, sorry, Dr Essex, you want to come in there?

Councillor Dr Corinda Essex –

Yes, please, Mr Chair. Is the Honourable Financial Secretary confident that there will be the financial resources to support the restructuring?

The Financial Secretary –

Mr Chair, yes that is a very good point. Of course we've made some, a few bids within this year's budget process for additional resources to be able to finance the restructure and also some of the other key posts that we've agreed to or committed to, funding to be able to deliver various recommendations that have been made by the PAC, Internal Audit and also from other external bodies as well, so we have bids in for that additional funding, however, that needs to go through the budget process, it still hasn't been finalised for the 18/19 financial year.

Councillor Dr Corinda Essex –

If the financial resources are not forthcoming is there a Plan B?

The Financial Secretary –

I am in discussion also with the UK Government about the possibility of trying to finance the resource needs in a different format if we can't get access to Technical Cooperation Officers, for example, one of the things that we're in discussion about is probably looking at the VSO scheme as well as a possible alternative if we can't get all of the funding required from the SHG budget.

Councillor Dr Corinda Essex –

(Inaudible)

The Chairman –

Thank you, Financial Secretary, and thank you Dr Essex for those important questions. In his Management Letter, the Chief Auditor has drawn attention to a range of material adjustments

required before finalization, what action has the Finance Team taken to minimize the number of material adjustments required?

Asst Financial Secretary –

Thank you, I can answer those questions. Some of those material adjustments related to the recognition of land and buildings in the year and the work that was required to ensure that we present them fairly in the financial statements and so in this coming set of financial statements that we're preparing for 17/18 we don't anticipate that there will be those adjustments required. There have been other adjustments that have been made, material adjustments, what we've now instituted is greater quality control checks that will be in place for the preparation of the 17/18 financial statements, looking at the areas that we know are, sort of, areas where there are risks, where there could be, sort of, evidence required to support those numbers, so we will be putting in those checks to make sure that we complete our reviews before the first draft is submitted to the Audit Service.

The Chairman –

Okay. Are the financial statements going to go through an internal review process of accuracy and completeness before they are submitted for audit?

Asst Financial Secretary –

Yes, so this year we're taking a different approach to the way we do our internal review. We will do it at different stages throughout the preparation process, we're introducing a, sort of, if you want to call it, like a checklist way of ensuring that all of the different areas are looked at, there's one that will be done by the Head of Finance Services at that level, but also will be done at Dax and my level as well in terms of the overview of the financial statements and what's being presented, so there will be a different approach this year to the way in which we do internal review.

The Chairman –

Thank you Mr. Yon. Does anyone else have any questions on that line? Okay, thank you. The Chief Auditor's report on the financial statements contained five qualifications, two of fair presentation, two of regularity and one of statutory compliance. Please explain the nature of these qualifications?

Asst Financial Secretary –

Thank you. So those qualifications, the very first qualification relates to the infrastructure evaluation and those infrastructures include St Helena Airport and the Wharf, it also includes this year infrastructure roads that is also an additional qualification for this year with the removal of the transitional provision and the way in which we have valued it is on an earned value basis and we have determined that this is a suitable proxy for replacement costs which is required by the standard and, but the work that has been prepared we couldn't give the assurance to the Chief Auditor that he required to be able to be happy with that particular number, so what we've recognised is that what we need to do is to get a professional Valuer in to value those important infrastructure assets to ensure that we have a sound number in which to put in the financial statements. It isn't to say that the numbers aren't valued in the financial statements, it's just that the Chief Auditor wasn't comfortable enough with those particular numbers to be able to sign off on those, so we have last year looked for a suitable valuer but we're unable to find it, but we're in the process of trying to obtain a valuer to be able to do that in this financial year.

The Financial Secretary –

I think, going back to the point that Dr Essex raised earlier, in similar form to the additional resources needed for officers and resources within our team, this is also one of those that needs to be financed in terms of that valuation, so we've put an option to elected members for consideration as

part of the additional finance requirements to be financed out of the budget for the 18/19 financial year and that will have to be considered alongside all of the other priorities for SHG to determine whether or not it's worth spending upwards of £50k on the valuation to clear this qualification or not.

The Chairman –

Okay, thank you. Dr Essex, did you want to say something?

Councillor Dr Corinda Essex –

Yes. Presumably if the valuer can't be engaged because it is unaffordable to do so, the qualification is likely to be repeated and what would be the implications of that going forward?

The Financial Secretary –

It would most definitely, would continue to exist on the SHG financial statements for 17/18 and I suppose it will be there until such time we can afford to actually get the evaluation done and satisfy the requirements of the standard.

Councillor Dr Corinda Essex –

Is it not true to say that the fewer qualifications we have the more credibility St Helena Government has as a sound financial entity?

The Financial Secretary –

Most definitely, Councillor Essex, however, as I said, that will be a decision for you as elected members or the elected members in the whole who would have to determine the best use of the limited resources that SHG have.

Councillor Dr Corinda Essex –

Thank you.

The Chairman –

I was going to ask what is the Financial Secretary's action plans to resolve each of these audit qualifications and the timelines, have you explained that sufficiently?

The Financial Secretary –

Sorry, we've just finished the first of the qualification issues, we're going to go through the other four now as well.

The Chairman –

Okay, alright, thank you for that. I have no further questions, so Councillor Brian Isaac, I think you have.....

Chief Auditor –

Chair, if I could just assist the Committee in this part of the questioning?

The Chairman –

Okay.

Chief Auditor –

I think the Assistant Financial Secretary ought to go through each of the five qualifications.

The Financial Secretary –

Yes, that is the plan, yes.

Chief Auditor –

So we've done one, we've got four to go. Thank you.

Chairman –

Okay. Councillor Brian Isaac?

Councillor Brian Isaac –

Thank you, Mr Chair.

Chief Auditor –

Chair, no, if you just pause a minute, because I think they ought to run through the entirety of their other five issues.

The Chairman –

Okay and apologies to the public for thinking that we don't have all our ducks in a row, but some papers don't seem to be in the.....

Chief Auditor –

No, no, it's absolutely fine, Chair.

The Chairman –

But please carry on.

Chief Auditor –

It's just to allow the Finance Team to explain all five before we proceed to Councillor Isaac. Thank you.

The Chairman –

Alright, so that you're going to do, one, yeah?

Asst Financial Secretary –

Okay, thank you. So the second qualification relates to special funds and these are all of the other funds except for the Consolidated Fund, so in this the Chief Auditor raised concerns around the value or the balance then of the DfID Project Fund and also the DfID Infrastructure Fund and the balance that is held on those two funds, so during the course of the audit he examined those balances but wasn't comfortable to sign off on those balances as they stood. Further work has been done by our team to review those balances to understand, to be able to demonstrate that the right balance and to recognise the right balance in the financial statements. That work is ongoing and that work will be completed so that the numbers can be included within the first draft of the 17/18 financial statements, that will go to the Audit Service. Now, in terms, from our point of view, we anticipate that it is an issue with the allocation of expenditure between those two very, very similar Funds, so it's an issue of teasing those out, ensuring that we disclose the right balances. What we intend to do is to amalgamate those two Funds into one because as it was originally intended, there was a need at that time to have two separate Funds, now we think that it's only a need for one, so what we will do is we'll do the work to separate the allocate correctly and then we'll merge those two together to ensure that we only have one Fund going forward that we need to manage. The second part of that qualification relates to the EDF 9, the EDF 10 programmes in terms of the balance that is on that special Fund and, again, we know that it links with the other two special Funds because of the programmes that existed at that time where part of the funds was, er, some

projects were part funded from EDF and DfID, so it's a issue of misallocation between those particular Funds but not with the overall amount. In addition, what we also want to say is that the DfID Capital Programmes are separately audited, the Programmes themselves, this is an issue with the actual balance on the Fund and the allocation of those funds. So that's the second qualification. The third qualification is on regularity around Pensions and this is a legacy issue that was identified where the increase that was approved for pensions and payments on 1st April 2016 did not conform completely to the requirements of the Pensions Ordinance whereby we need to when the advice goes to the Governor to increase pensions we had to refer to salaries paid to public servants and that was missing in the advice that was given to the Governor, so this is regularity issue, we've corrected it in 1st April 2017 increase where we've included that additional information for the Governor and so this qualification we anticipate will fall away and that advice will be, in terms of public servants salaries/increases, will be included in any future pension increase considerations by the Governor.

The fourth qualification, again on regularity in terms of expenditure in excess, this particular one there was expenditure in excess for Corporate Support, Policy and Planning, Health and ENRD in 16/17 over the appropriated amounts, we had prepared a statement of expenditure in excess in accordance with the Constitution, that was presented to LegCo, it came to this formal sitting of the Public Accounts Committee for consideration. We had hoped that we would have been able to have that amount approved through LegCo before the close of the financial statements, unfortunately during the audit process we identified a number of corrections, or one correction then, that needed to be made and that correction was made and so we had to resubmit to Legislative Council a revised expenditure in excess statement and unfortunately we could not get it through, it could not go through all of its formal processes in time for the sign off of the 16/17 financial statements, so unfortunately this Fund has not been able to follow the proper timelines in time for the sign off.

The final one is in relation to other matters required by statute and it is the preparation of group financial statements for the St Helena Government Group including all of those statutory bodies and those where St Helena Government has controlling interest by virtue of shareholding and what the International Public Sector Accounting Standards requires is that under IPSAS 6 is that we prepare consolidated financial statements. What we have done is we have included all of those entities in which we have an equity stake; we have included them in the financial statements on an equity basis but not on a consolidated basis. The other entities that are under statutory legislation, for example, Currency Fund, Enterprise St Helena, also is not included at all because we don't have an equity stake, it isn't set up in that legal way, so what we are considering is one is the resources that is required to actually prepare consolidated financial statements and we will be preparing a technical paper to go to Executive Council for their consideration in terms of the cost of the additional resources to prepare it and the benefits of having consolidated financial statements. We also will consider our legal position in terms of the Public Finance Ordinance where, under section 10 (2) the Financial Secretary, if it is not deemed appropriate in the circumstances of St Helena, can decide not to follow a particular standard, but we need to get the legal view and get a legal position on that in terms of whether we are compliant with the legislation if we do not follow IPSAS 6, so we will be preparing a technical paper that will go to Executive Council for decision in terms of the next steps on this particular issue.

The Chairman –

When will these papers go to the Executive Council, do you have a timeline on that?

The Financial Secretary –

At the moment we don't have a specific timeline, but it will be within the next three months we would expect.

The Chairman –

Thank you for that. Mr Richards, you wanted to say something?

The Financial Secretary –

No, I was just going to say your other question in terms of the time as to when we would actually be trying to address all of the qualification issues, so the first one we've just talked about is resource dependant in terms of being able to get a professional valuer to come in and do that, those activities. The second one, we hope that will be cleared as part of the 17/18 financial statement preparation.

The Chairman –

Okay.

The Financial Secretary –

Qualification No. 3, which, again, we said should fall away in the 17/18 financial year preparation. The next qualification on the regularity around expenditure in excess will be very much dependant on whether or not we can have the expenditure in excess process completed on time before we do the sign off of the SHG financial statements. We do expect there will be expenditure in excess for the 17/18 financial year and then also, finally, as I said, depending, as Nicholas just advised, depending on the discussion that takes place with Executive Council on whether we should continue to want to prepare consolidated financial statements or do we make a decision to divert from the requirements of IPSAS 6, when we get to that decision point then we will know by that stage whether or not this qualification will continue going forward. And, again, a discussion with the Chief Auditor will be required on that basis.

The Chairman –

Okay, thank you for that and apologies for asking you the question before it was intended to be asked, but Chief Auditor, do you have anything to say with regards to the qualifications?

The Chief Auditor –

Chairman thank you for that. I think the Finance Team have handled these five qualifications correctly and also indicated to the Committee how they're going to be resolved going forward, so there's no further matters that I need to draw to your attention on this item, Chair, we can now move on to the next subject. Thank you.

The Chairman –

Thank you, Mr Sharman. Councillor Brian Isaac.

Councillor Brian Isaac –

Thank you, Mr Chairman. The Financial Statements in Note 8 report the expenditure and revenue compared to the amount budgeted by the Legislative Council. Why is it necessary to present this statement on a cash basis when the main accounts are presented on an accruals basis?

The Financial Secretary –

Mr Chair, so firstly, yes, you're very right, Mr Isaac, that we do at the moment present our financial statements on an accruals basis, however, the way the Constitution is currently worded and the way we prepare our budgets, they are done on a modified cash basis, so there is a mismatch between the preparation of our budget, which is done on a cash basis or a modified cash basis and the preparation of our financial statements which is done on an accruals basis, so for the purposes of the users of the financial statements we prepare this additional note to be able to show a reconciliation between what was approved as the budget and what's actually been spent against that budget in accordance with the budget, the principles of cash based budgeting.

Councillor Brian Isaac –

And are you happy with this process at the moment?

The Financial Secretary –

So ideally you would have the budget process aligned to the financial reporting process, however, I do think we need to learn quite a few lessons from the introduction of accruals accounting, I think we underestimated the amount of work that was actually involved with the preparation of accruals based accounts, not the actual implementation of accruals based accounting, because that was fairly, I would say, straightforward, however, for us to be able to introduce accruals based budgeting I think we need to really understand the implications for SHG before we go down that route, so, again, similar to the technical paper that we will be doing for the way forward on the consolidation of the financial statements we'll also be doing a paper to take to Executive Council and all elected members to discuss the merits of actually moving to an accruals based budget and the timeliness of when we would do that. We just don't want to be in a situation where we commit ourselves to delivering something by a specific date and then we don't have the resources to be able to do it and we don't fully understand the implications of actually doing it, so I think we need to do, if we're going to move to accruals based budgets we need to be doing it in a timely fashion, but also, as I said earlier, learning the lessons that we had from when we moved from accruals based, from cash based accounting to accruals based accounting.

Councillor Brian Isaac –

Thank you for that explanation and I do appreciate the problems in the process leading up to the full package. Can you explain at year end how department spending is accounted for?

The Financial Secretary –

Just say that again, please Councillor?

Councillor Brian Isaac –

Can you explain at year end how departmental spending is accounted for?

The Financial Secretary –

So at the year end, all expenditure is accounted for on accruals basis.

Councillor Brian Isaac –

Right, thank you. Thank you, Mr Chairman.

The Chairman –

Thank you, Councillor Isaac. Anyone? Chief Auditor?

The Chief Auditor –

Thank you, Chair. So around that year end, I think it would be helpful if the Finance Team were able to explain exactly what is taken into account when Departments are wrapping up their year end affairs so that they are clear as to what items of expenditure are included in their departmental spending on the so-called modified cash basis, because I think there have been some concerns about, for example, orders that have been placed but not delivered in terms of goods and services received and that year end cutoff issue I think is the matter which the Committee wanted to hear just a bit more detail on. Thank you, Chair.

The Chairman –

Yes, thank you for that very valuable point. Mr Richards or Mr Yon?

Asst Financial Secretary –

Thank you. I think, as the Financial Secretary has said, we do need some more work to be done to tie that criteria down more in terms of what's in the Financial Regulations, so we will be looking to do that. Currently the year end guidelines that is issued states that goods in terms of expenditure, goods in services or capital expenditure is recognised when the risks and rewards of ownership lie with SHG and that is when we account for it, so in terms of cut off we recognise expenditure in terms of, you know, stocks for example, when we know that the risk and rewards of ownership has rests with SHG, so that's the stance we've taken in terms of how we recognise expenditure both recurrent and capital expenditure for departments at the end of the year.

The Chairman –

Okay, thank you for that. Chief Auditor is That's great. Okay, thank you very much for that. Alright, so we move on and we'll call Deputy Chair, Mark Yon, I think you have some questions?

Deputy Chair (Mr Mark Yon) –

Yes, thank you, Chair. I have some questions on taxation, I'm not sure who's gonna answer these, but how has tax collection during the financial year in question compared with taxes collected during the hype of the airport project, the airport construction phase, as well as the pre airport project construction period?

The Financial Secretary –

Okay, that's quite a specific question, Mr Chair, but I'll answer in broad terms, so.....

The Chairman –

Thank you.

The Financial Secretary –

Prior to the, obviously prior to the airport construction phase actually taking place I would say revenues in terms of taxation were a lot lower than what we achieved during the period of the height of the construction, so I would say from 2011/12 onwards all the way up to 2015/16 we, as a Government, did very well, I would say, from all of the additional revenues that were generated through taxation and also through Customs duty as a result of the activities of the airport and that's by having an additional five hundred people on island at one stage, so in 16/17 I think that was the start of the slowdown of the airport project as it stood so we did see some of the implications or some of the revenue streams actually reducing over a period of time. 17/18 for example, we're now seeing that that has had a significant impact on revenue streams as a result of the almost completion of the airport project. However, that was to be expected so our budgeting in the years after the opening of the airport reflected that there would be some slowdown as a result of the presence or reduced presence of Basil Read on the island.

Deputy Chair –

Okay, thank you. So you mentioned about the impacting in any case. What impacts are there likely to be on your budget now?

The Financial Secretary –

So for the budgets going forward, as I said, we have a model that we use to determine what or how much taxation revenue we are likely to be able to generate a year and it takes into consideration a number of factors, such as inflation, the size of the population, the average wage on the island, so the Economist has a little macro model that she uses to be able to determine what the likely taxation revenues will be going forward, so, as I said, we have factored in the fact that there's been a

slowdown in the airport project, we were hopeful to have greater economic activity on the island as a result of air service being up and running and at that time we were anticipating that that service was going to be running from April 2016 if you remember, so it has a knock-on impact on our revenue streams. However, with the limited knowledge we have around what the future holds all of our projections takes into consideration some of the key assumptions I mentioned before around inflation, around activities and around new projects that are likely to be coming up in the future as well.

Deputy Chair –

Okay, thank you. So do you actually see like there's a huge drop off then in terms of tax collections from individuals I guess?

The Financial Secretary –

I would say that only really happened in the 17/18 financial year rather than in the 16/17, the ones that we're considering today, however, like I say, the number of shops, if you talk to the businesses around the island they will anecdotally say also that they've seen a slowdown in business activity as a result, so people aren't spending as much as they had done previously and that's potentially because they're not earning as much as they were doing under the airport project, but we are hopeful, obviously, as other projects come online over the next year, a year a half that that would provide an alternative stream for being able to generate additional taxation for SHG.

Deputy Chair –

Okay, so, in other words, you're looking to pick up the shortfall then through the airport project potentially?

The Financial Secretary –

So, in terms of picking up the shortfall, one of the things that we have to do on an annual basis as the St Helena Government is to reassess all of our taxation streams or all of our revenue streams, so we do that on an annual basis, so in this year, for example, or in the 17/18 financial year for example, we put a cap on the investment tax credit if you remember, where we limit the amount of money that businesses could claim for an investment tax credit in one financial year, so that now will have implications for the 18/19 financial year because of the one year lag between any policy changes that comes in and when you actually get the revenue as a result of those changes, so we anticipate, you know, having to look at all of our revenue streams as we normally do and any additional policy initiatives that are going to be put in place needs to be approved by our Legislative Council.

Deputy Chair –

Okay, thank you. You mentioned before about the tax cap on the, what was it, the investment..?

The Financial Secretary –

"Investment tax credit".

Deputy Chair –

Investment tax, yeah, what happened previously to that then, what was the situation regarding that incentive?

The Financial Secretary –

So, effectively, that scheme is put in place to encourage investment on the island by, be it local investment or offshore investment, it's investment across the board and what it does is instead of

you getting a Customs exemption you actually get 15% of the total value of the asset that you purchase at

Deputy Chair –
Cost price.

The Financial Secretary –
Cost price plus bringing it to the island, so it includes the cost of bringing the asset into use basically, so any freight, for example, any Customs duty you pay on that, is taken into consideration and you get 15% of that value off your tax liability for the financial year.

Deputy Chair –
Okay. Is there a different tax scheme for multinational companies in any way, do you have any multinational companies on the island?

The Financial Secretary –
At the moment, the Ordinance, the Income Tax Ordinance, doesn't distinguish between multinational and national companies, so if they are resident companies on St Helena they would pay tax here as everyone else would.

Deputy Chair –
And that would be the corporation tax.....

The Financial Secretary –
Yes, corporation tax at 25%.

Deputy Chair –
Okay. Just picking up on something that I observed in the statements; in Note 10.1 withholding tax is stated as zero for the financial year 16/17 yet there was £43k collected in the previous financial year. Could you explain why there is a difference or nothing collected in 16/17?

The Financial Secretary –
Mr Chair, if it's okay with members can we provide a written response for this one? Off the top of my head I'm not sure why it's showing a zero in that line.

The Chairman –
Yes, alright, you can do that.

The Financial Secretary –
Thank you.

Deputy Chair –
Is it possible that it might have been overlooked in any way or this is just something you can't answer right now?

The Financial Secretary –
Without me being able to look at it in a bit more detail I don't want to be able to say here whether it's something that was been overlooked, but we will double check and come back to you as soon as we possibly can.

Deputy Chair –

Okay, thank you. Okay, we have some more lines of questioning, Councillor Clint Beard?

Councillor Clint Beard –

Good morning. I'm just gonna say that I've got some questions now on ASYCUDA; I do use it as well in the Customs system.

Deputy Chair –

Mr Chair, excuse me, I declare my interest in this matter.

The Chairman –

Thank you for that.

Councillor Clint Beard –

Could you tell us about the ASYCUDA world, is it delivering to specification?

The Financial Secretary –

In what sense Councillor?

Councillor Clint Beard –

In benefits that you SHG want to achieve?

The Financial Secretary –

So it does provide, in my opinion, obviously it had teething issues at the start when it was rolled out, but one of the key issues for us is around proper collection of our taxes and computerization of what was then a paper based system, that has significantly improved things, in my opinion. In addition to that we're now getting real time statistics, which is probably one of the biggest benefits of the whole ASYCUDA system. However, we aren't using all of the functionality of ASYCUDA at this point in time so one of the things that we had looked to roll out in the 18/19 financial year is for better utilization of the risk management functions and also to introduce the post clearance audits that we would like to do in terms of going out and working with the traders and checking all of the entries after the goods have been cleared from Customs, so those are the two big components that we're still yet to implement and they are scheduled to be implemented in the 18/19 financial year.

Councillor Clint Beard –

Thank you. Can you explain to me what is real time statistics?

The Financial Secretary –

So once the information is actually put on to the ASYCUDA system, I mean, you as, whoever is a trader who actually goes along and uses and enters that data on to the system it means that we can actually go into ASYCUDA with the right report structure and actually pull that data out to be able to show, for example, the type of goods that have been imported, the volume, the importers who actually brought in the goods, so it gives you information at your fingertips as opposed to previously where we had a paper based system so somebody would actually have to go through and log every single item that came on a paper entry on to an Excel Spreadsheet which is then manipulated to be able to pull statistics from and so in some cases the Statistics Office were getting information two years later than it was actually entered on to or two years after the entry had actually taken place, so this now gives you, once the information has been put into ASYCUDA it actually gives you, as I said, real time statistics.

Councillor Clint Beard –

So from the real time statistics what percentage are you achieving as being accurate?

The Financial Secretary –

I would like to think it is pretty close to a hundred percent, Councillor. Of course, if there are any amendments that need to be made or we find any entries that have been slightly made wrong then our team in Customs will go back and make the changes necessary to bring the record to an accurate state, so, and again, going back to my point about the double checking so's the post clearance audit functions that also allows us to make sure that that information that's been entered on to ASYCUDA is actually correct.

Councillor Clint Beard –

I know you've been giving some relevant answers. The data collection from the system, from ASYCUDA, it's used in various different departments to gain information, can you just go through how it's used and in which departments?

The Financial Secretary –

So, as I said before, the main uses of the information will be the Statistics Office, obviously ourselves as Corporate Finance to be able to monitor the revenues as they come in but also allow us to provide data to Councillors on any policy decisions that is likely to be happening going forward. In addition, you have ANRD who uses it as well from the biosecurity side, they also monitor the importation of fruit and vegetable, for example, as well, so those are the key people and obviously anyone, any other department who wants information they come to us and we can provide whatever is available on the system, so, for example, when we look at the sugar tax, for example, we could actually pull out and say how many liters of Liqui Fruit, for example, have been imported over the last year and a half and don't forget the ASYCUDA system has only been running since July 2016.

Councillor Clint Beard –

So you would rate that as good value for money, the system as it is?

The Financial Secretary –

You're asking me for my opinion now, Sir, sorry.

The Chief Auditor –

Chair, perhaps I could just assist the Committee on that point. I think I'm right in saying that whilst Standing Orders of Legislative Council prevent an officer giving an opinion, I think for the purpose of the hearings of this Committee it's perfectly reasonable to ask for a professional view from officials that are appearing in front of you, so it's not quite the same restriction as maybe the case for LegCo. Thank you, Chair.

The Chairman –

Thank you. Would you like to give a professional view?

The Financial Secretary –

In my professional view I think it is definitely offering us value for money, obviously it has its teething issues and as people get used to actually using the system going forward I hope it will become more smoother. You know, we've had quite a lot of feedback from the traders as well who have said that the ASYCUDA system whilst it was very painful at the start of the process now that they're used to it and they can actually use it in a much more efficient manner it's actually helping their business activities as well in terms of not having to physically put in one hundred, and in some cases, one thousand entries on to a paper based system. What the benefit of the system also, one of the benefits is that you pull up your previous entry and then use, if the information on there is

very similar, you can use that same entry by just changing the dates, for example, and adding or taking away some lines.

Councillor Clint Beard –

Thank you. Getting on to the last couple now, what is the total investment that has been made in the ASYCUDA world system?

The Financial Secretary –

Off the top of my head, Councillor, I won't be able to tell you, but I can find that information and provide it to you.

The Chairman –

Yes, okay.

Councillor Clint Beard –

And also I'd like to know, sort of, what is the annual cost of running the system, to sustain the system?

The Financial Secretary –

Again, we will provide that information to you.

Councillor Clint Beard –

Thank you.

The Chairman –

Thank you for that and thank you Councillor Beard. Mark Yon?

Deputy Chair –

Thank you, Chair. The Financial Statements in Note 11.7 contained for the first time a complete account of public assets, including the land and buildings owned by the Crown. There was a question that we had for you but that's already been answered earlier, so if I may go on to the next one and I would like to know what is the position regarding the ownership of the Ruperts Wharf and the Haul Road?

The Financial Secretary –

So the Ruperts Wharf, the handover certificate was issued in July 2016, so that is now owned by SHG, however, the Haul Road has not been accepted by SHG in terms of the handover. My understanding is it is very close to being, doing so, but at the moment it is still a Basil Read asset.

Deputy Chair –

So in other words it's work in progress, still to be completed, yeah?

The Financial Secretary –

Yes.

Deputy Chair –

Okay. So the certificate was issued then for the Wharf area, are there limitations on public use of that wharf?

The Financial Secretary –

Yes, so at the moment, for example, the planning conditions for the actual opening and use of the wharf that have been issued by Executive Council limits the activities that actually can take place in Ruperts until such time that the rockfall mitigation works have been implemented, so, for example, it limits what cargo can be taken off in Ruperts, as you know at the moment, most of the cargo when the MV Helena comes in is barged back into Jamestown, there's practical reasons for that as well in that we just don't have the space or the facilities in Ruperts to be able to deal with that cargo, however, some cargo comes off in Ruperts at this point in time, but we've also limited, as I say, the activities there until such time that we have completed the rockfall mitigation works.

Deputy Chair –

Okay, so in terms of the rockfall mitigation work, what is the situation surrounding that at the moment?

The Financial Secretary –

So at the moment we don't have any funding for the rockfall mitigation works that is part of our bid for the capital programme from HMG and at this point in time we're still not sure as to when or how much we will get for a capital programme.

Deputy Chair –

And how much are you expecting? Has a valuation been undertaken? I know you said that time you don't know how much you're gonna get, but how much do you require?

The Financial Secretary –

We have a valuation for the actual rockfall protection, yes, we have.

Deputy Chair –

Are you able to disclose the amount?

The Financial Secretary –

At the moment that is still part of the procurement process, so I can't disclose how much that would be, but it is quite a significant sum.

Deputy Chair –

So once the cliff stabilization is complete in what position does that then make the wharf useable?

The Financial Secretary –

It will mean that we will have to make a further application to Executive Council sitting as the Planning Authority to discharge the conditions of the final condition of bringing the wharf into use in Ruperts.

Deputy Chair –

Okay, thank you.

The Chairman –

Mr Richards, with regards to the barging cargo round to Jamestown, are you able to say what extra cost that is having on St Helena Government?

The Financial Secretary –

I have to be very careful here, this is, as you say, it's a contractual relationship, but if you were to compare the RMS for actually bringing the cargo from the RMS from anchorage into Jamestown and

bringing the cargo from Ruperts into Jamestown, I would say it's around about fifty percent more to actually bring it in.

The Chairman –
Thank you for that.

The Financial Secretary –
I can't give you the figure off the top of my head.

The Chairman –
No, but once again, are you making a bid to HMG for that help?

The Financial Secretary –
That additional finance is included in our budget submission for 18/19 financial year, so it needs to go into the prioritisation process along with everything else.

The Chairman –
Thank you.

The Chief Auditor –
Chair, can I just, again, perhaps assist the Committee on that point. I think you're not gonna be asking for the contractual details of how much SHG is gonna have to pay, for example, per shipment, per barge, a schedule of rates, you're not seeking that level of contractual detail, so I think in that case it's perfectly reasonable for the FS to give some kind of estimate of the annual amount or even the actual amount over a set period that has been paid for the additional cost of handling cargo in Ruperts as compared to offloading directly on to the wharf at Jamestown, Chair.

The Chairman –
Yes, I think that's er.... Can you help with that, Mr Richards?

The Financial Secretary –
That's fine, Mr Chair, I take the Chief Auditor's point. I also, we are discussing the 16/17 financial statements and this activity didn't start until 18/19 financial year, so I think there's a balance between the two. I'd be happy to go away and look at some of the numbers, obviously, as I said before, we're still in discussions about how much it's gonna cost SHG for a full year's worth of cargo coming from Ruperts into Jamestown, I will look at that, but at the moment those figures aren't finalised.

The Chief Auditor –
So, Chair, just to be clear on this point, the Ruperts wharf was made available, as the Financial Secretary said, in July 2016. Could, perhaps for the purpose of the record, the FS just explain, in terms of the utilization of the wharf, he is saying that, if I could perhaps just put the question directly, it only became in use on a practical basis when the MV Helena came into service and that was in the 17/18 year.

The Financial Secretary –
Yes, that's correct.

The Chief Auditor –
Up until that point, even though the wharf was handed over, the RMS continued to discharge cargo directly on to Jamestown wharf?

The Financial Secretary –
That's correct.

The Chairman –

Okay, thank you for that, Mr Richards and Chief Auditor. Can I ask you though, Mr Richards, with regards to the Haul Road, which you say has not been handed over to St Helena Government yet, what is the delay on that, why is there a delay?

The Financial Secretary –

Off the top of my head, I would need to get someone from the Access Office to answer that question, but I think it will be around some of the snagging notes being identified before the road can be taken over.

The Chairman –

Alright, thank you very much for that. We look forward to getting that kind of information as soon as we possibly can. Mark Yon, are you.....

Deputy Chair –

Clint would like to come in first, Sir?

The Chairman –

Mr Clint Beard?

Councillor Clint Beard –

I just got, I'm looking at the positive of the situation and, you know, if Ruperts becomes operational, how will this link up with the proper utilisation of the container park?

The Financial Secretary –

So obviously as part of the bid to go with the requirements to do the rockfall stabilization there is also a request for additional funding to do the operationalization of Ruperts, and, again, that is a significant sum of money that is needed to put in place the container parks and all the associated security arrangements in Ruperts to go with that to make it into a working port.

Councillor Clint Beard –

And do you think making the working port it would take some time, and, again, an opinion would.....

The Financial Secretary –

Yes, I think you'd be looking at a phased approach to it potentially and it will be a few years.

Councillor Clint Beard –

Thank you.

The Chairman –

Sorry, you said a few years to do what?

The Financial Secretary –

To do the complete operationalisation of Ruperts in general as our new port facility going forward, to deal with all our freight arrangements.

The Chairman –

When you say a few years, what do you mean, three, four five years?

The Financial Secretary –

It depends on how much funding we get and which years we get it in to be able to take that work forward, so, for example, we estimate it'll be upwards of potentially £8m to £9m to just do those works, so it's a significant amount of money that we have to raise before we can go along and actually start those works.

The Chairman –

How much did you say?

The Financial Secretary –

Between £8m and £9m and above potentially.

The Chairman –

So between £8m and £9m is needed and how long it will actually take to get that before we will have operations in Ruperts?

The Financial Secretary –

It very much depends on when we can raise the finance, Mr Chair.

The Chairman –

Okay, thank you very much. Mark, do you want to come in with some further questions?

Deputy Chair –

Yes, I will continue. What value was given to the RMS St Helena in the financial statements?

The Financial Secretary –

What value was given to the RMS.....?

Deputy Chair –

To the RMS St Helena.

The Financial Secretary –

In the financial statements it is at £4.8m on page 52.

Deputy Chair –

£4.8m, okay. That is the closing balance?

The Financial Secretary –

That is the book value of the RMS at the end of 16/17.

Deputy Chair –

Okay, what would have been the net book value at the opening?

The Financial Secretary –

At the opening of what?

Deputy Chair –

The opening balance, it would have been in the opening balance or the opening value?

The Financial Secretary –
For the previous financial year?

Deputy Chair –
For that year, yes.

The Financial Secretary –
£1.123m.

Deputy Chair –
Okay. How was this revaluated?

Financial Accountant (Ms Jessica Harper) –
Mr Chair, it was revalued based on our estimates provided by C W Kellock of the, their estimate on what the sale price might be achieved at the point that the RMS is decommissioned and then put up for sale. They gave us a valuation of between two to six million pounds of which we took the middle point at four million US dollars, we took the middle point of four million dollars and provided that accordingly to a closing balance that we thought could be achieved at the point of sale.

Deputy Chair –
Okay, why not the initial figure actually stated, the six million dollars, was it?

The Financial Secretary –
Between four and six million dollars....

Deputy Chair –
Sorry, you said.....

The Financial Secretary –
.....between two and six million.

Deputy Chair –
Two and six million, yes, okay. So why the mid-balance or mid-valuation?

Financial Accountant –
That's just a general accounting concept that you would use if um, just purely a midpoint selected because at that point we didn't know if two million dollars was correct or six million dollars, so to be prudent we just took the midpoint

Deputy Chair –
Okay, thank you. What is the basis of valuation for Crown land and buildings on St Helena?

Financial Accountant –
Mr Chair, the valuation is best taken as being the fair value that could be achieved. The knowledge that the Valuers would have at the time is to what that fair value would be, they follow the Royal Institute of Chartered Surveyors Regs, guidelines based in the UK for all the conditions that they have to satisfy in order to produce those valuations.

Deputy Chair –

Okay, and in terms of the actual valuations of the district lands that might be available for retail sale, for example, how is that achieved, how do you value that?

Financial Accountant –

Mr Chair, again it's not something that we have the expertise within Corporate Finance to do, so we employed a company called D M Hall and they use their professional expertise to give us those valuations.

Deputy Chair –

Okay, and in terms of land sales, is there a differentiation in the price between whether the land is being sold to, say, a local resident to an inward investor?

Financial Accountant –

With regards to the book value that we hold for that or.....

Deputy Chair –

Not so much as the book value, but when you're actually going to value land for sale and you have someone waiting there to purchase this land, if I were a local person wishing to buy land, would I pay a different fee to an inward investor who wanted to buy land?

The Financial Secretary –

At the moment, there's the Land and Building Disposal Policy, it doesn't distinguish between whether you're a local or whether you're an inward investor, for example, so at the moment the policy states that the land is available at a certain price....

Deputy Chair –

A fixed price.

The Financial Secretary –

....to both types of people, not just an inward investor or there's no, basically there's no two-tiered system for land sales at the moment.

Deputy Chair –

Okay, thank you very much. Tell us about the new Fire Engines that were purchased during 2016/17.

The Financial Secretary –

Okay, so those new fire engines, they're not new, they're secondhand, they were bought secondhand, a new fire engine of that nature will cost upwards of £250k each, so we took an opportunity to work with the UK Government to see whether or not we could find a reasonable or suitable, secondhand solution that would be able to meet the needs of the Fire Service, so we procured two Bremacs in that year and they cost at £79k each, that's to get it here, land it, however, at this point in time they still haven't been brought into the fleet, so there have been some issues around its ability to operate on the terrain of St Helena, so we're currently working with the suppliers of the vehicles, but also the North Wales Fire Brigade is actually supporting us as well in terms of coming up with a solution, an alternative solution potentially as well, so we are looking at whether or not a number of options whether we should be looking to try to utilize those existing vehicles, do some modifications to the existing vehicles to make them either useable as a Fire Engine or as an alternative use or looking whether to return the vehicles back to the supplier potentially or whether or not somebody else might be interested in buying them that has a more suitable terrain for those types of vehicles, so all those options are still under consideration at this point in time.

Deputy Chair –

That was quite a few options there that time, I might just find myself going back to asking you about them again, so let's take, for example, your last point about whether or not you could possibly sell them on, who will they be sold on to potentially?

The Financial Secretary –

So.....

(Interruption by electronic noise – cell phone)

Deputy Chair –

I do apologise.

The Chairman –

Mr Richards, whilst that is being sorted, just let me do a recap. With regards to the rockfall mitigation works, you say it's going to cost a significant amount of money which SHG does not have and you're going to have to make a bid, or is making a bid for that, I'm just trying to tie the whole thing into barging cargo round to Ruperts and how long it's going to take before we can, you know, stop barging around to Ruperts. Can you, in your professional view, give me any kind of enlightenment on that?

The Financial Secretary –

In what respect, Mr Chair?

The Chairman –

Well, how long is it going to have to be barging the cargo round to Ruperts costing SHG more money than they have?

The Financial Secretary –

As I said before in my response to Councillor Beard, I think, it'll depend on how long it takes us to bring the port in Ruperts into an operational state, so this is the wider facilities. There's no sense being able to be able to allow the cargo to go off in Ruperts and we can't deal with it in Ruperts.

The Chairman –

No, I totally agree with that, this is why I'm trying to get some kind of an understanding of how long it's going to take.

The Financial Secretary –

I can't tell you how long it's going to take, but it will take a couple of years, I would suggest, as an....

The Chairman –

Going to take a couple of years, meaning how many years?

The Financial Secretary –

A couple.

The Chairman –

No, no, no, a couple of years in St Helena seems to be three, four, five, six.

The Financial Secretary -

I can't give you that understand of how long that's gonna be, Mr Chair, I'm very sorry. I've said a couple, because I know as a minimum it will take at least two years, but it could be three, four, five, depending on when we get the finance and finding the people to actually do the work.

The Chairman –

Okay, my reason for asking you that is on behalf of the public. As you know, the public is asking those kind of questions, so, you know, I'm right that I ought to ask you those questions. Mr Yon?

Deputy Chair –

Thank you and apologies, Mr Chair. So my question again, who is it likely to be sold to?

The Financial Secretary –

At the moment, again, all of those options are being explored as to whether it is ideally somebody offshore, obviously there's costs associated with having to get that shipped offshore, however, those are being in consideration now, so we're looking at in between May and June to be able to come to a conclusion on that.

Deputy Chair –

Okay, so it could possibly mean that you would lose out on some sort of freight cost or.....

The Financial Secretary –

You will have to pay, you will more than likely have to pay some of the freight costs associated with it, but that's only one of the options as I say, our ideal option would be to be able to utilize them as they were intended.

Deputy Chair –

Okay, so the specification of the fire engines again, in order to work on the terrain on St Helena, why was that not considered initially?

The Financial Secretary –

It was actually put in as part of the specifications that we received from the users and it was actually tested by an independent firm in the UK who went and did the necessary tests on the vehicles before they were actually shipped to St Helena, however, it was actually only when it arrived on the island and they were trying to go up over some very inclined hills that some of the issues were realised, so even though the tests that were required on the UK side, it did go up over hills, but it just didn't go up over the type of hills that we have here on St Helena.

Deputy Chair –

Okay, so....

The Financial Secretary –

So the specification was actually correct that was actually issued.

Deputy Chair –

The specification was correct but it doesn't seem that the trial runs were done correctly then?

The Financial Secretary –

I don't have the professional expertise to be able to answer around those issues.....

Deputy Chair –

But you would have paid for it?

The Financial Secretary –

Well, we would have paid for it after we'd accepted the trial had been done and we had the independent inspection done on behalf of SHG.

Deputy Chair –

Sorry, yes, you would have paid for the independent inspection.

The Financial Secretary –

Yes.

Deputy Chair –

So is there, what are the proceedings now in terms of taking the advice from the independent inspector?

The Financial Secretary –

So we are exploring that as well, but obviously I can't divulge that detail here about whether or not there'll likely to be any legal implications.

Deputy Chair –

Okay, thank you. And there's also the purchase of some machinery and equipment from Basil Read during the financial year, why was there a need to purchase another crane which is now at Ruperts?

The Financial Secretary –

So, for that very reason you've just said, there's the crane in Ruperts, we needed a crane in Ruperts as part of the backup options for the shipping service, so if the ship's cranes go down, even though that's a requirement of the shipping tender, if the ship's cranes go down, it was SHG's responsibility to have an alternative option there for unloading the cargo vessel when it comes into Ruperts, so.....

Deputy Chair –

And are they being used to that effect at the moment, has there been a need to use it in that regard?

The Financial Secretary –

Not for, at the moment my understanding is not for, because again it's the backup for the ship's cranes, the ship's cranes are what have been unloading all of the cargo so far, however, as you know, it's been used for various other uses in Ruperts at this point in time.

Deputy Chair –

Okay, so why not take a crane from Jamestown wharf to Ruperts?

The Financial Secretary –

We looked at the actual logistics of making that work, it was going to be very difficult, but secondly also, and whilst at that stage the RMS was still in operation, so if you take one crane from Ruperts and you slow down the operations in Jamestown as well by having just one crane in Jamestown and then you got the issue of redundancy in the event that a crane breaks down then you don't have no ability to go along and unload the RMS St Helena which we felt was not a risk that SHG would want to take.

Deputy Chair –

Okay, understandable. What was the cost of this crane purchase?

The Financial Secretary –

Off the top of my head I don't have that information, Mr Yon, but I'd be happy to provide that to you.

Deputy Chair –

An estimate of some sort, no?

The Financial Secretary –

It was upwards of £500k, less than a million pounds though. Off the top of my head and this is off the top of my head, it was just over, I think it was £600k, £650k is the figure that's been put in front of me.

Deputy Chair –

£650k for.....

The Financial Secretary –

£650k.

Deputy Chair –

For a crane that possibly is not going to be fully utilized on a regular basis?

The Financial Secretary –

It goes back to our point about our requirements, so you could argue that both ways. If, for example, we were using our cargo operations in Ruperts when it does get fully operational and where it would come in and there's a failure of the ship's cranes there, again, at least now you have an opportunity to be able to unload your vessel using alternative views.

Deputy Chair –

Well, it's good to know that you have something else as a backup plan. Okay, one more from me and this is in terms of another purchase from, which I understand was Basil Read, Customs have a boat?

The Financial Secretary –

Yes.

Deputy Chair –

And it's been on the wharf for quite a period of time just parked idly somewhere, what is the reason for it being parked there, is it useable, it is not useable?

The Financial Secretary –

It is useable, so it will be launched as and when it is needed to be launched. The Harbour Master actually has responsibility for the vessel, so it's being used jointly by Customs and the Harbour Master's Office.

Deputy Chair –

Okay, and was consideration given to, I could say, a more appropriate boat?

The Financial Secretary –

It was, again, going back to looking at the value for money side of things, the price that we paid for that boat was a very good, professionally we were told that it was a very good deal for that boat and provided very good value for money for SHG.

Deputy Chair –

But it is my understanding that if this boat actually docks alongside, I should call it, I can call it dock, docking alongside another vessel, such as a yacht, due to the steel makeup of the boat it could potentially cause damage to, say, a yacht, for example?

The Financial Secretary –

I don't have that expertise to be able to advise you on that, Mr Yon, but I'm sure there will be mitigation that you can put in place to be able to ensure that you don't damage the other yachts, like fenders or something of that nature.

Deputy Chair –

Okay, that's it from me on those questions. I'll move on, Mr Chair?

The Chairman –

No, just before you do, because this mitigation at Ruperts off the rocks to be able to allow the wharf to be managed properly and to not be barging cargo round to Jamestown it seems for a number of years yet to come, why wasn't sufficient account taken of mitigation that people knew would be needed to be able to use Ruperts in the first place, why are we waiting so long to be able to now have some money to be able to mitigate against the rockfall, I mean, this has been several years in the making maybe?

The Financial Secretary –

It has been several years in the making, but, Mr Chair, you'll also be aware that we haven't had a new capital programme for several years as well, so there's no funding to be able to do the works. For example, a procurement exercise had already been undertaken for a rockfall assessment, so we know how much it's going to cost us, we did that in the last financial year, however, we can't actually go through with the works until such time that we get access to the funding.

The Chairman –

Yes, okay, it might be, sort of, my type of several questions I could be asking you on that, but I think I will leave it there for the time being. Mark, you want to come in with some further questions?

Deputy Chair –

Do we move on to the next theme?

The Chairman –

The next set, yes.

Deputy Chair –

Okay, unless other Members had any questions they wanted to ask? No? Okay. The Management Letter draws attention to the management of SHG reserves and in particular the unexpected depletion of the general reserve. What was the reason for the depletion in the reserve balance?

The Financial Secretary –

So, Mr Chair, there's a number of reasons, one being that firstly our monitoring functions weren't doing what they're supposed to have been doing in that, for example, the expenditure that was approved for the hotel development, the £1.5m in terms of SHG's equity holding, wasn't recorded

on our management accounts when we were in terms of monitoring on a monthly basis, for some reason they were omitted, so all of the decision making that took place during the year 16/17 and to a certain extent 17/18 were done on the basis of an assumption that we had more money in the general reserve than we actually did in practice, so there was a big exercise that we carried out when we were preparing the financial statements for 16/17 that identified a number of issues for SHG and some of them I can touch on in a bit of detail for members, if that is okay, Mr Chair?

The Chairman –

Yes.

The Financial Secretary –

So one of the big issues is also around, going back to this point that we talked about earlier, the difference between accruals accounting and cash based budgeting, so, as I said, the management accounts are monitoring the spend of the departments on a monthly basis against the modified cash based budgets that were actually approved. However, when you do the preparation of the financial statements we actually do those on an accruals based approach and things like, for example, staff leave, liability, and losses on foreign exchange weren't captured in the monthly monitoring of the SHG's position, so we found ourselves at the end of the 16/17 financial year, when we were preparing those financial statements in July, August and September of 2017, that we found ourselves in the situation where we had projected a surplus at the end of the 16/17 financial year, however, after taking into consideration the year end adjustments that needed to be done, all of these non-cash items and also the fact that we hadn't accounted for the £1.5m from the, of our, SHG's contribution to the hotel project, that we actually were in a position where the general reserve had actually become depleted. So, some of the other reasons as to why the position had become depleted was also, you know, one of the things that we've found over the last year is that our capability and capacity in terms of forecasting and monitoring needs to be improved across the whole of the public service and, for example, we were in the situation where one month of the Directorate was saying that we're gonna be overspent by £200k and that was at the end of February, the following month, for example, when we got to the year end, they were over by £600k, so, you know, our forecasting abilities within Corporate Finance, but also within the Directorates also need to be strengthened going forward. So one of the things that we're doing in terms of trying to address that issue, as I said earlier, is that we have put together a restructuring programme that had been approved by the Chief Secretary, which will see capacity being built within Corporate Finance Team, but also capacity being built within the Directorates as well to support the Accounting Officers as they make the decisions going forward, which will see, for example, a new Management Accounting function that has already been implemented, so you will be aware, for example, that there was a recent advert for two additional Management Accountants to come in to support the Corporate Finance team, but also to support the Directorates in terms of their spending and forecasting going forward as well. And we've done a large piece of work on how we address this to make sure going forward that this situation doesn't happen again, including, for example, options that we presented to Executive Council for replenishing the general reserve in the 17/18 financial year, that's actually taken place, but it is really about trying to build the capacity of the public service going forward in terms of financial management capability and I think one of the biggest challenges for us is finding people with the right skills and experience to be able to take up any of those new roles that we actually bring on.

Deputy Chair –

But you do have a measure in place, then?

The Financial Secretary –

Yes, we have a plan that we rolled out from March this year and, as I said, the key for us is, you know, one of the things that we had to do was to make sure to define the roles and responsibilities of the different members of the team. We previously, as I said, in 2013, before we did our restructure at that stage we had two separate functions for management accounting and for financial reporting, so now we've reinstated those two functions again with two separate teams, so we've got clear roles and responsibilities identified within the Corporate Finance team and also in terms of our reporting then to the other structures around within the Public Service. So for example, reinstating the regular reviews by Executive Council on the Management Accounts, for example. Those had, we had slipped in terms of the internal controls that we had in place, but we just weren't actually doing all of them.

Deputy Chair –

Okay, thank you, thank you for a very big answer there.

Asst Financial Secretary –

Can I also just add in terms of timing as well of the preparation of the financial statements as well, because that's also an issue that we experienced in 2016 where, for example, decisions were made, for example, around investment in the hotel, that was made based on an estimate of the balance on the Consolidated Fund, but the preparation and sign off of the 14/15 financial statements happened in that year 2016, the 15/16 financial statements were then prepared and signed off in December 2016 so in terms of, you know, the huge programme that Finance undertook to bring financial statements up to date also played a factor in that in terms of giving a firm number, audited number, on the balance on the Consolidated Fund as well, so that is also a factor in terms of the process that we went through.

Deputy Chair –

Okay, thank you for that information. What are you doing to restore the unrestricted balances then?

The Financial Secretary –

So, as I said before, so in terms of the general reserve, we made two transfers from two special funds in the 17/18 financial year, one of the recommendations also put forward was to increase what we call the minimum balance that should be held on the general reserve, so previously we had a assumed minimum balance of £1.25m and to give SHG a bit more resilience to be able to deal with some of the exogenous shocks, as Mrs Essex calls them, we've increased or we're looking to increase that balance to £3m so we have the minimum balance on the general reserves of £3m. Obviously that will be built up potentially over a period of time so in terms of the transfers that took place in the 17/18 financial year and those would bring the balance within the year before we get to the year end of up to £1.6m sitting on the general reserves.

Deputy Chair –

And how long do you think for you to reach £3m?

The Financial Secretary –

It will very much depend on what we choose or what members choose to actually go into the general reserves, so, for example, you could look to see whether or not the proceeds from the disposal of the RMS could go into the general reserve or how that needs to be accounted for, those are still in the process of actually being done and it depends very much on the financial outturn for the 17/18 financial year, which we're busy finalizing at this moment, so, for example, if there's a surplus or a deficit, a surplus would obviously bring up the balance on the general reserve to hopefully get us somewhere near the £3m.

Deputy Chair –
Okay, thank you.

The Chairman –
Thank you. Before we move on, any further questions on that line of questioning?

Deputy Chair –
I just have one more, Sir. Has the Financial Secretary set out an updated rationale with supporting analysis to determine a minimum and preferred level of working balance on the Consolidated Fund for approval of SHG and DfID in partnership?

The Financial Secretary –
So, it's just what I was talking about....

Deputy Chair –
So it will be the £3m?

The Financial Secretary –
.....the £3m in a paper that went to ExCo in September last year the recommendation was to increase the minimum balance up to £3m which has been supported by Executive Council.

Deputy Chair –
Okay, so DfID would have a say in this as well?

The Financial Secretary –
DfID would have a say in terms of, you know, if they were to decide whether or not our balance is too large, however, in terms of the internal finances of SHG, you know, that is what we would want as our minimum balance. They haven't expressed a view to the contrary that we should have a minimum of £3m.

Deputy Chair –
But they are aware?

The Financial Secretary –
They are aware, yes.

Deputy Chair –
Okay, thank you. Move on to the next question, Sir?

The Chairman –
Thank you, Mr Yon, for taking us through that point, do you have some further questions now?

Deputy Chair –
The Financial Statements in Note 11.15 report a number of negative reserves including the Pensions Reserve and the Litigation Reserve which represent unfunded liabilities on SHG. Will the FS explain the nature of these negative reserves, please?

The Financial Secretary –
So if we do the Pensions first. SHG has two pension schemes, one is a defined contribution scheme and one is the defined benefits scheme, so the one, the liability that you referring to in terms of the

pensions is in respect of the defined benefits scheme, so that is the old SHG pension scheme that closed to new entrants in 2010 so that we have an annual calculation of the valuation of the liability to SHG, which is done by the UK Government's Actuary Department, GAD, and they carry out a valuation of our Pension Fund based on the number of members in the scheme and the specifics around some of the assumptions made around inflation etc, so at the moment that is an unfunded scheme, however, it is actually financed by the amounts that are appropriated in each of the financial years to cover the cost of having to pay those pensions, so as you know, part of our budget every year we'll have a line for Pensions and Gratuities, which covers the cost, the payment costs of actually meeting the liabilities of that Fund. Similarly, we got a similar situation with the Litigation Fund. The Litigation Fund is one that's just been created in the 2016/17 financial year, it's the first time we've recognised it. That Fund also is again a fund that we do not have the funds to cover at this point in time, however, in terms of the payments that that liability represents, again, it's budgeted for in year, each financial year until such time that the liability is repaid.

Deputy Chair –

Okay, so they're going to be funded

The Financial Secretary –

On an annual basis.

Deputy Chair –

On an annual basis, okay. So whenever an obligation arises you will, I guess, take it on a case by case basis? How will you....

The Financial Secretary –

Yes, so whenever an obligation arises that is in addition to what we have there at the moment, once we know if it's a very large amount that can't be settled in year then we go along and we will include it as an additional amount that sits on that liability, so in that Litigation Fund and until such time as we budget on a year by year basis for the payments to be made then we will reduce the liability based on the amount of payments that we've actually made in year.

Deputy Chair –

Okay. Thank you, Chair.

The Chairman –

Thank you for that, so we'll move on and now we go to Councillor Brian Isaac?

The Chief Auditor –

Chair, perhaps, given the answers that the Finance Team have given in respect of the accounting for special funds, I think some of the lines of inquiry that were planned by Councillor Isaac have already been addressed, but there might be some other matters which other members want to raise within this line of inquiry about the special funds projects, Chair, so I think a lead in and then open it up would be the way forward.

The Chairman –

Yes, quite right, some of the questions that were planned have already been answered, but Councillor Isaac, this was down for you, do you see any of the questions there that you would want to now ask questions about? Maybe bullet point 4?

Councillor Brian Isaac –

(Inaudible)

The Chairman –

Okay, you don't want to ask anything about the EDF 10 triggers? No?

Councillor Brian Isaac –

Has all of the EDF 10 triggers been met?

The Financial Secretary –

Mr Chair, Mr Isaac, for EDF 10 all but the final payment for the variable tranche indicated 4 have been received from the EU, so all of the, in terms of all of the activities, they have been completed, however, we did not receive the final tranche funded from the EU EDF 10.

Councillor Brian Isaac –

Did not receive. Alright, thank you.

The Chairman –

Satisfied Mr Isaac? Can we move to Dr...

Deputy Chair –

I have a question, Sir. So what are the financial implications in this case?

The Financial Secretary –

For EDF 10?

Deputy Chair –

Yes.

The Financial Secretary –

Sorry. So we requested a rider to extend the programme beyond what was agreed under the financing agreement, so, as I said, all the fixed and variable tranches up to tranche 3 have been received. The final variable tranche indicator, valued at €800k, we were not able to get access to that funding because the Commission would not extend the rider to extend the programme, and what we found is that all of the activities, like the, for example, the sign off on the wharf, happened a few days after the closing date for the EDF 10 programme.

Deputy Chair –

So the reason why they did not entertain your request?

The Financial Secretary –

They did not entertain a request is because we had already gone over the period that was available for the request to be made.

Deputy Chair –

Okay.

The Financial Secretary –

So under the EU programme there's two periods, there's, and I'll look at Councillor Essex to be able to help me out in terms of the specific terms here, but there's the implementation phase and then there's the reporting phase which, in terms of, tidies up all of the activities, so we had to finish the programme within the implementation phase or ask for a rider before the implementation phase

finished and unfortunately between the EU and ourselves that wasn't done so they weren't or unable to actually extend the implementation phase to allow us to claim the last tranche of funding.

Councillor Dr Corinda Essex –

Can I ask.....

The Chairman –

Dr Essex, sorry, I was going to ask you if you could.....

Councillor Dr Corinda Essex –

Can I ask what was the delay in meeting the triggers that made the application for the rider necessary?

The Financial Secretary –

The biggest issue was the Roads Maintenance Programme which wasn't completed on time and, in addition, as I said, the project completion report for the Wharf Project was also received later than anticipated, but the maintenance programme was the key issue for it.

Councillor Dr Corinda Essex –

What were the problems relating to the maintenance programme that prevented it being completed on time?

The Financial Secretary –

The ENRD Department didn't have the resources available for them to complete and develop the maintenance programme.

Councillor Dr Corinda Essex –

Why was this not communicated, at least to ENRD Committee?

The Financial Secretary –

It was communicated with the Director on a number of occasions, but, yeah, we didn't communicate directly with the ENRC Committee.

Councillor Dr Corinda Essex –

In what years was this communicated to the Director?

The Financial Secretary –

In 2015, 2016 and 2017.

Councillor Dr Corinda Essex –

2017 would have been too late to really do anything about it. 2015/16 was the critical period.

The Financial Secretary –

Yes, most definitely.

Councillor Dr Corinda Essex –

So, as a result of this, St Helena has basically lost €800k?

The Financial Secretary –

St Helena has lost out on €800k, yes, and in terms of the actual meeting the trigger indicators, however, looking at the requirements under the financing agreement, more than likely we wouldn't have gotten access to all of that €800k, however, we would have got access to a proportion of it.

Councillor Dr Corinda Essex –

Yes. So going forward now for EDF 11 what actions are being taken to ensure there isn't any repetition of this?

The Financial Secretary –

So one of the things that we've done also is to strengthen the performance management of the EDF 11 programme going forward. All of the tranches that will be available, bar one, will be for fixed tranches as opposed to variable tranches, so they won't have any specific time bound indicators in terms of the requirements to get access to the variable tranche, however, the final tranche which is due in 2021 will have some variable indicators but it will very much depend on whether or not the cable is in place by that stage.

Councillor Dr Corinda Essex –

Right, thank you.

The Chairman –

Thank you, Dr Essex. Mr Yon, okay, go ahead?

Deputy Chair –

Okay, the EDF 9, there was a fund balance of £1m, what happened to that money?

The Financial Secretary –

So, in terms of, we talked earlier about how we finance or replenish the general reserve, so a proportion of that EDF 9 balance has been transferred from the EDF 9 programme into the general reserve of SHG, replenished the fund.

Deputy Chair –

And the balance, you said a proportion of it?

The Financial Secretary –

The balance will be a small amount that was left to deal with some of the ongoing activities around Health and Safety issues on the wharf in Jamestown.

Deputy Chair –

In Jamestown, okay. Would it not have been of better use perhaps to infrastructure projects such as the wharf at Ruperts?

The Financial Secretary –

It was very much intended for it to go as a contribution as SHG's contribution to financing the activities in Ruperts

Deputy Chair –

But the general reserve took priority?

The Financial Secretary –

However, the priority reserve took priority, yes.

Deputy Chair –

Who would have decided on the priority?

The Financial Secretary –

Executive Council, they advised the Governor.

Deputy Chair –

Okay. Thank you, Chair.

The Chairman –

Thank you very much; that was some quite good information actually came out of that, thank you, Mr Richards. Following on from that, Dr Corinda Essex, you have some questions?

Councillor Dr Corinda Essex –

Thank you very much. These relate to Note 13 in the financial statements which give an account of the financial performance of the other entities controlled by SHG. Was the Financial Secretary satisfied with the financial and operational performance of these SHG entities during the year under review?

The Financial Secretary –

Mr Chair, I'm not so sure if I can answer that question.....

The Chairman –

Can you try?

The Financial Secretary –

.... in terms of giving, I don't think I have the professional expertise to be able to talk about the activities of all of those entities, however, I can say that the financial statements have been approved by the respective boards and also audited under the requirements of the Companies Ordinance and in certain cases the Chief Auditor would have been the auditor of those activities. In terms of whether or not they've met all of the obligations that have been set out within those organisations strategic plans for that period I don't have that information in front of me here today to be able to give you an understanding of whether they were all met.

Councillor Dr Corinda Essex –

Most of those entities have a Director who although not formally appointed as a Government Director per se still represents?..... each of SHG, what is being done going forward to strengthen that role and to ensure that there is a overall corporate view regarding to what extent those entities operational performance has met the required standards?

The Financial Secretary –

So one of the recommendations coming out of the state controlled entities report which we'll be discussing later today is for a group finance director type role which we are looking to implement so, and again, going back to one of my earlier points, it is very much down to the resource implications of SHG so we have a bid in for that role who would effectively be the SHG representative on all state controlled entities and also would be responsible for delivering a lot of the recommendations that are being included in the state controlled entities report, so it is our intention to centralize that function, as you say, going forward, building a capacity within the Corporate Finance team to be able to discharge the duties as required of someone in that role, but as I said before, it will very much depend on whether or not the resources that we've asked for can be approved to go with that.

Councillor Dr Corinda Essex –

Thank you for that. Has the Financial Secretary confirmed that the accounting treatment adopted for the write down of the Connect shareholding during the year in question conforms to Financial Regulations and the required authorizations? I think that pertained to Fairhurst ...stipend, if I can assist?

The Financial Secretary –

Without having the specific details in front of me, Councillor, I think that one was for, yeah, instead of the, the correct treatment was done, because we don't think it should have been recognised as a shareholding in the first instance, so those adjustments were made in the 16/17 financial year.

Councillor Dr Corinda Essex –

Right, thank you for that. Again, on the same subject, a previous PAC recommendation, that was 35 of 16, also refers to this and suggested that a written rationale should be submitted explaining the write-off of the Fairhurst Water Design Consultancy in the amount of £665k, has such a rationale been prepared?

The Financial Secretary –

In terms of being formally being presented back to the PAC?

Councillor Dr Corinda Essex –

Yes.

The Financial Secretary –

The answer is no, however, the Acting Financial Secretary you will remember gave a response to a similar question that was raised in formal Legislative Council earlier this year.

Councillor Dr Corinda Essex –

When can we expect to get the written rationale that was requested?

The Financial Secretary –

We will endeavour to get that done in the next few months, yeah.

Councillor Dr Corinda Essex –

Thank you very much for that. What is the total value of the SHG shareholding in all its arms length entities as of 31st March 2017?

The Financial Secretary –

Our estimate is £33.8m.

Councillor Dr Corinda Essex –

Thank you. What dividend has SHG received in the same period for those holdings?

The Financial Secretary –

Very little, Councillor Essex, so, for example, at the moment the only company that we really take a dividend from is Solomons and Company and so we're very much for going forward it will depend on the level of profitability of the company in terms of how much they tend to issue in terms of a dividend. SHG, however, are reviewing the need for a dividend from its other state controlled entities, such as the Bank of St Helena and also Connect St Helena going forward, so a policy is being developed to be able to look at specifically for those two whether a dividend should be taken in the future.

Councillor Dr Corinda Essex –

Obviously the dividend received from Solomons will depend on its outturn, but in average, what sort of figure is usually achieved per annum?

The Financial Secretary –

For 2016/17 it was £18k.

Councillor Dr Corinda Essex –

Thank you very much. And in some years there's no dividend receivable, is that not correct?

The Financial Secretary –

That's correct, yes.

Councillor Dr Corinda Essex –

Thank you.

The Chairman –

Thank you for clearing that up.

The Chief Auditor –

Chair, could I just perhaps invite the Financial Secretary, it's probably easier if I do this directly. Yes, so, the measure of investments in those subsidiaries I think there's a, the accounts are showing on page 60 in Note 11.15 or 15 a 28.3 million. It would be useful I think if the Finance Team were just able to explain a little bit further as to what the total value of the investments are at that date and the reason is, Chair, because I think a figure of £33m was mentioned.

The Chairman –

Yes.

The Chief Auditor –

And just to square away the proceedings I think that would be helpful. Thank you.

The Chairman –

Yes. Financial Secretary?

The Financial Secretary –

We're just gonna chat, if you'd just give us a minute please, Mr Chair.

The Chairman –

Okay.

Asst Financial Secretary –

Thank you. Part of that issue is because of in that Note, Note 13, it shows the full nett assets, SHG, of all of the companies, the majority of those companies SHG is a hundred percent shareholding except for one, which is Solomon and Company, which we only hold 62.9% shareholding, so we will only have that proportion of nett assets in terms of SHG recognising, but the figure we gave before is the total nett assets of all of those companies together.

The Chairman –

Okay, thank you for that. Okay, right, moving on, Councillor Clint Beard?

Councillor Clint Beard –

The Financial Statement in Note 15 include the annual governance statement for 2016/17. What remedial action is being taken by SHG in response to the significant governance issues identified in the annual governance statement?

The Financial Secretary –

So in terms of the significant issues that are being identified, if I turn to page, hang on, we have covered some of these already, Mr Chair, the one on the general reserve we mentioned how we've gone along and dealt with the deficit and how we've replenished the general reserve; commercial air services, as you know, the new air service has started in October of last year and we're obviously looking forward to a second flight later this year; in terms of the medical negligence, as I said, and as the report says, there has been some significant changes in the clinical governance arrangements at the Hospital and also within the Health Service in general, including Safeguarding Services to a certain extent; that should address some of the issues that have been raised in the past. The others include the BFI infrastructure and this is around the new BFI which, as you know, was originally envisaged to be commissioned some time ago, however, because of a decision taken to prioritise the completion of the airport over the Bulk Fuel Installation there has been a delay in the actual commissioning of the Bulk Fuel Facilities under Phase One of the Airport Project, so that work is ongoing at the moment, obviously Basil Read are trying to complete that sooner rather than later, but at this point in time I can't give a definitive date as to when the commissioning will actually take place, but it will be, hopefully, my last indication was later in 2018 it will be commissioned.

Councillor Clint Beard –

Okay, I don't have anything else, I don't know if anybody's got.....

The Chairman –

No, I think we've satisfied that one, you want to carry on, Clint?

Councillor Clint Beard –

The Chief Auditor has reported that withdrawal warrants were not laid before Legislative Council as required under section 104 of the Constitution, which reads, "Notification of every withdrawal warrant shall be laid before the Legislative Council by the Financial Secretary on the first sitting date not less than ten days after the paper was issued". Why were the withdrawal warrants not laid in Legislative Council as required?

The Financial Secretary –

So, Mr Chair, basically this was an oversight in terms of the legislative requirements and quite frankly it hasn't been done, not only in that financial year, but it hasn't been done since I've been in Corporate Finance, so we have now obviously recognised that that is something that should be done, we've put in place a monitoring system to make sure that we're completing our regulatory and also legal requirements to ensure on a monthly basis that we're monitoring those so that they can be not only for in terms of the laying of any withdrawal warrants but any of our legislative requirements are actually captured and we're performing those going forward, so, again, this was something that was an oversight, it was realised in the 16/17 financial year, however, it's not been done for a number of years before.

Councillor Clint Beard –

I can accept that you saying that it's an oversight, so what are the implications for not laying a withdrawal warrant?

The Financial Secretary –

So the only implication is that the legal opinion that we've received is that the withdrawal warrants are also legal in terms that they have been signed off and they are proper, however, the part of the process that we haven't completed is the notification to the full Legislative Council by laying it on the table.

Councillor Clint Beard –

So, just to reiterate, Mr Financial Secretary, how will you ensure that this does not reoccur in the future?

The Financial Secretary –

As I said before, Councillor, I think one of the issues that we have is that nobody had done a complete review of the requirements of the Constitution and so we've now instigated that process, but also looked at all of our other policies and procedures across Corporate Finance and across other organisations as well to ensure going forward that this oversight doesn't happen.

Councillor Clint Beard –

Thank you.

The Chairman –

Alright, thank you, Councillor Beard, thank you, Mr Richards. The Chief Auditor reports progress on ten recommendations brought forward from prior years, what is the cause of the slow progress in clearing the remaining nine recommendations from prior years Management Letters?

Asst Financial Secretary –

I can assist Committee with those questions. Some of these recommendations, we recognise they're very important but they are really big pieces of work and what we wanted to do first is to look at, take a step back and look at each one to see what we need to do in terms of actually taking these forward. So, for example, some of those that are pending, so, for example, there's the introduction of accruals budgeting and we discussed that earlier today in terms of having a comprehensive review of the way in which we will monitor budget spend and budget management going forward and we will be looking at, you know, what is the recognition criteria for budget management, when do we recognise expenditure, when do we recognise revenue, should it be different to the way in which we recognise on an accounting basis, so we will be completing that review and then taking that forward through Executive Council in terms of how do we take it forward and what is the best way and whether the introduction of accruals budgeting is the right method and approach that we should take and whether it will, you know, the resources required will mean value for money for SHG in terms of the outputs that you will get from introducing accruals budgeting, so more work has been done in that particular area. Other examples are, for example, the valuation of airport and wharf infrastructure, we mentioned that one before as well, in terms of actually finding someone to do the valuation and then make an assessment of resources around that. Consolidated Financial Statements as well, again, I mentioned we will have to do a review in a paper to Executive Council on that one. In terms of the advice on the liability for the future pension increases that one is pending because we haven't done an increase since that issue was highlighted, so this will only be able to be determined when we actually present a case to the Governor in terms of whether we do a pensions increase. The other issue, in terms of the adoption of a Code of Governance, yes, we recognise that that is very important and it is something that we want to do, but unfortunately with the resources and the other pieces of work had to take priority, we haven't been able to implement that, but we want to do that. The separate review engagement of EDF, our communication with the EU is that one isn't required and so there's a question about that particular recommendation, how do we take it forward if we're not required to do it, so there's a question there. The other areas that are in

progress, where we have started, we are working towards getting those cleared so the review of special funds, again, as we mentioned before, that's underway, that will be done and completed as part of the preparation of 17/18 financial statements. The documenting evidence for social benefits, so we've done sufficient amount of work in 16/17 to clear that qualification, but we still recognise that there are still some areas where we still need to do some more little outstanding bits of information and that will be completed now over the coming months and the DfID legal transfer of assets, that work started but has not yet been completed to date, so, like I said, there's a balance in terms of some of them are big pieces of work where we need to take a step back and take a wider and broader view of the benefits of implementing those and some of those, they are in progress, but we were working on those in this coming year.

The Chairman –

Alright, thank you for that. But the Chief Auditor has made a further six recommendations arising in the current year, what action is proposed by the Financial Secretary in response to the six recommendations raised in the 2016/17 Management Letter?

The Financial Secretary –

So, Mr Chair, the recommendations, we have prepared responses and we have agreed an action plan to be able to deal with each of them, so is it worth it for me to go through them individually for you?

The Chairman –

I think, as you've asked the question, it would be good to go through them, please?

The Financial Secretary –

So the first one is around the valuation of the Crown forests to get an understanding of the commercial valuation of that forest, so our Financial Accountant and our Head of Finance Services will be doing a technical review to understand as part of the 17/18 financial statements preparation whether the Crown Forests satisfies the recognition criteria in accordance with IPSAS 27 and depending on the outcome of that we'll determine a method with ANRD as to how we value the forests going forward for the financial statements in 17/18.

Recommendation 2 talks about the Financial Secretary should establish internal arrangements to ensure due compliance with the Statutory and Regulatory requirements for the finance and administration of St Helena. As I mentioned in my previous response, one of the things that we have done now is to put in place a monitoring system to ensure that we have and are complying with the requirements under all of the regulations and legislation that we have going forward, so the Assistant Financial Secretary will be providing a report on a quarterly basis to myself to provide some assurances that all of the legal and regulatory requirements are being met by the Corporate Finance Team.

Recommendation 3 talks about the Financial Secretary should review the relevant statutory provisions for financial control and financial reporting purposes and propose legislative amendments in the preparation of, implementation of accruals budgeting and we talked about this earlier, so I think we need to take a step back before we agree that we're gonna implement that in the 19/20 financial year. SHG has to look at the implications for resources and, as I mentioned earlier, learn some lessons from the quick implementation of accruals accounting back in 11/12 and the complications that come with that, so, again, we'll be doing a paper in due course for consideration of Legislative and Executive Councils.

Recommendation 4 is about building capacity, again, within Finance but also across the Government Service, so we've already started and that work had started ever since mid part of last year where we have identified this issue, and as I mentioned earlier, going through a restructuring process within Corporate Finance but also a restructuring process that will actually support all of the

Directorates as well ensuring that the Accounting Officers have the right expertise available to them for decision making but also for forecasting and budgeting purposes as well, so in addition to our restructure one of the things that we're trying to do alongside of that is to ensure that we have a training programme so we can bring through our professional accountants of the future, so at the moment what we're really finding on St Helena, and this is not only in the Public Service, this is across the board, that there is just a lack of finance professionals who have the right qualifications and experience to be able to do a number of these roles, so we're introducing a professional training scheme which we hope to do by the first quarter of this financial year which will see staff having the ability to work through a professional cadre to become a qualified accountant at the end of that process and be appropriately rewarded for the skills and experiences that they have gained over that period of time. So that should hopefully, over a period of time, address the capacity issues that we have on St Helena as a whole, because, you know, they might start in SHG but they might choose in the future to branch out into the private sector which is still a good thing for St Helena as a whole. However, this isn't a quick fix and I have to reiterate this, you know, our students who are coming out of school now, for example, it's gonna be ten years before they become qualified accountants with the right level of experiences, so it's a start now and we'll see the benefit in five, ten years time rather than something that you're gonna see next week and then, so we are addressing that recommendation as well.

And then Number 5 was around seeking to improve the efficiency and accuracy of the statutory account production process. We also discussed this right at the outset. We're looking to bring forward the timelines, hopefully to have the accounts prepared within three months of the end of the financial year and the Chief Auditor has also committed to reducing his statutory requirement for the time it takes for the actual auditing of those financial statements, so we are in the process at the moment, we've started in this financial year to ensure that the timeliness of the information that is provided to the public and also for Councillors is done on a timely basis.

And then finally Recommendation 6 is to make sure again that we follow up on the actions that are being identified in previous Management Letters and also from previous Audit, PAC recommendations and as I said before we've now put in place a monitoring system to make sure that we are keeping abreast of all of those activities with a view of trying to implement as many recommendations as we possibly can within the resources that we have available.

The Chairman –

Thank you, Mr Richards, for that, quite a lot of information has come out of that and it's good to see that looking at the way going forward there. Does anyone else have any questions in that regard? If not, we have actually come to the end of the St Helena Government and it's been a long time there for you, you will have to come back later on as well, but we didn't realise it was going to take quite this long, so we will now have to take a recess and we'll decide during recess how we go forward with the others, so we will, what is it now, twenty minutes past eleven, we'll take a half hour recess and then come back. Okay, thank you very much.

The Financial Secretary/Assistant Financial Secretary –

Thank you.

Meeting in Recess

Meeting Resumed

The Chairman –

.....a chance to have a comfort break. And as I explained earlier on to ensure that the Committee may operate independently and free from any bias or conflict of interest arrangements have been made for temporary members to cover for members conflicted by the item of business under

scrutiny and for this purpose the following people will be invited to serve on the Committee at specific points and they are aware when they need to come to the table. Councillor Gavin Ellick will replace Councillor Dr Essex for inquiries on ESH and Councillor Isaac for inquiries on Public Health. Councillor Kylie Hercules will be replacing Councillor Essex on ENRD matters and temporary independent member Cyril George, not here today of course, will cover for the Deputy Chair, Mark Yon, on Connect St Helena Limited when we get round to discussing that. So the next item, as we have moved things around a bit, so the next item is Expenditure in Excess.

3. EXPENDITURE IN EXCESS

This session hears evidence in relation to Excess Expenditure incurred by Public Health and ENRD. To manage declared conflicts of interest, Councillor Kylie Hercules will substitute for Councillor Isaac who is a member of the Public Health Committee and Councillor Gavin Ellick, as I said earlier on, will substitute for Councillor Essex who is a member of Environment and Natural Resources Committee. Alright, will you all please then come to the table. We're going to do the Statement of Expenditure in Excess, which will be calling on Public Health first of all. Alright, thank you all very much, but although I know who you are, I have to ask you to introduce yourselves, please?

The Financial Secretary (Dax Richards) –
Dax Richards, Financial Secretary.

Dr Akeem Ali (Health Director) –
Dr Akeem Ali, Health Directorate.

Asst Financial Secretary –
Nicholas Yon, Assistant Financial Secretary.

The Chairman –
Thank you. The PAC had commenced their enquiries on Expenditure in Excess using Sessional Paper 40/17 laid in December 2017 that indicated three heads of expenditure had overspent during 2016/17. Will the Financial Secretary please explain why an updated statement of expenditure in excess was laid in March 2018 as Sessional Paper 12/18?

The Financial Secretary –
Thank you, Mr Chair. So, the Assistant Financial Secretary touched on this in the earlier session, but effectively, as a result of going through the audit completion process in terms of the final version of the SHG Financial Statements, we discovered that some of the activities that had been classified as recurrent expenditure previously should have been reclassified as, should have been classified as capital expenditure and hence the change to the main expenditure in excess statement, specifically for Public Health where we wanted to move expenditure that had been classified as revenue expenditure previously into actual capital expenditure items.

The Chairman –
Okay, thank you for that. Is the Financial Secretary satisfied that the evidence that the PAC has taken from Accounting Officers in respect of Sessional Paper 40/17 remain relevant to their reporting on the final position for 2016/17?

The Financial Secretary –
Yes, I am.

The Chairman –

Will the Financial Secretary explain what the current situation is with regard to the authority for this expenditure pending the completion of the section 106 procedure by this Committee?

The Financial Secretary –

So, you want to know the next steps after it's approved, you'd like to get some clarity?

The Chairman –

Yes, please.

The Financial Secretary –

So, when it's been considered here I believe you, as the PAC, will write a report to the full Legislative Council, it will then be tabled at the next available Legislative Council meeting and will be asked whether it can, whether the expenditure can be adopted as SHG expenditure for the 16/17 financial year.

The Chairman –

Thank you for that. Does the Financial Secretary envisage a recurrence of this situation in 2017/18 with regard to Accounting Officers overspending their approved budget allocations?

The Financial Secretary –

Yes, we do believe there will be an expenditure in excess statement that will be prepared for the 17/18 financial year.

The Chairman –

Any further questions on this line, other members? No? Then we will carry on and I invite Mark Yon to come in to question.

Deputy Chair –

Thank you, Chair. In January 2018, PAC, sorry, I'll rephrase that. In January 2018 PAC called on you to explain the expenditure in excess relating to the Health Directorate. The following overspends were reported then: Head of Expenditure, Recurrent, 23 – Health, expenditure in excess of £166,868; Head of Expenditure, Capital, 23, Health again, an expenditure amount of £16,800, however, due to the audit performed and further enquiries the overspends were amended as follows: Head of Expenditure, Recurrent, 23 – Health, expenditure in excess of £110,996; Head of Expenditure, Capital, 23 – Health, expenditure in excess amount of £72,821. Can the Director of Health explain the reason why his Directorate incurred expenditure in excess in both the recurrent and capital expenditures?

Dr Akeem Ali (Director, Health) –

Thank you. At the last session when we looked at the statement of expenditure we talked through the key challenges for the Health Service in that particular year which were mainly revolved around overseas referral, that explanation still holds. That's particularly because the overall figure of statement of expenditure in excess remains the same when you look at the previous record and the revised record today albeit allocated differently to recurrent and capital expenditure, so the overall explanation for the expenditure in excess of what was originally allocated remains entirely the same from our previous conversation. The only difference now is particularly regarding the capital allocation as recorded in the revised accounts which the Financial Secretary has just explained why that happened.

Deputy Chair –

Okay, can you remind us what those reasons were again in terms of what caused the overspend under the recurrent budget and then under the capital budget?

The Financial Secretary –

So effectively, Mr Yon, this basically reclassifies expenditure that had already occurred or that we had previously reported was coming in as recurrent expenditure into capital expenditure.

Deputy Chair –

Yes, I understand that has been re-appropriated or....

The Financial Secretary –

So there's three amounts, the three amounts, the three items that have been, to be covered as capital expenditure that should have been classified as capital expenditure is for the theatre tables, the training doll and a colonoscope, colposcope, sorry. They were for £33,000, £16,000 and £7,000 respectively.

Deputy Chair –

Okay, thank you. What caused the Directorate to record capital expenditure as recurrent expenditure?

Dr Akeem Ali –

I'm sure the Financial Secretary can give further details about how the audit process ensued, but generally it's always a tough one when it comes to medical supplies and I believe this particular year, based on historical records, actually those expenditure were already planned as part of the recurrent expenditure when they were first put on the rolling procurement plan.

The Financial Secretary –

So, as Dr Akeem has just said, in terms of what the Directorate should do, obviously they should be coding where possible to the correct code at the start of the process.....

Dr Akeem Ali –

Account code?

The Financial Secretary –

Accounts code, yes, on our main accounting system, so what we've found is as we've gone through the reconciliation process for the year end and looked at all of the assets that needed to be recognised we found that these three should have actually been capitalized and recognised as assets as opposed to gone through the overseas medical referrals budget as normal, general revenue expenditure.

Deputy Chair –

Where would this have been posted, would it have occurred in the Health Directorate itself or somewhere in Finance?

The Financial Secretary –

So initially it will be coded by the Directorate and then reconciliations should have picked up if you're doing it on a monthly basis, a reconciliation should have picked up that this should have been coded to capital expenditure.

Deputy Chair –

Okay, so what values determines whether it is capital expenditure or recurrent?

The Financial Secretary –

So SHG at the moment has a capitalization policy of £5,000, so any asset with a value over £5,000 is capitalized.

Deputy Chair –

So could this not have been identified at that point based on the value or values?

The Financial Secretary –

It could potentially have been done if you were looking at the checks and balances had been in place. Obviously, as I said before, we only really found this after we were doing the completion of the SHG Financial Statements for 16/17.

The Chairman –

So you talked about checks and balances it seemed they weren't in place, why weren't they in place?

The Financial Secretary –

I won't say they weren't in place. Well, what we should be doing, this is going back to the whole discussion we had earlier around resource implications, what should be happening is that we should be doing more regular reconciliations of the balance sheet of SHG, so we do a lot of focus goes into the actual revenue and expenditure, but we need a bit more focus on actually looking at balance sheet items, so in terms of looking at our assets, for example, that's one of those issues, so with our new management accounting function that we've just reinstated now that is one of their roles is to make sure that these reconciliations are carried out on a monthly basis going forward, so hopefully this will be a one-off event.

The Chairman –

Thank you.

Deputy Chair –

Okay, so how does this relate to what was budgeted for?

Dr Akeem Ali –

If I look at the historical statement of budget drafts that were made for that particular year, all of those various elements were already planned and they were on the rolling procurement plan and at that point they were expected to come from the recurrent budget and what the Financial Secretary is saying is entirely correct about, you know, post hoc auditing of accounts that, yes, you might decide based on policy that you want to put something as an asset because it's going to be on a code of treasured value. In medicine and medical supplies, it's always a very challenging one, you know, where you put as a physical fixed asset and where you put as part of recurrent operation. I've been holding public account budgets for health services for the last twenty-five years and every time we have this debate at the end of the year. Colposcope, which is one of the item here, yes, it's a machine is fixed you can see, but actually you use it on a recurrent basis, on a daily basis, it breaks you have to put parts in, you take parts out of it, so there's a big debate, you know, is it actually a fixed asset or is it actually an operational item. One of the other items here, which is a theatre table, whilst yes it is quite expensive and you can see it fixed, actually part of what was paid for with this money were parts to allow the theatre table to be adapted to be used for other purposes, so, you know, do you put it as capital or do you put it as recurrent. Again, those are possible debates that you can have on a day to day basis. My understanding was right at the beginning of the year when the budget draft was made, all these areas were part of the rolling procurement plan, they were

planned for, they were expected expenditure and some of them were highlighted as going to come from the recurrent budget during that initial stage.

Deputy Chair –

Okay. Financial Secretary, would you agree with that statement or that explanation that when it comes to medical, sort of, assets, they are classed differently or can be classed differently?

The Financial Secretary –

He's not saying they can be classed differently, they have, as Dr Akeem was saying that time, there might be circumstances when you have to decide when it needs to be classified or not, so putting aside what Dr Akeem is saying, so one of the things that we've done now, for example, in terms of for us to be able to tighten the process, is that when something goes on to the rolling procurement plan, as Dr Akeem mentioned that time, what we're doing now is trying to find a way to make sure that when it's registered on the rolling procurement plan and if it is for an asset, that we pick it up early on in the process to ensure that it is actually appropriated under capital expenditure as opposed to recurrent, so if you remember, the budget process at the moment, when we go to Legislative Council to approve the year's budget we only go to approve the recurrent element of that budget and what we were finding in some cases you have assets that have been included in the recurrent budget and we don't pick them up until we actually either get them on a rolling procurement plan or until we do these reconciliations as part of that process, so this is what we're trying to do now that if anyone's registering anything on our rolling procurement plan in terms of a procurement that's over £5,000 then more than likely we'll have an early warning system to be able to pick that up so it's classified in the right way and, you know, going back to my earlier point, this is all expenditure that should have been authorised through a supplementary appropriation process, but we didn't unfortunately get around to picking up these items before the end of that financial year.

Deputy Chair –

So could it not have been identified then at the point when it was budgeted for as being misallocated into the wrong classification?

The Financial Secretary –

And, again, going back to my point you could definitely have that argument that it should be looked at as a capital item rather than a recurrent item.

The Chairman –

I can understand, you're going to put in place an early warning system that will pick up the things that Dr Akeem mentioned and I can also understand that you may want to spend money in a different way than it was first intended, but at what stage then would the Director of Health then make that known to the Financial Secretary?

The Financial Secretary –

So normally the process would be when we do our first supplementary appropriation process, we go out to all the Directorates, we give them instructions as to, you know, give us a forecast in terms of how you plan to spend for the rest of the year and anything that needs to be moved around, so anything that was classified as recurrent previously you will find in year we have a number of reallocations from existing budgets which is recurrent but then moves into capital throughout the year when we find out more in terms of the specific items that are being purchased.

The Chairman –

Thank you.

Deputy Chair –

Okay, just going back to my previous questions, was there also a chance of it being picked up, or this transaction or these transactions being picked up when being posted to Access Dimensions, the accounting programme?

The Financial Secretary –

Yes, this is what we were saying before, so there's, again, there were, at the moment there's a process which you go to have it authorised, any expenditure going on to Access Dimensions has to be authorised in a certain way, so the Departments prepare a expenditure, what it is, daily expenditure returns, supplier return where it goes, they identify who the supplier is, how much is going to be paid and the details from there. However, because of the volume that is involved where we get a significant number of those on a daily basis for our team downstairs to be able to check every single transaction and makes sure it goes on to the system, sometimes, as I've said, we miss it if it is, they don't understand what it is specifically for capital and which is for recurrent expenditure, so that's in this case, for example, if we had had the details that these items were actually capital expenditure then they could have been reclassified at the point that they were put on to Access Dimensions.

Deputy Chair –

So what or is there any training given to staff then to identify differences?

The Financial Secretary –

It is, in terms of our staff, it isn't the issue that the staff don't know how to do that, as I said before it depends on the level of detail that you receive to be able to support the actual processing of that payment, to be able to determine whether it should be kept recurrent or capital.

Deputy Chair –

Okay. So going forward is there anything in terms of training that you will deliver to perhaps your staff in Finance as well as staff in the Health Directorate?

The Financial Secretary –

It won't be specific to the Health Directorate or to my staff, if we're doing training it'll be training and development across the board.

Deputy Chair –

But it seems that it's come through perhaps maybe three or four processes where it's not been picked up?

The Financial Secretary –

In terms of not being coded to the right place, you mean.....

Deputy Chair –

Coded, authorised, posted, and then reconciled?

The Financial Secretary –

This is authorised expenditure, this, to be clear, has been authorised, but what hasn't happened is that it hasn't been coded to the right place.

Deputy Chair –

But someone signs off the payment so.....

The Financial Secretary –

Yes, so at a Directorate level it will be whoever prepares it and then it's signed off by the Accounting Officer's delegate, whoever that might be and then it comes to us to be processed in terms of the payment and also put on to the system based on that payment process.

Deputy Chair –

Okay, how soon do you actually, I can't say reconcile, but how soon do you identify these issues?

The Financial Secretary –

Like I said, these ones would be related to the 16/17 financial year and was only picked up in the earlier part of this financial year as we were coming to the end of the process of finalizing the accounts for 16/17, but going back to my earlier point about now having the additional function in place, one of the things that we'll be doing is, as I said, is the monitoring of expenditure and the classification of expenditure on the balance sheet on a much more regular basis as it is or has been over the last couple of years where it's only done when we're doing the year end financial statements.

Deputy Chair –

Okay, thank you.

The Chairman –

Thank you very much. Councillor Clint Beard? No? Oh, okay, I had the wrong piece of paper. Well, thank you very much for that Dr Akeem....

Dr Akeem Ali –

Thank you, Chair.

The Chairman –

Sorry?

The Financial Secretary –

He said thank you.

The Chairman –

Oh, thank you very much. We're now looking at ENRD. Appropriate people to the table, please? Thank you, Mr Henry and Mrs de Wet, of course I know who you are, but would you please identify yourselves for the record?

Mr Derek Henry –

Okay, Derek Henry, Director of Environment and Natural Resources.

Rihanna de Wet –

Rihanna de Wet, Chief Planning Officer.

The Chairman –

Thank you very much and Councillor Clint Beard will lead on these questions.

Councillor Clint Beard –

Good afternoon. In January 2018, the PAC called you to explain the expenditure in excess relating to ENRD the following excesses which were reported: Head of Expenditure – Recurrent 26, ENRD

Expenditure in Excess - £133,555. However, due to the Audit performed and further enquiries the explanations provided in the initial PAC formal meeting changed. Can the Director of ENRD explain the reason why his Directorate incurred expenditure in excess in the recurrent expenditure?

Mr Derek Henry (Director, ENRD) –

Okay, I think the Okay, so these were for the purchase of tools, the Airport Meteorological Forecasting Services, employee costs associated with works carried out by the Roads Section for Connect St Helena, upgrade work at the wharf, provision of animal feed during drought period to farmers, upgrade of sewer lines, travel costs for the Civil Engineer, specialist equipment for GIS and Rockguard operations and the purchase of a replacement reefer container.

Councillor Clint Beard –

Okay, thank you. Why was the provision of animal feed during the drought not charged to the animal husbandry fund?

Mr Derek Henry –

It wasn't charged because the criteria for the funding support didn't actually support this particular venture, so, in other words, it didn't meet the criteria for that fund.

Councillor Clint Beard –

Can you elaborate on that criteria?

Mr Derek Henry –

Okay, so the criteria for the animal husbandry fund consists of two components, one of those is for lands so it will fund lands in relation to the purchase of fencing materials to improve sub-dividing for the purpose of rotational grazing, it's also provided to fence any area that the lease decides unsuitable for grazing and should be rehabilitated and also to assist with the planting of fodder species, either by digging holes or planting or purchasing of the planting materials and the other part of that criteria is to do with animal breeding, so it's funding for improving breeds of animals, to purchase sires to improve bloodlines of animals and also to purchase semen for AI to improve the bloodline of farm animals.

Councillor Clint Beard –

Thank you.

The Chairman –

Satisfied?

Councillor Clint Beard –

Yeah.....

The Chairman –

Okay, any further questions for Mr Henry? No? Then thank you Mr Henry and we will move on to the next set of questions and they will be around the St Helena Hotel Development Limited, so relevant officials, please come to the table.

4.**ST HELENA HOTEL DEVELOPMENT LIMITED**

The Chairman –

Thank you very much. Once again, I know who you are, but for the record could you please identify yourselves, introduce yourselves?

The Financial Secretary –

So, Dax Richards, but this time in my capacity as a Director of SHHD.

The Chairman –

Well, thank you for that, yes.

Mrs Susan O’Bey –

Susan O’Bey, Director for St Helena Hotel Development Limited.

The Chairman –

Thank you. The Chief Auditor’s report, I beg your pardon; I got the wrong set there. The St Helena Hotel Development Accounts for 2016/17 have been audited by the St Helena Audit Service and are referred by the Chief Auditor for PAC scrutiny. It is now the business of this Committee to take evidence on matters revolved, reported in the accounts and we will start with questions from Deputy Chairman, Mark Yon.

Deputy Chair –

Thank you, Chair. The financial statements for the year 2016/17 report the Company financial results with an unqualified opinion from the Chief Auditor. Were there any matters of significance raised in the Auditor’s Management Letter to the Board?

Mr Dax Richards –

I think it will be down to your interpretation of the significant matters raised by the Chief Auditor, but in my opinion there’s no significant matters that are raised by the Chief Auditor.

Deputy Chair –

Thank you, that’s fine. Thank you.

The Chairman –

The Director’s Report on page 2 shows the four Directors serving for the period together with the statements of the Directors responsibilities. What is the composition of the Board of Directors?

Mr Dax Richards –

So currently we have three members of the Board of Directors, so you have myself, Susan O’Bey and also Paul McGinnety who will be a Director until the end of this month.

The Chairman –

Alright, thank you for that. How did that composition change from overseeing hotel construction through to overseeing hotel operations?

Mr Dax Richards –

So at this point in time we realised that it is obviously a change so one of the things that we have been doing, and I think it’s one of the previous recommendations, is a skills audit of the current composition of the Board with a view to restructuring the Board and that is likely to take place with effect from June 2018.

The Chairman –

You mentioned skills there; does the Board have the necessary skills to be able to discharge its oversight and governance responsibilities?

Mr Dax Richards –

So, as we said before, one of the things that we've just recently done is a skills audit of all of the skills that we require and obviously there are, with only three members left now, there are some gaps so that's why we are trying to broaden the remit of the Board of Directors in terms of bringing on people with the right skills to be able to take it from what was basically a project now to the actual operational phase of being a hotel.

The Chairman –

Alright.

Mrs Susan O'Bey –

And also, sorry, Mr Chair, to be able to carry out the specific remit from Executive Council now, which, of course, is the exit strategy.

The Chairman –

And you may have touched on this already, thank you for that, you may have touched on this already, but has the review of the SHHDL Board structure been reviewed as proposed with effect from April 2018, previous PAC recommendation refers to this?

Mrs Susan O'Bey –

That is actually in trend at the moment and they're finalizing that piece of work during this week actually.

The Chairman –

Okay, thank you for that. How has the administration or administrative functions of the Board been serviced? Is there a Company Secretary or similar?

Mr Dax Richards –

So we do not have a formal Company Secretary, however, we do have an Assistant that supports the Board of Directors in terms of for Minutes and also for monitoring of our finances as well.

The Chairman –

So you don't actually have a Company Secretary?

Mr Dax Richards –

We don't have a formal one at the moment; however, as I said before, we are reviewing doing a complete review of the Board structure which will see a Company Secretary take on the role in the not too distant future.

The Chairman –

Thank you, I don't have any other questions in this regard, I call on Councillor Clint Beard.

Councillor Clint Beard –

The Statement of Financial Position and related Note 7 shows the total value of assets under construction as at 31 March 2017 is £3.019m. Note 2 indicates, that included in work in progress is the land and buildings at 1,2&3 Main Street transferred to the Hotel Company in the amount of

£601,210 – how was that transfer value, for land and buildings determined?

Mr Dax Richards –

So the value was done by the then Head of Property who actually came up with the valuation of the building and the land element.

Councillor Clint Beard –

Can you confirm who that was?

Mr Dax Richards –

It would have been Rob Bryson, yes.

Councillor Clint Beard –

Okay, thank you. I've got another one.

The Chairman –

Yes, you have a further question there. Dr Corinda Essex, you want to intervene?

Councillor Dr Corinda Essex –

When will the hotel and land be revalued?

Mr Dax Richards –

Say that again, sorry?

Councillor Dr Corinda Essex –

When will the hotel and the land be revalued?

Mr Dax Richards –

So, as part of the process we talked about earlier this morning where we're looking at value in our strategic assets in terms of the airport, the wharf and also our roads, in order for us to get good value for money from doing that piece of work we also wanted to do a valuation of the hotel and Bertrand's Cottage at the same time, so it's included in that piece of work.

Councillor Dr Corinda Essex –

And if, for the resource constraints that we discussed this morning, it's not possible to actually engage a Valuer what's the Plan B again in this instance, because obviously the valuation will have a bearing on the exit strategy?

Mr Dax Richards –

Yes, so we are in discussions also at the moment with Enterprise St Helena who are also looking to value Bertrand's Cottage for the very same reason as you just said that time, Councillor Essex, and the way we've structured the procurement we've done it in two lots, so Lot 1 being the SHG strategic assets and Lot 2 being the commercial assets that sits outside of the SHG, so being the hotel and also Bertrand's Cottage, so we're hoping that that will have a lower cost attached to it and also that there might be the possibility of it being financed from Enterprise St Helena.

Councillor Dr Corinda Essex –

What's the timescale for that?

Mr Dax Richards –

So we're in the middle of the procurement process right now.

Councillor Dr Corinda Essex –

So in rough terms are we talking six months, twelve months, eighteen months?

Mr Dax Richards –

From our perspective this needs to be done as urgently as possible.

Councillor Dr Corinda Essex –

Thank you.

The Chairman –

Thank you, Dr Corinda Essex. Councillor Beard?

Councillor Clint Beard –

Note 11 to the accounts shows the Company had loan finance of £1.0m backed by a guarantee from SHG and a further £1.3m loan in Note 17, secured against the property under construction giving total borrowing of £2.3m. Is that the total borrowing by the Company or has there been any more since?

Mr Dax Richards –

There has been more since, yes.

Councillor Clint Beard –

Can you elaborate?

Mr Dax Richards –

So there is a loan also of £0.05m (half a million pounds) from the Bank of St Helena.

Councillor Clint Beard –

Is that all?

Mr Dax Richards –

Yes, and we are working with Enterprise St Helena now to convert a short-term loan that we had into equity.

Deputy Chair –

You said that you're in discussions with ESH you said?

Mr Dax Richards –

Yes, with the Board of ESH.

Deputy Chair –

Okay. What sort of loan was that?

Mr Dax Richards –

It was a short-term loan at some time, that would have been last year, to bridge the difference, the period when we were waiting on the final loan to come through from the Bank of St Helena, so when we had that £1m that was guaranteed by SHG and they was also waiting on the loan for the £1.3m to be approved, ESH provided some bridge funding to, in terms of filling the cash flow right up until such time that the loan was approved and they've agreed, the Board have agreed to convert that into equity.

Deputy Chair –

So, okay, because there's a note, also a Note 11 under loan, because it says the Company had a working capital loan with Enterprise St Helena and the loan was repaid in full on 7th July 2016?

Mr Dax Richards –

Yes, that's correct.

Deputy Chair –

That would be the same loan?

Mr Dax Richards –

That is a different loan.

Deputy Chair –

That was a different loan? How was that actually repaid, how was that financed?

Mr Dax Richards –

By cash, so it was taken from the loan that we had from the Bank of St Helena to repay it.

Deputy Chair –

Okay, thank you.

The Chairman –

Councillor Beard, you have some further questions I think you want to ask?

Councillor Clint Beard –

I just want to go back to the previous one. What is the value of the ESH?

Mr Dax Richards –

The loan was for £175k.

Councillor Clint Beard –

Thank you. The company is now financed more by long term debt at £2.3m than share capital at £2.1m, what is Management's plan for servicing this debt?

Mr Dax Richards –

So there's a, in terms of servicing the debt, at the moment we're hoping that the activities of the hotel once it's fully operational and we can get the occupancy levels up, will be able to support the servicing of that debt, but one of the other things that we're looking at, and a paper is about to go to ExCo soon, looking at options for raising finance for the hotel and about potentially rebalancing the debt equity ratio going forward.

Councillor Clint Beard –

How is the occupancy rates been, how has the occupancy rates been?

Mr Dax Richards –

It's been low, by all terms, not only in this hotel, but across the whole of the sector.

Mrs Susan O'Bey –

With the exception of the Christmas period, where the occupancy rates were favourable.

Deputy Chair –
Can I come in here with something?

The Chairman –
Yeah.

Deputy Chair –
How favourable would that have been, can you give a percentage of occupancy?

Mr Dax Richards –
So occupancy, over the months where really occupancy was at the highest was in January and February, December was okay, but in order for the hotel to operate it has a minimum occupancy level that would be useful, obviously I know what your next question gonna be, but we're unable to meet those occupancy levels at this point in time.

The Chairman –
What did you say is the minimum level?

Mr Dax Richards –
I didn't say what the minimum level is.

The Chairman –
Will you say, can you say?

Mr Dax Richards –
Well, we estimate it to be around about 50%.

Deputy Chair –
So in terms of being favourable occupancy over December to February....?

Mrs Susan O'Bey –
It was around about that.

Deputy Chair –
Around about 50% each month?

Mr Dax Richards –
The January and February, yes.

Deputy Chair –
So when you say 50%, what room occupancy is that?

Mr Dax Richards –
Sorry, what?

Deputy Chair –
How many rooms are actually taken at that point?

Mr Dax Richards –

There's thirty rooms, so 50% occupancy would be half the bed nights available rather than the rooms, because that's what it's based on, bed nights.

Deputy Chair –

And was that primarily based on visiting tourists or was it local uptake as well?

Mr Dax Richards –

It was a combination of all three, I would say, visiting tourists, local uptake, but also the business community as well who have used the facilities.

Deputy Chair –

Thank you.

Councillor Clint Beard –

I think it is good news that Jan and Feb had a good percentage rate. With a period coming up, how do you plan to, it seems that we're not sure how the periods will be, but it seems that we're into a bit of a lowest period now, how will those affect the numbers within the hotel?

Mr Dax Richards –

I think they will affect, not only the numbers within this hotel, but it will affect the numbers across the board, so, yeah, I think we are in for some difficult times ahead, especially the next six to eight months. Things look good again when the high periods come, which is from December onwards, so we have to come up with options for how we're going to cover all the finance that is required for that period of time.

Councillor Clint Beard –

Have you come up with any options?

Mr Dax Richards –

A paper is going to Executive Council within the not too distant future.

Councillor Clint Beard –

Okay.

The Chairman –

Is sufficient, do you think, being done to encourage more people to come and stay in the Mantis Hotel?

Mr Dax Richards –

I think like all of the other organisations there will be a significant amount of marketing that's going on behind the scenes, you know, the whole reason why we brought Mantis on as our strategic partner in this was to have access to all of their marketing networks and also now with the merger with Accor hopefully that will broaden again our reach and the problem is though what we're gonna do over these next eight months, the difficult period of being able to convert some of those interests into firm bookings in this difficult period between now and then.

Mrs Susan O'Bey –

I think, if I can just add to that as well, it was always recognised that given the very short lead-in time in terms of announcing the air service that there would be difficulties, because for most tour operators at least a year lead-in time is required, but, of course, in addition to the Mantis marketing we're also fortunate to be a part of, to be in a position, if you like, to be able to work with Tourism and also to take advantage of the marketing that they are currently carrying out.

The Chairman –
Dr Corinda Essex?

Councillor Dr Corinda Essex –
Are the Directors monitoring the efforts of Mantis and other organisations to actually market the hotel?

Susan/Dax –
Yes.

Councillor Dr Corinda Essex –
Is there any recommendation that's going to be made as to how this could be increased?

Mr Dax Richards –
Recommendation from ...?

Councillor Dr Corinda Essex –
From the Directors as to how the marketing effort can be increased?

Mrs Susan O'Bey –
We work very closely with the Mantis marketing arm and the Managing Director, on behalf of the, sorry the Manager of the Hotel, on behalf of the Directors, communicate our ideas and our thoughts and our comments back to the Mantis marketing.

Councillor Dr Corinda Essex –
Because I must state that I do not think that what they're producing now is as much as perhaps could be produced, obviously everything has cost implications and so on, but I've looked at their sites online, for example, and I'm frankly rather disappointed with the level of marketing that has actually been given to 1 2 3 Main initiative, so perhaps the Directors could emphasise the importance or re-emphasise the importance of increased marketing, particularly in the potentially slack periods.

Mrs Susan O'Bey –
Yes, certainly.

The Chairman –
You say that you've entered into a partnership with Accor, how is that going to help Mantis Hotel?

Mrs Susan O'Bey –
I think Accor hotels are a wide organisation, so it means that our exposure is increased, not only through Mantis, but also through their marketing arm as well and going forward we're hopeful that potentially we might be able to gain significant benefits, if you like, from that partnership.

The Chairman –
What kind of benefits are you talking about?

Mrs Susan O'Bey –
We would hope that there could be the potential for equity going forward, but, of course, we have to have those discussions.

The Chairman –
Okay.

Councillor Dr Corinda Essex –
When will you be anticipating having those discussions?

Mrs Susan O’Bey –
That will be a part of the wider strategy that we’re implementing in terms of equity, so it would be a part of that piece of work.

Councillor Dr Corinda Essex –
Just remind me of the timeframe for that, please?

Mrs Susan O’Bey –
That will be the remit of the re-constituted Board, so it will be during this financial year.

Councillor Dr Corinda Essex –
So the re-constituted Board is supposed to be, hopefully, in place by ?

Mrs Susan O’Bey –
The end of May, we’re saying by the beginning of June, sorry.

Councillor Dr Corinda Essex –
So presumably they would then move fairly swiftly to address these issues?

Mrs Susan O’Bey –
Yes, that’s going to be the key priority for the newly-formed Board.

The Chairman –
Thank you.

Councillor Dr Corinda Essex –
Have terms of reference been developed?

Mrs Susan O’Bey –
Yes, they are actually in the process of being finalised, so I can say that, yes.

Councillor Dr Corinda Essex –
Thank you.

The Chairman –
Clint?

Councillor Brian Isaac –
I was quite surprised to hear of the last £0.05m loan, was Legislative Council made aware of this transaction?

Mr Dax Richards –
Legislative Council wasn’t required to approve any transactions, Councillor, so the Executive Council was the ones who advise the Governor and so Executive Council was made aware.

Councillor Brian Isaac –

Thank you.

Councillor Clint Beard –

Thank you for all the feedback thus far. In Note 12 explains that the Hotel has authorised share capital of 10m with 2.1m issued to SHG in exchange for £1.5m in cash and £0.6m in property. If the entire share capital was issued this would give an implied valuation of £10m on the Company, is this correct?

Mr Dax Richards –

The implied valuation of the Company - sorry? The implied valuation will be done when we actually get a valuation done of the Company itself, of the hotel itself, will give us an indication of what the value of those shares are likely to be worth going forward.

Councillor Clint Beard –

And that you said will be done

Mr Dax Richards –

As part of the exit strategy for SHG and also for raising finance for the hotel one of the things that we will be looking at is issuing of further equity which would call on the rest of that £10m shares or proportion of it.

Councillor Clint Beard –

Regarding the unissued share capital – what are the intentions in regards to issuing these shares?

Mr Dax Richards –

I just answered that that time, Councillor.

Councillor Clint Beard –

You did?

Mr Dax Richards –

Yes.

Councillor Clint Beard –

And has there been any further issues of share capital since the close of the 2016/17 accounts?

Mr Dax Richards –

So it hasn't been finalised yet, but I mentioned before there's a transfer of or a conversion of a short-term loan with ESH into equity which will see a issue of another 184,000 shares.

Councillor Clint Beard –

Thank you.

The Chairman –

Thank you for that. No further questions in that regard we move on to Mark Yon, you have some questions?

Deputy Chair –

No, it would be Brian Isaac, Sir.

The Chairman –

Oh yes, Brian, Brian Isaac?

Councillor Brian Isaac –

Thank you, Mr Chairman. Note 15 to the accounts explains the Company signed a contract with AGMAC in the amount of £2.05m to construct and outfit the Hotel, was that the final contract amount?

Mr Dax Richards –

No, it wasn't, so the original contract sum with AGMAC was, as you say, £2.05m and the final amount to build the hotel from the AGMAC contract perspective was more like £2.75m.

Councillor Brian Isaac –

How much has been paid to AGMAC thus far?

Mr Dax Richards –

Sorry, say that again?

Councillor Brian Isaac –

How much has been paid to AGMAC thus far?

Mr Dax Richards –

I just said that time, £2.75m.

Councillor Brian Isaac –

That's the final?

Mr Dax Richards –

Yeah.

Councillor Brian Isaac –

Okay, thank you. What variations were agreed to this contract price?

Mr Dax Richards –

So there were a number of variations, I don't have them all in front of me, Councillor, however, there were a number of variations that contributed to the additional cost, there was also the deterioration in the foreign exchange so the difference between the South African Rand which was pegged at 21.5 when we signed the contract and it was hovering at between 16 and 17 for pretty much the last nine to ten months of the contract and in addition to that, as I said before, I think I mentioned that it was also the knock-on impact of the programme as a result of the two cancelled RMS voyages.

Councillor Brian Isaac –

Did the St Helena Hotel Development Limited kick forward a foreign currency hedge on the bill of quantities at the rate of the 21 stipulated?

Mr Dax Richards –

No, we did not.

Councillor Brian Isaac –

Why is it then that, why did a hedge was not taken?

Mr Dax Richards –

Because we didn't have the funding to buy at that stage because we were still going through the process of getting approval for the loans.

Councillor Brian Isaac –

A deposit of £165k was made for equipment, what procurement processes were followed in buying the hotel equipment to ensure that the best price and quality were achieved?

Mr Dax Richards –

So this part of the process was outsourced to our contract managers who were Mantis Development at that time, so they were responsible for delivering the value for money on the kitchen equipment and all of the other equipment that was bought for the hotel.

Councillor Brian Isaac –

What was the eventual cost of the equipment?

Mr Dax Richards –

I don't have the exact detail here in front of me, but I can say, for example, that in total the Hotel comes to over £5m.

Councillor Brian Isaac –

Was it within the price originally quoted?

Mr Dax Richards –

Which parts specifically, the hotel as a whole or the equipment?

Councillor Brian Isaac –

The equipment.

Mr Dax Richards –

The equipment, they came in within the budgets that were available.

Councillor Brian Isaac –

No further questions, Mr Chairman.

The Chief Auditor –

I wonder if I could, thank you for that session there on those extra questions from Councillor Isaac, but I think just for the purposes of the record, it would be very helpful if I could ask Directors just to clarify the situation around the loans as compared to the share capital and I think this was simply if I could just ask Directors just to clarify this point it'd be very helpful. So in the questioning, there was the new loan of £500k from the Bank of St Helena, yes, that's still in place, yeah. And prior to that there was a short-term loan from ESH for the purpose of working capital. That short-term loan was fully repaid.

Mr Dax Richards –

The original short-term loan was fully repaid, yes.

The Chief Auditor –

Right. So that was the one that Deputy Chair, Mr Yon, mentioned just now, yes, in his questions. Did you say then there was a further loan from ESH?

Mr Dax Richards –

Yes, it was a further bridging loan of £175k.

The Chief Auditor –

Yes, so in terms of converting loan to equity in respect of ESH, did you say 684 or 184?

Mr Dax Richards –

184.

The Chief Auditor –

184 and that is.....?

Mr Dax Richards –

And that is the loan amount plus the interest.

The Chief Auditor –

Essentially the loan plus rolled up interest, yeah?

Mr Dax Richards –

Yes, that's correct.

The Chief Auditor –

At 175, yeah? Okay, so there was essentially two short-term loans from ESH, the first one repaid and then another one drawn, yes? Okay. Chair, thank you for that, it's just so that when we get to the record we can follow that one through.

The Chairman –

Absolutely important and before I ask Mark Yon to ask some more questions, just on your response, just for clarification on your response to Brian Isaac about the, what was the eventual cost of equipment, you said over £5m, that was....?

Mr Dax Richards –

The cost of the hotel overall.

The Chairman –

The cost of the hotel that was.

Mr Dax Richards –

That includes the buildings, includes the construction contracts and also the equipment, the fit out and the pre-opening period.

The Chairman –

Thank you for that clarification. Mark?

Deputy Chair –

Based on the previous response, the hotel was constructed to South African Building Standards which are superior to the current St Helena Building Regulations, how is the quality assurance comparable to UK standards?

Mr Dax Richards –

Mr Chair, is it okay if I ask the Chief Planning Officer and also the Director of ENRD to join us because I don't have the skills to be able to answer these questions?

The Chairman –

By all means, please come to the table.

Deputy Chair –

Would you like me to repeat that question?

The Chairman –

Yes please, Mark, do that.

Deputy Chair –

Okay. My question is how is quality assurance comparable to UK standards? So, the South African to the UK standards.

Chief Planning Officer (Mrs de Wet) –

Thank you very much. The South African standards are actually, the St Helena standards are inferior to the South African standards, so, in other words, by using the South African Regulations we were really effectively at the higher standard than what you would have been with the Building Regulations of St Helena.

Deputy Chair –

Yes, but how do they compare with the UK standards?

Chief Planning Officer –

I would say the South African standards possibly is a little bit lower than the UK standards, but in this case we have to remember that all material, plus the contractor was from South Africa, so it would have been, sort of, difficulties by trying to apply the UK standard on a project that is basically based on the South African advisers.

Deputy Chair –

But are there building codes that are very similar or could be demonstrated that they are equivalent to the UK comparisons or standards, sorry?

Chief Planning Officer –

There are definitely codes that are very similar and so, you know, we feel confident that by using the SA ? standard we actually made the, I, I, achievable and a good standard for St Helena.

Deputy Chair –

Did you want to say anything, Derek?

Mr Derek Henry (Director, ENRD) –

No, nothing to add.

Deputy Chair –

Okay.

The Chairman –

Just before Mark carries on, you say that South African Building Standards are superior to the current St Helena Building Regulations, can that be tested anywhere? Where is that published?

What report can I look at to have some confidence that what you are saying is correct?

Chief Planning Officer –

We have not published anything like that, but, I mean, we have both standards in the Office and we work with them regularly, so in that sense, we are confident, from a technical point of view, that the South African standards can actually live up to this task, but we don't have anything published specifically.

The Chairman –

So are you going to publish a report so that the St Helena public can be confident in what you're saying?

Chief Planning Officer –

We can have a report prepared like that.

The Chairman –

Are you going to?

Chief Planning Officer –

Yes.

The Chairman –

When are you going to do that?

Chief Planning Officer –

We can do that as soon as possible.

The Chairman –

Well, in terms of, I mean, this morning I was arguing about what is a couple and what is several and so on, in terms of as soon as possible, what are you saying?

Chief Planning Officer –

No, okay, what I can say as well, remember, we've just prepared a new set of Building Regs for St Helena, now that is a draft, it will go on public review very, very soon. At the moment it's with ExCo and with other committees to evaluate, but whilst we were doing that we actually looked at and referred back to the UK standards as well as the South African standards, so we've done quite an in-depth study in the Office currently comparing the two standards with one another, so will undertake this as soon as possible in the Office to do, you know, give a little bit more feedback as to how the South African standards and the UK standards actually compare with one another.

The Chairman –

Okay...

Chief Planning Officer –

We do acknowledge that the UK standards are very high and if we have to implement this directly on to the island it would probably be very complicated for large buildings.

The Chairman –

Alright, thank you, and once again before inviting Mark to carry on with his line of questions, is there going to be a boost of the St Helena Regulations to be able to bring them up to the required standards, so that we don't have to employ maybe overseas contractors in the future?

Chief Planning Officer –

The idea was to actually upgrade the St Helena standards to a point where it is significantly more improved than what we currently have, but our aim was all along also not to take it to a level where it becomes complicated for builders on the island and for constructors given we don't always have access to the material, we don't always have access to the expertise and so with an island. For larger scale developments such as Mantis or the Airport or whatever we bring in the Euro codes which has never been written into our previous Building Regulations. In other words, that will then be measured against the Euro codes in cases where we have a significant development.

The Chairman –

Thank you for that, that clarification has come through. Mark?

Deputy Chair –

Thank you, Chair. I think I'll put this question to the Chief Planning Officer again, how involved were you in the construction phase of the Mantis Hotel?

Chief Planning Officer –

I unfortunately came in a little bit at the end phase, so I wasn't involved in initial plans as to, first of all, incorporating the SANS and having a South African contractor and that type of thing, but the Mantis development was quite transparent right from the beginning, so I often was asked to come out to site and peruse whatever they're busy doing there. We obviously didn't do stage inspections from a building perspective point of view because it wasn't done under the Building Regulations of St Helena, but, like I say, it was all very transparent right from the beginning. We have certified maps and plans from all the various contractors, the engineers, the structural engineers, the architects, it's all certified and we also have certified as build drawings as well, so we've made sure before we signed off and the occupancy certificate was given that we have it all signed off here, so, in other words, all the different contractors remain responsible for their designs and AGMAC remain responsible for a period of time after the construction has been finalised.

Deputy Chair –

Okay, so, going back to your involvement then, am I right in saying there were self assurances by Mantis in terms of the construction?

Mrs Susan O'Bey –

Just to add to that as well is that people who were involved in the planning and so on were also designated as approved, competent people by St Helena Government.

Deputy Chair –

And who might that have been?

Mr Dax Richards –

Tim Gruber.....

Deputy Chair –

Sorry, can you repeat that?

Mr Dax Richards –

Tim Gruber, Penelope Murray and also Andreas Straus.

Deputy Chair –

Were they all....

Mr Dax Richards –

They were all off island.

Mrs Susan O’Bey –

They were all issued as approved, competent persons for this particular work in relation to that particular section on the decision notice, so it was one of the requirements of the decision notice that we actually identified people to become approved and they were approved in November 2016.

Deputy Chair –

Okay, so back to my question then, the self assurance process, Mantis had someone, an official signing off different stages of the project, how involved was the Chief Planning Officer in that process?

Chief Planning Officer –

I was not very involved with that. Who was involved was the Chief Engineer at the time, which was at first Paul Broth and then later on in the absolute final stages it was David Goodrick.

Deputy Chair –

In the capacity as?

Chief Planning Officer –

Chief Engineers.

Deputy Chair –

Chief Engineer, okay. So what is your opinion of the quality of the products that we used to construct the hotel? So in terms of grading, would you say the products were of a high value quality?

Chief Planning Officer –

This is probably a little bit of a technical question for myself because, like I say, the Chief Engineer was very much more involved with that, but we have considered it together, we’ve had various meetings together and in his opinion it was of high quality and of high standard.

Deputy Chair –

Thank you. My next question is can you remind us when the occupancy certificate was issued by the Building Authority?

Chief Planning Officer –

It was, the occupancy certificates was issued on 4th October 2017.

Deputy Chair –

And does that take into account all of the processes that had to be met?

Chief Planning Officer –

Absolutely. We had a list of objectives that proves that we had to receive from the client and which they’ve delivered so I’ve got them all here in a file, there’s a whole list here that I can make available as well and then the Director of ENRD signed off on behalf of.

Deputy Chair –

Okay, so these sort of objectives then, they would have related specifically just to the building being passed or also would it have related to the building being of a four star composition or was that a separate process determining the four star process was met?

Chief Planning Officer –

Yeah, now that was a separate qualification.

Deputy Chair –

Okay. Have there been any issues arising since issuance of the occupancy certificate?

Mr Dax Richards –

In what respect, do you mean in terms of snags?

Deputy Chair –

Yeah, so in terms of any defects?

Mr Dax Richards –

Yes, there have been some that have been identified by the management of the Hotel.

Deputy Chair –

Okay, can you elaborate on that, what were they?

Mr Dax Richards –

I don't have all the details in front of me, but those that have been identified have been dealt with appropriately.

Deputy Chair –

Can you tell us, an indication of what areas this might be in?

Mr Dax Richards –

I don't have that detail in front of me, no. I'd be happy to find a recent list and provide it to members.

Deputy Chair –

Would the defects then be down to poor workmanship, being that it's only operating a few months after receiving the Building Certificate?

Mr Dax Richards –

I think you would always expect to have some snagging at the start of a project, but I don't have the technical capacity to be able to say whether they're down to poor workmanship or not.

Deputy Chair –

Do you know if there were any testing, say, for example, of the plumbing and drainage in those areas like would be expected?

Mr Dax Richards –

I believe there was, yes.

Deputy Chair –

Okay. What retention sum is held, sorry, I'll just let Clint come in with a question first.

The Chairman –
Clint, please?

Councillor Clint Beard –
Who's dealt with the snags?

Mr Dax Richards –
The management of the hotel.

Councillor Clint Beard –
Have they got er.....

Mr Dax Richards –
They have obviously gone out and got the appropriate people to actually fix anything that needs fixing, but in terms of organizing and arranging it that's the management of the hotel who's been doing that.

Councillor Clint Beard –
So the construction company that has done the building works they're not involved in doing any repair work?

Mr Dax Richards –
Not necessarily. These aren't major failures at the moment, they're, as I said, they're snags basically.

Councillor Clint Beard –
Thank you.

Deputy Chair –
Okay, my question is, what retention sum is held by St Helena Hotel Development Limited as a warranty for remedial works?

Mr Dax Richards –
So when we did the contract the contract had a retention amount of 5% which was released on the completion and the handing over of the property to SHHD, so when it was actually handed over to us, so every single payment certificate that would have been paid would have had a retention of the 5% and then that would have only been paid over to the contractor once the Hotel had been handed over to SHG, the SHHD.

Councillor Dr Corinda Essex –
So what provision is there for defects that weren't identified at handover, but which have come into play very shortly after the handover period, was there no warranty period?

Mr Dax Richards –
So we're in discussions at the moment with the Contractor about one or two items, however, there was a warranty period, but it was only for a period of three months after the official opening of the hotel.

Councillor Dr Corinda Essex –
Why was it given such a short warranty period?

Mr Dax Richards –

In terms of the contractual negotiations that went on at that time that was the term that was agreed with the contractor for the price that was made available to build a hotel.

Councillor Dr Corinda Essex –

So if there had been a longer warranty period that would have inflated the price?

Mr Dax Richards –

Quite possibly it would have.

Councillor Dr Corinda Essex –

You say quite possibly, was it made clear whether it would or wouldn't have?

Mr Dax Richards –

It wasn't made clear whether it could or couldn't have, yes.

Councillor Dr Corinda Essex –

It wasn't made clear?

Mr Dax Richards –

Well, in terms of the discussions, there's no document that will say it will cost you more if you had a longer warranty period.

Councillor Dr Corinda Essex –

So why then wasn't a longer warranty period specified?

Mr Dax Richards –

As I said, as part of that negotiations, the three months was the period that was agreed in terms of the warranty period after the opening of the Hotel.

Councillor Dr Corinda Essex –

Was SHG confident that that was an adequate warranty period for a construction of that type, particularly one which involved the renovation of an old building?

Mr Dax Richards –

I can only say that that was, it was the, as I mentioned before, it was the warranty period that we agreed on, on the basis of being able to get the contract over the line for the limited budget we had available at that time.

Councillor Dr Corinda Essex –

I'm afraid I'm a bit confused by that because it appears that there wasn't any actual statement given that a longer warranty period would have necessarily led to a bigger budget.

Mr Dax Richards –

I said that there wasn't any written evidence to that effect; I didn't say that there wasn't any discussions around

Councillor Dr Corinda Essex –

Any discussions around that.

Mrs Susan O'Bey –

It certainly came in as part of the discussions, but as Dax says, there's no written evidence of that.

Councillor Dr Corinda Essex –
Okay, thank you for the clarification.

The Chairman –
Thank you.

Councillor Clint Beard –
With the extent of the building, the construction and the, well, it's a considerable cost and, again, I'm just gonna follow on, I still can't see three months being a sufficient period of hold back to make sure that all the works are properly functioning and I think with a contract of that kind of value I think, and with a construction company workmanship there should not have been any issues around allowing a longer period of holding so that they could fix remedial work.

Mr Dax Richards –
That's a statement, but I can't argue with you on that, Councillor, but it's not a question.

Councillor Clint Beard –
So I was just battling to see three months being sufficient.

Deputy Chair –
Okay, still on the subject of the remedial works or the retention sum, Note 2 indicates an amount of £102,500 in retention fees, is that the total retention money?

Mr Dax Richards –
I think the total retention amount, and I will need to go back and have a look, I don't have that figure in front of me, but I can provide you with the total final retention sum that was paid to AGMAC, but that would have been around about that figure of just over a £100,000.

The Chairman –
Thank you, we will accept that.

Deputy Chair –
Now, at last year's PAC formal session in April Mrs O'Bey, she advised that, sorry, I might be wrong, sorry, Mr Richards advised that you will have a contractor on island who can actively carry out maintenance that needs to be done, is that still in place or is that something that the Hotel has now adopted?

Mr Dax Richards –
So now what they've done is they've engaged one of their employees who actually does the majority of the maintenance, there's two employees actually, who do the majority of the maintenance on site, so they didn't retain the services of someone who was involved with the construction, however, the two gentlemen that are actually there at the moment they were actually part of the actual project and they do the maintenance function.

Deputy Chair –
But they were not the initially marked people?

Mr Dax Richards –
They weren't the initial earmarked people, no.

Deputy Chair –

Okay, so what happens then when there's something they can't manage, for example, if there's the air conditioning that needs to be done?

Mr Dax Richards –

Then we have to go out and buy that services in like the rest of the private sector would have to do.

Deputy Chair –

So there's a limit on what support those maintenance personnel can provide?

Mrs Susan O'Bey –

It's general maintenance, but, of course, always with specialist areas then we wouldn't find a generalist who would be able to obviously deal with all of the specialist requirements.

Deputy Chair –

Okay. Thank you, Chair.

The Chairman –

Okay and we move over to Number 8, yeah, Clint Beard?

Councillor Clint Beard –

Thank you. Note 17 reports that the Hotel officially opened on 1st November 2017 after a short pre-opening period, the Company has entered into a management contract with Mantis Collections to operate and manage the Hotel on behalf of the Company for a period of 10 years. SHHDL is contracted to pay a fixed management fee of £50,000 to Mantis per year for the first 3 years. How is this going to be financed and at what intervals will payments be made?

Mr Dax Richards –

So it has to be financed from the activities of the Hotel and in terms of the intervals of the payment there's no set date in terms of when those payments have to be made and so far, for example, we haven't made any for this financial year, for the last financial year.

Councillor Clint Beard –

So it's right in saying there's no, it's not a one payment or single payment per year, it could be.....

Mr Dax Richards –

No, so at the moment, in terms of the finances, what we do is we accrue for that on a monthly basis.

Councillor Clint Beard –

Okay. And does the £50k include the name franchise?

Mr Dax Richards –

It pays for all fees for the first three years as well.

Mrs Susan O'Bey –

Including the marketing.

Councillor Clint Beard –

Including the marketing?

Mrs Susan O'Bey –

Hmmm,

Councillor Clint Beard –

Okay. Mantis has recently entered into a strategic partnership with Accor. How is that going to affect the operations?

Mr Dax Richards –

As we've said earlier, it won't have a significant impact on operations at all. The Mantis St Helena will still be the Mantis St Helena; it will be under the Mantis component of the brand. Accor has a, I think there's a 50% strategic partnership, is my understanding of the whole Mantis brand, but St Helena would remain within the Mantis element of that acquisition and joining together, however, we are hopeful, as I said, that we will have access to some of the opportunities that might be available through branding, through the marketing and advertising and also, hopefully in the future, some access to finance as well.

Councillor Clint Beard –

I just want to make sure, so the naming of the Hotel with the agreement signed with Mantis that won't be a change?

Mr Dax Richards –

Still the same, yes.

Councillor Clint Beard –

Was this formally communicated to SHHD Board?

Mrs Susan O'Bey –

Yes, it was communicated to SHHD by the CEO of Mantis, Adrian Gardiner and there was a subsequent Press Release as well.

Councillor Clint Beard –

Why was this not communicated to the island as stakeholders?

Mrs Susan O'Bey –

It was; there was a Press Release that went out.

Councillor Clint Beard –

How does management plan to measure the performance of the hotel over time and what are the Key Performance Indicators (KPI) agreed with Mantis?

Mr Dax Richards –

There's a hotel management agreement in place to monitor and to manage the activities of the hotel where SHHD holds to account Mantis for the day to day management of the hotel, so there are a number of indicators included in the hotel management agreement and I don't have all of those here with me today, however, we can pull out those KPIs and circulate it if that's what members would like to see.

Councillor Clint Beard –

Thank you.

The Chairman –

Yes, we will accept anything you would like to put to us in writing, but as this is a public hearing we will actually make that available to the public as well. Thank you.

Councillor Clint Beard –

Does the management contract with Mantis represent value for money?

Mr Dax Richards –

Again, that's an opinion and I take onboard what the Chief Auditor said before, but in our opinion, yes, otherwise it wouldn't have been signed by SHHD in the first place.

Councillor Clint Beard –

I know we've dealt with this before, but again it's something that I want to reiterate so the current trading performance of the hotel, how is that?

Mr Dax Richards –

As I said before, it's not good in the current form because of the very low occupancy levels and the food and beverage element of the hotel is going very well with our new Chef, Roy Richards, it's exceeding our forecast budgets, however, the biggest issue is occupancy of the hotel, and as I said before, we need around about 50% to make it work financially, but we ain't getting anywhere near 50% at the moment.

Councillor Clint Beard –

And that was going to fall into my following question which would be the break-even trading operating performance, when do you expect that to happen, and, as you know, it's.....

Mr Dax Richards –

It's crystal ball gazing, hopefully sooner rather than later though, we need more visitors coming to the island.....

Councillor Clint Beard –

What are the current staff numbers for the hotel?

Mrs Susan O'Bey –

It's around thirty, again, I can confirm that for you in writing, but it varies between thirty and thirty-five.

Councillor Clint Beard –

And you've got a breakdown, you probably have to do this, a breakdown of temporary versus permanent?

Mrs Susan O'Bey –

Yes. Of course we've had to, a number of temporary posts lapsed in the current situation simply because it's not possible to be able to keep those on our books.

Councillor Dr Corinda Essex –

But how long is the current financial situation going to be allowed to continue before a decision is taken as to what is going to be the final future of 1 2 3 Main?

Mr Dax Richards –

As I said earlier in the day, a paper will be going to ExCo in the next few weeks to discuss finance for the hotel, again, that needs to be a decision that's taken by SHG rather than SHHD.

Councillor Dr Corinda Essex –
Thank you.

Councillor Clint Beard –
And presently how is the staffing being managed by the management of the hotel?

Mr Dax Richards –
For the management, the Manager, the General Manager of the Hotel is responsible for all of the staffing.

Councillor Clint Beard –
And what steps are being taken to ensure cost effectiveness of operation?

Mr Dax Richards –
Everything we possibly can to reduce the costs down. As we said before, it's a lot of outgoings at the moment with very little room revenue coming in to offset it so we're trying to minimize our costs as much as possible.

Councillor Clint Beard –
And how's that being going thus far?

Mr Dax Richards –
In terms of the cost reduction we have made some savings against the original budgeting.

Councillor Clint Beard –
And my final question is how was the four star grading, how was that established?

Mrs Susan O'Bey –
That would be established through Mantis themselves. Mantis is a four star and above operation, so therefore that would include things like, for example, the fabrics, the furnishings, things like air conditioning, Wi-Fi in all of the rooms, so it's the four star grading has been established according to the Mantis four star operations.

Councillor Clint Beard –
So that has not, if you're looking at, has it been established through an independent body?

Mr Dax Richards –
There's no independent body on St Helena.....

Councillor Clint Beard –
So it's, basically what you're saying it's being managed as a four star and managed and run as a four star?

Mrs Susan O'Bey –
Yes.

Councillor Clint Beard –
Okay, thank you.

The Chairman –

Yes, Mark?

Deputy Chair –

Okay, Financial Secretary, you said earlier, you mentioned earlier about difficulties facing potentially the entire industry over the coming months, six to eight months you mentioned, what difficulties are you referring to? I know about there's not gonna be people coming, but what's causing.....

Mr Dax Richards –

It's the lack of visitors.

Deputy Chair –

What's causing the lack of visitors? You expect some sort of slowdown, but you've predicted that on what, what caused you to think like that?

Mr Dax Richards –

Well, if you look at, we just have to look at the numbers we're getting on the plane at the moment, for example, and also the bookings in our hotel. We went to a meeting earlier last week with a lot of the accommodation providers on the island and they all made it very clear that they're all suffering from the same issue, which is lack of people actually visiting and staying in the accommodation across the island. It's not, like I say, not only a Mantis Hotel issue, it's an issue across the piece.

Deputy Chair –

Thank you, but do you, have you identified what is causing that or do you have an indication of what is that? I know there's a lack of numbers, but what is it, is it the weather, is it the uncertainty of flights on a weekly basis, what is it?

Mrs Susan O'Bey –

I wish we knew, to be quite frank, but at the moment, as we say, when the air service was announced it was announced at very short notice and the indications that Enterprise St Helena, for example, the Tourism Section, indicated that it would take at least a year, that most tour operators required at least a year lead in, so I suspect that that's a result of this, so apart from the initial interest, this is also what is seen as being the downtime in terms of the overall iota period and, of course, what we need to do is to still build the product, I mean, it's not just down to Mantis and SHHD doing that, it's really a concerted effort on the part of the entire industry.

Deputy Chair –

And is there, you said earlier, I think it was the Financial Secretary said earlier, about the opinions in terms of, sorry, the options you have in terms of trying to overcome those issues, is there anything that you can share with other accommodation providers in the industry?

Mrs Susan O'Bey –

We're part of that group and it's actually being taken forward by the Economic Development Committee, this isn't actually something that SHHDL is doing, we're suffering as the wider industry is doing.

Deputy Chair –

Okay. Thank you.

The Chairman –

Thank you and before I invite Councillor Dr Corinda Essex to ask some questions, you say that the four star grading was established by Mantis and that means that you have to have air conditioning I

think you said and some other things as well, so if costs are rising in St Helena and, of course, a big issue would be electricity for air conditioning, it gets to a stage where you're not able to have air conditioning for example, or maybe other things as well, does then the hotel become a three star? I mean it's dependent on various things that you tell me, but if you can't have that, does it then become a lesser grade, because what I see now it's fantastic and, you know, congratulations on that, but if you can't meet those conditions always because of Mantis grading at that grade, does it become a lesser grade?

Mrs Susan O'Bey –

If we take air conditioning as one area, the way the hotel is built, the, what we call the heritage rooms, which are separate to the new build, those rooms actually operate without air conditioning and in an effort to reduce costs I know that from time to time, for example, Management will move guests or try to keep guests within the heritage buildings as opposed to having to then energize, if you like, the whole of the building, so that's what normally happens. In that way then we don't need to use the new build and draw on the air conditioning and other costs.

The Chairman –

Well, thank you for that, because I think it's great that we can have a four star hotel, to see it lessen for whatever reason, you know, wouldn't go down too well I think with people wanting to come here who would want to see a four star hotel.

You want to ask something? Okay, please go ahead.

Councillor Clint Beard –

Just one, I think the hotel is a beautiful place, I cannot dispute that and I think with St Helena being probably a great place to visit and with Mantis being involved with this and with their foothold around the world it would be good to establish, I understand you're looking at numbers coming in via the flights, but what else can be done to increase the numbers within that hotel, because I think you've got Mantis and you need to somehow do some sort of a market research or some kind of a survey to establish what can be done, I think that is something that needs to be looked at.

Mr Dax Richards –

I agree, I think that is one of the things Enterprise St Helena was working on in terms of a survey for departing passengers, to get an understanding of what went wrong, what didn't go so well and what else we can do to improve the product here on St Helena.

Councillor Clint Beard –

Thank you.

The Chairman –

Thanks very much and the next lot of questioning is by Councillor Dr Corinda Essex.

Councillor Dr Corinda Essex –

Thank you, Chair. The PAC has made various recommendations arising from their scrutiny of the published results of the Hotel Company dated last year and a number of those recommendations remain open. One relates to the exit strategy, is the exit strategy going to form part of the documentation that's going to go to ExCo or not?

Mr Dax Richards –

So basically, as I've said previously, we took a draft, we took some, a draft exit strategy in 2017 to ExCo, however, the principles of the strategy were agreed at that time, however, the actual strategy itself can't be agreed until we have clarity around what operations will look like, so when this paper

goes to ExCo in the coming weeks it will have a list of options for raising finances and a couple of those, for example, will look at SHG diluting some of its shareholding further, so, as I've said, that will actually form part of the exit strategy in time to come. Going back to what Susan said earlier, the remit of the Board, the new Board, will be to actually implement the exit strategy once it's actually agreed.

Councillor Dr Corinda Essex –

Right. So looking at timeframes again, when would you say the exit strategy is likely to be actually finalized?

Mr Dax Richards –

I think we would need a steer from Executive Council first on the way forward, on how we want to or which options we want to implement and I think from there onwards we can determine with Executive Council when we should have a finalized exit strategy. In the circumstances where we are at the moment we're only six months in and we don't know, well, we know at the moment as I just mentioned to Councillor Beard, we're in a very difficult period of time, so to be able to determine what that exit strategy would look like right now is rather difficult to be able to do so. In the paper that went in May 2017, we did commit at that stage of trying to have an exit strategy that would see SHG start to take a different stance on things when the hotel was to become profitable and at that stage it was 20/21 before it became profitable and that was forecast before the actual operations of the hotel had started and so now with some additional data that we have from six months of operations this should be able to allow members to have a greater and better informed decision as to when the exit strategy should commence from.

Councillor Dr Corinda Essex –

Thank you. Going back to what you said earlier about the paper that you're preparing concerning financial options, are those going to indicate options about how it's intended to manage the capital risks associated with the public investments?

Mr Dax Richards –

Very much so, that's exactly what it's there to address as well.

Councillor Dr Corinda Essex –

Well, thank you very much.

The Chairman –

And thank you all and it's been a very long day, it's taken a bit longer than we thought it would do, and we had intended to have the Governance of SHG Group Entities as the next item, we won't be able to do that, we will have to, it looks like you want to stay here, Dax. We will want to have lunch and then it will be too late I think to carry on, so tomorrow we will have to have that, so that concludes the business for today. The Committee will reconvene.....you wanted to say something?

The Financial Secretary –

Yes, Mr Chair, I'm just conscious you said this will be on tomorrow, we've got an Executive Council tomorrow as well, and both Susan and I will be involved, that's why I was suggesting you might want to try to get finished the Statement on Entities today.

The Chairman –

I will be guided by members, if we have a fifteen minute break and we then carry on. Chief Auditor?

The Chief Auditor –

Chairman, my expectation is the Committee's work on the Government's State Controlled Enterprises could be even an hour of scrutiny and my understanding is that not all officials are going to be available after 2 pm which would leave that hanging. My recommendation is that that's deferred to the last item of business tomorrow on the expectation that ExCo may have concluded by then.

The Chairman –

ExCo members, how do you think that would go?

The Financial Secretary –

I think, Mr Chair, the problem for us also is that we have other commitments that we're already committed to for tomorrow afternoon so that's why we set aside today to be able to get most of the activities done or the other alternative is whether you want another time?

The Chairman –

Look at that at another time?

The Financial Secretary –

In terms of do you have an alternative slot that you would like us to be available for?

The Chief Auditor –

Perhaps, Chair, officials could indicate what time this afternoon would be convenient and then that could be arranged that specific moment perhaps?

The Financial Secretary –

Okay?

The Chairman –

Yes, fine.

The Financial Secretary –

So we'll have a look and come back to you.

The Chairman –

Just to make you aware, I have no intention of rushing things to make things happen in a certain time and I apologise to anyone who has to maybe, you know, if that upsets anybody I don't think it should, but I do take your point with what you are saying now, so if you can indicate to us when that can be and tomorrow then we would have to have a look at when we need to be here at 9 o'clock ESH, Connect St Helena Limited and the Bank of St Helena Limited, that's scheduled in for tomorrow morning and to the general public, please tune in again on SAMS Radio 1 will or come and attend the hearing in person to see how it all happens, but thank you all. I didn't thank you that time, Dax Richards who is the Financial Secretary, Susan O'Bey who is the Chief Secretary now and Darren, Derek Henry, I do beg your pardon, I'm getting you mixed up with the guy who did the Miss St Helena the other night, Derek, thank you for coming in as well and also, of course, Rianna de Wet, thank you very much and we'll see you all tomorrow or those who we do need to see tomorrow morning at 9 o'clock. Thank you all very much.

Mrs Susan O'Bey –

Thank you, Mr Chair and Committee members.

Mr Dax Richards –

Thank you, Mr Chair.

Meeting Suspended.