

*Transcript - Day 2*

**Formal Meeting of Public Accounts Committee  
held on Tuesday, 15 May 2018.**

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Chairman	Mr Cyril Gunnell
Deputy 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 Anesu Happyman Makamure
Clerk	Miss Anita Legg

**1. ADDRESS BY CHAIRMAN**

Good morning, Honourable Members, ladies and gentlemen, welcome today to the second part of this second formal session of the Public Accounts Committee for 2018 held over two days, this being the second day 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 PAC and thanks also to SAMS for once again providing this live radio coverage from the Council Chamber at the Castle in Jamestown.

I will reiterate today what I said yesterday, 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, and yesterday I may have mislead you a little bit, but I'll correct that today. Yesterday, Councillor Gavin Ellick replaced Councillor Brian Isaac for our enquiries on Health; Councillor Kylie Hercules replaced Councillor Essex on ENRD matters and today temporary, independent member, Cyril George, will cover for the Deputy Chair, Mark Yon, on Connect St Helena and Councillor Ellick will replace Dr Essex on ESH.

Yesterday, the PAC considered the 2016/17 audited accounts for St Helena Government, St Helena Hotel Development Limited, Statement of Expenditure in Excess. We were not able to consider the Chief Auditor's report on the Governance of SHG Group Entities.

For Day 2 of our proceedings, the PAC will take evidence on the 2016/17 audited accounts of three significant parastatal bodies, the utilities provider, Connect St Helena Limited, the government-owned Bank of St Helena Limited and our own economic development agency, Enterprise St Helena and we will see if we are able to deal with Governance of the SHG Group Entities which we couldn't get around to yesterday.

So the first item of business for today is Connect St Helena Limited and I will invite the Responsible Officers to come to the table, please.

**2. CONNECT ST HELENA LTD**

The Chairman –

Thank you, now please introduce yourselves.

Mr Barry Hubbard –

Hello, I'm Barry Hubbard, I'm Chief Executive Officer for Connect St Helena.

Mr Makion Chiwade –

Hello, I'm Makion Chiwade, Head of Finance for Connect St Helena.

Mr Leon De Wet –

Morning, my name is Leon de Wet, I'm the Operations Director for Connect St Helena.

The Chairman –

Thank you and Councillor Brian Isaac will commence our questions, but the Connect St Helena Accounts and Director's Report for 2016/17 have been audited by Moore Stephens and referred by the Chief Auditor for PAC scrutiny. It is now the business of this Committee to take evidence on matters reported in the accounts and thank you all for coming to the table. Councillor Isaac, you will start with the questions?

Councillor Brian Isaac –

Welcome gentlemen to this PAC session. The Financial Statements for the year 2016/17 report the Connect financial performance with an unqualified opinion from the Auditors. Were there any matters of significance raised in the Auditor's Management Letter to the Board?

Mr Barry Hubbard –

No, but there were some recommendations made which were of a minor nature, although those recommendations have been implemented in full as have all previous recommendations made by Moore Stephens.

Councillor Brian Isaac –

So nothing went to the Board, it was all dealt with internally at operational level?

Mr Barry Hubbard –

No, but everything, the report goes to the Board, the Board is aware of any recommendations made, we have an Audit Committee that's obviously a part of that, but our, you know, we resolved all of those matters to the satisfaction of the Board.

Councillor Brian Isaac –

Were there any significant issues dealt with?

Mr Barry Hubbard –

No, they were minor, I think there was three minor issues. Can you remember what they were, Makion?

Mr Makion Chiwade –

They were very minor and some accounting, bookkeeping issues, small recommendations.

Councillor Brian Isaac –

And these have been addressed and measures put in place?

Mr Barry Hubbard –

Yes, all of the actions, all of the issues have been addressed. We review quarterly at Board meetings any actions from the internal or external audit, at the moment they're all complete.

Councillor Brian Isaac –

Alright, thank you. The divisional performance in section 2.3.4 of the strategic report shows.....this one for Councillor Essex?

The Chairman –

Carry on.

Councillor Brian Isaac –

Okay, yes. The divisional performance in section 2.3.4 of the strategic report shows that the electricity division returns a gross profit of £1.7m but the water division returns a gross loss of £1.3m. Is the electricity division subsidising the water division?

The Chairman –

Just a correction there, £1.03m.

Councillor Brian Isaac –

£1.03m, the question is, is the electricity division subsidising the water division?

Mr Barry Hubbard –

There's also £1.07m, not £1.7m.

Councillor Brian Isaac –

£1.07m.

Mr Barry Hubbard –

The simple answer is, yes, and within our 20/20 procedure plan we've, what we've said there is that we're effectively trying to align costs to the various divisions, so all of the subsidy which we get from SHG goes to the water, the water tariff just covers 34% of the total cost of water, which is why we've, again, it was stated in our 20/20 Plan is that we are directing tariff increases solely to water, electricity tariff increases have remained stable and the profit that we made on electricity is being eroded by the increase in fuel costs, so although it was a profit there that profit is going to be significantly reduced this year to almost break even. Also the, in most figures we had an exceptional figure of £232k which was attributed to the drought, which we hope was a one-off, so those figures are made worse to, you know, £232k by the drought.

Councillor Brian Isaac –

Thank you for explaining that. Are there any measures or any performance put in place to counteract the water problem?

Mr Barry Hubbard –

Water is a difficult issue because the cost of water is so cheap and there is so much work that needs to be done to get the water infrastructure to a reasonable condition, but as electricity becomes more efficient then there's opportunities to adjust the tariffs to reduce the electricity tariff, but increase water tariffs without negatively impacting consumers on the overall utility bills, which is what we're attempting to do.

Councillor Brian Isaac –

Would you say that the electricity is overpriced in comparison with the renewable energy?

Mr Barry Hubbard –

As we bring in more renewable energy then we would hope to reduce the actual cost of electricity, but maybe offset those increase by increases in water so that the subsidy is reduced and the overall consumers are not adversely affected within their overall bills.

Councillor Brian Isaac –

Thank you.

Mr Barry Hubbard –

But as I say, the increase in fuel costs since this report, fuel has gone up quite significantly and any profit there is just about wiped out now.

The Chairman –

When did you say you hope to break even?

Mr Barry Hubbard –

Break, sorry, say that again?

The Chairman –

Earlier you mentioned about, you mentioned break even somewhere, I'm quite certain, I wanted to recall that.

Mr Barry Hubbard –

It's offsetting one against the other, so basically aligning more the costs of providing the service to the income from the service so it's at the moment, I think when Brian, I answered the original question about is electricity subsidising water, oh yeah, electricity is currently subsidising water, but as we move forward we're reducing that cross subsidy just to try to align the costs and the tariff income.

The Chairman –

Thank you for that, I thank you Councillor Isaac. Councillor Essex, Dr Essex?

Councillor Dr Corinda Essex –

I'd like a supplementary based on.....

The Chairman –

Yes, please do that.

Councillor Dr Corinda Essex –

..... the second theme first before I move on to the next question.

The Chairman –

Alright.

Councillor Dr Corinda Essex –

Given the fact that there's been considerable investment in upgrading the infrastructure in water recently, and setting the drought on one side, what is the cause of the very high operational costs of the Water Division?

Mr Barry Hubbard –

Maybe the operational costs aren't high, maybe it's the tariff that's low, from a tariff is, is it less than 60p for untreated water and just over about a pound for treated water and if you benchmark that against other islands we're significantly cheaper than if had been anywhere else. You know, offset by electricity being, sort of, highly priced but the water is quite cheap.

Councillor Dr Corinda Essex –

With respect, what I was looking for was some indication of a breakdown of the operational costs of the water division. I'm aware that they're figures that have been given in your Statement of Accounts but I would just like to know why those overheads are level, they are on why they cannot be reduced through efficiency savings or more effective operations or any other purpose?

Mr Barry Hubbard –

Most of the efficiency savings we're making on electricity because we've turned the corner with electricity, the electricity infrastructure is in good condition and we're able to optimize that, the water infrastructure is so significantly increased levels of work which is required, you'll see in the breakdown of costs the depreciation charges, there's £358k of depreciation charges and the more we invest in the infrastructure to provide the quality and reliability that the Regulator requires then those costs effectively increase rather than decrease.

Councillor Dr Corinda Essex –

What are the other key overheads that have significant costs? I'm aware that it's in the Statement but this hearing is being heard publicly and for the benefit of our listeners and to aid our debate can you please provide an outline?

Mr Barry Hubbard –

Yeah, we've got, just within the costs the contracts we have just under £50k, depreciation charges £350k, there was the drought mitigation costs of £232k, employee costs £281k, the

vehicles and transport costs of £82k, utility costs of £147k, this is the electricity which is required to run the pumps in water treatment works, maintenance of £385k and that gives a total of just over £1.5m with sales at £468k, that equates to your loss of £1.073m.

Councillor Dr Corinda Essex –

Going back to the maintenance costs, what efforts are being made to try and reduce those and keep them to a minimum?

Mr Barry Hubbard –

We're trying to do more maintenance. One of our problems is the large number of water leaks and bursts due to the ageing network, so we're putting more and more effort into it rather than less, so the point I was trying to make earlier was, you know, electricity we've turned the corner, electricity we're able to make savings because we're not so reactive because we've got on top of the maintenance. With the water we're still, sort of, trying to catch up with that, it's a big task and remember there was several decades of under investment in water which we're just trying to now catch up on.

Councillor Dr Corinda Essex –

There was some significant investment in water shortly before water was divested in terms of tanks and the new mains and so on, what further investment, apart from the dam at Harpers, have you made since Connect took over the utilities?

Mr Barry Hubbard –

At the moment, we have on island the people from Butyl Products which have just relined Harpers 1 and Hutts Gate 1 reservoir. Obviously we've renewed Harpers 3 or reconstructed Harpers 3 reservoir, we've built silt traps on Harpers 2 reservoir to prevent any further damage to that reservoir, we've relined Longwood 1, Longwood 2 reservoir, we've relined Scotts Mill reservoir. Our own people have, because they're now trained on the use of the butyl product so they've been out and relined the Tobacco Plain reservoir, we've constructed a new Hutts Gate reservoir, so that's some reservoir works. We have a dedicated team of people that are replacing mains and they're down in the lower Half Tree Hollow area, so they're putting in new mains, they're burying the mains, there's like a load of survey work because the services were never mapped, the high points and low points were not known, there was no calculations so that the mains were over pressurized because there was no proper designs done, so we're now surveying and we're able to put in pressure reducing valves, additional tanks to remove the problem with the over pressurization which then leads to leaks and bursts. I'm exhausted a bit there, Leon, can you add anything different?

Mr Leon de Wet –

Yeah, I think we also obviously rebuilt basically all the obstruction points where we collect water from which was quite an exercise. We also drilled ten deep upper flow boreholes for water security. As Barry has mentioned we've now relined effectively all the reservoirs except for Levelwood. We had a consultancy in place since 2015; they've designed seven new reservoirs and dams that are now part of our strategic plan for future development and to help with water security. Maybe just comment on the previous disqualify, but the previous comment made about the cost of the water. What I think we also need to keep in

mind is that we are maintaining more than fifty kilometres of pipeline on the water side which of that is about 10% mapped and so service maps do not exist and this is a very unique for a place like this where you don't really know where the networks and we're in the process of spending a lot of money to actually have those surveyed or hand drawn, it obviously makes leak detection and things like that and as Barry has mentioned introduction of pressure reducing valves, all those kind of things, very difficult, because we can't really do proper analyses of the networks to see where the problems lie. The introduction of a number of tanks previously before the divestment wasn't necessarily a constructive step because it was clearly not designed and aimed at what was tried to be achieved. In the process, for instance, you could look at the Chubbs Spring in Jamestown system, there are too many tanks. We have more tanks in place than what we consume daily so we have problems with chlorine decay as a result, so some of the things that have been done in the past were not necessarily aiding the process of improving and upgrading the network.

Councillor Dr Corinda Essex –

The majority of the work that you've outlined had been paid by a capital programme fund rather than recurrent funding?

Mr Barry Hubbard –

No, that's not the case. All of the reservoir relining are coming out of the Connect's recurrent budget, all of the mains replacement is all coming through our depreciation fund, I think the works there which have come from the capital budget are the reconstruction of Harpers 3 reservoir, Hutts Gate reservoir, those two are definitely through the capital programme, as you know we have a depreciation fund which funds the replacement of worn out assets. I think, and Makion correct me if I'm wrong, I think so far since divestment I think it's just about £2m that we've actually just generated through our own funding to replace worn out assets. The difficulty is that we're replacing worn out assets which we inherited fully depreciated so we're not actually building funds to replace the assets that we're currently investing in so that creates a bit of a, like a long-term problem for us, but obviously there is a huge amount of work to do and we need to do it despite the fact it doesn't follow the normal regular accounting rules. You want to say something?

Councillor Dr Corinda Essex –

So going forward, how much further remedial work do you feel you will need to do before the facilities within the water division are where you would like them to be?

Mr Leon de Wet –

Ma'am, there's quite a lot of work that still needs to be done. We've introduced an unaccounted for water programme last year that basically is aimed to address problems with leakage, bursts and then unaccounted being that there's also, there are areas where water is being taken that are not metered, so we are introducing meters on, like, for instance, fire hydrants, things like that, not necessarily to them to bill for that, although it should really be done that way, but basically to account for where the water is actually going, so this process will take five years plus before we will actually cover the whole island. Like I said, we are looking at covering an area where we have four plants, we have more than twenty tanks that we covering, we're introducing bulk meters and meters along the mains in order to determine where the links are, we bought some leak detection equipment

to help find leaks underground because unfortunately with the material, the ground profile that you have here you have fissures and cracks in the rock and so the water doesn't necessarily come to the surface where you can see it, it basically just vanishes, so we've already made good progress with the unaccounted water plan or programme in order to determine losses, in particular areas like Ladder Hill, we're working in Blue Hill, in Levelwood, but it is not an event, it is a process, so this will take years and years to do and it will require a lot of capital investment because we need to introduce bulk meters, valves and so on so we have a lot of system failures, valves that are failing and so on, so a lot of these things need to be validated that they still work properly, they need to be checked in terms of the consumption that is actually recorded through them and then as a result we would then be able to determine exactly what our losses are in a particular system.

The Chairman –

Thank you for that, I'm sure we're going to be asking you some further questions on things like that and we will, as we go through, perhaps even touch on some of the answers you may have already given, but that is the nature on what we have been planned, but I think Dr Essex you want to continue until you come on to your next set of questions?

Councillor Dr Corinda Essex –

Yes, I would, because of the line that the responses are taking, so rather than delay the question about water losses until later in the session I would prefer to take that now whilst it's fresh in everyone's minds.

The Chairman –

Thank you for that and when we come to it, we have to make certain we don't ask the same question again.

Councillor Dr Corinda Essex –

I think we'd avoid that.

The Chairman –

We may be able to avoid that, but in the heat of the moment, who knows?

Councillor Dr Corinda Essex –

So, is it possible to actually differentiate between treated and untreated water when you're recording the volume of losses?

Mr Leon de Wet –

Yes, Councillor, we do obviously, we have meters in all systems, whether they are between the obstruction points and the reservoirs, between the reservoirs and the treatment plants where there are pumps systems, because we're obviously monitoring cost of pumping water versus gravitation, we also, like I said, have bulk meters downstream of all tanks on island, that was something that was discussed at this meeting last year as well, but that is also an ongoing process because we are introducing more bulk meters not just the ones below downstream of the tanks, so all of these systems obviously provide us with information, like I said, we're even expanding that now. For instance, the network that we laid, the water network that we laid in Ruperts all the fire hydrants have bulk meters on them now so that



we, if they are ever used, we would be able to account for that water and be able to calculate whether there are any losses other than that. For instance, the offtake fire hydrant near Red Hill is, at the moment we're still waiting for the bulk meter for that specific size, is unmetered at the moment and so that level, or the water that's taken from there by the Fire Brigade is at the moment unmetered, so those are all part of the unaccounted for water, it's not just all losses and bursts because it tends to appear that way.

Councillor Dr Corinda Essex –

Thank you for that, I will leave the rest of Question 8 for other members to ask later.

The Chairman –

Later on, yes.

Councillor Dr Corinda Essex –

But I will now turn to .....

The Chairman –

Just before you do, Councillor Essex, you mentioned too many water tanks earlier on, are you going to replace those water tanks and have you budgeted for that?

Mr Leo de Wet –

No, so at the moment because of the population, size of the population, we are just reducing, like, for instance the Dillons tank down in town, the tank is never full, we contain the level of water in the tank, we regulate that, because ultimately we need to manage the chlorine decay. If these steel tanks, which are not ideal for island in actual fact, they get very hot, so, and they're very exposed, so they tend to aid with chlorine decay so.....

The Chairman –

But are you going to replace them?

Mr Leon de Wet –

We're not planning on replacing them because in future if the population numbers grown then obviously those tanks will still be, maybe in the long run, be used, but for the moment we are basically governing them down so that we can control the volumes that.....

The Chairman –

Okay, thanks very much. Just before you come in, Councillor Essex, Cyril?

Mr Cyril George –

Just go ask, I think, well you mentioned about contract work being carried out by contractors in the replacement of water mains etc, can that, why is that all contracted work, why is that work being put out for contract rather than carried out by staff within Connect?

Mr Barry Hubbard –

The replacement of water mains that I mentioned earlier is being carried out by Connect staff, we've recruited a dedicated team, we've purchased equipment for them, it's like a

Dumper truck and a mini digger that you've probably seen, those are all Connect staff and we brought that work in house.

Mr Cyril George –

Okay, but seeing the amount of money that you're spending on contract work, what does that involve?

Mr Leon de Wet –

Well, the contract works are still, like, for instance, when we installed the transfer systems, I mean, all of that work went out at the same time, because we were very much basically limited by time so that work went out on contract, but a lot of the work, as the CEO is saying, is now being done in house through a construction team that we have, this upgrading of the networks are done in house and we specifically looked at that and that was one of the cost savings that we could effect as a result.

Mr Cyril George –

Thank you. You mentioned about upgrades and I read in the paper that you're going to upgrade the line from Tom Peter's spring to Jamestown Treatment Plant?

Mr Leon de Wet –

Yes, that is correct, Sir.

Mr Cyril George –

What is the purpose, what is the reason for upgrading that line?

Mr Leon de Wet –

Okay. The Chubbs Spring obstruction works consist of a number of components, Black Bridge, recycling water from Black Bridge and from Drummond's Point and then we also get the water from Tom Peters and Hambess, that Part I is very small, it has been very problematic because there's been some failures in the past and even growth inside the pipes, so we are replacing the pipe with a significantly enlarged pipe and the reason for that primarily because the water that obviously comes from the springs are a lot clearer, we have major problems with debility or discoloration of water in the Chubbs Spring area and this is the first stage of a multi-stage development project to improve the situation in Chubbs Spring because we have difficulties in containing the salt levels in the water during times of heavy rainfall.

Mr Cyril George –

Why I asked the question is because for thirty years that spring has been a continuous flow, it's a straight line, if you not got the graphs for that particular spring it's a straight line without any peaks or troughs in that, from that supply, so there's a continuous supply throughout the year and that's been going on for thirty years plus. I'm just asking why is the need now to change that line?

Mr Barry Hubbard –

You say there's a continuous supply, you're correct, but even during the drought if you go to Tom Peters Spring the pipe isn't big enough to take the water away, so even during the

drought we were losing water into the Run, because, as I say, because the pipe wasn't large enough, the construction of the pipe is like a push together pipe so then the roots managed to find their way in and the guys have gone out and they have taken it apart and had to rod it out and as Leon was saying it's very, very problematic, so the pipe we'll put in will be significantly larger, but it will also have like the welded fitting so there'll be no opportunity for roots to get inside that line and we'll be able to maximize what come, yes, so everything that comes from Tom Peters and Hambess Spring, all of that will go through the pipe rather than ending up in the Run and that's a better quality than it is taking it from Black Bridge.

Mr Cyril George –

Is the roots finding its way into the system because of the pathway is not being maintained or the vegetation not being cleared away?

Mr Barry Hubbard –

It's because the pipes are just, they're just pushed together.

Mr Leon de Wet –

Yeah, it's just failure of the system over years, it's in need of upgrading like so many other systems that we have, so we're now upgrading and enlarging the system. We're following the same alignment as the previous pipe so, yes, you're quite right, we will use gravitation to bring it in to Chubbs Spring, but it's just an enlargement of the system to increase the capacity, that's all.

Mr Cyril George –

Thank you. You mentioned about the er, too many tanks in Jamestown and the main reason for those tanks being in Jamestown is because in the past we used to water ships very often from Jamestown and the demand in Jamestown was fifty percent higher than what it is today. Because of leak detection exercises that were carried out in Jamestown we were able to reduce the consumption by fifty percent plus hence the reason for those tanks being built in Jamestown. The one at Dillons is there for a break pressure tank because of the difference between the levels at Chubbs Spring and to the lower wharf, so that's, hence the reason for that tank. You talk about system losses, I know we're gonna touch on it later on, but maybe I'll leave that until we go through that because we're gonna bring it up again, going to be discussing or do you want me to do it now?

The Chairman –

No, that was a comment, was it?

Mr Cyril George –

Yes.

The Chairman –

Comment, okay, thank you, Mr George and before I invite Councillor Essex to carry on with her set of questions we have..... How has the water losses affected the costing of water, and since we're talking about water, how has the water losses affected the costing of water and can Management accurately quantify the cost of these losses? Do you want me to repeat the question?

Mr Barry Hubbard –

This, the bulk metering programme which was introduced is quantifying the losses. So far, the areas that have been, having this bulk metering and this reconciliation with the consumers from the individual tanks is showing that the losses are less than ten percent, isn't it?

Mr Leon de Wet –

Yeah, around ten percent, yeah.

Mr Barry Hubbard –

Which is an acceptable figure. So this loss reduction programme at the moment isn't actually identifying any areas of huge loss, I mean, we know there will be areas where there's loss, but we just need to work through in a systematic manner to find those.

The Chairman –

Okay. What are the future plans for renewal of infrastructure?

Mr Barry Hubbard –

Of water infrastructure, or infrastructure in general?

The Chairman –

We're talking water now.

Mr Leo de Wet –

So, I didn't follow the question, you just want to find out whether we have a strategic plan in replacing water infrastructure in future upgrading?

The Chairman –

Yes, I'm talking about your Strategic Report, in section 2.2 of the Strategic Report in the case of range of investments in raw water catchments and distribution systems and pumped water resources, what are the future plans for renewal of infrastructures?

Mr Leon de Wet –

Okay, I can maybe answer this. Obviously this plan, our Strategic Plan was introduced about three years ago and we started off with, the initial focus was to improve water security. We've already touched on the fact that we've relined all of the reservoirs because, for instance, in 2015 we replaced, ach, we drained Scotts Mill reservoir three times to repair the lining and eventually that was the first reservoir that was relined. Since then we've now relined all the reservoirs, except, like I said, for Levelwood and the reason for Levelwood is that that is part of our future Strategic Plan and there's a business case with the capital programme to have not just the existing reservoir enlarged but also a second reservoir built there because we started supplying water to Sandy Bay from Levelwood after we laid that seven and a half kilometre pipeline two or three years ago. So our Strategic Plan basically focused initially on water security, well, it continuously do that, but the initial focus was to optimise obstruction from the areas like Lady's Bath, Gent's Bath, Osbornes, Oakbank, Lower and Upper Wells and Leggs and all of those systems or most of the systems are in

place except for Upper Leggs and Wells, which is also subject to approval for funding to improve that system and bring more water in from that. That's why we built the enlarged Harpers 3 reservoir and also the Hutts Gate second reservoir which form part of seven reservoirs that were designed or the dams, the reservoirs that were designed or feasibility studies carried out with the focus to increase water security in time to come. The others that form part of that, like I said, Levelwood has already been designed and the detailed documentation is ready so we can start any day with that. There's also the same for a offstream reservoir designed for 20,000 cubic metres to be built at French's Gut to serve the Western area, remember that is still a Council decision that those areas should be placed on treated water in future, then we had a dam of about 80 to 100 cubic metres, depending on the height of the wall, the embankment, designed for Rural Retreat, that is completed, then the last one that is also under consideration is a significant sized dam proposed for the lower part of Fisher's Valley near Cook's Bridge which will be able to provide us with a mass body of water of between 150,000 and 200,000 cubic metres. That is, a feasibility study of that has been done, if my memory..... Stage 1 has been done, but obviously something like this needs further detailed investigations and that is also subject of funding being approved to progress that further. So, all these measures are really focused at providing more and more water security. As you are aware, we've installed a number of transfer systems to be able to move water around on island, from any, almost like any point now as a result of the 2016 drought. The ones that we installed then was the transfer system from Chubbs Spring to Scotts Mill and we can, we're at the moment using it in reverse as well also to counter the problem with Drummond's Point and Black Bridge problems that we have with turbidity, we have installed a system between Fisher's Valley and Longwood, Fisher's Valley and Hutts Gate with fire tank to Fisher's Valley and Shark's Valley to Fisher's Valley so all these systems are capable of transferring water to have almost like any system on island from remote areas where water was still available during the drought but it was very difficult to access, for instance, at Shark's Valley. So, all these measures are still part of our long-term Strategic Plan in improving water security. As I mentioned earlier as well, we also drilled ten deep aquifer or deep boreholes to basically, as part of exploration work in terms of can we extract water from deep aquifers, some of them failed, about eight of them are reasonably okay, two are exceptional in their potential yield and those will in time be developed through the planning process as production boreholes, so they will all be used to supplement water stock when we have problems during a drought.

The Chairman –

Alright, well, thank you for that very comprehensive answer. Staying with section 2.5.1 of the Strategic Report how has the water losses affected the costing of water and can Management accurately quantify the cost of these losses? I do beg your pardon, I think I've asked you that question already or it was intended to but it got covered, so I'll ask you a second question. What is the status of the alternative water sources, as indicated in the Director's Report, e.g. Fisher's Valley, what was the cost of these alternative water sources in terms of capital and ongoing revenue costs? Section 2.2 of the Strategic Report.

Mr Barry Hubbard –

In terms of the operating costs that's like an alternative source of supply so at the moment whilst we have free flowing water from the Peaks then we don't pump up from Fisher's Valley, so it's, as Leon just explained, these are like fall back systems, we know the cost of

operating each of these systems and obviously we prioritise where we get water from for the, like for the lowest cost and at the moment, whilst it's raining, that's free flow water straight out of the Peaks. Fisher's Valley and Shark's Valley and the other systems feeding off the Fisher's Valley tank will come into operation when the cheaper sources of water are not available. Capital costs for you.....

The Chairman –

So what was the cost of these alternative water sources in terms of capital and ongoing revenue costs? I don't think you answered that particular part.

Mr Barry Hubbard –

The ongoing revenue cost is at the moment is zero, but the capital cost, it's done through.....

Mr Leon de Wet –

The transfer systems cost in the region of about between 450 and 500k that was done during the drought. The original Fisher's Valley system, I stand to be corrected, I think was about £120k to install.

The Chairman –

Okay. Thank you for that. I think I may have to come back later on, but I think, did you indicate that you wanted to question them, Councillor Beard?

Councillor Clint Beard –

Morning, I just want to go back. It was said the 2020 or 2020 Strategic Plan would align the cost between the electricity and the water. How are you planning to align the cost?

Mr Barry Hubbard –

Through, at the moment electricity obviously breaks even which is why we've got no intention to put the cost of electricity up. The subsidy that SHG pays pretty much this goes on water, so as we reduce the subsidy then we increase water tariffs, but we do by increasing the water tariffs and not increasing the electricity tariffs is we can provide like an overall inflationary increase to the consumer, but directed solely at water and the revenue from water and the, you know, on most people's bills they pay significantly less for water than they do for electricity which therefore enables you to put like a higher percentage on water to give an overall inflationary increase, which is what we plan to do in our 2020 plan, it's just a case of reallocating, it's now redirecting the tariff to the service that's being provided.

Councillor Clint Beard –

Thank you.

Mr Barry Hubbard –

I know it's renewable energy, you know, the plans for increased renewable energy, well, when that then starts reducing costs of electricity then there's a chance then to, sort of, reduce those costs but also to increase water costs without adversely affecting the individual consumers. Does that make sense?

Councillor Clint Beard –

Because you would be increasing the tariff and I think the implication and you've noted the consumer be a balancing act, but, you know, we also have the Sustainable Economic Development Plan and I would like to know, sort of, what implications would be on the agriculture and the farmers and also the day to day consumer?

Mr Barry Hubbard –

What we aim to do to the consumer is, we aim to keep any increase inflationary, that's what we said in our Plan, so it was always a concern that when we divested then all we'd do is we'd whack the prices up and people would pay for it, so we've never had anything more within inflationary increase, and I think on two occasions that the increases had been significantly less with that inflation. With the targeting of the subsidy, remember from the Airport MOU there was a requirement to eliminate untargeted subsidies, so like what's happening with the agriculture and the larger increases in water obviously adversely affects agriculture which is why SHG is now paying a subsidy directly to farmers to offset the increases that we've put forward, so it's targeting the subsidy rather than paying an untargeted subsidy to all, which is what we could find as part of the signing of the Airport Contract.

Councillor Clint Beard –

My concerns was the implications that it might have. Thank you.

The Chairman –

Thank you, I think we sort of .....there are so many questions we want to ask, we sort of jumped forward, but we need to come back to where we wanted to be as well, but I think Mr George, you were talking about bulk meters.

Mr Cyril George –

Yeah.

The Chairman –

It may be relevant for you to ask your question on that?

Mr Cyril George –

I was going to ask about the bulk metering system, what is the progress on that and how far have you got with installing bulk meters?

Mr Leon de Wet –

So, yes, I can answer that. Last year, this meeting also asked us about we introduce a programme of introducing the bulk meters downstream of tanks. As I mentioned earlier, we've now gone way beyond that and we're introducing bulk meters also on the mains in strategic positions in order to be able to determine where the losses are as part of our leak detection programme and unaccounted for water plan, so we've gone quite a long way with it, it is obviously very costly, these meters are very expensive and so, but it will help us, if I can maybe use an example. You have typically where a treatment plant would feed a certain area like, let's say, Half Tree Hollow and you have almost like radial systems that go into different areas, we don't have really ring feeds in St Helena because of the topography,

so it's almost like little fingers that go out as pipes out into the area and on each of those we have a bulk meter now to determine how much water in actual fact is consumed by that system. Now let's look at it as a main being the first part of a lollipop that you hold on to the stick that you hold on to and the lollipop being the number of cluster of houses that are feeding off that, so obviously somewhere along that stick there's also potential losses, not just at the consumers, so that's why we have introduced in strategic positions also further bulk meters in order to be able to isolate areas for the purpose of determining where the losses are, so we've gone quite a long way from where we planned on starting off with and that we reported on last year about the tanks.

Mr Cyril George –

Just for information, a leak detection exercises and leak detection system losses has been on the top of my priority for the last five years when I first joined Council and when I was working with water a leak detection exercises were a priority and when I asked the question in October 2013 we were told then that all the equipment for the leak detection exercises and the system losses were on order, that was five years ago, what I'm gonna ask, what I'm gonna mention is that, just for information also is that previously the system was set up into different zones, so you got the Red Hill system Treatment Plant feeding Pounceys, feeding Luffkins, feeding Half Tree Hollow, Ladder Hill, the system was set up into various zones and you had a meter on each zone so you could check what is being delivered to that zone and what is being sold to that zone, that was the system how it was set up. Fine, forget about what has been done, you people are going to take it forward and I wish you all the luck.

Mr Leon de Wet –

Yeah I can just, sort of, report on the leak detection equipment. We bought leak detection equipment some time back and great cost, it has been difficult to work with that because of us using largely ACP or PVC pipes, which are plastic pipes. Leak detection equipment works a lot better if you use it on steel pipes, but we've introduced it some time back, we had some successes with it, but it's still a process that has been addressed and people have been trained to use this equipment, but it has proven to be of some value to us and we use it, for instance on the line to Sandy Bay and now recently as well with success, so it is part of a wider plan, and, like I said, the unaccounted for water plan consists of a number of components and leak detection obviously forming part of that, and the bulk meters as well obviously.

The Chairman –

Thank you for that response, Mr de Wet. It seems our Chief Auditor wants to come in?

Chief Auditor –

Thank you, Chair. I think it would be very useful for Committee's evidence if it was just able to close this item off around about, you know, the whole water system, particularly this thing about the bulk meters, because you're absolutely right, this was an area of interest to the Committee at a previous hearing, so would it be possible for the officers must to clarify that equipment's now installed and whether they've been able to reconcile the bulk meter, the water going into the bulk meters and the water coming out at consumer level and maybe pinpoint some of the losses in different systems?



The Chairman –

Yes, would you be able to answer that, please?

Mr Leon de Wet –

Yes, yes, obviously this, as we mentioned earlier is not an event, it's a process, it takes a long time because you need to isolate areas; there are a number of factors that are resulting in leaks that are undetected. For instance, some of the old residential meters are potentially defective so we are replacing those meters, we are validating the information from these meters and in comparison to the big meter reader, so there are a number of variables here that need to be considered. In areas where we have introduced it, as Barry has said earlier, we have found losses to be around 10, 11% which is very acceptable, you will never get it to zero because that's just impossible, it doesn't happen anywhere in the world, so below 20% in actual fact you're still okay, so what we are doing at the moment is, we have an in-house team that go out in parallel to the meter readers and they check these systems themselves in areas where we have introduced the bulk meters and also new residential meters. Unfortunately it is a long process, it takes a long time because you need to literally focus on particular areas which we've identified as part of our unaccounted for water plan and we are targeting those areas being Jamestown, Ladder Hill, Blue Hill and Levelwood at the moment.

The Chairman –

Thank you very much for that input, Chief Auditor, thank you Mr de Wet. We move to a different line of questioning now and I invite Councillor Dr Corinda Essex to .....

Councillor Dr Corinda Essex –

Thank you, Mr Chair. The cost of sales disclosed in the Income Statement and in Note 4 has increased by 14% when compared to the prior year – section 2.3.3 of the Strategic Report refers. Setting aside the drought mitigation costs, which amounted to £233k, cost of sales has still increased by 8% year-on-year. Can you explain the reasons for this increase?

Mr Barry Hubbard –

Yeah, it's just so you, just a top level breakdown of that is about £65k increased in fuel bill, there was an additional £60k for maintenance, materials and parts, depreciation increased by £78k and remember this is an accounting figure which the more we invest in plant and equipment the more the depreciation increased by.

Councillor Dr Corinda Essex –

I do recognise that.

Mr Barry Hubbard –

Yeah, but it's part of the figure. Contracted out for services is £24k, so the drought you previously covered and employee costs is £100k and that includes the recruitment of a Civil Engineer from overseas, it covers an inflationary increase for salaries, includes a provision for leave that's accumulated but not taken and it also includes the establishment of this team that I described earlier, that's the dedicated team that goes around replacing mains with new equipment that we purchased as well, so that's why the cost of salaries increased by 14%.

Councillor Dr Corinda Essex –

What is the size of the dedicated team?

Mr Leon de Wet –

They are three people.

Councillor Dr Corinda Essex –

PAC has noted that the employee costs, under costs of sales have increased by £100k, you've given some information regarding why that's occurred, what is being done in terms of managing staff costs while maintaining staff retention

Mr Barry Hubbard –

The introduction of a Civil Engineer was absolutely key to the business. Leon's described earlier about the requirement to, I suppose, design and analyze and you need people of that certain level to be able to do that and a Chartered Civil Engineer is what we required. It's also a succession plan for Leon, as many are aware, Leon will be leaving Connect and the Island in a few weeks' time, so we're in a privileged position that he's actually handing over to another Chartered Civil Engineer rather than having what so often happens, a gap between the employment of the new person. I think also what's made it worth it at the moment is we do have a St Helenian returning to, this is Chris Dawson, so Chris will then come in as the succession plan to this Civil Engineer and to be trained up and once he gets chartered then we'll have that position filled by a St Helenian, but obviously there's like a process there, so it's in managing these costs obviously, you know, we have increased costs there, we have reduced costs with Leon going, because that position won't be refilled.

Councillor Dr Corinda Essex –

How is the crewing organised to maintain operational efficiency?

Mr Barry Hubbard –

One of the things, I think we discussed it last year, our new vehicle fleet has been organized so that there's more vehicles but each vehicle takes less people and the vehicle's fully kitted so when people get to attend a job there'll be two people in a vehicle with all of the tools and equipment and materials that they would reasonably need to attend to that job or to attend to any failure on the network which they're attending to. That is significantly increased the operation efficiency because in the old days, you know, you had a Landrover full of seats, you had to have lots of people going out there and not materials or tools, so that's a significant increase, it's not really quantifiable, you know, but from a management perspective, you know, you can see there's so much more work being done. I think one of the things you will notice, and I notice, is around, you know, our establishment is our Water Treatment Works and our offices, there's now fewer people there, people are out doing planned work for the Planned Maintenance programme which Leon's introduced for both electricity and for water, so we were getting significantly more out of our staff. I wonder if you want to say any more, Leon?

Mr Leon de Wet –

Yeah, I think it is important to understand as well that, okay, Barry's mentioned that the

new vehicles that we introduced, the Landrovers are new and they are purposely built for what they're doing, for what we need it, but at the same time these vehicles will last twenty, thirty years, so ultimately it was a capital investment in the beginning, but it would serve the company for a very long time to come and in actual fact we've now acquired all the necessary vehicles that we needed in order to ensure that we provide a better service, because, unfortunately, cutting back on inefficiency is one part of our task, but also providing a high quality service is part of our remit as well, so we've obviously focused incorporating that as well. The reduction in outages on the Energy side then, even on the Water side has been reduced, the timeframes have been reduced significantly, the times to provide people with connections, for instance, have been reduced significantly from before and it's because we are more effective in what we're doing. The preventative maintenance programmes that we've introduced means that these people work in teams so they target specific areas and they are a lot more effective that way because we've upgraded when it was with the obstruction works in term points that they spend less time there to clean the silt out and get it back to normal again, so I think it consisted of a lot of things that happened over a period and I believe that we are a lot more effective now than what we started off with as a result of these measures that we introduced.

Councillor Dr Corinda Essex –

Is the cost of meter reading charged to the cost of sales or administrative overheads?

Mr Makion Chiwade –

Cost of sales.

Councillor Dr Corinda Essex –

And how does the meter reading service work in practice?

Mr Makion Chiwade –

How does the meter reading service work in practice?

Councillor Dr Corinda Essex –

Service, yes.

Mr Makion Chiwade –

The meter reader has got his own team, they go out and read until we do bills quarterly, so each month the various section of the island that they are reading meters from, they get some input from our billing system, as to which consumers, which properties are to be read, then you combine that with the actual readings, then they bring them back to Connect, then we do our section reports and check everything has been read or if there are any abnormalities, then they are checked and fed back if there is need to fed back to the meter reader, then eventually we have the bill sent to the consumer. Is that what you're after?

Councillor Dr Corinda Essex –

Thank you. So is there a fixed price contract as the co-ordinator of the meter readers?

Mr Makion Chiwade –

Yes, a fixed price contract, yeah.

Councillor Dr Corinda Essex –  
And that's renewable at what intervals?

Mr Makion Chiwade –  
Annual, annual interval.

Councillor Dr Corinda Essex –  
Sorry?

Mr Makion Chiwade –  
Annual intervals.

Councillor Dr Corinda Essex –  
Annually.

Mr Makion Chiwade –  
Yes.

Councillor Dr Corinda Essex –  
So it's reviewed, performance is reviewed annually?

Mr Barry Hubbard –  
Yeah, I mean, the performance of the contract too is good, the contractor does everything that he's paid to do. One of the things we have been looking at which we hope to be able to introduce with the provision of a mobile phone network is smart metering which people from overseas will be aware of, how these smart meters work is that they contain a SIM card and that is effectively read daily back to like a central computer system which we would just have in our offices, so that is what we were proposing to do, unfortunately with telecoms costs in that scheme are excessive and it costs more to do that than it does to employ a meter reader to do it, so what we're looking at now is another system where maybe we can communicate with the meters across the electricity networks. Obviously every house with electricity is connected to the mains and we believe there's technologies which will enable us to do that without actually relying then on the mobile phone network, but, you know, but it was a surprise, I was expecting that we would have been introducing a smart metering programme by now, but unfortunately we're not. And, of course, what we are also doing as we do with everything now, is we're reviewing contracted costs with the costs provided at service in house and that's one that we're actually looking at this year, just to see the comparative costs and whether or not we would continue that service or whether or not we're gonna be able to introduce the smart metering which is what we really want to do. The smart metering has so many more benefits, you know, it gives consumers a lot more visibility of their bills, it enables a very simple like pre-paid metering, pre-paid service rather than, sort of, the quarterly billing service which some people would find useful, which is possible now, but a bit tricky, so, yeah, the ultimate goal is some sort of smart metering, but in the interim we're just reviewing contracted costs against the cost of providing the service in house.

Councillor Dr Corinda Essex –

Thank you for that response. Does Connect have any efficiency targets by which they're hoping to reduce administrative or operating costs year on year?

Mr Barry Hubbard –

I mean, we're looking for efficiencies all the time. Leon and I are specifically tasked with that as part of our, you know, from a Board, as part of our remuneration, so we need to identify savings and last year there was quantifiable savings we made of about £130k and these are targeted against, say, administrative and operational efficiencies.

Councillor Dr Corinda Essex –

Could you give me one or two examples of current targets, please?

Mr Makion Chiwade –

The elimination or reduction of the subsidy is the main target, there's an overall efficiency target because that reduction has to be funded through some service, so that's the main one we're working at Connect as in overall efficiency target.

Councillor Dr Corinda Essex –

That may be your overall aim, but what strategies are you adopting to try and achieve that aim?

Mr Makion Chiwade –

One of the strategies is, like in water, the maintenance costs are actually reactive because the network is old, so to reduce that reactive maintenance we are gradually replacing the mains, so as we go district by district replacing the mains then that area you'll find will be less maintenance.

Mr Leon de Wet –

Maybe I can just add on to that Ma'am. What we're also looking at, as Barry has already mentioned, of the metering system being changed. Automation is basically one of the things that we, again, it'll require capital expenditure in the beginning, but in the long run it will improve efficiencies, it will help us with reducing employment numbers as well as more and more things are done by automation, for instance, introducing the telemetry system on the water networks. Some of the areas are walked daily in order to assess whether there are any losses or bursts or anything happening, whereby with a telemetry system, and we've already started introducing that on the Treatment Plants to reduce the number of people, the personal input over weekends having to go to the Plants to make sure that they are still operational, the telemetry system automatically takes any problem with the Plant and reports it to the Power Station and then you can send someone out to have a look at that, so there are various ways that we are introducing to help us in the long run to reduce our staff costs and subsequently the operational costs.

Councillor Dr Corinda Essex –

Thank you for that. The Accountant said that your overall target is to eliminate the subsidy, can you give some indication of when you think that that target is likely to be reached?

Mr Barry Hubbard –

The biggest thing that's going to influence that is the renewable deal, so this is now a lot closer to what it was a year ago so it's really the speed at which we can get high levels of renewable and with the amount of savings we should make in fuel should eat up that subsidy straight away, so that's, in effect, that's the big winner, so we're currently negotiating the power purchase agreement with that and once that's agreed and signed up then the initial phase is about 500 Kw of Solar, if that goes through the Land Development Control Authority then that's something that will happen very quickly along with its associated battery storage which will optimize the system and then the wind following on on Deadwood Plain, but that obviously follows the normal, like, planning process, which can take some time, but it's governed by the speed at how quick we can get high levels of renewable energy incorporated.

Councillor Dr Corinda Essex –

On that positive note, I also hand back to the Chair. Thank you very much.

The Chairman –

Thank you for that. Councillor George has a question based on an answer you gave earlier on and then I'll call on Councillor Beard.

Mr Cyril George –

Just for the record, not Councillor George. Just to ask, you mentioned about vehicles....

The Chairman –

I beg your pardon, he's no longer a Councillor, he's Mr Cyril George.

Mr Cyril George –

You mentioned vehicles, can I ask the number of vehicles in Connect's fleet, the total number?

Mr Barry Hubbard –

I haven't got that figure to hand, must be at least twenty or thirty or something like that.

Mr Leon de Wet –

No, thirty.

Mr Barry Hubbard –

Oh, thirty.

Mr Cyril George –

I counted about twenty at one time, over the weekend, one weekend so many parked at Red Hill, so many parked in Jamestown, but there's other vehicles out and about, so about thirty you said?

Mr Barry Hubbard –

Off the top of my head, we wasn't prepared for that question, but we're just thinking about what you see around the place, I think it's probably something like thirty, but maybe we

could just actually provide you something in writing later then we can get the exact number if that's acceptable.

Mr Cyril George –

I have had complaints, or queries, from members of the public about the number of vehicles that they see with Connect running around, like everybody, ready to criticize, but I've seen, I've heard from people about the number of vehicles that they feel is excessive to Connect. I thought I'd check the numbers you had.

Mr Barry Hubbard –

But what we're doing is we're getting a lot more work done as we was describing earlier, you know, we do all of our networks scattered around the island, the vehicles are going to attend maintenance work or attend faults, so there will be a lot of vehicles. If you didn't see vehicles around then there wouldn't be the work done, if all the vehicles are parked up at Red Hill then, you know, they're sat there waiting for a call then they're not efficient, now they're out and about which is probably why people have seen these.

Mr Cyril George –

Thank you. And it's pleasing to note that you, I had a note about trained staff, filling the current post, actually currently filled by ex-pats, you said that you are planning to, you've hopefully got a Civil Engineer coming in soon who will take over from one of the ex-pats?

Mr Barry Hubbard –

Chris arrives back in August time and part of the task of the current Civil Engineer will be to mentor him to the level of Chartership and then he can effectively take over and, of course, Chris worked for us before and he's now spent a lot of time back in the UK which, again, has given him a lot more experience, but it is the intention, you know, required anyway by the Immigration laws to, you know, employ St Helenians first and the only time that we don't is when we can't find anyone suitable.

Mr Cyril George –

Can I just ask, the number of expatriate staff, how many expatriate staff do you have within Connect?

Mr Barry Hubbard –

We've got Laurence, you see I've got status, I'm not, so there's Makion, Laurence and Leon are the non St Helenian.

Mr Cyril George –

How many is that, sorry?

Mr Barry Hubbard –

That's three.

Mr Cyril George –

Just three of you.

Mr Barry Hubbard –

Oh sorry, hang on, oh sorry, and Ronald, four.

Mr Cyril George –

And you're planning to replace any of those with local staff in the future?

Mr Barry Hubbard –

But as contracts come up we're required to seek local people first, which is what we do.

Mr Cyril George –

And thank you for that, Councillor, or politically correct, I should say Mr George. Councillor Beard?

Councillor Clint Beard –

Thank you. I think I was glad to hear that the succession planning is kicking in.

Note 11 states that total receivables at £2.8m have increased by £1.0m in comparison to the prior year – section 2.4 of the Strategic Report. The receivables held by Connect have increased by £1million over the past one year, why has this happened?

Mr Barry Hubbard –

In previous year SHG had settled their claims for capital grants, in this particular year they hadn't and therefore they appeared on our accounts as a debtor. The claim that was outstanding on SHG was for various projects undertaken as part of the capital programme, these include the Drought Mitigation works, the new sewers in Ruperts Valley in anticipation for the treatment plant, the upgrades of the Half Tree Hollow sewers in anticipation for the new outfall, the new high voltage line providing an alternative feed to Blue Hill and the water works associated with the new Hutts Gate reservoir and Gents Bath extraction systems, so basically, normally it's paid, this time it wasn't which is why it's there and it wasn't before.

Councillor Clint Beard –

Thank you. Closing trade debtors has reduced from £503k to £390k but the Debtors provision has increased from £77k to £168k. Has the risk of default by consumers increased?

Mr Makion Chiwade –

The reduction is dependent on which clients would have paid on time and .... on time, so even though we had the reduction in debtors, then the total reduced debtor balance there was a significant struggle with debtor or debtors for which we had to provide, so we don't provide like on the basis of how much is owed in total, we provide on the basis of which debtors doubtful, so in the reduced balance of debtors there was a new debtor who is a bit doubtful and they are doubtful when they go over ninety days, so it just depends where a debtor's willing to make their payments .....

Mr Barry Hubbard –

But maybe just clarify this isn't an overall increase in debtors, it is a single debt which is now being underwritten by St Helena Government ..... increase.



Councillor Clint Beard –

Thank you. Is there a payment plan, have you set up that?

Mr Barry Hubbard –

So that the.....

Councillor Clint Beard –

The payment of .....

Mr Barry Hubbard –

The particular, there is a payment plan, that payment plan is with, we're allowing it to be offset against the payments that SHG will be making rather than to reduce that debt, basically to provide additional time for this particular consumer to deal with what they need to.

Councillor Clint Beard –

So is this guaranteed by SHG?

Mr Barry Hubbard –

The future debt is guaranteed by SHG, but I'm just, I'm a bit hesitant here, because obviously there's some confidentiality for our clients, so I think you get the gist, yeah?

Councillor Clint Beard –

Yeah, thank you.

The Chairman –

Thank you, Councillor Beard. The next set of questions is down to you as well? Thank you.

Councillor Clint Beard –

Thanks for those previous answers. Total overhead expenditure in Note 5 has increased to £1.2m up from £1.0m in the previous year with key management compensation at £0.5m in Note 6 now representing some 40% of these costs. How many individuals form part of Key Management?

Mr Barry Hubbard –

The key management is all of the Directors and all of the management staff. Basically key management as defined in the accounting standard is personnel who is persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director whether executive or otherwise of that entity, so what we've done is we've looked at the level of responsibility and decision making of our staff and basically, because we push as much of the decision making down through the management as we can, that covers all of our managers and directors and the reason, I'm sure you'll ask, that increased, that was because we've included the newly-recruited Civil Engineer and the Finance Manager who is previously a Consultant, into those figures, so that's the reason for the level of increase.

Councillor Clint Beard –

So your key management, what, how many, what's the number, you got a number?

Mr Makion Chiwade –

Three Service Managers, that was Operational Managers, then you go to two Support Managers for HR and Finance, then you go to the two Directors, there's ..... how many directors?

Mr Barry Hubbard –

Four non-executive Directors, a Civil Engineer, sorry, a Project Manager.

The Chairman –

How many staff do you have overall?

Mr Makion Chiwade –

Fifty-seven.

Mr Barry Hubbard –

Sixty-seven.

The Chairman –

Fifty-seven?

Mr Barry Hubbard –

Sixty-seven.

The Chairman –

Sixty-seven, thank you.

Councillor Clint Beard –

So you just noted about fourteen, one, four, roughly?

Mr Barry Hubbard –

Yeah, correct?

Mr Makion Chiwade –

How many?

Mr Barry Hubbard –

Fourteen. Correct?

Mr Makion Chiwade –

Total of key management, four plus two, six plus three, nine, two, eleven...

Mr Barry Hubbard –

Fourteen, it won't be a million miles out.

Mr Makion Chiwade –

Yeah, thirteen.

Councillor Clint Beard –

Thirteen, 1 - 3?

Mr Makion Chiwade –

Yeah.

Councillor Clint Beard –

Do key management of Connect sign performance contracts which ensures that organisational goals and objectives are being attained?

Mr Barry Hubbard –

Yeah, there's a, each employee has a set of objectives at the beginning of the year and their performance is judged mid-year and at the end of the year based on their performance, which ranges from unacceptable to exceptional, they, you know, they're rewarded accordingly. If they're underperforming then there's performance management procedures and that which we adopt and disciplinary, you know, where they're required.

Councillor Clint Beard –

What is the terms of engagement of senior managers at Connect?

Mr Barry Hubbard –

Directors, each Director, or non-executive Director has a contract and effectively a job description. Everybody has a job description, so non-executive Directors theirs is fixed terms and they are then either re-appointed if they want to and if they're invited to or not, but everybody else is just a full-term or a contract employee, which has terms of reference.

Councillor Clint Beard –

Thank you.

The Chairman –

Thank you, Councillor Beard. Councillor Brian Isaac, you have some questions I think you want to ask?

Councillor Brian Isaac –

Section 2.5 of the Strategic Report indicates that less electricity was generated from renewable sources during 2017 as compared to 2016, why has there been the regression in the the renewable energy power generation in the financial year ended 31 March 2017 as compared to 31 March 2016?

Mr Barry Hubbard –

So overall the units produced by wind reduced from 2.4 gigawatt hours to 2.1 gigawatt hours, but the solar units increased from .8 gigawatt hours to .86 gigawatt hours so the figures in the report were rounded actually, so as 4 and 1% but if you put a decimal place in there there's a reduction of 3.1% in wind but an increase in solar of 0.4%, so the thing about

renewable energy is you have to take it when the source is there, so if the sun's not shining as brightly or if the wind is not blowing as much then it can vary year on year and that can be up and down. With the wind turbines, we do have a fairly healthy stock of spare parts and we're fairly used to how these things run now, but in the year in question there was some different types of faults occurring of which we didn't have the spare parts and it's probably because of the age and a different type of fault occurring, so there was more down time in that particular year and as we know getting spare parts here can take some time and also getting the crane allocated can also be a little difficult as well, so yeah, there was less wind energy last year which probably a combination of possibly less wind and more down time. What is interesting though is that we used less diesel on our diesel generators, our servicing regime on the diesels has changed so the diesel generation efficiency improved by 3.8% and why that is significant is because the overall, we look at the overall fuel efficiencies, so for every kilowatt hour of electricity produced in 2016 we needed 0.1714 litres of fuel, but in 2017 that reduced to 0.1649, so that was overall a 3.8% increase in the fuel efficiency despite there being an adverse wind production figure and if you look back to, say, 2009, it's like a historical benchmark, the overall fuel efficiency then was .255 litres per kilowatt hour, so if you go from the early days of renewable energy and the old style generators to the current levels of renewable energy and the new style generators the Power Station's benefited from a 35% reduction in its fuel bill, which I think is pretty impressive in any terms.

Councillor Brian Isaac –

Thank you for your answer, but to be clear for the listening public can I just ask again, you part answered the question, what was the cause for the downtime in wind generation?

Mr Barry Hubbard –

A combination of possibly less wind, but also there was more downtime because of the type of failures which we saw were ones where we hadn't got the required spare parts so it took longer to repair.

Councillor Brian Isaac –

Alright, thank you. Was the maintenance programme for the wind turbines sufficient?

Mr Barry Hubbard –

Yeah, I mean, we've, in the early days, remember, we used to bring the OEM out to island, when we got the twelve wind turbines we then trained local people so we have St Helenians that are now servicing these turbines and we've also had, was it last year or beginning of this year, last year I think, a guy from the OEM came out for two weeks to provide specific training to our local maintenance crew, so, you know, we are training them using ways we've also done training on the, like, height access, which we teamed up with SURE to do, work in heights training, so they are trained, there is a proper maintenance programme. Just this last, I think they just had an unfortunate few failures which just took longer to repair than ideally we'd want them to.

Councillor Brian Isaac –

Right, thank you for that. My next question is, was the maintenance performed on the generators during the financial year capitalized or part of the expenditure?

Mr Barry Hubbard –

I'm not sure what you mean, but the type of expenditure you're talking about would be a revenue expense, it would only be capital if it went to form and created an asset.

Councillor Brian Isaac –

So it was revenue?

Mr Barry Hubbard –

Yeah.

Councillor Brian Isaac –

How will the proposed power purchase agreement with PASH work in practice between Connect and PASH?

Mr Barry Hubbard –

What will happen is they will produce the first phase of an increase of the solar farm, there'll be a meter that meters electricity on to the grid, we will pay per kilowatt hour for the electricity that they meter on to the grid, so that's an expense to us, but then the saving to us is that there will then be less diesel consumed, so the nett effect of that is it reduces our costs, so that's effectively how it works.

Councillor Brian Isaac –

Thank you. And do you see any risks to Connect when entering into this agreement?

Mr Barry Hubbard –

There shouldn't be, the heads of terms that we issued as part of the tender process detailed the liquidated damages, so if they fail to produce what they contracted to produce then the liquidated damage is the difference between the cost in the power purchase agreement and the cost of fuel, so effectively any loss we're making would then be covered as a liquidated damage. That power purchase agreement, obviously that's with the lawyers at the moment, but those are the agreed heads of terms so we're expecting that to appear in the power purchase agreement, so it should be risk free, if it's done properly it should be risk free.

Councillor Brian Isaac –

Alright, thank you for that. Thank you, Mr Chairman.

The Chairman –

Thank you, Councillor Isaac and I think I'll invite Councillor Dr Corinda Essex to ask the closing questions, but just before that, and I think we may have touched on it earlier on, and forgive me if I haven't ticked it off properly, but when we were talking about section 2.5.1 of the Strategic Report you mentioned water leakage on the aged distribution network, just one question, how has the water losses affected the costing of water and can Management accurately quantify the cost of these losses?

Mr Makion Chiwade –

In the past because we didn't have bulk meters, so the actual total amount of water lost was not known, we're only in a position to now allocated costs to water loss when the volume of water loss is measured so that instead of putting all the maintenance and other of our heads on to the metered water or consumed water we have a section where some of the costs are allocated to what's been lost, so in the future with the bulk meters in place and when we do the readings we can come up with the natural costs as in pounds costs.

Mr Chairman –

Okay, thank you, thank you for that. Dr Essex?

*(We all have technical hitches; we have one going on at the moment with the mic, so just bear with us for a few seconds. Right, we're working)*

Councillor Dr Corinda Essex –

Thank you, Mr Chair. Sorry about that, but the battery has just expired in the microphone. Note 9, sorry, Note 20 to the Financial Statements indicates that 701,577 shares were cancelled as a result of the SHG decision to assume the costs of the £665k for water solutions consultancy, previously written-off by the Company. What was the nominal share price of the shares that were issued by Connect to St Helena Government on inception of the Company?

Mr Makion Chiwade –

A pound?

Councillor Dr Corinda Essex –

Pound?

Mr Makion Chiwade –

A pound per share, yeah.

Councillor Dr Corinda Essex –

Was the cancellation of these 701577 shares approved by the Connect Board?

Mr Barry Hubbard –

Yes.

Councillor Dr Corinda Essex –

What value for money was derived from the aid funded water design project that you wrote-off?

Mr Barry Hubbard –

We didn't write it off, SHG wrote it off. I mean, if you look, we picked this up, I think the previous PAC and the one before. When Connect was divested, the water, electricity assets on the SHG Register were transferred to Connect. During the first audit, which, remember it's a back to back audit which was conducted, when we looked in detail at these assets, Connect established that the expenditure on that consultancy hadn't created an asset and therefore we couldn't claim an asset so we proposed writing it off. The Tax Office was of

the opinion that since no asset was actually transferred that it shouldn't be Connect that was writing off the asset, it should be SHG that wrote off the asset and therefore that's why the adjustment was made, because we never received the asset that we'd actually provided shares for so we took those shares back and SHG then wrote the asset off. There's some additional other adjustments, because you can see the 701,577, the £665k don't quite tally, other things that we established in the early years of trading was that there were other assets that were scrapped before divestment, there was a lot of water meters that were untraceable and there were some stores at the back of the Power Station which had been demolished to facilitate the works in 2012, so the value of those other assets which were scrapped before divestment was £60,655, but then we found other assets as well which weren't on SHG's asset register, that we'd taken over and they included an oil tester for, like, transformer oil, there was some IT server equipment, there was a vehicle and a portable generator to the tune of £4,900, so the combination of those additions and the water consultancy accounts for the £665k.

Councillor Dr Corinda Essex –

Thank you very much and congratulations for anticipating my follow-up question. Thank you, Mr Chair.

The Chairman –

Chief Auditor, yes?

Chief Auditor –

Mr Chair, I just wonder if I could assist the Committee in its evidence by just inviting a follow-up on the write-off of the shares, I mean, I think the Committee found Note 20 to be very useful, thank you, and it was clear that the write-off by the Company in 13/14 was now being reversed, so it gave a beneficial gain to your retained profit as a consequence. You've made it clear that the Tax Office requested that transaction to be processed, but in terms of the formality of the write-off you mentioned it was approved by the Board. Was that at an AGM and did that have shareholder approval, Chair, would be the question which I think the Committee needs to know?

The Chairman –

Would you take that as a question, please?

Mr Barry Hubbard –

At the AGM, the Attorney General attended the AGM on behalf of St Helena Government and the adjustments were agreed and the new share certificates and that work agreed in conjunction with the shareholder, I think I'm correct in saying that.

The Chairman –

Thank you very much for that. And thank you for coming along, sorry we kept you here a bit longer than was intended, but although only ten minutes more, so I think we're doing alright. Thank you very much, gentlemen.

## 2. ENTERPRISE ST HELENA

We now turn to the Annual Report and Accounts of Enterprise St Helena where Councillor Gavin Ellick will substitute for Councillor Dr Corinda Essex who sits on the Board of ESH and will therefore stand aside for this part of our hearing. Thank you Mr George for taking part earlier on, and, of course, the Deputy Chair will return to the table for this discussion. Thank you ESH officials for coming to the table and can I now ask you to introduce yourself, please?

Ms Helena Bennett (Director, Tourism) –  
Helena Bennett, Director of Tourism.

Mr Martin George -  
Martin George, Director of Commercial Development and Enterprise.

Mr Niall O’Keefe –  
Niall O’Keefe, Chief Executive.

Mrs Michelle Yon –  
Michelle Yon, Director of Resources.

Mrs Kirsty Joshua –  
Kirsty Joshua, Quality Systems and Information Manager.

Mr Robert Midwinter –  
Robert Midwinter, Director of Policy, Development and Social Enterprise.

The Chairman –  
Thank you. I will commence the questions for Enterprise St Helena. The 2016/17 financial year was an extension of the 3-year DFID Phase-1 support, what funds were available to be spent during the 2016/17 extension period?

Mr Niall O’Keefe –  
So, Mr Chair, for context, when Enterprise St Helena was commenced in 2014 there was a lead in or ramp, a period of time and during that period of time all monies were expended as anticipated, so the surpluses that were left during Year 1 in particular were utilized in the final year in the extension.

Mrs Michelle Yon –  
The total amount that DfID gave for the extension was £1,201,529.

The Chairman –  
Thank you. What steps did ESH take to utilize that funding during the extension period?

Mr Niall O’Keefe –  
We would have, based on our strategy and based on our agreed log frame and outputs with DfID, we carried on work during that period of time. Any monies that would have been



returned to DfID at the end of the year we had significant public awareness programmes on radio and in newspapers so that members of the community, of the private sector in particular, had an opportunity to avail of any funding that was available.

The Chairman –

Okay, so all of the funds then were not exhausted?

Mr Niall O’Keefe –

There was about £50k, I believe, at the end of the period of time that was not utilized.

The Chairman –

Okay, thank you very much for that. So can you tell me which of the grant funding streams essentially has been underspent – DFID or SHG support?

The Chairman –

It would have been DfID funding.

The Chairman –

DfID funding was underspent, thank you for that. Have the objectives for ESH under Phase-1 support through DFID been realised?

Mr Niall O’Keefe –

The survey that was, the review I should say, that was carried out by DfID at the end of period 1 gave the organisation an A rating across the entire period of the expenditure for having achieved the outputs and the outcomes that were set by DfID at the outset.

The Chairman –

Thank you. Let me carry on, the annual report talks of the success achieved but what didn’t go so well during the first 3-years?

Mr Niall O’Keefe –

I think, Chair, everyone on the Committee, particularly those that are political and members listening will be aware that it was a very challenging time for the island as a whole, so we would envisage that air services would have commenced sooner, we would have not envisaged the level of difficulties there were in getting personnel, consultants, goods to island because of the difficulties with the RMS, people would not have envisaged the drought that was in place at the time, so we had lots of plans in place, so if we look at agriculture, there were people that we wanted to bring in to look at fruit propagation, for example, because of the challenges of bringing people to the island at that period of time it didn’t happen. Obviously with weekly flights it makes it easier now for us to plan in a more structured manner to achieve some of these goals, but in terms of planning and terms of delivery I did say that we received an A rating from DfID for the three year period, but based on the final period of expenditure, which is included in this annual report, we received an A+ rating from DfID for the management of our expenditure and the planning of our activities.

The Chairman –

Congratulations to you for that, but there was some lessons to be learned, what has ESH

learned from these cases?

Mr Niall O'Keefe –

One of the key areas that we continued to work on with our partners, DfID and SHG, is the co-ordination, particularly where there's an overlap of responsibility, so most people would be aware that ESH has some responsibilities and outputs in areas like agriculture, again I mention, and fisheries, in some training and development. Even in terms of investment, whether it's local or otherwise, there is an overlap on duties and responsibilities, so we're working very closely with the Chief Secretary, elected members and various Directorates to ensure that there's clear delineation between whose responsibility is which and at what point, it's a body of work that will be ongoing and will continue to be ongoing, particularly as personnel change, but that would be one of the areas of challenges where sometimes there is duplication and work that's going on and other times work isn't being carried out to the level that we would want or hope and it generally boils down to communication, but we would be more comfortable now at this point that the relationships and the systems are in place to minimize those issues.

The Chairman –

That's great, going forward, but to what extent did ESH have a measurable impact on that economic growth or contraction?

Mrs Kirsty Joshua –

Just to say that in terms of GDP it's really difficult to actually have a figure to say that what's the contribution towards GDP and I know that the Statistics Office will turn round and tell you the same thing in terms of the GDP for St Helena. However, we are working very closely with the Statistics Office in terms of having other measures or benchmarks to show economic development and you would see in terms of our log frame that at the top of that it shows, if I can hand out a copy of the log frame now to everyone?

The Chairman –

It's okay, you just answer my question, please.

Mrs Kirsty Joshua –

At the top of our log frame, in terms of outputs and outcomes, you will see, in terms of the overall impact to increase sustainable economic development of St Helena, our first indicator is the total annual SHG revenue collected from private sector where the source will be the SHG Corporate Finance book and our second impact indicator is the average mean of employee income from employment and this will be from the St Helena National Statistics Yearbook.

The Chairman –

Thank you, I think you've answered my next question, but did the GDP in St Helena grow or contract during the period 2013 to 2016?

Mrs Kirsty Joshua –

I think that question would be best aimed at the Statistics Office, it would be very difficult for us....

The Chairman –

I might just do that, but I'm asking you the question now?

Mrs Kirsty Joshua –

I wouldn't have the answer; Enterprise St Helena wouldn't have the answer to that question.

Chief Auditor –

Chair, perhaps I could assist you?

The Chairman –

Please?

Chief Auditor –

If there was other proxy measures, as Kirsty's indicated that ESH uses, are those proxy measures indicating a growth or contraction in the economy?

The Chairman –

Yes, that would be the question; you now have an answer for that, please?

Mrs Kirsty Joshua –

So if you look at our baseline figures, obviously you don't have the log frame, we have a copy here if you'll would like to see the log frame, for our, the support that we get from SHG in terms of giving us those figures, it is not until the financial year finish that we can have those figures from SHG in terms of the two impact indicators that I just mentioned.

The Chairman –

Okay and forgive me if I don't want to see bits of paper that you want to hand around, I prefer to manage it the way I am, I just have a final question for you though, about cash on hand at 31<sup>st</sup> March 2017 which amounts to £836k – what does this mean in terms of 2016/17 being the end of the Phase-1 ESH support programme?

Mrs Michelle Yon –

Mr Chair, you need to note that included in that cash on hand at 31<sup>st</sup> March 2017 includes our bank accounts for all our loan portfolios, so that is not totally for our SHG subsidy that we've received, a large portion of that relates to our loan portfolio.

The Chairman –

Does anyone else have any questions you want to ask about the 2017 financial year, extension 3 year? No? Deputy Chair, Mark Yon?

Deputy Chair –

Kirsty, you mentioned before about the two indicators, but can you elaborate a bit more on what results you achieved from that?

Mrs Kirsty Joshua –

For the, the results from 16/17, like I said, it would be SHG that would provide us with those statistics and the figures from that.

Deputy Chair –

So those indicators are based purely on information from another body?

Mrs Kirsty Joshua –

Yes.

Deputy Chair –

What does that KMP, oh sorry, you can't tell me that, but what did the earlier financial years indicate?

Mrs Kirsty Joshua –

The earlier financial years indicate that GDP was very difficult, to actually say what our GDP was in terms, and by having, for it being difficult to actually have a benchmark it's then difficult to say whether we improving on it, so therefore that's why we went back to SHG and we agreed those two impact indicators where we can actually have benchmarks and actually show that we improving.

Deputy Chair –

Okay. So it's very difficult then to determine GDP?

Mrs Kirsty Joshua –

Yes, it is.

Deputy Chair –

I think you mentioned this before, but is there a near enough model that you could use or a concept that you can adopt that would give a similar indication?

Mrs Kirsty Joshua –

So in previous years, Mark, we've been using indicators that haven't, like I said, haven't given us the benchmark or haven't been realistic in terms of measuring our impact or GDP growth or anything in that light, so now we've gone back to SHG and agreed these two impact indicators to then show, move forward and say that we can show whether we improving or increasing in terms of impact to economic development, so from previous indicators, like I say, they were unrealistic, but now with these new indicators in place with our Phase-2 it is hoped that we can be able to actually record and show a benchmark and increase over time.

Deputy Chair –

So if I were to question you with the same question next year, or Mr Gunnell in this case ....

Mrs Kirsty Joshua –

Then I should be able to tell you that....

Deputy Chair –

You could give us a more definitive answer, yeah?

Mrs Kirsty Joshua =

Yes.

The Chairman –

Alright, thank you for that, for that question and answer with regards to the financial year and extension of the 3-year DfID Phase-1 support. I think we can turn to Phase-2 though now and Mark Yon I have you down for asking some questions in that regard.

Deputy Chair –

Thank you, Chair. The DFID Phase-2 support commenced with effect from 1 January 2017, what is the nature of the DFID support to ESH for phase-2 and for what period will that be over?

Mr Niall O’Keefe –

Just to clarify while the date provided is 1<sup>st</sup> January 2017, we didn’t receive approval until the end of April of last year, so we’re reflectively working in a limbo, we were carrying on as is normal, we were using our SHG recurrent expenditure and we were promoting certain events and instances, for example, the home slaughter programme and campaign, but we didn’t actually have funds at that point in time, so we had about four months effectively where we didn’t have definitive approval from DfID, and, in fact, the approval came on the final day of the previous HMG Government, purdah was commenced on the Friday that we received approval, the original approval we had hoped and sought was for a five-year period, but based on the proximity to an election campaign it’s our understanding that the decision was made for a three-year period, so to the 31<sup>st</sup> December 2021, sorry, 2020, but there is an opportunity for an extension on our rolling budget. The fund that was provided for that period of time for the three years is £4.9m from DfID.

Deputy Chair –

Okay, and is there any authorised use of these funds, for example, is there, is it earmarked to be spent in any specific way?

Mr Niall O’Keefe –

We would have a log frame and an agreement with DfID which is similar to the one that was previously rolled out. We’ve tightened some of the areas where we were focusing, for example, some of the outputs that we would have been required or asked to do was to seek to create more businesses on St Helena, we feel strongly that ESH and the environment is one that we should be looking to sustain businesses and to grow existing businesses at this stage rather than necessarily looking to grow new businesses, but unless there’s an area, a sector where there isn’t a service guarantee provided we have pulled back in some ways from fishing, Fisheries, where we still support it in terms of vetting the meetings and policy and so on, our funding isn’t directly related towards Fisheries as it was and similarly with Agriculture, our funding is ring fenced in a different way than it used to be, so again it goes back to one of my earlier responses whereby we’re looking to work more closely with the lead bodies that have oversight or responsibility in a particular sector, but in some ways if we can give them the funding so they can fulfill their ambition in partnership with the local

sectors, but also fulfil the log frame and the outputs and outcomes as anticipated by DfID.

Deputy Chair –

So it could be used across many sectors and correct. Okay. What changes and improvements then have been made to phase-2 as a consequence of learning from Phase-1?

Mr Niall O’Keefe –

I don’t want to repeat myself, but a lot of what I said in the previous answer is that we are more focused, we’re more targeted and tourism obviously is the overarching umbrella to what economic growth is, but we’re saying that tourism for it to be successful needs to provide good services, whether it be accommodation or food and that means good agriculture, it means good fisheries, we also are looking to see if we can support other sectors like construction, as everybody is aware, there is a significant investment in construction with 630 people, 300+ Saints working on the airport construction, there currently isn’t a capital programme so we’re looking to see what areas and what ways we can support investment, working in partnership with other entities, again SHG, the Bank of St Helena, to make sure that we’re more effective and that the money goes further, value for money I suppose, what the PAC would like to hear.

Deputy Chair –

Okay, thank you. So have you had actual meetings in terms of the disbursement and looking at other areas where you’re going to focus on?

Mr Niall O’Keefe –

Yes.

Deputy Chair –

Okay.

Mr Niall O’Keefe –

Every day and most nights, I would say, at this stage, yeah.

Deputy Chair –

Okay, that’s good to know. You mentioned before that you were looking for a longer term agreement in terms of the funding for phase-2, did you say before it was five years?

Mr Niall O’Keefe –

Correct. When we made the initial submission, which would have been August 2016, we would have requested a five-year period, our understanding was that DfID, their view was that a five-year period is appropriate, again, that is the case that just because the airport doesn’t, has just opened, doesn’t mean that economic development has commenced or that the roots are sufficiently growing, but as I say, that was overtaken by the fact of a call for an election at short notice and the restriction on spending that was placed on Ministers at that time, that’s our understanding.

Deputy Chair –

And that was reduced to a three-year plan.

Mr Niall O'Keefe –

A three-year period, but again I would say that based on the performance of ESH and the draft review we've received in the last year again, which is another A mark, the anticipation is that there will be objectives that both SHG and DfID will want to achieve and the organisation is well placed because of the breadth and depth of the team in the organisation and the experience has been developed, and I suppose it's something that I didn't reference sufficiently, but while we have an agreement with DfID in terms of our expenditure, we also have a service level agreement and a Memorandum of Understanding which is reviewed on an annual basis by SHG and, again, it's to make sure that there's joined-up thinking in terms of outputs for the benefit of the people of St Helena.

Deputy Chair –

So, given the three-year period that you have to work within now what was the level of funding that you received, did you get what....

Mr Niall O'Keefe –

We received £4.9m, Mark, for the three-year period.

Deputy Chair –

Was that what you expected?

Mr Niall O'Keefe –

Yes, it's a very positive sum for the period of time that's there.

Deputy Chair –

Okay and looking at the other two years.....

Mr Niall O'Keefe –

Sorry, just to clarify that question, the original application over five years to include some capital expenditure, the request was in the region of £8.4m, so capital expenditure was removed from the request, as you're aware there isn't any capital expenditure on island at present, and then there was a pro rata reduction from the five years to three years which ended up on £4.9m.

Deputy Chair –

Okay, thank you for that information. So looking beyond the three-year period, does that affect your future planning then if you were looking initially at a five-year term? What does that mean in terms of future development?

Mr Niall O'Keefe -

Well, it's a fair question, but any organisation such as Enterprise St Helena or SHG must be looking at short, medium and long term so most people, I know you were busy yesterday, but there was a Press Release issued in relation to the SEDP, so ESH, that is our working document, we're also working to the Ten Year Plan which SHG generated, so I think it is really important that everybody is aware that we're not up in Ladder Hill or up in the

Canister developing or designing something new, we're servants of the Public Sector, we're servants of elected members and to the people of St Helena, so the input and the contributions that people made to the Ten Year Plan and to the Sustainable Economic Development Plan is what our output and our aims are. In terms of the specific question between now and the end of Year 3, obviously we've got the short term goals and the medium term things that we're looking at, we would love to think that we had the additional funds down the road so if there was capital investment, for example, in certain areas, that we could start doing the design, the planning, the costing, the appropriate procurement and so on, because the lead-in time for things like that are significant. I think, going back to the questions earlier that Kirsty was being asked also in terms of GDP, as Kirsty pointed out, we're working closely with Statistics in SHG to bring a shape and a form on that, you know, the questions that were asked were appropriate, we do need an appropriate benchmark for the next five, ten, fifteen years and, again, the reason I'm saying that, is that the outputs that we'll be looking to achieve in the next three years should be captured in that and over the next five and ten years also, I would hope. I know there is a history in St Helena of an entity or an organisation such as ESH, you know, there's SHDA and other entities before that, I believe there will always be one, there should be one, but I think what's critically important is rather than continual change that an entity such as ESH utilising the model of the Ten Year Plan and the SEDP as a more consistent, strategic, long term vision for how it delivers economic benefit and growth.

Deputy Chair –

Okay, thank you. Chair?

The Chairman –

And thank you all very much for those responses. Councillor Gavin Ellick, thank you for coming to the table to replace Councillor Dr Corinda Essex who is a member of the ESH Board and just to avoid any conflict of interest, you are down now to ask the next line of questions, over to you, Councillor Ellick?

Councillor Gavin Ellick –

Good morning. The financial statements for the year 2016/17 report the ESH financial performance with an unqualified opinion from the auditors, were there any matters of significance raised in the Auditor's management letter to the Board?

Mrs Michelle Yon –

No, Sir, there was not.

Councillor Gavin Ellick –

Referencing a previous.....

The Chairman –

Sorry, I didn't get the answer to that question, what was the answer given?

Mrs Michelle Yon –

Sorry, there was no significant issues raised when they did the Audit.



The Chairman –

Thank you for that.

Councillor Gavin Ellick –

Referencing a previous PAC recommendation, why has ESH continued to publish their Annual Report and Financial Statements separately rather than combined as implied by section 10 of their Ordinance?

Mrs Michelle Yon –

According to section 10 of the Ordinance it states that two documents have to be prepared which we have done and we have supplied each to SHG by the required date and bear in mind that the Auditors were an international auditing company that audited our accounts for, this was the fourth year that they did, and we got them to audit the Financial Statements. The annual report was also approved by the Financial Secretary before release and that is according to the Ordinance.

The Chairman –

Chief Auditor, any comment on that?

Chief Auditor –

Thank you, Chair. Yes, so this relates to a previous PAC recommendation of your work when you looked at the report for 15/16. Section 10 of the Ordinance talks about the publication of an annual report and accounts. An annual report and accounts is normally taken to be a single document albeit that ESH choose to publish those separately at different times in the year, I think that's the point that the Committee was trying to reconcile.

Mr Niall O'Keefe –

Okay, just to, sorry, if I may?

The Chairman –

Yes, please, go ahead.

Mr Niall O'Keefe –

There's not an issue with ESH doing that and we're quite content to do that and Kirsty's already working on the report for this year, sometimes it's a matter of timing, so in response to the back of what Michelle is saying that she has certain obligations in terms of certain data that's circulated, the annual reports we've issued in June for the last two years and in terms of timing it was a challenge to get all of the data in the one document at the one time, but certainly I would say that it's good practice, it's better for our consumers to have everything in one place and we don't have an issue aspiring to that, provided that the data is available at that time.

The Chairman –

Thank you very much. Councillor Ellick, you want to continue?

Councillor Gavin Ellick –

The financial statements report ESH investments in associates in Note 4, what was the

nature of this investment in an associate company?

Mrs Michelle Yon –

The investment was into a private company on the island and it was part of our equity share portfolio that we purchase into the company.

Councillor Gavin Ellick –

Why was the investment in the associate £20,737 written-off?

Mrs Michelle Yon –

As part of the accounting practice, it was to look at what the asset value of the company was and we basically wrote down our investment in that company as a provision for impairment.

Deputy Chair –

So is this an annual deduction or reduction?

Mrs Michelle Yon –

Every year we look at the Financial Statements of that entity and a calculation is then done, so if they start making surpluses we will then write back that impairment.

Deputy Chair –

And if they were to make a profit, you said?

Mrs Michelle Yon –

That's what I'm saying, yeah.

Deputy Chair –

Okay, alright. Thank you.

Councillor Gavin Ellick –

What actions are being taken to recover the value of this investment?

Mr Niall O'Keefe –

I'll respond, Councillor Ellick. So ESH in part of its structure and its setup was to support higher risk investments in certain sectors that may not have been supported previously. Organisations or businesses that we supported in that way would generally have been refused by the Bank funding and we would take on these loans as a higher risk. Obviously we want them to be successful, we test them, we support them, we sit on their Board or Committee to try and advise them, but at all times we look to optimise the income for that particular entity and to reduce its outgoings, but, you know, as will be evident next year, there's been a positive turnaround for this particular company and the accounts and the questions that Mr Yon has asked, I think you'll see a different outcome from next year.

The Chairman –

Thank you very much for that. Any further questions on that particular line?

Chief Auditor –

Only, Chair, that in your deliberations you thought it might be helpful to know the total value of the investment in that associate from the outset....

The Chairman –

Yes, that's true.

Chief Auditor –

So that could be tracked.

The Chairman –

Are you able to answer that?

Mrs Michelle Yon –

Yes, Chair, it is actually stated in the Financial Statements the value of our investment.

The Chairman –

Yes, well, could you just remind me what that is?

Mrs Michelle Yon –

Okay, the shares at cost was £83,300.

The Chairman –

Thank you very much and the public has been able to hear that as well. Thank you for that. And, alright, thank you. Councillor Clint Beard, the next line of questions is from you.

Councillor Clint Beard –

Morning, I just want to declare an interest that I'm on one of the sub committees of ESH. Note 5 to the financial statements mentions the wholly-owned subsidiary Bertrand's Cottage Ltd, what is the nature of this Company?

Mrs Michelle Yon –

The Company is a training facility, it offers accommodation and restaurant facilities, but we also use it as a training.

Councillor Clint Beard –

Thank you. What arrangements have been made for the independent audit of this company?

Mrs Michelle Yon –

This Company is a private company listed, registered here on St Helena and as yet has not been audited.

Councillor Clint Beard –

Is there any plans to be audited?

Mrs Michelle Yon –

Well, when, during the current year when we did the audit for 16/17 the Auditors did look at it and they were happy with our recommendation that we do not consolidate it into our accounts, so they have had a look at the accounts, but going forward if it is deemed necessary then it will be, we can take it to the Audit Services to be audited.

Councillor Clint Beard –

So the advice given is that it is fine as it is, it doesn't have to be independently audited?

Mrs Michelle Yon –

No, they looked at it and they said that we didn't have to consolidate it into our accounts and they were happy with the accounts as it was presented to them.

Deputy Chair –

If I may come in and ask a question on this, so where is the accounts for this Company?

Mrs Michelle Yon –

We do have a set of accounts which we can supply to the PAC is they would like to have sight of it.

Deputy Chair –

So this is generally just at year end submitted to the Tax Office?

Mrs Michelle Yon –

Yes.

Deputy Chair –

Okay, thank you.

Councillor Clint Beard –

Referencing a previous PAC recommendation 103, has ESH consolidated the results of Bertrand's Cottage within its financial statements as presented? No, you haven't.

Mrs Michelle Yon –

Mr Chair, no, we haven't, under FRS 102 accounts of a subsidiary do not have to be consolidated and we've reported these accounts under the equity basis.

The Chairman –

Okay.

Councillor Clint Beard –

Referencing a previous PAC recommendation 104, has ESH determined its future intentions with regards to its ownership in Bertrand's cottage as a training facility and standalone business?

Mr Niall O'Keefe –

Okay, I'll respond to that one, Councillor Beard. As people are probably aware for this hearing, over the last two years that there were three objectives with Bertrand's Cottage.

One was to save and protect a very important heritage building that was two hundred years old on the day we handed over the key on 15<sup>th</sup> October 2016 and reinstated to where it had been at the time of its construction, particularly around the time that the Napoleonic General's Quarters had been opened within the recent weeks. We also wanted a facility to provide hospitality training and upskilling, we wanted a place in that part of the island to decentralize, I know it sounds a bit strange, but to move something out of Jamestown and to a different part of the island to provide services in that area and also, based on the anticipated figures of accommodation required, it created three bedrooms and a restaurant facility and food provision. It was never envisaged that Enterprise St Helena would maintain long term involvement in that entity. Before works commenced, there was some level of interest from people who wanted to purchase the building and take it over, but they would have effectively have taken out a public access and we were concerned with that, so where we're at currently is that we are developing a brochure, we've done this already and we've marketed it and we've one or two people interested. Ultimately the decision will not be ours in terms of what value will be achieved or accepted for the property. Obviously we're looking to get back all of our capital expenditure into that particular building, we've been communicating with the Financial Secretary who has somebody coming to island shortly to value a number of SHG properties, Bertrand's Cottage is going to be added to that list and once that has been received and shared with elected members to make a decision on what position they will hold in terms of whether it's an appropriate value or what type of leaseholder, any conditions that pertain to the property, we will market it to the full extent. Our anticipation would be that this is a sixteen/eighteen month process that we will have divested ourselves of the management and ownership of that particular property, and, again, to put it in context, it's in our annual report for last year, but over the previous period of the last four years of Enterprise St Helena, over one thousand people have been receiving hospitality training, either accredited or non-accredited, obviously it's not a thousand people, but a thousand courses have been provided at various levels, so there is a shortage, we can say as we're sitting here today that there's a shortage of forty-two people to provide services to the hospitality facilities that are currently open on island, so we know it's required, we know we need to get to the youth, so, again, short term we provide training, try to get as many people from Prince Andrew School as possible or people to transfer from other sectors into hospitality, but in the interim, once a price has been agreed or finalised by elected members our team will be promoting that locally and internationally making sure that the building isn't lost to the public and that the condition that it's in is maintained.

The Chairman –

It is a fine building and a brochure would certainly help. Thank you for that very positive response, but hand back to Mark.

Deputy Chair –

Thank you for that, Niall. You said that there were three objectives for the business or the Company, one in particular was to relocate the premises to another area of high potential, I guess, on the island, was that a bad move in terms of this Company acting in a trading capacity?

Mr Niall O'Keefe –

Acting in which, sorry?

Deputy Chair –

A trading capacity?

Mr Niall O’Keefe –

No, I don’t believe so, the reality is that there is one other premises that has opened in that particular location, there isn’t anyone providing guesthouse accommodation to the level and the standard that we are, the level of interest that we have from overseas people particularly, from France and from China that want to stay in an historic building where Napoleon sat and dined and watched horse racing across Deadwood, so in terms of marketing promotion it’s fine, but it also ties in with our other objectives, so when you stand and you’re looking at the front porch or you’re looking out the front porch out across Deadwood you’ll see the agricultural area, you’ll see all the poly tunnels and you’ll see the work that went on there. If you looked to the left you’ll see the Enterprise Park which we’ve also refurbished and we’ll be signing a contract tomorrow for it to become a Pack House and open in the next week or so, so we’re trying to create a hub in that particular area, there’s a building opposite as well which we’d like to have possession of and tidy up the area, create a new road access, so it actually goes back, Mark, to a vision that happened many, many years ago on island in terms of creating a garden type area, a hub in the community, but in terms of ESH investment in that particular area, it localizes very much from farm to fork what we’re doing, so you literally grow, harvest, wash, clean, primary and secondary food production and then consume all within a hundred square meters.

Deputy Chair –

Okay. So you did mention that, I guess, there’s a high standard of business that you provide from the building or from the Company, what do you mean in that regard, or service, you said that.....

Mr Niall O’Keefe –

No, well, it’s a training facility, but I think the fit out is of a very high grade, as people will know and witness, and what we’ve been utilising, most people, I’m digressing to tourism, but Helena and her team have developed the benchmark standards where people that register with us who are staying you need a minimum standard whether it’s public liability insurance, whether it’s your fire safety, all of these types of issues and Bertrand’s Guest House displays and demonstrates that very well, so if there are people providing service accommodation on island we can visually show them, but also some of the training that’s carried out by the team that shows people how to turn down a bed quickly, how to be more effective in terms of cleaning and monitoring and maintaining the property, how to do bookings, how to manage digital and online credit stuff and I’m talking about next year’s annual report, but next week on 23<sup>rd</sup> May ESH was going to be outlining a significant number of programmes, including the divestment of the booking service that we provide, the funding for all of our registered operators in terms of marketing and promotion and all of those things rather than outlining next Wednesday’s announcement, what I’m saying is, all of those things that I’m outlining that will be outlined next Wednesday by Helena and her team are actually in place in Bertrand’s Cottage and in that hub at the moment.

Deputy Chair –

Okay. Who, or is there a Director of some sort or is there a Board of Directors or who are the shareholders as well, can you elaborate?

Mr Niall O'Keefe –

Well, Enterprise St Helena are the shareholders and we have a Board of Directors made up of a team of the Executive, we have..... if you want to talk Michelle?

Mrs Michelle Yon –

We have an independent Board that oversees Bertrand's Cottage which consists of myself, as the Chair, Helena Bennett which is on the Board as well as Charlene Young and Marilyn Caswell and the two operational managers from the Cottage attends regular meetings regarding the operations and the facility out at Bertrand's.

Deputy Chair –

Okay, thank you. And Niall, I think you said before about taking, if there was a sale, for example, you could be taken away from public access, can you explain what you meant by that?

Mr Niall O'Keefe –

Basically, when we received an offer previously in writing, somebody wanted to turn it into a private office and we felt that that would be a loss, because what's currently happening is that people are visiting Longwood House, they often stroll across the road, have lunch, they see the full story, they understand the full history of General Bertrand and his wife Fanny and the family, it just adds to the St Helena heritage offer and I think my understanding is certainly that most St Helenians do not want to lose any of their heritage or access to it certainly.

Deputy Chair –

Thank you. Chair?

The Chairman –

Thank you and Councillor Beard, had you finished your questions?

Councillor Clint Beard –

Mr O'Keefe, I just want to check, if you can just clarify, it's in the recommendations, a medium term exit strategy should be developed, I don't know if you mentioned that previously, but if you could just elaborate?

Mr Niall O'Keefe –

Again, I'll summarise what I said previously which is we are currently waiting on a valuation of the property, we are developing a brochure for it, we will market it and if elected members approve the valuation and any offer then we will remove ourselves from it and then we will look at, you know, we anticipate there will still be some form of requirement for hospitality training and upskilling, but the scale and the level of it at that point will probably just require it to be inserted into a current, existing business rather than a stand-alone entity.

Councillor Clint Beard –

Thank you. Note 19 records total capital expenditure on Bertrand's Cottage of £232,293, was this the total capital cost of converting Bertrand's Cottage?

Mr Rob Midwinter –

As at the end of the financial year in question, £356,000.

Mrs Michelle Yon –

Sorry, Mr Chair. It related because the previous year we also had expenditure on Bertrand's Cottage so it rolled over the two years.

The Chairman –

Thank you.

Councillor Clint Beard –

Why is the investment in the subsidiary Bertrand's Cottage Ltd in Note 5 just £7,757 when compared to the capital expenditure incurred?

Mrs Michelle Yon –

Sorry, Mr Chair. The funding that is stated in Note 19 related to the funding we received from DfID to upgrade that facility, the amount disclosed in Note 5 was the amount that we actually paid for that investment, bear in mind that the DfID funding, the asset, still belongs to SHG, it's part of the Crown Estate.

Councillor Clint Beard –

Thank you.

The Chairman –

Okay, thank you, Councillor Beard. Anyone else wants to ask questions on that particular line before we move on to Councillor Ellick?

Deputy Chair –

I'm just going back to a question to the total capital expenditure on Bertrand's Cottage, so just to repeat then the total cost was £356,000?

Mr Rob Midwinter –

As at the end of that particular financial year, yes.

Deputy Chair –

You say at the end of that particular financial year, what is the actual cost?

Mr Rob Midwinter –

There has been further expenditure at Bertrand's Cottage during the past financial year, which would not appear on these particular accounts, so the total figure would have been the previous financial year, the financial year you're currently looking at and there is some rolled forward in terms of additional works that are undertaken outside, for example, street



lighting was put into the car park area, that won't have appeared in the previous financial year.

Deputy Chair –

And have there been any maintenance costs included in those fees, charges that you were just saying?

Mr Rob Midwinter –

There will have been, but those will not have been part of the capital project, maintenance charges will have been picked up through the Company.

Deputy Chair –

So can you tell me then what is the total development cost for Bertrand's Cottage?

Mrs Michelle Yon –

According to our records, it's £365,000.

Deputy Chair –

Thank you for that, is it likely to change, you said for your records, is that a final figure then?

Mr Rob Midwinter –

We do have one further item that we are looking to do at Bertrand's Cottage under the capital project because we still have a small amount of surplus between the original budget that was approved of the extended budget, it was approved and with the expenditure that's been incurred and that is that we have some additional street lights that are remaining and we are considering putting in two further street lights in the exterior around the car parking area.

Deputy Chair –

And that is likely to bring a total investment of?

Mr Rob Midwinter –

It's going to be around a further £8k to £10k, it's not significant in that context.

Deputy Chair –

So, say £373,000 investment? How many days per week is the business open, whether as a training center or a place to eat or sleep?

Mrs Michelle Yon –

Basically if they have guests in, it's open seven days a week. With the restaurant, they are open on a Wednesday, Thursday, Friday, some Saturdays and Sundays for lunch.

Deputy Chair –

And in terms of the training that you provide, what were the numbers or the uptake during this particular financial year, in terms of, sorry, in terms of people who were attending your courses, was it a sellout, was it only one person attending, was it two?

Mrs Michelle Yon –

We did have a good uptake in the numbers of the training facilities. I'm just looking at the records quickly. To state that we have, for the Phase I there was 29 people upskilled and I'm not quite sure from the January to the March side, but that figures we can supply to the Board if they want.

Deputy Chair –

Okay, that will be useful.

The Chairman –

Could you do that please? Thank you. Nothing further Mark?

Deputy Chair –

No, I just wanted to determine what was the total investment and potentially what is the return on investment, so I just wanted to know will it all add up in the end, how long will it take before recover the cost, is there any intention to recover these costs, can you tell me that?

Mr Rob Midwinter –

I think the most important point in terms of the capital investment, the return on that capital investment is really when we collect, ESH..?...ESH divest that asset, because there's the capital aspect, there's the money that's been spent on upgrading that facility against the operational business, so the main return on investment will come from the divestment of that asset and ESH is looking to recuperate our capital investment into that asset.

Deputy Chair –

Okay, thank you.

The Chairman –

Alright, thank you very much for those responses. We just have a few more questions, I think, to ask unless there's any supplementaries to ask based on any responses given, but Councillor Ellick, I invite you to ask questions?

Councillor Gavin Ellick –

Could you tell me how many people have been trained in Bertrand's Cottage to date?

Mrs Michelle Yon –

Sorry, Mr Chair, I did say we would supply those figures to the Committee.

The Chairman –

Yes, thank you for that.

Councillor Gavin Ellick –

The financial statements report property plant and equipment of £638k in Note 3 and project expenditure in the amount of £610k in Note 19, why is this capital expenditure in Note 19 not formed part of the capital assets of ESH in Note 3?

Mrs Michelle Yon –

All the expenditure related in Note 19 was related party transactions, all these were upgrades to SHG assets and they do not belong on the ESH asset register.

Councillor Gavin Ellick –

Has this capital expenditure been recognised by St Helena Government in their entity financial statements?

Mrs Michelle Yon –

We do supply those figures to SHG and they obviously bring it into account on their side.

Councillor Gavin Ellick –

Assets that originally cost £342k (NBV £79k) were sold at a loss of £32k, what kind of assets were these and why were they sold?

Mrs Michelle Yon –

Mr Chair, those assets weren't sold, that was the facility in Ruperts and it was transferred back to SHG during the course of the year and that was the amount that was still left over on our asset register which we had to write off.

The Chairman –

Thank you for that. What asset in Ruperts?

Mrs Michelle Yon –

It is the Argos Cold Store .... facility.

The Chairman –

Thank you for that clarification.

Mr Niall O'Keefe –

Just to clarify, Mr Chair, the purpose for doing that was that obviously when Argos withdrew there was an issue whereby ESH owned the building, Argos owned the plant, SHG owned the land. Our view was that if an entity had the consolidated asset there was the potential to leverage it or to promote it in terms of investment rather than multiple groups being involved, that's why that decision was taken.

The Chairman –

Thank you very much for that. Any further questions on ESH? If no, then thank you all very much for your very valuable responses. It was.....

Chief Auditor –

Chair, we're done on that section, but I don't think we're done in total.

The Chairman –

I seem to be missing something, oh, I beg your pardon, pieces of paper get missing sometimes. But what I said was, what I intended to say anyway, thank you all very much for

the way you have responded, but Councillor Brian Isaac you have some questions you want to ask?

Councillor Brian Isaac –

Thank you, Mr Chairman, and I wish to declare my interest as a member of the Tourism subcommittee, thank you.

The non-financial performance indicators are presented in the ESH Annual Report 2016/17. Referencing previous PAC recommendations, which states, ESH will need to develop management information systems to capture timely and accurate information for internal management and external performance reporting to stakeholders. Could you give a comment on this, please?

Mrs Kirsty Joshua –

Thank you. ESH understands the importance of appraising both financial and non financial performance measures. Our aim as an organisation is not to make a profit or to compete, rather to complement and enable private sector. Therefore, there are a number of areas that are important for ensuring the success of ESH and the non financial performance indicators. Two of the key tools that we use is our logical framework, the log frame, as well as we use an internal balance scorecard that measures internal performance and these two tools enables and include financial and non financial performance measures that includes internal and external measures and as well as they are linked to our strategy and the non financial performance measures are included in our annual report 16/17 and we will ensure that it's included in our report for 17/18.

Councillor Brian Isaac –

Thank you....

Mr Martin George –

Sorry, if I can, the points or the area mentioned about the, to develop the management information systems, if I could just add that the Quality Systems and Information Manager post was created specifically to look at the capture, management and use of information within Enterprise St Helena. Also, I suppose, you could tag it into the good governance aspect as well, we've got the appropriate sub committees set up as well and what was initiated during the year in question was exploring the possibility for a CRM system. That is a significant piece of work, or was a significant piece of work, it's ongoing, because we need to realise what needs to go into that system, what it would look like, in order to meet what we want to aspire to get out of it and that reflects our various and numerous reporting as well, so the CRM was explored, initiated and currently we're testing certain aspects of it. It's not something that we can actually take off the shelf, so it's actually been tailor made and this is work that is ongoing and I think also it's important for the PAC and the public to know that we work closely, as mentioned earlier, with the likes of the Statistics Office in terms of ensuring that there's holistic collection and use of data and some of the areas for demonstration will be realised in the coming months. I would use one example, the work we're doing with statistics in terms of looking at the forthcoming labour market survey, so I think this, if that helps.

The Chairman –

Thank you for that input Mr George. Just for my ignorance though, what is a CRM system?

Mr Martin George –

Obviously it's a digital, it's a piece of technology or software system, you can get them off the shelf, that actually collects customer relationships, so our clients are our customers so their details and data and everything else that we do in ESH associated to those customers or clients.

The Chairman –

Thank you for that, it's just that I tend not to want to use abbreviations and the public would want to know that as well. Councillor Isaac?

Councillor Brian Isaac –

Thank you, Mr Chairman. Another recommendation was that ESH should use the commissioning relationship with provider organisations to require data returns, which measure not only inputs but also outputs and measures of impact?

Mr Martin George –

If I can, Mr Chair, the collection of data and the entities that that data needs to originate from is always a challenge, I think not only for ESH but for even SHG or other people, but we've explored and we've utilized in the past, even if it's homemade or internal means of collecting data, but we do this in partnership with the Government across various areas, but if I can give an example, the let's just say the funding approved to a private sector entity in agriculture. The terms and conditions apply which are standard across, regardless the sector, is that one of their obligations that they supply timely data to ANRD and I think it links back to the point that Niall was referring to earlier as well, was that how much we work in partnership with the other entities on the island, so there's provisions in place in terms of approval letters for funding that has been awarded and the terms and conditions contained within. Additionally we ask umbrella organisations suchlike, or entities such as ANRD to supply ESH with holistic provision of data they've collected so it helps us to inform and assist our forward planning even.

Councillor Brian Isaac –

Thank you for your reply. Can I ask, why has ESH not placed more emphasis on output and outcome measures both in strategic plans and in non-financial performance reporting?

Mrs Kirsty Joshua –

As I said before, we understand the importance of both financial and non financial planning, I mentioned the two tools that we use for that, our log frame and the balance scorecard, which is an internal performance measurement and what is recorded and is also reflected in our annual report for 16/17.

Councillor Brian Isaac –

Thank you. And can I ask....

Chief Auditor –

Councillor Isaac, perhaps I could just assist on that particular one before we lose Kirsty on that aspect, because Chair, you will remember when the Committee looked at this, and this has been a recurrent feature in your reporting about when you've looked at the both the annual report and the financial statements, but more on the annual report, Kirsty, the non financial indicators, they do tend to be more input and activity measures as opposed to output and outcome and that was a specific aspect which the Committee were interested in and it's about, I guess, the question why, why was not more emphasis placed on output and outcome and opposed to input and activity and that's really what I'm trying to get to the heart of there before Councillor Isaac moves on, if you can? Thank you.

Mrs Kirsty Joshua –

Okay, so for us, in terms of the input and the outcome, it's the level of results, so we see the output as the first level and a short-term level of result, we see the outcome as a medium-term level of reporting our results and obviously the impact would be a long-term measure of reporting our results, so, for example, if I use the Festival of Running, the Festival of Running, as mentioned in our annual report, the activities that we hold the Festival of Running, the first level or the short-term level of our results is how many events we had from the Marathon to the Fun Run, our outcome would be how many participants we have, because it's linked to our objective in terms of the number of participants and obviously the impact would be the promotion we got from that event, it's an annual event, it's part of our culture and community, so sometimes the impact is not something that we can put into the narrative, but it is a long-term objective and it's linked to the long-term objective of economic development and a tourism product.

Councillor Brian Isaac –

Thank you. Can I ask what is the relationship between the number of start-ups supported by ESH (KPI 1.1) and those remaining in business after two-years (KPI 1.2)?

Mr Martin George –

So at ESH we have a systematic process, and funny enough it links back to the very sort of question I was asked previously, is that in the, at the point of which support is awarded to a start-up there's then the, it used to be termed the after care service, so there's then a set timeline in which we engage and follow up with that individual, that start-up business and that is ongoing. We also have a sideline commitment to engaging with, if not all, most of the businesses on island on an annual basis anyway, so if a start-up business received support in one year, but didn't come forth in the following year, that doesn't say that we're gonna exclude them because our business engagement programme looks to engage with almost every single business on the island. Previously we've indicated that, I think from the period January to December 2017, for example, over 400 businesses was engaged by the Business Development team, so obviously we didn't fund all those businesses during the same period of time, but that's an indication of our programme. In terms of those follow-up visits, the early days, the point of which the new business starts up and then to the point where we envisage that we go and engage to see how they're doing, the first phase of that period is there's normally regular dialogue anyway because the business is still starting up, based purely along, based on procurement, for example, of goods they might want to import etc, it's a timely process and there's always constant engagement during the early

days of start-up, but we've got a system in place in terms of our business development visits and engagements.

Councillor Brian Isaac –

Good.

Mr Rob Midwinter –

If I can just add to that, Chair, ESH operates to the internationally recognised Logical Framework model that is agreed between ourselves, DfID and SHG in terms of the indicators that we put in. We have actually been working with DfID to move towards more outcome based indicators and this is an example of that, so, for example, even though the number of business start-ups is effectively an output because it's something that we've achieved, it doesn't show the longer term outcome. By putting in a measure that says how many businesses that we've supported and stayed in business for a fixed period of time, that's more of an outcome measure, so it is how we're trying to move towards that outcome based reporting.

Councillor Brian Isaac –

Thank you for that, and my final question is can the DfID Assessment Report – Phase 1 be shared with the PAC?

Mr Niall O'Keefe –

Yes, Sir.

Councillor Brian Isaac –

Thank you very much. Thank you, Mr Chair.

The Chairman –

Right, thank you for that. Before I ask some final questions, I think, Mark Yon, you want to ask some supplementaries?

Deputy Chair –

Yes, thank you. In Note 11 of the Financial Statements, in particular the Administrative expenses, can you tell me is this a combined setup cost here, across all your Departments within ESH?

Mrs Michelle Yon –

Yes, Sir.

Deputy Chair –

So I might not be able to easily determine the expenditure items for certain sections of your Department then, of your business?

Mrs Michelle Yon –

No, you won't. This is the overall expenditure, administration expenditure, all DfID funded expenditure is shown under Projects under the bottom, so under Enterprise St Helena Project, that is the DfID funded element of the expenditure for the organisation.

Deputy Chair –

But in terms of your departmental operational costs....

Mrs Michelle Yon –

It's combined.

Deputy Chair

Is it possible to have that separated, I'm not sure what your .....

Mrs Michelle Yon –

Not really, because other Heads are, it's very difficult because we got crossover sections sitting in both locations.

Deputy Chair –

So in other words, this is how you're actually recording your accounts in your accounting system?

Mrs Michelle Yon –

Yes, it is.

Deputy Chair –

So if someone wanted to see, for example, the true accounts for, say, just the Tourist Office, are you able to pull that out?

Mrs Michelle Yon –

Yes, we can probably do that with a bit of creative accounting.

Deputy Chair –

And do you think this method that you've done here by combining everything is suitable, you know, in terms of what I just asked?

Mrs Michelle Yon –

Yes, it is, it's the overall expenditure for the organisation.

Deputy Chair –

And it's manageable for you in this manner?

Mrs Michelle Yon –

That is correct, yes.

Deputy Chair –

Okay. So if I just look at some of these administrative expenses, the ones that shout out at me, you've got a line item here, Board of Directors remuneration and in the previous financial year, 2015/16, the expenditure was £5,270, but in the reporting financial year, 2016/17, the remuneration has increased to £17,914, which is like a 240% increase?



Mrs Michelle Yon –

Yes, that is correct, because during the year 16/17 we implemented the sub-committee structure which we've got four sub committees and they get remunerated for attending our meetings.

Deputy Chair –

Okay, thank you. I also have a question, sorry, yes, I would like to also refer to a line item which is labeled, Offshore Representation and Office Expenses, I guess I need to declare my interest at this point, because I think my sister might be the Falkland Islands Representative, but I just need to bring this question out really, again, in the previous financial year the expenses amounted to £67,515 but in the reporting year it is classed as £99,092, what is the reason for this increase?

Mrs Michelle Yon –

Well, during that year we implemented the Island representations, both on Ascension and we've got a Rep on Falklands as well, plus we had a new UK Rep appointed at additional cost or higher cost than the previous year.

Deputy Chair –

So when you say a new UK Rep, you don't take your business through the SHG UK Rep?

Mrs Michelle Yon –

No, we've got a private sector member that is appointed in the UK to deliver on that aspect of our function.

Deputy Chair –

And is there one that exists in South Africa?

Mrs Michelle Yon –

No, not currently, we previously did have, but over that period, no.

Deputy Chair –

Okay, so will there be an option to actually engage one in South Africa?

Mr Niall O'Keefe –

We made the decision to hold off until there was clarity about flights and where they were coming from, so for ten years, fourteen years in fact, SHG had a representative based in Cape Town. Obviously the flights are now Johannesburg all the decisions come out in the last week or two, we were looking to see if there was a different origination of the flights or where people are going to be primarily based, but we anticipate in the next year, or my successor will, advertise for somebody to represent the island in South Africa.

Deputy Chair –

Okay, so what do these costs entail then, what do they consist of, and I'm referring to the offshore representation and office expenses .....

Mr Niall O'Keefe –

Well, for example, you mentioned the SHG Rep, we make a contribution to the SHG office rather than duplicate we make a contribution to the rent and upkeep of that particular office. Obviously if you're engaging someone in a professional capacity to represent and promote the island the remuneration and salary in form of an agreed contract, but in any of those works that we engage people in in a contractual basis they would be procured and value for money sought in each instance.

Deputy Chair –

Does it include anything such as travel costs or any other expenditures?

Mr Niall O'Keefe –

It would do, yeah, it would include the, it would cover additional costs if somebody had to attend an event on our behalf.

Deputy Chair –

Okay. And whilst we're talking about remuneration, if I come down the line to Salaries and Wages, again there's a significant increase here, in the financial year 2015/16 there's an amount of £428,153 and in the reporting year that is increased to £535,017, can you explain the increase in this area, please?

Mrs Michelle Yon –

There was additional staff employed during the course of the year which attracted additional costs.

Deputy Chair –

And which year would this have been?

Mrs Michelle Yon –

For 16/17.

Deputy Chair –

Sorry, in what departments then?

Mrs Michelle Yon –

In the Tourism Department as well as we've had some movement in the Business Development team as well.

Deputy Chair –

How many people are you looking at in total here?

Mrs Michelle Yon –

Well, at year end, if you look at Note 17 our average employment for the year was 32.

Deputy Chair –

Okay, sorry, how many was the increase in terms of staff numbers, approximately? Helena, you're welcome to use the mic if you like?

Mrs Michelle Yon –

Mr Chair, I think that was in the region of about five additional staff members.

Deputy Chair –

Okay, thank you. And then, finally, perhaps the Director of Tourism can respond to these, I'm just looking at some of the Tourism expenditure costs, such as Tourism PR costs, Tourism Press Trips and Promotions, Tourism Shows and Exhibitions, it seems to be a, I guess, a significant decline in expenditure there when compared with the previous financial year and this, sort of, gives me the impression then that we aren't doing enough like we did in the previous year to promote tourism for St Helena.

Mrs Michelle Yon –

Mr Chair, in the previous year, we funded a lot of the advertising and equilateral as well as attending at the shows and exhibitions, but in 16/17 DfID gave us the approval to pay for it out of our Project Expenditure so therefore there was a reduction in the current year. It's not to say that we're not doing it, it's just shown as part of the DfID Project.

Deputy Chair –

Thank you for that. Now I just have one more question leading away from the expenditure items. In terms of inward investment, what highlights or what did you actually can say you achieved in terms of attracting inward investment during this particular reporting period?

Mr Niall O'Keefe –

The most important thing we achieved, Mr Yon, is profile. We made contact with a number of people that were interested in the island, but the reality is people didn't want to come forward in general and make commitments until such time as they knew where the flights were coming from, how regular they were gonna be, what the tourist numbers are gonna be, what incentives SHG are gonna provide, so what we have is a list of variables that we're working on and obviously the flights have commenced since 14<sup>th</sup> October, that makes a difference, the fact that we've had a number of delays in the last few weeks also makes a difference, but in a negative way. Mr George here is working with the Economist and the Chief Secretary and a new Working Group looking at the areas, not just for inward investors, but for all investors on island and that we don't use inward investment as a phrase we just say investment, to see what the barriers are and how we can remove them. So during this period of time, if you look at over the last four years that I've been here, in fact, we've had several ..... that we've had events in Cape Town and London and Paris and numerous locations where we're saying to people, you know, we're going to open in February 2015, then there was uncertainty and we were hoping September 2016 and so on, so while we've made a lot of contacts, people are aware of us, the number of people aware of us increased significantly, the level of interest we're getting in terms of views and hits on our investment website, and we can share that information with the PAC, is increased significantly. In terms of getting people over the line it's been a particular challenge because people are not seeing the opportunity to get a return on investment to a place where you can't access by air, by sea, as was the case for a lot of last year. I don't know if that answers your question.

Deputy Chair –

Yeah, it does help, but also if I can cast back to the last time we met last year, sorry, to discuss your financial statements, I think it was Peter Bright who mentioned that, I guess, one of the successes, in a sense, would have been that ESH had some hand in attracting or moving forward the SHELCO investment. Since then I've heard nothing more, what is the actual progress on that so far?

Mr Niall O'Keefe –

Okay, so I wasn't at the sitting last year and so I'm not aware of what was said by Mr Bright, but what we would do with anybody who is interested in coming to invest in the island is to provide whatever supports we can, make sure they're speaking to the right people, so significant effort was put into this particular year of supporting SHELCO, have a revised planning application and to facilitate meetings between the Planning Authority rather than SHG officials and so on.

Deputy Chair –

Okay, and if I may cast back again to Note 11 and in particular the project expenditure that Michelle referred to before, Enterprise St Helena Project, again in the prior financial year, 2015/16, there was expenditure of £1,189,325 and in the 2016/17 reporting period there is expenditure of £1,596,842, can you explain that, please?

Mrs Michelle Yon –

The expenditure that DfID funds is a wide range of expenditure from training plus the grants that we give to the private sector plus our Technical Cooperation Officers get paid out of our DfID funding, so it's a combination of numerous expenditure that we do, all our advertising and marketing for the island also gets paid out of the Enterprise St Helena Project.

Deputy Chair –

Yeah, I'm just concerned that, you know, you've given the detail of expenditure under the Administrative expenses in your recurrent budget, in your recurrent account, sorry, but there's no breakdown of this shown in the Enterprise St Helena Project costing.

Mrs Michelle Yon –

We can take that forward in the new financial year and give a more detailed breakdown of the Project funding.

Deputy Chair –

Thank you, yes, please.

The Chairman –

That would be useful.

Deputy Chair –

Thank you, Mr Chair.

The Chairman –

Thank you all very much. I just have one final question, unless it leads on to supplementary questions, but the PAC has made previous recommendations in respect of improving the

public accountability of ESH – Sessional Paper 18/18 laid at LegCo on 23<sup>rd</sup> March 2018 reports a number of these recommendations remaining open or otherwise pending a formal response. Now there's actually ten of them, but during our deliberations we've actually been able to answer all of those questions, so we don't have those to ask you now, so I'll ask you a final question, why are so many recommendations relating to ESH in SP 18/18 laid in March 2018 indicating that a response will be provided to Legislative Council in due course?

Mrs Michelle Yon –

Mr Chair, these were responded to to SHG in the beginning of April when the request did come through unfortunately time constraints and demands of the business didn't allow us to adequately answer your questions or your recommendations, however, we have supplied that to SHG. The Assistant Financial Secretary did advise me that it would be at the next laying of the formal LegCo, all our responses will be incorporated into that document and I've also supplied the request, the recommendations, the answers to the recommendations to your Secretary as well yesterday.

The Chairman –

Thank you. We will look forward to seeing the paper laid at LegCo. And on that note, are there any further questions to ask ESH whilst they are here? No? Okay and thank you all very much, thank you very much for coming along and answering questions, we went on a little bit later than, a little bit longer than we thought it would do, but the outcome is what, is always what we are looking for to be a good one. Sorry? Oh yes, okay, thank you and you may leave the table after this. Thank you very much.

And now we come to a recess and following recess we will be considering the Bank of St Helena Financial Statements. We will have a half hour so that takes us around to .....

*(Inaudible)*

The Chairman –

Well, I need a half hour recess, but if you think we can do fifteen minutes and get done by that time then we can do that, we'll reconvene at half past twelve will be alright? Okay, so we'll come back at half past twelve. Thank you very much.

**Meeting in Recess.**

**Meeting Resumed.**

**3.**

### **BANK OF ST HELENA**

The Chairman –

Well, the next item of business is Bank of St Helena and I'd like to call the officials to the table please.

.....

Mrs Kim Francis

Kim Francis, IT Officer,

Ms Helena Bennett –  
Helena Bennett, Chair of the Board.

The Chairman –  
Thank you. The Bank of St Helena financial statements for 2016/17 have been audited by Moore Stephens and referred to the Chief Auditor for PAC scrutiny. It is now the business of this Committee to take evidence on matters reported in the accounts and annual report. We will start with questions from Deputy Chair, Mark Yon.

Deputy Chair –  
Thank you, Chair. Good afternoon. The Financial Statements for the year 2016/17 report the Bank financial performances with an unqualified opinion from the Auditors. The Public Accounts Committee were unable, however, to examine the Audit Management Letter by the Auditors, Moore Stephens. Were there any matters of significance raised in the Auditor's Management Letter to the Board?

Mrs Joey George –  
There were no specific, like, I would say, material recommendations that came forward that had an impact on the Bank, it was just general stuff that the Bank should consider, which the Bank did take onboard and we put that to, in fact, for the following year of 17/18.

Deputy Chair –  
So they were minor matters, not significant matters?

Mrs Joey George –  
Minor matters, yes.

Deputy Chair –  
Okay. Is it possible for the PAC to have a copy of the Management Letter?

Mrs Joey George –  
Yes, I would see that to be no problem, I'll just confer with the Board for that, but I'm sure that would be okay.

Deputy Chair –  
Okay. Chair?

The Chairman –  
Thank you for that.

Deputy Chair –  
Were there any significant matters raised by the Bank of St Helena's Internal Auditor to Management and the Board?

Mrs Joey George –  
Again, I would say there was nothing that is of significant, that would have a significant impact on the Bank. It would be all what we would expect from our Internal Auditor when it

comes to compliance etc. Generally most of their recommendations that is provided the Bank will ensure to follow through and in addition to having our Internal Auditor we also have an Audit and Risk Committee who in turn follows up on what our Internal Auditor recommends and to ensure that we as the Bank follow through on the recommendations provided.

Deputy Chair –

Okay, so the members of the Audit Committee then they also sit on the Bank Board?

Mrs Joey George –

That's correct.

Deputy Chair –

So they feed back in that mechanism, yeah?

Mrs Joey George –

Yes, what happens is we have a Audit and Risk Committee who consist of a number of our Board of Directors, also our Internal Auditor in attendance as well as the MD and the Finance Officer obviously for the various things that could come our way, however, we are not members of the Committee, but rather, like I say, invited and after our Audit and Risk Committee meetings feedback is then given to the Board at their following meeting.

Deputy Chair –

Okay, thank you. My next question, the Income Statement reports profit on ordinary activities before taxation of £389k which is 22% of total income compared with £385k being 24% on turnover in the prior year. What is the reason for the decrease in the percentage of profit on ordinary activities from the prior year even though there was an increase in total income?

Mrs Joey George –

Okay, so we looked at that, like you rightly say profit before tax is 22% of income in 16/17 and which was 24% in 15/16. This is primarily because income increased by 11.8% but expenditure also increased by 15% which represents £182k in 16/17, therefore giving a profit before tax similar to that of the previous year. Also, in addition to that, an increase in the transactions and compliance has led to increased fixed costs, such as staffing, looking for office space, etc, so it's also seen that our cost to income ratio rose from 76% to 78% in 16/17. However, these things are always top priority for the Bank and we must constantly review how we're gonna keep those costs down, so, for example, we are now almost two years on from these particular accounts. As you're probably aware as well that the Bank has new products and services they have coming on line and it's anticipated that with these new products and services it will bring more automation, which, in turn, will hopefully drive down our expenditure.

Deputy Chair –

Okay, thank you. So you said that expenditure costs have risen, were there any areas of huge concern?

Ms Lisa Ryan (Finance Officer –

I don't think there's any particular areas of concern. I mean, like Joey said, increased throughput in the Bank has led to rising employee costs and it is something the Bank constantly reviews, we know that they are, I think, 60 to 80, I can't remember the ratio, of the total costs of our expenditure, so obviously the automation of the local debit card is one of the main things we're hoping will drive those costs down eventually.

Mrs Joey George –

If I could just follow on from that, just to say as well that when we are looking at the local debit cards as well, again we're talking about a while back now, a lot of this would have included some of the additional costs that came with this. In addition to costs that were, like, come for infrastructure, things like licence, etc, that is comes at quite high costs, which is something we don't have any control over ourselves, but we try our best to manage all the other costs that we have to ensure that we can continue with products and services.

Deputy Chair –

Okay, thank you. So I guess then an increase in staff numbers, did that impact on your premises cost in any way, because I see your premises costs they've increased from the previous financial year and is up just on £9,000?

Mrs Joey George –

That's correct. The Bank, as part of its Strategic Review anyway, has always looked at finding new premises to house the Bank. However, unfortunately, we have not found anything suitable up until now. However, the needs of the service must continue and what we have found that over time there's been an increase in workload, our workloads, as we've explained in various forums before, includes a lot of manual processing, hence the need to move to more automated systems which we have in place now, however, it's about ensuring that we get businesses onboard to take up on the services, but until such time we need to run the two services to ensure compliance and obviously we need to give the shareholder and our customers the satisfaction to know that what happens in the Bank is done correctly.

Deputy Chair –

Okay, so what other costs are grouped under premises costs?

Finance Officer –

Oh, so, utilities goes in there, cleaning I think and rent.

Deputy Chair –

Okay, so does the introduction of new automated systems then, does that impact on utility costs in any way?

Finance Officer –

I suppose in terms of like the utilities costs, electricity in terms of running the new service infrastructure which the debit card requires, yes, it does have an impact on that.

The Chairman –



And we're going to get into asking you some questions about automation and staff costs later on as well. Mr Yon?

Deputy Chair –

Yes, that's it from me too.

The Chairman –

That's it from you?

Deputy Chair –

Yes.

The Chairman –

Okay, thank you very much. Nothing, no further questions on this particular line of questioning, can we move on to Councillor Clint Beard.

Councillor Clint Beard –

Afternoon, I'm just gonna follow on as well. The Income Statement reports employee costs at £672k, up 9% on the prior year of £619k with the headcount increasing from 45 to 47 staff. With the increased automation and efficiencies with system improvements, debit cards and teller receipting, why have overall staff numbers increased?

Mrs Joey George –

Again, if I can just draw your attention to the fact that this is quite a while back now, on the 16/17 accounts at that point we did not have the local debit card up and running for the public to use. We, as part of a compliance function as well and the increased workload we have to ensure that all our work is checked and double checked, so hence the reason why the increase in number of staff, but in addition to looking at staff as in numbers and salaries alone, our employee costs budget line does not just include salaries, although that's part of the reason why costs went up, it also includes things like training costs, other benefits, such as uniforms as well as we also support our Ascension Island branch. As you know, on Ascension it can be quite costly to keep staff there, so, yes, there are various reasons as to why our employee costs went up in 16/17.

Deputy Chair –

How many people are actually employed on Ascension Island?

Mrs Joey George –

Currently there's three members of staff on Ascension Island.

Deputy Chair –

And can you give an indication as to what the upkeep of them, in terms of their remuneration, any rent costs?

Mrs Joey George –

Just as a ballpark figure, to keep staff on Ascension costs us anything in the region of £50k + a year.

Deputy Chair –

Okay and is it difficult actually when it comes, or are any difficulties presented when it comes to staff leave times certain times of the year, how do you continue to operate efficiently?

Mrs Joey George –

That is why we actually have three members of staff on Ascension, to allow for such things as staff movements, we look at how we actually employ staff as well, on what types of contracts, etc, we most certainly always review staff costs there because in addition to salaries you obviously have things like accommodation etc that needs to be provided for, the cost on Ascension for such, including utilities, is very high, so therefore lots of these costs are beyond our control and we actually can't suppress them much further, because, like I say, it is beyond our control.

Deputy Chair –

Okay, thank you.

Councillor Clint Beard –

So thank you for the answer. Will the implementation of the automation, I mean, what will the impacts on staff be?

Mrs Joey George –

Right, we have obviously at the Bank looked at things like what will be the impact of automation. The impact of automation will hopefully in the longer term reduce costs all round generally, however, we would, even though we're potentially looking at reducing costs, say, in our staff lines, we would obviously have costs going up in other areas when it comes to IT, infrastructure development etc. As when it comes to staff, obviously we had spoken to staff as well about what this will mean, we would have to look at various options as how we would utilize our resources and obviously there's various methods that is available to people, you look at natural wastage etc, etc, retirements etc.

Councillor Clint Beard –

So with automation it will be a cost reduction and when you're saying you had conversation with staff in what sort of context has that been going forward?

Mrs Joey George –

Well generally it's to keep staff informed, because I think there's nothing worse than everybody else seem to know everything and not the people who actually work with the organisation so, like, as far as possible, obviously even in this particular context, we do need to be mindful of what we say because you really, you know, you can do as much planning as you like but very much what happens in the Bank will be depending on the uptake of the services.

Councillor Clint Beard –

I think the communication is a good point to have. Thanks.

The Chairman –

Thank you, Councillor Clint Beard. Mark Yon?

Deputy Chair –

Thank you, Chair. The Statement of Financial Position and Note 17 shows customer current and depositors accounts at £72.7m, which includes £10.5m in respect of an account labelled Governments. Which governments are included in this analysis?

Finance Officer –

That line in the analysis is actually a historic thing so when the accounts are prepared we allocate accounts as they have been done historically and obviously we can't tell you what was actually in that line.

Deputy Chair –

So it could be or does it then include an overseas government or does it include the local government here?

Finance Officer –

I can't give you a breakdown, obviously because it's client confidentiality.....

Mrs Joey George –

But basically, you know, just to follow up on what Lisa is saying, you know, obviously, when you think about governments etc it have to be people who are, who can show compliance to our requirements to open accounts etc.

Deputy Chair –

So it could be someone from or a government from Nigeria, for example, as long as they can meet your criteria they can invest in you?

Mrs Joey George –

Well, potentially I guess, yes, you could say that, but, like I say, looking at, if you have a look at the criteria for opening bank accounts at St Helena you will see that it's quite stringent to open a bank account.

Deputy Chair –

Sure, and I didn't mean, not your in any negative way, just in a general manner. Phil, you want to comment on that?

Chief Auditor –

Er

The Chairman –

I'll do that actually, do you want to come in.....?

Chief Auditor –

Thank you, Chair. Yes, just, I do understand, of course, the nature of the Bank in relationship with its customers and obviously this Committee is wanting to take evidence, if

you like, on the highlights from the annual report and accounts, but would the Board be able to confirm, are we talking about combination of the governments of Tristan da Cunha, St Helena and Ascension Island as a group, for example, what are the other governments outside of that group in that account total?

Mrs Joey George –

Again, like I say, from that, those, probably those islands will be, could more qualify for opening an account than anywhere else in the world, so again, it would be a case of depending on what, who, can meet the criteria for the Bank, so, you know, if you think about it, what other governments will, can qualify to open bank accounts here.

The Chairman –

So it's quite stringent is it to be able to open an account here, could you give some details around that, what is required?

Mrs Joey George –

For example, if you want to open a bank account with St Helena you would have to demonstrate clear connection with the island, for example, so if you're a business coming in you would have to use, for example, registered here as a business, you would have to be able to pass all your due diligence and KYC requirements etc. Like I say, it's not just like anybody can turn up on the island and open a bank account, you would have to demonstrate a clear connection. In addition to, obviously, the Bank staff, we also have these other lines of defences as well, as you indicated before, when it comes to Auditors, external Auditors and even FSRA etc.

The Chairman –

Thank you for that.

Deputy Chair –

So you're also unable to say whether it is a territory of St Helena holding an account there, in terms of it being Government account?

Ms Helena Bennett (Chair) –

If you don't mind, us would like to take that back to our shareholder and seek advice on whether we can actually release details of that, because of the fact that this is client confidentiality, that we have to be careful about how we actually discuss this in open forum.

The Chairman –

We accept that. (Don't pull your mic towards you, just leave it where it is, it impacts on the listener). Okay?

Deputy Chair –

I just got one more question, Sir. Again, still on the Statement of Financial Position and Note 17, what is the nature of the account labelled "Others" which demonstrates a figure of £2.5m?

Finance Officer –

So that would be, basically, anything that doesn't fall into the other categories, so charitable organisations, societies, possibly pension schemes I think must have gone in there, yes, so anything of that nature.

Deputy Chair –

Okay, thank you. Thank you, Chair.

The Chairman –

Any further questions on Note 17, otherwise Councillor Brian Isaac, you are invited?

Councillor Brian Isaac –

Thank you, Mr Chairman and good afternoon, ladies. The Statement of Financial Position and Note 23 shows that the bank has retained earnings available to the shareholders in the amount of £2.6m. What would be the practical impact on the Bank were these funds to be distributed as an owner's dividend?

Mrs Joey George –

If this amount was actually distributed to the shareholder this would have a direct impact on our ratios that is set for the Bank, which comes from the shareholder and FSRA which would include our liquidity, our capital position etc and would also have a direct impact on things like our lending, future lending, because, again, everything, we are heavily regulated, as you're probably aware, through the Financial Service Regulations of which these things form a part. I know that people tend to look at the Bank as well as if they're making a big profit but, however, in the whole scheme of things in the banking world St Helena actually makes quite a small profit from which we must ensure that we continue to grow as a Bank and bring on new products and services etc so if the shareholder had to take that amount of money it would have, on glance, it would have a direct impact on the lending ability of the Bank.

Councillor Brian Isaac –

Thank you for that.

The Chairman –

Thanks, Councillor.

Chief Auditor –

Chair, if I could again just assist, the Directors, looking at Page 13 of the Accounts, Table 4 which shows the key management ratios, including those ratios that are determined by the Ordinance and the Regulator, the reason why the Committee's asked that question is because you seem to be operating well within the limits of the ratios, so even taking cash out in a form of an owner's dividend, have you done the modeling as to what impact that might have on the ratios, although generally I do accept the point you're making?

Mrs Joey George –

Yes, we have done modeling on that, actually just recently we have undertaken such modeling and as you rightly said, yes, I mean, the shareholder could take the dividend from there, however, it would have, depending how much you were looking at, it would have an

impact on ratios and also, like we say, when it comes to development of new products and services etc and overall the Bank's profitability wouldn't look as great if we had to reduce our share capital that we currently have.

Chief Auditor –

Chair, I was just going to try and push some of it further and say would any of the ratios be breached if such a dividend was taken given there's such a large margin between the limits?

Finance Officer –

To be honest, we did the analysis, but I can't actually remember what the outcome of that was, I'd need to go back to the table and have another look at that.

The Chairman –

Would you be able to furnish us with something in writing on that?

Finance Officer –

Again, if the Board are happy for us to do that then umm .....

Mrs Joey George –

And can I just clarify though, when you say to do some calculations, obviously we have done some previously, but we weren't working on the basis that £2.6m would be given up as, for example, as a shareholder's dividend, would you be looking at us to be looking at us to be looking it, working it on the £2.6m or do you have some other figures that you would like us to work on?

Chief Auditor –

Chair, it's really just to inform the Committee's enquiries, because I know this has been a matter of discussion previously in hearings about whether the owner would take a dividend or not and so, I mean, any kind of assistance you can give the PAC in this area would be useful I think, you know, even a range and what kind of impact it might have would be good.

The Chairman –

Obviously we need to be mindful of what you are telling us, but anything you can do we would appreciate that. Okay, I'd like to ask some questions around Board composition. The Directors Report on page 5 shows the BOSH had a number of changes in Board composition during 2016/17 and more recently in Senior Management. How has the Bank ensured continuity and minimal disruption of operations?

Mrs Joey George –

When we look at the Board composition, yes, there has been quite a few changes, however, in line with good practice, a number of these changes have been made, obviously, all works coming, people who come to the Board they do so on a basis whereby they are giving up their time to assist. A number of them, as you can probably see by the names there, they do have quite very hectic jobs and I guess it is weighing up how much time they can give to the Bank, however, over this period of time, even though we've had quite a bit of a change in the Board of Directors, the management of the Bank has remained stable and consistent over that period of time, as well as the FSRA which provided the much needed stability

during this particular period of time.

The Chairman –

So continuity, yes. How does the bank appoint to vacant non-executive director positions and ensure the necessary skills for oversight are provided?

Mrs Joey George –

Again, this is something done by regulations, just not anybody can turn up on the Board, you would have to go through a fit and proper process, so basically, as I say, if you have somebody who's going to be a Director for the Bank, a non-executive Director, they would have to go through that process which is then escalated up to FSRA, FSRA gives the final approval, well, they will give their certification if they are content with the candidate that is being proposed and it goes from there.

The Chairman –

Alright, thank you for that. How is the BOSH Board managing the potential conflict of interest with the CEED being a Director, as well as serving on ESH which may refer persons to the Bank for commercial lending?

Mrs Joey George –

Was that in that period?

The Chairman –

It was in the period of that, how is that conflict of interest managed?

Mrs Joey George –

Well, like with any form of conflict of interest, if there is something that is perceived to be a conflict of interest, I mean, it's down to the Director as well to state their area, so if it is of conflict that particular member will say that they have this, they declare their interest on this matter and excuse themselves from the discussions.

The Chairman –

They would leave the discussion?

Mrs Joey George –

Generally yeah, or, you know, in some cases you can have people leaving discussions or if they have, there is no input from them.

The Chairman –

Okay, thanks for that. If you can tell me this, what remuneration is paid to Non-executive Directors?

Mrs Joey George –

The remuneration for non-executive Directors is on £250 per month.

Finance Officer –

I think it usually comes in around £14 thousand a year, of the top of my head. I don't think

it.....(*Inaudible*).....but, you know, they get an allowance for internet and .....

The Chairman –

£250 a month doesn't add up to £14k, you er.....

Mrs Joey George –

It does depend on how many obviously are there, etc, at any given time.

The Chairman –

Ah okay, I see. Okay, thank you very much for that. Yeah, so that isn't a person that is overall?

Mrs Joey George –

Oh, you're talking about the amount that is in the accounts, that is for the overall Directors in the account, non-executive.

The Chairman –

Okay, thank you very much. And is there a bonus scheme for Senior Management and Directors?

Mrs Joey George –

Yes, there is a scheme that the Bank operates.

The Chairman –

Are you able to tell us what that scheme entails?

Mrs Joey George –

The bonus scheme for the Bank is, basically you look there is a percentage of the profit that is allocated for staff for the year and that is subject to the Bank receiving an unqualified Audit opinion.

The Chairman –

Okay. Mark, you have a question?

Deputy Chair –

Are any of these bonuses performance related?

Mrs Joey George –

When it comes to the profit related bonus this is something that is equally shared amongst all the staff.

Deputy Chair –

So?

Mrs Joey George –

But there are performance um, the performance related issues are separate to the bonus that we're actually talking about at this particular point time, this is the profit related.



Deputy Chair –

Sure.

The Chairman –

Anything further on that line of questions from anybody? No? Then we move forward and I invite Clint Beard to ask some questions.

Councillor Clint Beard –

The Directors Report on page 11 indicates that the Bank has invested some £230k in the local debit card project, what are the scales of charges for using debit cards?

Mrs Joey George –

Sorry, could you clarify the last part of your question, please?

Councillor Clint Beard –

What is the breakdown for using debit cards, the breakdown of the charges, for the cost?

Finance Officer –

Oh, you mean in terms of.....

Mrs Joey George –

The project itself?

Finance Officer –

£30k is the capital cost, so nothing to do with customer .....*(Inaudible)* the investment the Bank has made, so under the development cost, so integrating all the software with our current system with the Bank that was approximately £130k and then it was the hardware infrastructure formed the remainder of the balance, approx. £100k, in terms of service, files, card printers, that kind of thing.

Councillor Clint Beard –

I mean, can you perhaps give a breakdown of the cost for the consumer to use the debit cards?

Mrs Joey George –

This was done, however, this would have been done in the following year, because at this particular point which the accounts are being scrutinised today, we were still in the developmental stages of the local debit card project. Most certainly we can give you, er, like I say, we have furnished before what is the cost for our customers to use the local debit card service at the moment, as, for example, a personal customer, if you get a local debit card now as in from 1<sup>st</sup> December, if you get a local debit card from the Bank, there is no charge to you from the Bank for using of that card, even to get a card from the Bank, there is no charge to the customer for having that card. However, I think what you're probably more looking at is more the fact when we rolled out the packages. Yes, there is costs incurred for the packages because in addition to getting the local debit card there's other provisions such as overdraft facilities, online banking facilities, etc, so hence the reason why, yes, there

is costs, both for personal customers, but again, this is by choice, as well as business customers.

The Chairman –

So what is the charge to business customers?

Mrs Joey George –

It is dependent on the package that you would like to have, it ranges from in the region of, anything from £5.00 up to £150.00, but obviously that is the top end package that probably a bigger business would be inclined to use, but most of our businesses could get a package around about £12.00, £12.00 to £30.00 per month, to include the features as indicated to you previously.

The Chairman –

So a small shop, for example, in the country, and as you know in the country, bit difficult to shoppers shopping in Jamestown, people rushing home at night want to rush to the shop to get something, they don't have any money, but they want to use the service that the shop provides anyway, I have seen that some shops, small shops haven't taken up the offer because of a charge that's made to them, what is that charge?

Mrs Joey George –

Okay, I think we're starting to get little mixed up now with what's happening. The costs that I gave you before was the cost of an account package that a business could potentially have. I think what you're more referring to is the actual local debit card acceptance service. That is slightly different, because you can have that service without having an account package, but if I look at the local debit card service as I assume that you are referring to right at this point in time, yes, there was cost attached to it, as you're probably aware, we were looking at charging rentals etc for our equipment that is being, that will have to come from the Bank, however, we, as the Bank, have absorbed all of those costs. The cost that we have passed on to the businesses is a charge of 1.25% on the value of any transaction that has gone through. When we say the value of any transaction, that will be the value of any purchase of goods etc, it would not be on features, because there's other features as well, which includes cash back, pre authorization and refunds, so the Bank does have a charge of 1.25% and I have to strongly say this is to the business, not on the personal customer, the Bank does not levy a charge on the personal customer, it levies the charge on the business of 1.25% and we have also kept that, that is kept at £3.00. The £3.00 means that anything over the value of £240.00 will still always be charged at £3.00, so, for example, if you had to go and purchase your tickets etc, because it cost you a few thousand pounds, that business, if you use your local debit card if they offer the service, will cost that business £3.00 maximum, so.....

The Chairman –

£3.00 a month?

Mrs Joey George –

No, £3.00 for that particular transaction.

The Chairman –

£3.00 for that particular transaction.

Mrs Joey George –

Yes, and if you look at it in terms of what is gained from that £3.00, because I think that's what a lot of people will be looking at, why is the charge, you're looking at that you're providing convenience from that, that customer is receiving their money instantaneously once that transaction goes through, I'm sure that most of you who have used the card at the moment, will see that when you use the card there's a green tick that comes up on the iPad, iPod which indicates that that transaction has gone through, so that is indicating that the money that you need to pay to that business has gone through, so has left your account and it's immediately into the business, that saves the business time when it comes to the account transfers or other means of taking cash, it will save them time from having to come to the Bank, wait in the queue and possibly even experience some issues when it comes to bouncing cheques or account transfers etc.

The Chairman –

What is that charge in fact on a customer, potential customer?

Mrs Joey George –

From the Bank's point of view, when we're looking at the personal.....

The Chairman –

From the shop point of view?

Mrs Joey George –

From the shop's point of view, sorry, in what .....

The Chairman –

The shop is paying you a charge.....

Mrs Joey George –

Yes, as I just indicated, yes?

The Chairman –

But the customer refuses to go to the shop because of that?

Mrs Joey George –

Well, you see, as indicated to you, that the customer themselves is not levied with the charge, the charge comes direct from the business, it is up to that business whichever model they use to recover that cost. However, as indicated to you before, is that....

The Chairman –

But how is a cost recovered?

Mrs Joey George –

The Bank takes that charge, when that transaction goes through, the Bank will levy their

charge on the business.

The Chairman –

So the Bank charges the customer?

Mrs Joey George –

No, the Bank charges the business for that customer using the card.

The Chairman –

Okay, thanks for explaining all that. Clint? Yes, sorry, I slipped into Clint's line of questioning I hope I haven't done any damage there.

Councillor Clint Beard –

No, no, at least you got some good answers. Thank you very much. I just have some more questions that..... basically, how is the customer uptake been for this debit card, for the debit cards, how's that been going?

Mrs Joey George –

As in terms of numbers that actually has the card?

Councillor Clint Beard –

In terms of numbers.

Mrs Joey George –

At the moment, the number of personal customers, well the number of cards that is out there, we are close to 600 cards now, so cardholders is in that particular range at the moment. The number, I'm sure the next one is gonna be who all has the machines, the service, we have, there is sixteen outlets on St Helena at the moment who offers the services for you as a personal customer to utilize your card, we have more interest on the books to be rolling it out further, we have some good interest, however, like I say, you know, it don't stop there, we will continue to market and hopefully other businesses, like, I have, I think we should really use this opportunity to say that we're very, very pleased with the uptake from small businesses on St Helena, they've really shown that they've been the leaders in this here and they've recognised the benefits of such a service.

Councillor Clint Beard –

Thank you, that's, we have 600, well presently 600 cards, 16 machines.

Mrs Joey George –

Sixteen outlets to use the machines.

Councillor Clint Beard –

Yeah, the outlets. And it's spread across the island?

Mrs Joey George –

Yes, actually, yes.

Councillor Clint Beard –

Yeah, so it's covering a big demographic?

Mrs Joey George –

Yes, it is.

Councillor Clint Beard –

That's brilliant. And has the charge for using bank transfer slips changed customer behaviour?

Mrs Joey George –

Having done some research on this, at this particular point in time I would not say that it has had a significant impact on customer behaviour, although we are looking at it that it is early days and obviously with other businesses not having the local debit card service available for these customers to use I'm sure it's a bit difficult for some of those customers to utilize something else other than the account transfers. We have also seen, obviously as well, people will utilize the Bank cheques.

The Chairman –

So that's an alternative to using the bank transfer, the cheques?

Mrs Joey George –

Yes, this has been in place for a number of years now.

The Chairman –

Have you seen more people making use of that service now than used to?

Mrs Joey George –

Via the Bank cheques? Yes, there....

The Chairman –

Since the introduction of the transfer slips being charged for?

Mrs Joey George –

Yes, there is more customers who utilise the service, but again, this service comes at a charge, at a fee, to obviously get your cheque book.

The Chairman –

Yeah, okay. Sorry, Clint?

Councillor Clint Beard –

One of my questions would have been what is the local uptake by merchants? And it seems to be that is sixteen with the potential for more?

Mrs Joey George –

Yes, there is potential for more. In addition to people coming, businesses coming forward to the Bank, the Bank is also actively marketing the products that we have as well.

Councillor Clint Beard –  
Is SHG one of them?

Mrs Joey George –  
As in on the service at the moment, offered service? At this particular time, as we speak now, no, they are not there however, we are in the process of working with SHG to have the service implemented.

Councillor Clint Beard –  
And the follow up for that being, is Solomon's one of them, using the card?

Mrs Joey George –  
At this particular point in time, no, we don't have anything from Solomon's, although, I mean, I don't know how much more information I can give you, but I can tell you those who are actually on the service and I say SHG is coming up soon.

Councillor Clint Beard –  
You did mention previously, but the cost for, sort of, paying for a ticket, I'm just trying to figure out and I thought maybe Solomon's have come onboard.

Mrs Joey George –  
No, I was actually trying to give an example of something, a higher valued goods, and what the charge would potentially be. Anybody or any business that actually has a local debit card service at the moment we publicly display that as well as anybody who is a cardholder at the moment, as in a personal card or business cardholder, we send e-mails to them to inform you if anybody new has come on who actually offering the service.

Councillor Clint Beard –  
Thank you. Has it been established what are the barriers for SHG and Solomon's not going with this card system?

Mrs Joey George –  
I'm not so sure how much information I can give you actually on that particular side. What we will say is that SHG and Solomons, just like everyone else, you know, we're not forcing anybody to use the service, it's in, we think, obviously, this is our product and service, this is something that the island has been asking for, we have stood up to the challenge and produced the goods as asked and now at this particular time, we don't, as I say, we don't force anybody to utilize the service, but we try to ensure to put across the benefits of using the service. I know most people will always talk about cost etc, but, however, we here at the Bank we are willing to have a chat with anybody if they want to come look at figures etc of their, obviously their business, not somebody else's and work with the people accordingly, so it is by choice.

Councillor Clint Beard –

Yeah. No, thank you, I mean, the answers are, you know..... Okay, so it's all down to cost then and things. How will the return on investment be achieved, on the system, on the investment?

Finance Officer –

As in terms of return on investment, you know, you have to develop the charges that the card service has, so in terms of income there is fees from the account packages and obviously some of the merchant fees. We do have a lot of costs that are associated with running the project also, but in the longer term we see the project making a return in terms of its savings, so at the outset we talked about reducing employee costs, reducing premises costs and we see the project making a return in that sense.

Councillor Clint Beard –

And the return investment, is there any, sort of, you got any period of time that you're looking at?

Finance Officer –

It will be over quite a long period due to the high capital investment, it will take a number of years, but, you know, this is a service that the island has been looking for and the Bank have now implemented, so, you know, it is a long gain.

Mrs Joey George –

Yeah, and just to follow on what Lisa was saying, you were quite right in what she was saying even when it comes in terms of that obviously we can do a certain amount of modeling as to when our return in investment could be, however, it is very much dependent on the uptake of the service, so what would be the true return period is very much dependent on uptake.

Councillor Clint Beard –

So the ongoing, sort of, marketing to get people to get the card is ongoing?

Mrs Joey George –

Yes, it is an ongoing marketing programme, some of your listeners out there might realise as well that we're starting to actually go into some of the organisations as well to sell our products and services to the customers, so, yes, we use the various mediums that we have available to us, whether it is radio, newspaper, our web page, e-mails, etc.

Councillor Clint Beard –

Thanks. Like I said, we just got to go on that 600 and I suppose, that's, the growth needs to kick in, and, just finally, is it intended that there will be an improved efficiency through reduced paper handling and automation of transactions?

Mrs Joey George –

Yes, most certainly that is one of the efficiency savings that we're looking at right now, for the number of account transfers that come through the Bank as well as other paper that is generated for the various services that we offer, by going automated that would hopefully reduce the amount of paper that we utilize and, in turn, reduce our printing costs etc, and,

yes, at the moment in the Bank we are very conscious of the amount of paper that is actually utilized, so initiatives are put in place to ensure that we keep the unnecessary use of paper to a minimum.

Councillor Clint Beard –

Thank you.

The Chairman –

Thank you for that line, that was very helpful. Anything else on that? Yes, please, Mark?

Deputy Chair –

You mentioned before the speed at which a transaction takes place between paying at the point of sale to reaching the merchant's account, can you explain how that process works?

Mrs Joey George –

I'll hand you over to the IT Officer.

Deputy Chair –

Thank you.

IT Officer –

So all of the lu.... card transactions are in real time, so obviously the merchants have internet so everything over the internet goes into the Bank of St Helena, so once you post that transaction you'll have a authorisation code which is a matter of seconds, so there within seconds we can upload that transaction to go through, so we're doing this in real time as opposed to St Helena time.

Deputy Chair –

Okay, and in terms of the infrastructure, so I guess there's like a, is there like a direct connection between the point of sale and the Bank account or the Bank or does it get routed through SURE, how does it happen?

IT Officer –

So the merchants need to have internet, so the Broadband, the Broadband is a public source of internet so we get the QR code on the cards, the QR code holds the account number and customer name, so also using IPods, the IPods are ..... with the merchant details, so using these two systems they actually transmit to deliver the system needs through the internet.

Deputy Chair –

Okay. So are there any costs that could potentially, I think I asked a similar question last year, so are there any costs that could potentially prohibit the use of this service continuing?

Mrs Joey George –

In terms of the Bank or in terms of the customer?

Deputy Chair –



In terms of what it takes to run the service daily, so whether it's internet costs, whether it is, and this is to the Bank now, what does it cost the Bank, so is it prohibitive in any way?

Mrs Joey George –

The cost to the Bank for running such a service is quite high, however, we, you know, obviously when we're looking at our strategic priorities etc we see this as being the way to go, as a way to reduce other costs in the future, so we will, as far as we possibly can, and having just undertaken looking at the next three years as well, we most certainly see that this is the way to go anyway, so we'd have to ensure, obviously when you look at our pricing etc, to ensure that we have sufficient funds to be able to cover the continuous running costs. There's been other products and services where we have to, you know, we have looked at that and that was one of those things, you know, it wasn't a viable option to continue to pursue, however, something like the local debit card, we have it up and running and we believe that with good management that we would be able to continue with the service. However, it would be nice if I said we could drop some costs along the way, but for what we do have to contend with at this point in time, yes, the Bank can continue to offer the service.

Deputy Chair –

To offer it, okay, so, and in terms of going forward then, is there likely to be increased costs along the way?

Finance Officer –

In terms of the capital outlay, most of that has been done now, you know, you will get replacements for the terminals and the printers at the merchants for the wear and tear over the time they're used, but the only thing is ..... once the traffic, the uptake and increases, there may be the need for increased lease lines, things like that and then the way our system works we pay licence fees for, like, online banking and things, so, again, as users increase that cost will increase, but then with that, if people take up packages the income we get from that will obviously offset some of those costs, so, no, there's nothing significant that would stop the service from running.

Deputy Chair –

Okay, thank you.

The Chairman –

I just have a final question in that line of questioning, but you have sixteen outlets, obviously you'd like to have more, but you do have some large outlets, you don't have Solomons, but you do have some large outlets, but, and you did say this is what the island wanted when it comes to debit cards, as regards to your survey to find that out how far reaching was that survey?

Mrs Joey George –

Well, this formed part of our customers satisfaction survey a while back now, so we, the island was waiting, well, the whole island could have had the opportunity to put their comments of what they think products and services etc should be for the Bank and what the Bank should focus on, we opened our doors to anybody if there's any feedback etc, but

basically when you look at the market research side everybody on St Helena had the opportunity if they wanted to come in and say and sometimes we get, like, by word of mouth etc, so we do like to ensure to record such and where possible, obviously some things we can do and some things we can't do.

The Chairman –

Okay, thank you very much for that. And now we move on to Councillor Brian Isaac and then following that Councillor Dr Corinda Essex has some questions to ask. Councillor Isaac?

Councillor Brian Isaac –

Thank you, Mr Chairman. The Directors Report on page 11 indicates that the introduction of international pre-paid cards remains firmly on the agenda, could you just explain to us what has delayed the implementation of the pre-paid cards?

Mrs Joey George –

Right, the delay in the international pre-paid cards, it was a number of factors, including looking at the service provider, ensuring that we had the right service provider to ensure compliance, I think we've mentioned this on a number of occasions, when it comes to banking we're heavily regulated and things like due diligence checks and KYC, Knowing Your Customer requirements is very stringent so we need to ensure to follow it, there is a slight delay from the service provider as well with various factors, however, as we speak now, we are very pleased to say that we are very close to finalising some paperwork with a view to trialing with the Bank in the coming months.

Councillor Brian Isaac –

So in your terms, what would be the likely time that you could probably see pre-paid cards being introduced? Just, I know it's very difficult for you to say because of ongoing work, but.....

Mrs Joey George –

Yes, there are a number of factors exactly, but if we were gonna be, you know, gonna put it out there now, we would say we're looking at the end of this year or possibly by the end of the financial year, but obviously, like I say, we got them coming in so we need to do some trials and testing for ourselves first and then we'll go from there and I think it is, you know, we have to stress that this is an international pre-paid card, and it's a debit card, not a credit card and the other thing is, you know, help facilitate this product, this comes under international regulations as well, so it will be co-branded with somebody like, for example, you will see a MasterCard label on it.

Councillor Brian Isaac –

No, I do appreciate the amount of work that has to go into something that is international level and it's very pleasing to know that you sort of have a deadline, not deadline, time for that to come into play and I wish the Bank well with this approaching, a project that has .....

Mrs Joey George –

Thank you. Just because we're on radio as well, I'd just like to take this opportunity to say

thank you to the staff at the Bank as well who have worked tirelessly to get us to this particular point and, in addition, as well as the Board who have supported us along this way, we're hoping that we can obviously give you very positive news about things soon, but again it is showing the skill and level of expertise that we have here on St Helena and it's all homegrown as well, so I have to say, I'd like just to say well done to everybody.

Councillor Brian Isaac –

And demand for the card is very much, as we all are aware, well needed.

Mrs Joey George –

Yes, the demand, I'm sure, again, just like anything though, once we have that product to roll out it will take a while for people to pick up on it, you'll have a few who would right there for it, then at least it provides another option for customers to travel with.

The Chairman –

Quite important this also, isn't it?

Mrs Joey George –

Yes, exactly.

The Chairman –

To have that kind of a service. You did mention, sorry, Councillor Isaac, trialing a Bank, can you say which Bank is being trialed?

Mrs Joey George –

Bank of St Helena is going to trial the cards.

The Chairman –

Oh, I see, I thought you were trialing a bank in the UK or somewhere, no?

Mrs Joey George –

Well, the cards is basically on the lines that some people might be used to, those who've utilised these types of things before, will be on similar lines to what they call Post Office cards from abroad, or, those who went to Cape Town you can buy a Travel Card there where you load up a certain amount of money and you can spend it where the sign indicates at the various stores and outlets, so it's on the same basis.

The Chairman –

Same basis. Thank you. Councillor Isaac?

Councillor Brian Isaac –

Thank you very much for that and on the same line, along that, there's been a lot of talk for ATMs for the island, you print some information, but are the Bank pursuing this issue of ATMs for the island or it's become dormant?

Mrs Joey George –

ATMs have been considered and forms part of our strategic plan, however, if we look at the

products and services that we're offering and we're looking at continually to develop, it probably makes the idea of ATMs a little less important, because the service that you want to get from an ATM you should also be able to get it from the local debit card service that we're currently offering, because, like I say, there's plans to obviously expand that, so at this particular point in time, looking at the needs of the island, ATMs, although will still be considered, is not the number one priority at this point in time.

Councillor Brian Isaac –  
Thank you very much.

The Chairman –  
So would, you said the ATMs are not a priority at the moment, I suppose if you had them in place then tourists who come to the island would be able to use them?

Mrs Joey George –  
Yes, but the Bank is also looking at other means and ways to be able to meet this particular demand. When it comes to things like ATMs, ATMs is one of those things that obviously will incur quite a bit of cost as in terms of infrastructure, as in terms of licensing etc, however, the Bank is looking as part of its strategic plan, I don't think this is any secret as we've actually mentioned it before, we're looking at other alternatives, such as virtual tourist card, which basically is like the international debit card in reverse for St Helena, so we will use the existing infrastructure that we already have on St Helena with the local debit card service to enable visitors to come in and get a card from the Bank and utilize it around the island, so just as a sales pitch here I guess, so therefore it's important that businesses also take advantage of having the local debit card services in their business because it would work in the longer term for both local and international customers.

The Chairman –  
Thank you and by all means try to get some business by doing it over the air. Councillor Essex?

Councillor Dr Corinda Essex –  
Thank you, Chair. Going back to the pre-paid cards, how readily will they be accepted internationally?

Mrs Joey George –  
The international pre-paid debit cards will be branded with MasterCard so anywhere in the world that you see the MasterCard logo displayed you'll be able to utilize that, so you could actually use it in things like ATM machines or pay for your goods when you went to the store by using the swipe card system, it's actually even as far as, if you go to do online shopping with your card here on St Helena where debit cards are accepted.

Councillor Dr Corinda Essex –  
Thank you for that.

The Chairman –  
And Councillor Dr Corinda Essex, your line of questioning now?

Councillor Dr Corinda Essex –

Thank you very much. PAC has made previous recommendations resulting from their scrutiny of the published results of the Bank of St Helena and these were included in Sessional Paper 18/18 which was laid at Legislative Council on 23<sup>rd</sup> March this year. Four of these are as follows, and I'll take them one by one and I'd be grateful if you could indicate what progress has been made in addressing each of them.

Has SHG communicated its future strategy with respect to the St Helena Government shareholding in the Bank and has there been any exploration of options for disposal or dilution of shareholding through an independent public offering?

Mrs Joey George –

Sorry about that Mrs Essex.

Councillor Dr Corinda Essex –

That's alright.

Mrs Joey George –

Right, like I say, we did notice that that was something for the Financial Secretary to answer on that Sessional Paper, however, yes, we do get direction, we have had recently now direction as when it comes to ratios etc, what the Bank should be working towards and in terms of when it comes to strategic planning, we do have representation from the shareholder on our Board as well, so, yes, they are fully informed as to what it is and we've also taken to account, in addition to the shareholder's comments, we've also went out to consultation to other organisations for the strategic direction of the Bank.

Councillor Dr Corinda Essex –

With respect, you've misinterpreted the question. This particular question doesn't relate to what you've just told me, this relates to exploring options for the disposal or dilution of the shareholding through an independent public offering?

Ms Helena Bennett –

Yes, whilst this is the 16/17 financial statement, the recent Board Strategic Planning session that was held, which will come out in the document once it been made public will show that we actually do have a priority there to look at the shareholder's, I can't find that word, in the Bank and see if we can use the options or diluting it to see if we can use it for other services or bring in other investment there.

Councillor Dr Corinda Essex –

Thank you for that. Has the Bank of St Helena, Enterprise St Helena and St Helena Government considered partnerships that will see the ESH advisors and SHG representatives' abroad assisting bank clients that may be experiencing complications with their bank cards and bank queries?

Mrs Joey George –

Yeah, when we saw that question, what exactly are you referring to there, because if I look

at that question, when it comes to certain things about bank queries, depending on what is being referred to there, the Bank will generally deal with their queries themselves. If it is about relationships with SHG and ESH, say, for more products and services, where possible we will make, we do work in partnership, however, most of this we do on our own.

Councillor Dr Corinda Essex –

This relates, for example, people who are overseas on medical who might want to access funding from their Bank on St Helena, from their bank account on St Helena, if they're away from the island for a prolonged period of time, who would be able to give them advice as to what steps they could take to access funding from their bank account on St Helena if they don't have online banking facilities. That's one example of the sort of situation to which this recommendation relates?

Mrs Joey George –

Okay, generally up until, I don't know of anything other specific, but, for example, if customers want to know things, we do get customer queries come straight to the Bank and we will certainly endeavour to assist where possible. I do know that SHG now have been working with MSC, or I'm not so sure what the service provider in South Africa who actually was working on some other product to assist people who might be away to have access to their money, however, the thing, like what we have indicated now, is that we're looking at the various products and services that the Bank can offer to make the travel a little bit more easier in terms of travelling with cash and having top ups etc.

Councillor Dr Corinda Essex –

But what this is specifically asking is has any attempt been made by the Bank to network with the official representatives, if you like, of SHG and ESH who are based offshore, so that those individuals can also assist bank clients in, for example, contacting the Bank, accessing information from the Bank and so on?

Ms Helena Bennett –

At this particular stage, no, no collaboration has actually been made, but this is something we actually can look at taking forward to see how we can maximize the use of the Bank with our partners.

Councillor Dr Corinda Essex –

Thank you very much.

The Chairman –

Thank you for that.

Councillor Dr Corinda Essex –

The next one, does the Bank of St Helena have a structured training programme for its staff members?

Mrs Joey George –

Yes, the Bank does, we do ensure to have our training needs identified through the various processes, like performance appraisals etc, we do have in place, we're looking at exposure

visits this year for key senior management staff within the Bank. In addition to that there's obviously training programmes in place for the rest of the staff when it comes to things such as money laundering and to money laundering knowing your customer, fraud and theft and the various types of things you would expect in a banking environment.

Councillor Dr Corinda Essex –

Is there any structured training that is going to specifically lead to professional qualifications that are relevant?

Mrs Joey George –

Yes, we do have a number of staff at the moment who has and are also undertaking various professional qualifications to enhance their skills to operate the Bank of St Helena, especially to meet the growing demands of the island and our international customers.

Councillor Dr Corinda Essex –

Could you give us an example, please, of the types of courses and qualifications?

Mrs Joey George –

Yes, for example, we do have staff who, in our IT area, will ensure that they have certifications in IT, those who work in the Finance area, where they're working towards the FIA status, more senior managers work towards banking specific qualifications, so, yes, those are the various types of things, and, for example, even with the period that we've been talking about we look at NVQs for our customer service staff as well to ensure, I mean, because everybody got a different types of learning styles and needs and the NVQ for customer service has proven to be very useful as well as using things like online training facilities, etc, and, like I say, more recently now we're looking at how we can actually tap into exposure visits.

Councillor Dr Corinda Essex –

And those exposure visits would be to where?

Mrs Joey George –

Well, we've already had one, in partnership with ESH, who went to South Africa, in Johannesburg where some good links were established, we're looking to go 'specially to the UK and potentially to some of the smaller islands like Jersey, Gibraltar, the Isle of Man, etc.

Councillor Dr Corinda Essex –

Thank you for that. And finally, another recommendation which partly falls to SHG and partly to the Bank, but I would like you to be answering obviously from the Bank's perspective, has the Bank of St Helena received any communications from St Helena Government regarding financial performance expectations in terms of profitability, growth and dividend policy?

Mrs Joey George –

The Bank has recently received some indications from the shareholder in this respect on the various areas that you just mentioned, but it didn't actually include, I will say, on a dividend policy, but like Helena said, that is something that is being looked at, and this was with

support from the Financial Services Regulatory Authority as well providing guidance and direction on what targets should be set for the Bank.

Councillor Dr Corinda Essex –

And what action is the Bank taking with regard to this communication?

Mrs Joey George –

The Bank is actually obviously looking at its products and services and I think it rolls very much into everything we have said thus far today, we're looking at costs, seeing how we can keep costs down as well as maximizing revenue without at the same time we must be very, very mindful of the shareholder and our customers, the affordability, so we're looking at more efficient ways of utilising our resources, so the key is keeping costs down while at the same time not being detrimental to the service that is to be provided.

Councillor Dr Corinda Essex –

Thank you very much. Thank you.

The Chairman –

Yes, thank you very much and are there any other questions in this regard, Mark, do you have one or two or whatever?

Deputy Chair –

Just in general, nothing to do with the recommendations, but I think, as partly outlined in your, in the Director's Report I think it was, the economic climate on the island as it currently stands, what is your view on how that stands at the moment from a banking perspective?

Mrs Joey George –

From a banking perspective we most certainly feel the pressure of the slow economic development on St Helena. Again, I know people will look at the bottom line and say that the Bank, you know, well, they're making a profit; however, our business is very much dependent on other businesses as well so even, like I say, for us at this particular point in time it is a very worrying situation that the island finds itself in, we most certainly look all the time as what initiatives we can use and assist our customers with, however, depending, you know, if it continues to decline it will have a direct impact on the Bank.

Deputy Chair –

Okay and.....

Ms Helena Bennett –

Sorry, can I just go on from there?

Deputy Chair –

Sure.

Ms Helena Bennett –

The Bank of St Helena is also working at this present point in time with ESH and SHG in



looking at the initiatives going forward as into how they can help businesses during this actual difficult situation to see what they can actually provide or what relief alleviations that can be put in place without being detrimental to the Bank's bottom line anyway, but they are working very much in partnership with the Government at the moment to see what we can do to help local businesses.

Deputy Chair –

Okay, thank you, because I picked up on that because I think the referred, or the quote referred to was “grey”, the outlook was “grey”, I think in your Director's Report?

Mrs Joey George –

Yes, at that particular time that was the 16/17, that was actually just before the airport opened because it was a delay in the opening of the airport. In addition to that was the news at the time about the exit from the EU which, in turn for the Bank, had a direct impact when it comes to the Bank's investments, because obviously, as you can see from the Accounts here, that a lot of the Bank's money is invested in overseas, what we call, CDs, cash deposits, so because there was a slump in the rest of the world, Bank of St Helena also felt that impact as well, but in this particular case that you're referring to for the 16/17 accounts that was where it was grey, it's because of the rest of the world, they also were under the same pressures as we see ourselves now.

Deputy Chair –

Alright, thank you and I just wanted to make a comparison to then to now even though we're looking at the global climate against the local climate. In terms of interest rates on depositor's accounts, what is the current interest rate?

Mrs Joey George –

The interest rate on current accounts at the moment stands at 0.1%.

Deputy Chair –

And is there a risk, based on the global economic climate, Brexit and everything else, will there ever be a chance of that dropping to zero?

Mrs Joey George –

We can never say never to anything nowadays, but what it is that the Bank will continue to review and look at its investment, what return we can have, so hence the reason it is, you know, we have to look at the whole picture, so we're looking at our products and services, say, for example, when we look at our debit cards, as we were referring to before, if we can get a good return on our investments, if we have, you know, our investments that we make in the UK is got a better return that what we were previously having, if we start to see those things materialize then most certainly we can look at how we can improve our interest rates, however, like I say, depending on how things go it could potentially go the next way, so we're very much at the mercy of both the local and the international environments.

The Chairman –

Is that looked at annually, is it, the interest rates?

Mrs Joey George –

Yes, they're looked at, actually, for our own selves we actually look at it more frequently as well to ensure .....

The Chairman –

I thought you might want to do that.

Deputy Chair –

And just one final question to you. Who handles your investments?

Mrs Joey George –

Yeah, our investments is handled by Crown Agents in the UK.

Deputy Chair –

Okay, thank you. Thank you, Chair.

The Chairman –

Any further questions? Well, thank you all very much, thank you for your responses and I think, very importantly, in the way that you were able to respond, thank you Joey and team. Joey though, in the beginning, well, not in the very, very beginning, at the beginning of this session here, you said that you are Bank Manager designate, when are you going to become the Bank Manager?

Mrs Joey George –

Well, actually, what it is, it's part of, as one of the questions was before about the training and development plan, this being the designate forms part of my training and development plans, there's a number of targets that I need to achieve, upon satisfactory completion of those targets then I am hopeful that the designate will be removed from my name title.

The Chairman –

Well, I think we all wish you the best of luck.

Mrs Joey George –

Thank you very much.

The Chairman –

And thank you all very much, thank you.

Well, that concludes the business for today, we were going to see whether we could have a look at Governance of SHG Group Entities, that isn't going to be possible this afternoon, so after we have finished here we will decide on when to have that session to look at the Governance of SHG Group Entities.

That concludes the business for this second formal meeting of the PAC in 2018. The PAC will now review the evidence heard and prepare reports on its findings for laying before the Legislative Council in due course. There are a range of other audited accounts which will come before the PAC in the coming session season, including St Helena Fisheries Corporation, St Helena National Trust, St Helena Bulk Fuel Installation, St Helena Currency

Fund and for the first time the accounts of Solomon and Company (St Helena) Plc. The PAC will be reconvening later in the year to consider these remaining accounts for the 2016/2017 reporting year and details will be published in advance giving notice of that hearing.

Before closing, I wish to thank the Clerk to the PAC for the Assembly of Wales, Fay Bowen, for her attachment to St Helena and assisting members and our own Clerk to the St Helena PAC in preparing for this public session.

Thank you the public for investing your time with us, listening to the proceedings taking place, which I hope you found interesting. Thank you to the various accounting officers who gave evidence, and thank you SAMS for your broadcast of this important event. Thank you.

**Meeting Closes.**