



**St Helena
Government**

ST HELENA PUBLIC ACCOUNTS COMMITTEE

**REPORT TO
LEGISLATIVE COUNCIL
ON THE FORMAL SESSION OF
THE PUBLIC ACCOUNTS COMMITTEE
HELD ON THE
27TH APRIL, 4TH MAY AND 18TH MAY 2020**

St Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of the Public Accounts Committee held on the 27th April, 4th May and 18th May 2020

1. Introduction

In accordance with section 69 (6) of the Constitution of St Helena the Public Accounts Committee (PAC) hereby reports to Legislative Council on the Formal Session of the Committee, held on the 27th April, 4th May and 18th May 2020.

Membership of the Committee comprises:

Chairman:	Mr Cyril Gunnell
Vice Chairman:	Mr Mark Yon
Members:	Hon Dr Corinda Essex
	Hon Brian Isaac
	Hon Jeffrey Ellick

PAC is advised professionally by the Chief Auditor, Mr Phil Sharman.

A recorded copy of these proceedings can be found on the SHG website <http://www.sainthelena.gov.sh/public-accounts-committee/> and in the Public Library.

2. Order Paper – First Session 2020

27th April 2020

- I. Chairman's Address: 27th April, 4th May and 18th May 2020
- II. Performance Audit Report: Procurement of the Sea Freight Service Contractor
- III. Performance Audit Report: Procurement of the Fuel Management Contractor

4th May 2020

- IV. Performance Audit Report: Jamestown Hospital Refurbishment Project

18th May 2020

- V. Performance Audit Report: The 1,2,3 Main Street Hotel Development

I. Chairman's Address

The Chairman opened the meeting and welcomed all in attendance and those listening over the radio, thanking them for their interest in the work of the Public Accounts Committee. He also thanked South Atlantic Media Services (SAMS) for broadcasting the formal hearing.

The Chairman explained that PAC is established by section 69 of the Constitution and operates under Standing Orders (No 23) of the Legislative Council; its primary function is to objectively scrutinise the Government's stewardship of the public purse. He added, PAC is protected to act independently and is not subject to the direction or control of the Governor, the Executive Council, or any other body or authority. It has power to call any person to give evidence orally and then report its findings to Legislative Council. Through these statutory provisions the scrutiny role of PAC serves as a mainstay of good governance, holding Government and other public bodies to account.

The Chairman was pleased to announce that a previous challenge PAC faced, had been resolved on 6th December 2019 with a bill being passed to designate the PAC quorum as 3 members. He also recapped on the UK Overseas Territories programme funded by the Foreign and Commonwealth Office, which came to an end in March this year. The Chairman and Clerk, along with the Chief Auditor and Head of Internal Audit had attended the final multilateral forum in London during December 2019 and these events had proved hugely beneficial to all concerned.

The composition of the Committee was highlighted with the following five permanent members:

Chairman	Mr Cyril Gunnell
Deputy Chairman	Mr Mark Yon
Member	Hon Dr Corinda Essex
Member	Hon Brian Isaac
Member	Hon Jeffrey Ellick

It was noted that through illness, the Hon Brian Isaac was absent from this hearing. Thanks were extended to outgoing member, Hon Clint Beard, who had served the PAC well until his resignation on 21st August 2019 and a welcome was extended to Hon Jeffrey Ellick, elected to PAC on 6th December 2019.

Assisting in the business of the PAC were the Chief Auditor Mr Phil Sharman, supported by the Principal Analyst, Mr Damian Burns and the new Deputy Chief

Auditor, Mr Brendon Hunt, to which a welcome was extended. The Clerk, Miss Anita Legg also provides support to the Committee.

To ensure the Committee operated independently and free from any bias or conflict of interest, arrangements had been made for a temporary member to cover for members conflicted by the item of business under scrutiny. Thus the Hon Cyril Leo had been appointed to replace:

- Hon Dr Corinda Essex, for enquiries on the Performance Audit Report on Procurement of the Sea Freight Service Contractor; and
- Hon Jeffrey Ellick, for enquiries on the Performance Audit Report on Procurement of the Fuel Management Contractor and the Performance Audit Report on the Jamestown Hospital Refurbishment Project.

The public were informed this was the first formal session of the Public Accounts Committee for 2020, held over three sittings. A record of activities for the 2019 year could be seen in the PAC's Annual Report, which has been uploaded to the SHG website.

The first PAC session focused on Performance Audit Reports namely:

27th April 2020

- Procurement of the Sea Freight Service Contractor
- Procurement of the Fuel Management Contractor

4th May 2020

- The Jamestown Hospital Refurbishment Project

18th May 2020

- The 1,2,3 Main Street Hotel Development

Evidence taken on the above reports is summarised below.

II. **Performance Audit Report: Procurement of the Sea Freight Service Contractor**

On 27th April 2020 PAC examined the Procurement of the Sea Freight Service Contractor and the following persons attended to give evidence:

- Financial Secretary – Mr Dax Richards
- Corporate Procurement Executive – Mr Marc Lockley

The Performance Audit Report on Procurement of the Sea Freight Service Contractor was prepared by Audit St Helena under section 29 (2) of the Public Finance Ordinance and laid at Legislative Council on 6th December 2019, under section 29 (3). This report, numbered sessional paper 32/19 was referred for PAC scrutiny, under Standing Order 23 Rule 2(a) (iii).

PAC enquired on the following issues from SHG management:

- SHG's initial criteria included in the ITT and how SHG assessed a value for money service;
- Relative weightings given to proposed freight rates as compared to frequency of service in the assessment criteria;
- Whether there was any government underwriting of the service and any penalties payable;
- What expertise was there in the procurement team relative to the size of that contract and how that expertise is transferred when staff leave;
- What made AWSML the preferred bidder, did they have a cargo ship earmarked;
- The requirement for passenger berths and who receives the benefits from the sale of those berths;
- The commencement of the cargo service in March 2018, some 21 months after SHG signed the contract and any SHG contractual obligations;
- Unloading of cargo at Rupert's Wharf and barging round to Jamestown;
- Performance and ongoing monitoring of the cargo contract and retendering of the service in 2023;
- SHG responses to Audit St Helena's recommendations in SP 33/19.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these will be recorded in the 27th April 2020 transcript.

In addition to the verbal evidence SHG management committed to provide written responses for the following matters:

- The total cost claimed from SHG by AWSML, under the contract, to keep the MV Helena on standby in the port of Capetown.
- To confirm the security arrangements on the In-tend system is sufficient to ensure that information is protected.
- To provide the committee with the Attorney General's legal opinion which confirms that procurement regulations not be prepared under legal notice.

Based on the responses provided by SHG management the main conclusions are drawn below, with recommendations proposed after PAC deliberations.

Main conclusions

1. **The Government purse suffered loss as a result of the delayed start of the air service.** PAC noted with concern that as part of the contract with Andrew Weir Shipping Management Ltd ("Andrew Weir") it was contracted to pay approximately \$2,000 a day in delay damages resulting from the delay in the start of the contract for a period of 21 months. This delay was a direct result of the air service not opening on time and the extension of the RMS St. Helena service to allow passengers to arrive on the island.
2. **SHG were not underwriting or subsidising the Sea Freight Contract.** SHG affirmed that the contract with Andrew Weir was on commercial terms and was not underwritten, meaning there would not be a need to pay an operating subsidy to them at any point.
3. **The delayed commissioning of Rupert's port is resulting in material additional costs.** Currently alternative unloading procedures are being applied with freight being barged from Rupert's Wharf to Jamestown Wharf, as a result of the rock fall protection measures not being in place. This is resulting in an additional cost to SHG of approximately £500 per container with £500,000 being budgeted a year for this cost. SHG stated that only the Rupert's Wharf unloading scenario was specified in the original specifications. PAC would have expected the specifications to make provisions for scenarios wherein ships would not be able to access the wharf due to operational clearances or rough seas.
4. **Alternative unloading procedures are not going to be resolved in the foreseeable future.** PAC noted with concern SHG's response, in that they estimate the alternative unloading procedures would continue for a further two years. SHG also commented that besides rock fall protection measures

not being in place, an additional area needs to be prepared for container handling facilities.

5. **Contractual performance measures are currently not being given dedicated attention.** In response to the question as to whom is responsible for ensuring that the service meets the operational performance measures, as set out in the contract, SHG stated it is their intention to appoint a contracts manager to perform this function.
6. **Financial Regulations do not currently have legal force.** PAC noted the Chief Auditor recommended that SHG should ensure the procurement regulations and any other financial regulations, prepared under the Public Finance Ordinance are issued under legal notice to ensure that they have statutory authority as subsidiary legislation. SHG stated they had obtained a legal opinion from the Attorney General in which it stated that the procurement regulations not be issued under legal notice. SHG added they are still considering whether any other financial regulations should be prepared under legal notice.
7. **SHG has implemented procedures to mitigate non-compliance on high risk procurements.** The Chief Auditor recommended that SHG's risk register be updated with procurement that is designated a high risk and controls be put in place to manage non-compliance relating to procurement. SHG stated that it has a four tier response, which assesses the risk associated with non-compliance.
8. **Third parties are now required to complete a Declaration of Interest and Confidentiality at the beginning of procurement processes.** The Chief Auditor recommended that SHG ensure that third parties or any other non SHG employees assisting in the preparation of tender and specification documents, sign the Declaration of Interest/Confidentiality form. In terms of specific controls that have been put in place to ensure this happens, SHG stated that all third parties make a declaration at the beginning of the evaluation process.
9. **SHG has implemented a procurement document management system.** The Chief Auditor recommended that SHG strengthen the record keeping system for mandatory information that is to be kept as per the procurement regulations. SHG had previously stated that they had implemented the "In-Tend" procurement system to mitigate the record keeping risk. In response to the question as to how the system works, its costs and how it ensures that all procurement records are held on record, SHG stated the following:
 - The cost is \$5,000 per year;

- It is used currently for high risk procurements;
- Information is currently being stored in the cloud;
- The Corporate Services IT Section had provided assurance around the IT security of the system and the prevention of unauthorised access to SHG data and documents.

10. **SHG believes it is achieving Value for Money on the Sea Freight Contract but end users will bear the unsubsidised freight cost.** PAC noted that SHG believes that it is obtaining Value for Money on the freight service contract with Andrew Weir in terms of reliability of the service being received. PAC is mindful that assessment is made in the absence of public subsidy, where the perspective of Government will be quite different to that of merchants and the general public as end users, bearing the unsubsidised freight cost.

11. **Dependencies between projects are not being managed at a programme level.** PAC concluded that SHG demonstrated deficient portfolio and dependency management with regards to the wider airport programme and its portfolio of projects.

Recommendations

In relation to its scrutiny of the Procurement of the Sea Freight Service Contractor, **PAC recommends that:**

1. SHG ensure performance management of all public services delivered under contract, including the sea freight service contract, are provided with dedicated attention.
2. SHG ensure future specifications and contract terms include provisions that recognise, critical dependencies and milestones on related projects may not be complete at the time of awarding and contracting with suppliers, and therefore protect the public purse from excessive damages.
3. SHG ensure necessary work to complete the Rupert's wharf for operational cargo handling be concluded as soon as possible, to reduce ongoing alternative offloading costs (barging of containers from Rupert's wharf).
4. SHG ensure future sea freight contract specifications are reviewed at the contract break-point and include capability for the ship to safely offload in open water when docking facilities are out of use.

III. Performance Audit Report: Procurement of the Fuel Management Contractor

On 27th April 2020 PAC examined the Procurement of the Fuel Management Contractor and the following persons attended to give evidence:

- Financial Secretary – Mr Dax Richards
- Airport Director – Miss Janet Lawrence
- Project Manager, Ruperts – Miss Tracy Williams

The Performance Audit Report on Procurement of the Fuel Management Contractor was prepared by Audit St Helena under section 29 (2) of the Public Finance Ordinance and laid at Legislative Council on 6th December 2019, under section 29 (3). This report, numbered sessional paper 34/19 was referred for PAC scrutiny, under Standing Order 23 Rule 2(a) (iii).

PAC enquired on the following issues from SHG management:

- The scope of services SHG sought to procure the Fuel Management Contract;
- The role of the contractor in the design of the fuel management system and the extent this was specified in the tender documents;
- Whether fuel is managed to any specified standard and whether there has been any changes to these standards;
- The invitation to tender sent to Interserve, Stanley Services and Greystar and the strength of SHG's negotiating position;
- The contract, signed on 15 August 2014 with Greystar Europe (now Penspen), which is placed on the SHG contract register to the value of £15 million over 10 years;
- Why an external specialist agent was required for the procurement process and any lessons that have been learned;
- Access of all necessary procurement documents from the external agent;
- SHG responses to Audit St Helena's recommendations in SP 35/19.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 27th April 2020 Transcript.

In addition to the verbal evidence SHG management committed to provide written responses for the following matters:

- The specified standard to which fuel is managed.

- To provide the committee with the Attorney General's legal opinion which confirms that procurement regulations not be prepared under legal notice.

Based on the responses provided by SHG management the below main conclusions are drawn, with recommendations proposed after PAC deliberations.

Main conclusions

1. **The Fuel Management Contractor (FMC) is currently not performing all the tasks specified in the original contract.** SHG explained that the FMC contract was written with three concurrent stages: (1) FMC input into design and operational planning; (2) FMC take over responsibility for all aspects of aviation fuel procurement and supply; and (3) after 6 months, transition to managing the new Bulk Fuel Installation (BFI) for a 10 year period. SHG also stated that the frustrated contract has been operating under contingency arrangements for the last four and a half years, essentially meaning it has been stuck in phase 2.

PAC remain concerned the FMC is being paid for services it is not delivering and that too much time has passed since the signing of the contract to activate phase 3 for 10 years when the situation has changed so much. PAC noted that SHG could not give a definitive answer as to whether value for money was being achieved under this contract and is currently in discussions with Penspen Ltd to renegotiate phase 2 terms and conditions.

2. **The successful bidder had previously been involved in fuel systems on the island, and had greater expertise than the other two bidders and any local provider, in management and handling of aviation fuel.** The Airport Director stated that Greystar (the successful bidder), who eventually acquired Penspen, had a limited but good enough knowledge of the island however had not been involved in fuel system design in any way. PAC however notes that Penspen had, in 2005, provided consultancy services to SHG assessing aviation fuel requirements. PAC is unclear whether Greystar had access to Penspen's prior knowledge at the time of the tender.

PAC enquired whether SHG considered offering the contract to the current local provider, Solomon & Company Plc. PAC were satisfied with the response that the management of aviation fuel is highly specialised and this needed to be carried out by a specialist contractor. PAC were also reassured by the fact that Penspen are developing local expertise in aviation fuel management. That said, PAC remain concerned there were questions at the time of the tendering as to whether the successful bidder had the relevant experience in aviation fuel management. PAC also remain concerned that the risks associated with negotiating with a single bidder were not appropriately

mitigated. SHG informed PAC that they were advised by industry experts during the procurement process and Greystar's proposal fell within industry norms.

- 3. The contract is being funded through an annual subsidy, which forms part of the financial aid budget. Without this subsidy, aviation fuel costs could potentially be much higher.** £1.00 per litre is already seen as well above average across the aviation sector. The Department for International Development (DFID) (via SHG) underwrites the cost of fuel management through an annual subsidy of £1.2 million built into the main financial aid budget. The Financial Secretary added, the rest of the costs are recovered through an essential infrastructure charge built into the price of a plane ticket at approximately £50.

PAC raised concerns during questioning regarding any future review of this subsidy, which could have a detrimental impact on fuel prices. PAC noted that SHG had not yet determined the impact on whether the increased cost of handling aviation fuel had impacted fuel prices for the consumer, which leaves unanswered the question of whether value for money has ultimately been achieved. The Financial Secretary responded that SHG wanted to ensure ground fuel prices would not increase significantly to the consumer and that there would be no cross-subsidisation of fuel therefore on that basis, DFID had agreed to provide an annual contribution towards the cost however SHG would still need to show they are making an effort to recover costs on the FMC. That said, it became evident in the hearing that the future cost of both ground and aviation fuel was still uncertain.

- 4. It will take another 12-18 months before the Fuel Management Contractor can manage the new fuel facilities as envisioned in the contract.** In 2019 DFID hired Arup, a global engineering firm, to undertake an independent review of the fuel system and advise on both technical and governance-related matters. DFID received Arup's completed technical review in September 2019 and its governance review the following month. DFID and SHG are assessing Arup's recommended approach, including analyses that may require additional third party resource. The Financial Secretary estimated that it would be another 6 months before a decision is made on how to proceed, and another 12-18 months before a way forward is implemented and the fuel system is ready for the FMC to operate as intended.
- 5. PAC noted with concern that the original signed contract could not be sourced from the external company, Faithful & Gould, who assisted SHG with the procurement of the FMC.**

6. PAC further noted that SHG had subsequently implemented the “In-Tend” procurement system thereby mitigating the Chief Auditor’s recommendation that record keeping systems be strengthened. PAC noted that local suppliers had been invited to register on “In-Tend” but that not all suppliers were aware of this functionality.

Recommendations

In relation to its scrutiny of the Procurement of the Fuel Management Contractor, **PAC recommends that:**

1. SHG provide for another awareness campaign around local supplier registration on the “In-Tend” procurement system in whatever communication medium SHG deems to be the most effective.
2. SHG conclude the current phase 2 contract with the Fuel Management Contractor and negotiate a new contract for the substantive phase 3 fuel service management contract, due to the delays in commissioning the new BFI and potential changes in the fuel system.

IV. Performance Audit Report: The Jamestown Hospital Refurbishment Project

On 4th May 2020, PAC examined the Jamestown Hospital Refurbishment Project and the following persons attended to give evidence:

- Chairman, Public Health Committee – Hon Derek Thomas
- Financial Secretary – Mr Dax Richards
- Director of Health – Mr Edward Rayment
- Assistant Director of Health – Mrs Helen Lawrence
- Director of Infrastructure & Transport – Mr Derek Henry
- Head of Technical Services – Mr David Goodrick
- Capital Programme Manager – Miss Alfreda Yon

The Performance Audit Report on the Jamestown Hospital Refurbishment Project was prepared by Audit St Helena under section 29 (2) of the Public Finance Ordinance and laid at Legislative Council on 6th December 2019, under section 29 (3). This report, numbered sessional paper 36/19 was referred for PAC scrutiny, under Standing Order 23 Rule 2(a) (iii).

PAC enquired on the following issues from SHG management:

- How the hospital refurbishment project was funded;
- Whether SHG had produced a business case and undertaken a thorough options appraisal;
- Delays and cost escalation of the project;
- Whether SHG's procurement systems are working;
- Standards and quality of the building works and finish;
- Maintenance of important equipment at the hospital;
- Any assessment of benefits against broader outcomes such as the provision for oncology services and whether the new diagnostic suite has assisted in the early detection and treatment of cancers;
- The systematic monitoring of hospital performance and whether there are key performance indicators;
- The Chief Auditor Recommendations in the Audit Report in SP 36/19.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4th of May 2020 Transcript.

In addition to the verbal evidence SHG management committed to provide written responses for the following matters:

- The number and type of variations to the project.
- How much SHG had spent on consultants for this project.
- To what extent had SHG utilised the recommendations from consultants.
- How much retention was included in the contract, and when was this retention paid to Basil Read.
- The statistics on the types of cancer on St Helena.
- The material differences in contract form, being the FIDIC form used for this contract and the JCT form.

Based on the responses provided by SHG management, the below main conclusions are drawn, with recommendations proposed after PAC deliberations.

Main conclusions

1. **The decision to proceed with the hospital refurbishment was made by Executive Council with limited information given to them at the time, limited time to assess the options, and with an urgent need to address health and safety concerns in the building.** The Financial Secretary stated, at the early stages Executive Council considered using EDF11 funding to finance a new build hospital; they had looked at the options however decided to utilise EDF11 for improved internet connectivity (the cable project). This meant any improvements to the hospital would have to be funded through the 2014-17 Capital Programme, which the refurbishment eventually was.

The Financial Secretary and Capital Programme Manager also stated, as detailed in the Audit report, there was no business case produced for the project and a limited options appraisal had been undertaken. The point was also made that there was a degree of urgency at the time to address health and safety concerns in the hospital. On top of this, putting the refurbishment on the Capital Programme meant it was competing with other projects within a ring-fenced budget.

While options for a new build were considered by Executive Council, such as in Half Tree Hollow and Alarm Forest, the Financial Secretary advised that at the time SHG did not have the time nor the capability to conduct a proper cost benefit analysis for any of these options. What was known, was that the budget could not support a new build option at that time.

PAC are concerned that leaders were forced to make policy decisions with limited evidence however were reassured by the Capital Programme Manager that all projects in the current Economic Development Investment Programme (EDIP) are subject to a much greater level of scrutiny at the early stages.

2. **The total cost of the project remains unclear and SHG still does not know the reasons for cost and schedule slippage.** During the hearing, PAC were concerned that none of the panel were able to correctly quantify the contracted price of the project nor its total final cost. None of the panel knew the number of contract variations. The Financial Secretary stated that currency fluctuations contributed to what cost increases there were, although this was not an issue that was identified in the Audit report.

The lack of accountability for the project is of great concern to the PAC and PAC believe that for a project of this significance, at least one of the panel of SHG officials should have been able to account for the project's cost increases and scheduling delays.

3. **There was a lack of expertise used in the design and construction of the refurbishment, gaps in project management and significant governance issues.** The Director of Health, who was appointed well after the project was completed, stated that in his view the indecision over specifications and the volume of contract variations could be attributed to a lack of expertise in hospital construction on the part of the contractor. PAC noted this point and agree it may have been appropriate to use a more specialist contractor for this project. The Financial Secretary stated that at the time, Basil Read were evaluated as having the strongest bid owing to proven experience in hospital construction and negligible mobilisation costs, as they were already on-island. SHG did make use of consultants early in the project, as the Audit report notes, but the benefits of these engagements is unclear.

During the hearing it became clear that the panel acknowledged gaps in project management throughout the project's life. The local project manager, hired through the ENRD framework performed more of a site supervisor role and the engineer in ENRD did not have the necessary experience in hospital design to administer effective oversight. PAC were also concerned to hear that the engineer had been allowed to leave the project whilst still being an employee of SHG.

PAC enquired whether there were any more specific governance issues for this project. The Capital Programme Manager outlined a number of issues, including:

- No client brief endorsed and no clear need for the project articulated;
- No real project manager and weak project management in general – this role was undertaken by a site manager;
- No appropriate change control procedure;
- Lack of expertise on the part of the engineer.

During the hearing officials agreed that specifications took too long to agree with the contractor and again put this down to a lack of expertise on both the contractor's part and SHG's part. PAC were pleased to hear that SHG has learned some lessons from this project.

4. **The form of the contract used was not appropriate for this type of project.** PAC heard from the Chief Engineer that the International Federation of Consulting Engineers (FIDIC) contract, used for this project is usually used for civil engineering works rather than building refurbishments and the Joint Contracts Tribunal (JCT) contract would have been more appropriate.

PAC were concerned that Basil Read were able to influence the form of the contract in their favour, to SHG's detriment. PAC wish to obtain more information on the differences in the contract used.

5. **Basil Read received their full retention payments because the then Head of Planning was satisfied they had fulfilled the duties in their contract, despite known defects and health and safety concerns.** While the Audit report outlined a number of these concerns, officials were unable to identify the specific problems in the building at the time it was handed over. PAC reminded officials of these problems, which included poor standards of finishing such as re-used joinery, vinyl flooring, plaster work, the standard of wall tiling, rusting external handrails, defective manhole covers, as well as incomplete and haphazard arrangements regarding training of personnel in relation to maintenance of the lift and oxygen plant.

The panel responded that most of these issues had been resolved. PAC enquired as to the amount of retention that was paid to Basil Read, which the panel did not know. PAC found it surprising that SHG had made the retention payment under these circumstances.

6. **PAC are concerned that there are no contracts in place for maintenance of the oxygen plant and that this represents a single point of failure putting lives at risk.** There is still no contract in place for the maintenance of the oxygen plant and autoclaves and currently there is only one contractor who has been trained to provide maintenance on the oxygen plant. Failures of these assets could have devastating consequences for public health.

The Financial Secretary explained that getting these contracts in place was a priority however the current sole trader who undertakes the work is reluctant to enter into a contract with SHG and SHG are not able to force this upon them. Furthermore the electrical skills required to undertake the work are specialized, for which the sole trader had received training. At that time, other

members of the Infrastructure & Transport Works team in SHG had also received training however did not complete the course.

PAC recommends that SHG actively pursue these contracts, look at the “sticking points”, or continue the training programme for those members of staff who started, so that SHG has staff who can undertake the work and are in a position to transfer skills. This would obviate the need for any formal contract with an independent trader.

- 7. The Public Health committee visited the site regularly, received timely information on the project and were pleased with its progress throughout.** Regarding the Public Health Committee’s role in the project the Chairman stated the Committee maintained regular interest in the works and completion of the project, they received regular updates through committee meetings and undertook site visits. On those visits they were encouraged and pleased with what they saw; nursing staff also conversed with the committee that they were very impressed with the building.

The Chairman’s response was of concern to PAC, as the Committee appeared not to have sight of the cost, quality and scheduling slippages, which occurred on this project despite their governance and oversight responsibilities.

- 8. Forecast spend on overseas referrals for 2019/20 will be around £1.85 million, an increase of £0.35 million from the previous year. SHG has a number of explanations for this.** The Director of Health explained that better detection of complex diseases such as cancers had meant more referrals. He also made it clear that the Health directorate makes referral decisions based on need rather than cost but regardless, a much more detailed analysis of the cost drivers in the overall referrals cost figure is needed, before any links to the hospital refurbishment can be drawn. The Financial Secretary reiterated that SHG will continue to prioritise need over cost when it comes to overseas referrals, as SHG is looking to reduce medical related litigation.

PAC acknowledges the complexity of the cost drivers and recommend the Health directorate take forward Audit St Helena’s recommendation that they commission an analysis looking at the financial impact of the refurbishment and what cost savings have been realised as a result.

- 9. The project did not address particular service areas including oncology and mental health.** PAC enquired of the Director of Health whether he thought, with hindsight, anything was overlooked for the refurbishment. The Director was quite clear that there are gaps at the hospital, mainly with space for oncology and mental health services. The Director reiterated that had more

medical expertise been used then the hospital refurbishment may have been designed better, particularly if the needs of the population had better been taken into account.

10. The Health Directorate have been meaning to improve their collection of statistics and performance reporting however Covid-19 has delayed this work. The Director of Health stated that improving KPIs was one of his main priorities for 2020 however he has been unable to take forward this work due to the delays of Covid-19. He also noted that performance of the hospital is directly impacted by the levels of skills on the island which varies year on year.

11. SHG is still working to implement the report's recommendations. During the session it became clear that:

- SHG has no asset management plan in place for the hospital, nor any asset management system for strategic assets in general;
- Officials could not evidence the use of optimism bias in its latest round of projects;
- The Document Filing System is still in a work in progress.

Recommendations

In relation to its scrutiny of the Jamestown Hospital Refurbishment Project, **PAC recommends that:**

1. SHG ensure there are clear reporting lines between Site Managers, the Project Management Board and senior SHG officials. Officials on projects should be held accountable for project delivery through these project structures.
2. Within each project there should be sufficient funds allocated to match the specific expertise needs within that project.
3. SHG commission an analysis looking at the financial impact of the refurbishment and what cost savings have been realised as a result, with regards to whether Value for Money has been achieved.
4. SHG prepare an asset management plan, for all directorates, that address the strategic assets replacement and maintenance scheduling needs of the island.
5. SHG train Infrastructure & Transport Works staff to enable them to carry out maintenance on the oxygen plant to mitigate the risk associated with the current ad-hoc arrangements.

v. Performance Audit Report: The 1,2,3 Main Street Hotel Development

On 18th May 2020, PAC examined the 1,2,3 Main Street Hotel Development and the following persons attended to answer questions:

St Helena Hotel Development Ltd (SHHDL):

- Director: Mr Brian Deadman (SHG Representative)
- Director: Mr Andre Vanniekerk (General Manager)
- Former Director: Mrs Susan O'Bey (Chief Secretary)
- Former Director: Mr Dax Richards (Financial Secretary)

Directors: Mrs Tara Wortley, Mr Nick Foster and Miss Cherie Dillon were also in attendance.

The Performance Audit Report on the 1,2,3 Main Street Hotel Development was prepared by Audit St Helena under section 29 (2) of the Public Finance Ordinance and laid at Legislative Council on 27th March 2020, under section 29 (3). This report, numbered sessional paper 13/20 was referred for PAC scrutiny, under Standing Order 23 Rule 2(a) (iii).

PAC enquired on the following issues from the Hotel Directors:

- The investment decision as to why SHG needed to invest in a hotel;
- Who was the main driver and who advised SHG throughout the investment decision process;
- The extent local entrepreneurs were engaged in the investment process;
- Alternative site options SHG may have considered when making its investment;
- The development project and the extent that Basil Read was involved;
- The cost and cost escalation on hotel construction;
- Any warranties that were in place for hotel build and other property and equipment;
- The forecasted visitor/tourist projections for the next five years and whether the island now have sufficient visitor beds;
- Financial performance and forecasts;
- Measures that have been put in place by SHHDL to reduce losses going forward;
- SHHDL's business improvement plan;
- Realistic estimates for SHG subsidies over the next three years;
- Options for closing the hotel for the low season and the triggers for a decision to close the hotel;
- Whether the hotel remains a going concern;

- DFID involvement in the project, given it was a requirement of its own business case for the Airport Project;
- Servicing the loan finance – the current value of the outstanding loans owed by SHHDL and how long will it take to pay off;
- The SHHDL Board – membership and conflicts of interest, their ability to perform their duties in tandem with other public or private obligations, skills required and the remuneration policy;
- Management oversight – effective contract management arrangements and the Hotel Management Agreement;
- The 4 star rating;
- The recent significant reduction in hotel staffing;
- Training for hospitality staff in terms of the original objectives;
- Competition and SHG monitoring of the pricing strategy;
- Development of the exit strategy and BDO recommendations;
- The work carried out to determine the impact of coronavirus;
- The total £5.4 million public capital investment and the current market value.

PAC received explanations and assurances for the above mentioned enquiries from Directors and these have been recorded in the 18th May 2020 Transcript.

In addition to the verbal evidence Directors and SHG Management committed to provide written responses for the following matters:

- How much has been spent on repairs to the hotel since the 3 month defects warranty period and has all defects now been rectified.
- The loan models on how SHG will eventually pay back, including interest.
- Information on the Marketing Plan.

Based on the responses provided by Directors the below main conclusions are drawn, with recommendations proposed after PAC deliberations.

Main conclusions

1. There is no official body that can award hotel star ratings on St Helena.

The Hotel was designed and built to 4-star specifications however St Helena has no authority to confirm that it continues to operate to 4-star quality, beyond the judgement of the hotel General Manager. While Mantis Group and its owner, Accor, maintain strict brand standards in all its hotels there does not seem to be any regular independent evaluation of the star rating. PAC were told this would be possible only if St Helena introduced its own local rating system. PAC were also told that Mantis is still the only hotel on the island that offers 4-star quality.

2. **SHG are unprepared to deal with reduced tourism resulting from the Covid-19 pandemic and has yet to develop contingency plans for a drop in tourist numbers.** The Mantis General Manager provided the following forecasted room nights over the next five years:

- 2021 : 3,900 room nights
- 2022 : 4,016 room nights
- 2023 : 4,800 room nights
- 2024 : 5,285 room nights

The hotel operator believes that it had been conservative in the forecast but the Covid-19 crisis will impact this. However the impact of the forecast will only be known once the crisis is over. The Chair of the Board indicated they had offered the Mantis Hotel to be used as a quarantine center during the Covid-19 crisis but this offer had been declined by Executive Council.

The operator also indicated that the preliminary estimate of the loss to March 2019/20 was £200,000. PAC noted that the forward looking crisis should also be seen in the context of historical losses amounting to an accumulated £1,373,745 as of 31st of March 2019.

At the time of the meeting, SHG had not yet decided what to do with the Hotel in the short, medium or long term, although its outlook is pessimistic, with options including a possible closure to December 2021, various other options were being considered. That being said SHG was still unwilling to estimate future tourist numbers due to current uncertainties. However SHG has also committed to subsidising the Hotel until such a time that it becomes a profitable operation.

3. **The objectives of the Mantis Hotel, St Helena Hotel Development Ltd and SHG are at best disjointed, and at worst incompatible.** SHG has a responsibility to ensure a booming and dynamic private sector through its ownership of the 10 year strategic plan. SHHDL's strategic objectives require the Hotel to be both a training facility and not compete with the private sector. For Mantis, they need to be as profitable as possible especially in the current economic climate.

Whilst questioning profit making initiatives the Mantis had undertaken and the possible competition with the local market, PAC noted that SHG does not have a policy position on State Owned Entities (SOE's) competing with local merchants.

4. **The boards of state owned entities are still not operating at their maximum potential or capacity.** At the time of the performance audit,

SHHDL board members were not receiving remuneration for their participation. Since then the non-executive directors, excluding ESH and SHG representatives, receive £2,400 per annum with the Chair receiving an additional allowance. This was an attempt to encourage applications to join the board as interest is low. Currently there is no appointed chair and members share the position on rotation.

Along with previously raised concerns that in the absence of an independent appointments authority, board members of all state owned entities may not have the necessary experience or qualifications to perform the role effectively, PAC are concerned that SHHDL in particular is struggling to appoint a suitable chair.

- 5. The project did not have the funding available to mitigate key risks such as exchange rate fluctuations and potentially faulty building work.** Two particular issues highlighted in the meeting were the cost escalation of the build and the short 3-month warranty period for defects in the construction work. For both these issues, SHG stated the project did not have sufficient budget to either hedge against exchange rate fluctuation or purchase longer warranties. The weakening of the pound against the rand after the United Kingdom's decision to exit the European Union led to a 20% escalation in project costs. SHG stated they did not, at the time, have the budget to forward purchase the foreign currency to hedge the foreign currency risk.

PAC notes that there are other ways to mitigate foreign currency exposure risks, other than actually purchasing the foreign currency in question, such as Forward Exchange Contracts.

SHG could not quantify at the time of the meeting the amount spent on repairs since the 3-month warranty period ended.

- 6. The Hotel has made significant cost savings through reducing its wage bill, however the impact of this on St Helena's wider economy is unknown.** The Hotel's business improvement plan, implemented to reduce the hotel's reliance on Government subsidy, following lower than expected visitor numbers, pursued an aggressive strategy of reducing the hotel's headcount and associated wage bill. This meant reducing the number of staff from 51 to 15.

Whilst PAC acknowledge the work done by the Mantis General Manager in implementing this restructuring, there remain concerns about the status of the now unemployed, particularly those trained in the service industry who now have no ability to utilise their skills in the current environment.

7. **Legislative Council has had no recent update or briefing on the Hotel.** Throughout the hearing it became clear that the Hotel's future depends on the informed decision making of St Helena's Councillors however members of PAC who sit on Legislative Council expressed concern that they have had no recent update on the Hotel's operation.
8. **SHG believes the Hotel is providing value for money to St Helena, despite not knowing what it is worth.** SHG is unable to put a value on the Hotel in the absence of any market interest. PAC notes that in the Investment Prospectus and list of Strategic Assets, SHG has indicated reserve prices on many of the sites up for sale. PAC are doubtful over SHG's assessment of value for money without a valuation of the asset.

Recommendations

In relation to its scrutiny of The 1,2,3 Main Street Hotel Development, PAC recommends that:

1. SHG through Enterprise St Helena investigate the possibility of establishing a Hotels Regulator or otherwise commissioning an inspection and assessment process from South Africa to provide an objective rating assessment for facilities on-island.
2. SHG urgently begin work on developing the exit strategy including forecasting a range of possible scenarios for the next 24 months so that Executive Council can make an informed decision over future funding of the Hotel and determine a desired reserve price to help inform its future sale.
3. SHG include a statement in its State Owned Entities ownership policy to ensure that unfair competition with local merchants or individuals does not occur.
4. SHG ensure future projects have appropriate mitigation strategies for all financial risks, including effective foreign currency hedging strategies and ensure they have the budget for these mitigations.
5. SHG establish an Appointments Authority responsible for recruiting members to the boards of its State Owned Entities.
6. SHG align the policies in its Labour Market Strategy with the treatment of employees of the entities it owns, so that the impacts of restructuring such entities do not have detrimental impacts for the wider economy.
7. SHHDL issue a written communication with SHG as shareholder outlining:
 - a) The details and impacts of the business improvement plan

- b) A range of forecast financial projections, including the best and worst case scenarios given the current air travel restrictions
- c) The options it is currently considering for Hotel operations over the next 24 months.

3. Concluding Remarks

PAC acknowledges the work of the Chief Auditor and staff, and attending officers of St Helena Government in assisting with this sessional report.

This sessional report on PAC proceedings held during April and May 2020 is hereby authorised for issue to Legislative Council in accordance with section 69(8) of the Constitution of St Helena.

A handwritten signature in black ink, appearing to read 'C. Gunnell', written in a cursive style.

Cyril Gunnell
Chairman

6 July 2020

