Saint Helena Government

Review of Utility Services Provision

Final

May 2019

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Ms Susan Obey
Saint Helena Government
Corporate Services
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16th June 2019

Dear Ms O'bey

Utilities Services Review

In accordance with the Terms of Reference and as agreed with the Government of Saint Helena, I am pleased to enclose herewith our Draft Report in respect of the Review of the Utility Services Provider – Connect Saint Helena Ltd. The Report addresses the comments that were sent to us by the Corporate Procurement Office in May and June 2019.

Please do not hesitate to contact us should you require any further information.

Yours sincerely,

Iain Nettleton
Partner
For and on behalf of BDO LLP

TABLE OF CONTENTS

ACRONYMS

ADB	ASIAN DEVELOPMENT BANK
AFS	ANNUAL FINANCIAL STATEMENT
AG	ATTORNEY GENERAL
AGM	ANNUAL GENERAL MEETING
BOD	BOARD OF DIRECTORS
BP	BUSINESS PLAN
CA	CHIEF AUDITOR
Capex	CAPITAL EXPENDITURE
CARILEC	CARIBBEAN ELECTRIC UTILITIES SERVICES CORPORATION
CEO	CHIEF EXECUTIVE OFFICER
CG	CORPORATE GOVERNANCE
CM	CHIEF MAGISTRATE
CPO	CORPORATE PROCUREMENT OFFICE
CSH	CONNECT ST HELENA LIMITED
CS	CHIEF SECRETARY
CC	CHAMBER OF COMMERCE
DFID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
DS	DIVESTMENT STRATEGY
EAR	EXTERNAL AUDIT REPORT
EOI	EXPRESSION OF INTEREST
EMG	EXECUTIVE MANAGEMENT GROUP
ES	ENERGY STRATEGY
EXCO	EXECUTIVE COUNCIL
FCO	FOREIGN AND COMMONWEALTH OFFICE
FCR	FULL COST RECOVERY
FS	FINANCIAL SECRETARY
GDP	GROSS DOMESTIC PRODUCT
GWOPA	GLOBAL WATER OPERATORS' PARTNERSHIP ALLIANCE
HMG	HER MAJESTY'S GOVERNMENT
HR	HUMAN RESOURCES
IBNET	INTERNATIONAL BENCHMARKING NETWORK
JSO	JUDICIAL SERVICES OFFICER
KPI	KEY PERFORMANCE INDICATOR
LEGCO	LEGISLATIVE COUNCIL
MOU	MEMORANDUM OF UNDERSTANDING
MUL	MONTSERRAT UTILITIES LIMITED
NTU	NEPHELOMETRIC TURBIDITY UNIT
O&M	OPERATIONS AND MAINTENANCE
OPEX	OPERATING EXPENDITURE
OTD	OVERSEAS TERRITORIES DEPARTMENT
PAC	PUBLIC ACCOUNTS COMMITTEE
PASH	PAN-AFRICAN SOLEIL HOLDINGS INC.
PPA	POWER PURCHASE AGREEMENT
PPP	PUBLIC PRIVATE PARTNERSHIP
PUDP	PUBLIC UTILITIES DEVELOPMENT PLAN
REMCO	REMUNERATIONS COMMITTEE

REP	RENEWABLE ENERGY PROJECT
RPI	RETAIL PRICE INDEX
SCE	STATE CONTROLLED ENTITY
SEDP	SUSTAINABLE ECONOMIC DEVELOPMENT PLAN
SHAS	ST HELENA AUDIT SERVICE
SIDS	SMALL ISLANDS DEVELOPING STATES
SWOT	STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS
TOR	TERMS OF REFERENCE
UK	UNITED KINGDOM
URA	UTILITIES REGULATORY AUTHORITY
VAT	VALUE ADDED TAX
WB	WORLD BANK

EXECUTIVE SUMMARY

Introduction and Scope of Assignment

BDO LLP have been contracted by the Government of St Helena to carry out a review of the Utilities Services Provider – Connect Saint Helena Ltd. The key objectives of the assignment are to:

- produce a detailed report documenting the current status of Connect Saint Helena Ltd. in terms of performance and governance;
- review the performance management processes and systems for identifying cost savings;
- review pricing metrics and identify how these could be regulated in future to provide a more sustainable footing for Connect Saint Helena Ltd; and
- provide options and recommendations for future governance and oversight arrangement which SHG could put in place.

The assignment was carried out in the following three phases:

- **Phase 1** – initial assembly and brief review of documents and reports made available by the St Helena Government (SHG) and internet searches;
- **Phase 2** – Island visit and meetings from 2nd – 10th February with key stakeholders including St Helena Government, Connect St Helena staff and 'Unified Saints' representatives; and
- **Phase 3** – review of relevant documents and reports; and preparation of the Draft Report.

Key Findings

Performance and Governance of CSH

The assessment of Connect Saint Helena's performance demonstrates that it is achieving most of the main objectives set out in the Divestment Process and meeting the targets highlighted in the legal Ordinance and the License. This is a considerable achievement given that the Company was only established in 2013 and has had to address a wide range of key issues including:

- old and fully depreciated assets;
- inadequate tariff levels and other financial weaknesses;
- lack of coordinated management and administration;
- limited and old O&M resources; and
- need for more consumer-oriented focus.

The main results confirm that CSH is making substantive progress in providing much improved utility services to consumers and a firm foundation to become financially self-sustaining with the elimination of the SHG subsidy and the potential for privatization. The annual subsidy from SHG has been reduced by 45% from £1.1 million in 2013/14 to £668,000 in 2017/18, and based on the analysis of the financial data and performance of CSH it is expected that the Company will achieve the elimination of the Operating Subsidy within the 10-year license period, provided:

- URA and SHG maintain realistic support for reasonable price increases that are in line with the aims and requirements of the MOU and the Utility Services Ordinance;
- CSH secures substantive unit cost improvements in the water service and significant reductions in non-revenue water levels; and
- the Renewable Energy Project is implemented promptly and effectively. In this context, the unit price and conditions in the PPA with PASH will be crucial in reducing the cost of energy provision; and opening the way for CSH and the URA to consider adjustments in the Electricity Tariffs and more modest increases in Water Tariffs – without inhibiting CSH's goal to break-even and achieve full cost recovery.

In terms of governance, the current framework for utility services provision is appropriately structured and working satisfactorily with SHG as the legal owner of CSH as a state-owned enterprise; and URA as the independent regulator of CSH. However, there are some elements that could be improved and made more effective, which are detailed under Chapter 4. It should also be noted that creating more layers of bureaucracy and control will increase inter-agency tensions and potentially adversely affect utility performance and prices in a small island economy.

Performance Management Processes and Systems for Cost Savings

The review of CSH's in-house systems and processes generally conclude that the Company is performing well and fulfilling the objectives set out in the Divestment Process and statutory legal obligations. However, it is recognised that much remains to be done in terms of convincing SHG and the Company's Customer Base that this performance is real. In particular public concern persists related to: staffing levels, call out services and vehicle maintenance and repairs.

In the first 5 years of operation, CSH has made significant progress through:

- substantial and ongoing replacement of old assets;
- improvements in efficiency and productivity of the electricity service; and
- significant improvements in network performance and time taken to connect customers.

Despite these changes, CSH acknowledges that further substantive improvements in the water service will take time – due to the inherited poor condition of the network and the assets, plus the costs and resources necessary to address the major issues. The financial results for the water service indicate that CSH is still faced with significant challenges to:

- reduce unit costs;
- eliminate the annual subsidy; and
- promote substantive improvements to achieve full cost recovery.

In relation to staff costs, CSH's salary structure and levels for senior management are all supervised by the company's Remuneration Committee (REMCO), which reports to the Board of Directors for the final decisions. Total staff costs have remained relatively stable at between 21% and 23% of total operating costs. Key management staff costs nearly doubled in the five-year period from £300,000 in 2013/14 to £592,000 in 2017/18. The increase reflects a modest rise as proportion of total operating costs from 7% in 2013/14 to 9% in 2015/16 and 11% in 2017/18. In 2017/18, the average income of key management staff would have been in the region of £100,000 including bonus payments and pension contributions. In reviewing the positions of the Executive Management Group (EMG), the following factors should be taken into account: (i) since CSH's in 2013, the EMG have been a central factor in the successful customer focused development of the Company; (ii) expatriate Technical Manager and expatriate Head of Finance will be replaced in mid-2021 by two qualified and trained Saints who are "shadowing" both positions; (iii) Consultants' experience – it is crucial to maintain leadership continuity, especially on a small Island where the impact of "change management" can and will have such important impacts; and (iv) SHG and URA should bear in mind the control and management implications - if a decision is taken to privatize CSH in 2 or 3 years.

Non-revenue water (NRW) is a significant issue for CSH exacerbated by the inherited old and poor condition of the network assets that have been prone to frequent bursts and substantial water losses. CSH records indicate NRW increasing from 28% in 2013/14 to 28% in 2015/15 and 53% in 2017/18. CSH is aware of the problem and has set a plan in motion to reduce NRW significantly over the next two years. Progress should be carefully monitored. CSH management appreciates the seriousness of the problem and is addressing the issue as a matter of urgency in order to reduce NRW to a target average of 25% to 35%. This should result in substantial cost savings and improved billing receipts. It also suggested that CSH should investigate other issues related to NRW, namely: regular repair and replacement of meters; accuracy of meter reading records; billing procedures.

Pricing Metrics

The pricing model for utility services should be fair and robust to secure the medium to long term financial future of CSH and provide an efficient affordable service to all customers. These objectives have proved to be a major challenge for SHG, URA and CSH. The Company's basic approach to pricing of utility services is set out to cover all annual operating costs (direct and indirect + depreciation) with the aim of achieving full cost recovery for each service to: (i) encourage customers to use utility services more efficiently; (ii) provide funds to support infrastructure investment; and (iii) promote environmental conservation and preservation. In the drive to establish CSH as a self-financing government-owned enterprise, progress is being made with the support of BOD, URA and SHG.

Tariffs and pricing are always major issues in the provision of utility services – this is one of the main reasons for establishing the legal independence of a Regulatory Authority to reduce the impact of outside pressures in order to promote and sustain a financially viable public service. The market for utility services in St Helena is small with the predominance of domestic consumers. In addition, many households live in small and isolated communities which increases the distance and fixed costs of providing the services. These factors have a direct impact on prices and the drive to secure cost-efficient services that can be reasonably priced. Tariffs and charges for the three utility services from 2013/14 to 2017/18 are summarized in Table 13 for: (i) standing charges – to cover fixed costs; (ii) unit tariffs – to cover variable costs; and (iii) average tariffs and bills by customer category. It is also important to note that reported inflation for St Helena increased by 14% over the 5-year period.

Our general comments and observations on CSH's charging structure are as follows:

Electricity

- consider re-instating Standing Charges to reflect the fixed costs of the service;
- current tariffs are set at appropriate levels to cover effective costs of service provision; and
- CSH may be able to reduce average tariffs if PPA prices result in significant savings in annual diesel costs.

Water

- increases required to reflect costs of providing the service and reduce the annual subsidy from SHG, however increases in the last two years have been a major concern for customers, SHG and the URA;
- CSH is under pressure to reduce unit costs and improve efficiency (e.g. significant reductions in NRW); and
- CSH should consider possible adjustments in the charging structure to promote increased fairness and ability to pay.

Sewerage should reflect tariff structure for water provision and future developments.

Audit and risk management

- financial reporting – more emphasis on actions to reduce unit O&M costs of water supply, reduce NRW and "fast track" implementation of REP;
- CSH's risk matrix is comprehensive and requires regular updating to ensure that action is taken to minimize risks;
- internal audit is an important function in all modern businesses (private and public) - at present, CSH does not have an internal auditor, but the management is endeavouring to engage a suitably qualified candidate; and
- reporting to the Shareholder – this aspect should be documented and reported in the BOD minutes.

Benchmarking

Benchmarking yields useful insights into CSH's comparative performance with similar small utility service providers. The benchmark indicators for both water and electricity services generally indicate that Connect Saint Helena is providing improved services; even though, the Company is aware that significant improvements are still required in the provision of water services. The Consultants suggest that the benchmark comparisons should become a normal component of the Company's annual assessment by the URA and CSH itself. In addition, CSH might usefully consider the following suggestions: (i) establish a regular inter-change of information and experience with other small island utilities (e.g. Montserrat Utilities Limited and others); (ii) conduct regular reviews of international websites with benchmarking indicators (e.g. IB-NET (World Bank), CAWASA, CARILEC, PPA and others); and (iii) become an "associate" or "affiliate" member of international associations of water and electricity companies, which would yield more in-depth comparative experience (e.g. Caribbean Water and Sewerage Association - www.cawasa.org; Caribbean Electric Utility Service Corporation – www.carilec.org; and Pacific Power Association – www.ppa.org).

Recommendations and Next Steps

Following assessment of CSH's performance, our recommendations on next steps are as follows:

PERIOD	ACTIVITIES
2019/2020	• Conclude Power Purchase Agreement (PPA) with PASH • Install proposed new wind turbines on Deadwood Plain • Agree appropriate maintenance plan and costings for new wind turbines • Review future plans for Rupert's diesel generating station • Continue action plans to reduce NRW and unit O&M cost of water provision • Prepare new updated Business Plan for CSH to 2023/24, including financial planning model
2020/2021	• Prepare Terms of Reference for potential Next Stage in the development of CSH • Issue request for Expressions of Interest (EOI) to conduct proposed study • SHG appoint Steering Committee for Next Stage in development of CSH • Determine short-list of Consultants and issue Request for Proposals (RFP) • Continue action plans to reduce NRW and unit O&M cost of water provision • Annual review and updating of CSH Business Plan • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2021/2022	• Select, negotiate and appoint Consultant • Conduct study for Next Stage in development of CSH • Comprehensive review of Next Stage Study with all Key Stakeholders • Initiate Next Stage Action Plan for CSH – including legal and contract requirements • Continue action plans to reduce NRW and unit O&M cost of water provision • Annual review & updating of CSH Business Plan - taking account potential impact of Next Stage Study • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2022/2023	• Commence implementation of Next Stage Action Plan for CSH • Annual review and updating of Business Plan – taking account potential impact of Next Stage Study • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2023/2024	• Implement Next Stage Plan for future of CSH

1. INTRODUCTION

1.1. Terms of Reference

The Terms of Reference (TOR) for this study are presented in Appendix A. The main objective of the assignment was to review the current performance of Connect Saint Helena Ltd (CSH). Key tasks included:

- review of relevant documentation;
- examine the current framework for utility services provision;
- review of Connect Saint Helena Ltd.'s in-house systems and processes;
- interview sample of Connect employees; and
- critically analyse the segmental reporting.

The review also considered the impact of the Renewable Energy Project (REP) on costs, service provision and the business as a whole; plus a review of benchmark indicators for service providers operating in an environment similar to St Helena.

1.2. Acknowledgements

The study was conducted in three phases:

- **Phase 1** – initial assembly and brief review of documents and reports made available by the St Helena Government (SHG) and internet searches;
- **Phase 2** – Island visit and meetings; Saturday 2nd to Sunday 10th February; and
- **Phase 3** – review of relevant documents and reports; and preparation of the Draft Report.

The Consultants held interviews and discussions with relevant officials, agencies and departments on Island, including:

- St Helena Government (SHG): (i) Elected Council Members; (ii) Chief Secretary; (iii) Financial Secretary; and (iv) Corporate Procurement Office;
- Chamber of Commerce;
- Representative Committee of "Unified Saints";
- Connect Saint Helena Limited (CSH): (i) Board of Directors; (ii) Chief Executive Officer (CEO); (iii) senior managers of CSH; and (iv) electricity and water operatives and technicians;
- Utilities Regulatory Authority (URA): (i) Chairman and Chief Magistrate; and (ii) other URA members; and
- Saint Helena Audit Service (SHAS): Chief Auditor.

The Consultants gratefully acknowledge the support and commitment of all those consulted, in terms of: (i) responding to the Consultants' questions and enquiries; (ii) providing additional documents and reports; and (iii) preparing specific data and information. In this context, the CEO and senior managers of CSH were especially helpful and cooperative – including answering further questions and providing additional data after the Consultants had returned to the UK.

Appendix B lists all the persons met and consulted on St Helena and **Appendix G** lists the main documents and reports that were reviewed and consulted by the Consultants.

1.3. Method of Approach

The following method of approach was followed for the conduct of the Study:

- **Phase 1 -** three tasks were undertaken: (i) initial communications with SHG to request documents listed in Section 6.3(1) of the TOR; (ii) internet search of relevant websites, namely: websites of SHG and CSH; and (iii) arrangements for travel to St Helena and initial programme of meetings with senior officials and managers in SHG, URA and CSH;

- **Phase 2** – detailed series of meetings with key senior officials and managers in SHG, URA, SHAS and CSH. The meetings focused on: (i) major operational and financial topics related to the performance of CSH; (ii) requests for more detailed information; and (iii) review of key issues raised by Elected Councillors, Chamber of Commerce, and

representatives of the "Unified Saints". Wrap-up meetings were also held with: (i) Chief Secretary; (ii) Finance Secretary; (iii) Corporate Procurement Office; and (iv) CEO of CSH; and

- **Phase 3** – consisted of the review of key documents and reports, plus requests for further information and explanations where necessary, especially with CSH; and finally drafting of the report and submission to SHG.

1.4. Report Outline

The report is divided into six subsequent chapters:

- Chapter 2 General Background
- Chapter 3 Key Tasks
- Chapter 4 Connect Saint Helena – Performance Review
- Chapter 5 Utilities Regulatory Authority
- Chapter 6 Benchmarking – Selected International Comparisons
- Chapter 7 Main Conclusions and Next Steps

The main text is supported by six appendices:

- Appendix A Terms of Reference
- Appendix B Persons Met and Consulted
- Appendix C Utilities Sector – Key Duties and Responsibilities
- Appendix D Supporting Data and Tables
- Appendix E Remuneration Committee – Terms of Reference
- Appendix F Audit and Risk Committee – Terms of Reference
- Appendix G Main Documents and References

2. GENERAL BACKGROUND

2.1. Utility Services Strategy

The Utility Services Strategy for electricity, water and sewerage has four major objectives:

- contribute to the reduction of financial aid and subsidies transferred by the UK on an annual basis;
- contribute to the aim of promoting sustainable self-reliance in the Island economy without the need for financial aid;
- promote the sustainable development of a self-financing Utilities Provider that is capable of cost-efficient management, full cost recovery, effective asset management and investment, and efficient service delivery to all customers; and
- offer SHG the medium to long term alternatives to: (i) retain CSH as a profitable self-financing state-owned enterprise; (ii) consider the option of public-private partnership; or (iii) full privatization.

2.2. Legal Framework

The legal framework for Utility Services provision was developed in 2011 and 2013. It was based on the Memorandum of Understanding (MOU) between SHG and the Department for International Development (DFID), which includes specific requirements for: (i) divestment of non-core functions and rationalization of the public sector; and (ii) plan for eliminating untargeted subsidies. Subsequently, SHG enacted two key legal documents:

- Utility Services Ordinance, April 2013
- Utility Services Ordinance – License, June 2013 (license granted under the Utility Services Ordinance to CSH from 1st April 2013 to 31st March 2023)

These legal documents laid the foundations for the establishment of:

- Connect Saint Helena (CSH) as the state-owned company licensed to: (a) generate, distribute and supply electricity; (b) collect, store, treat and distribute water; and (c) dispose of wastewater.
- Utilities Regulatory Authority (URA) which is empowered to regulate the development and provision of public utility services, especially CSH.

Key sections of the MOU, Ordinance and the License are presented in Appendix C.

2.3. Population and Island Economy

St Helena's population and economy are small, with many significant challenges related to future growth and the prospects for significant reductions in the Island's dependence on grant aid. A brief summary of key statistics is as follows (based on data from the St Helena Statistics Office):

- **Population** – current population is 4,680 (February 2019) of whom "Saints" comprise 93%. Future estimates prepared by the Statistics Office range between 4,300 and 5,500 by 2026 – depending on the assumptions about migration.
- **Island economy** – official figures indicate that GDP has risen from £33.5 million in 2014/15 (equivalent to £7,392 per head) to £42.4 million in 2017/18 (£9,220 per head) – note: estimates are in current prices.
- **Median gross employee income in real terms** (i.e. adjusted for the impact of price inflation, using constant 2017/18 prices) – increased in real terms by 2.7% p.a. over five years, from £7,670 per employee in 2012/13 to £8,500 in 2017/18. Incomes per employee for the lowest quartile were £5,580 (73% of the median) in 2012/13 and £6,700 (79%) in 2017/18.
- **Price inflation** (retail price index) – is an important economic factor on the Island for households, commercial enterprises and the utility service provider. Between 2013 and 2016, reported inflation ranged between 1.7% and 2.1% p.a.; but, increased markedly to 2.6% in 2017 and 5.1% in 2018. Inflation is heavily influenced by price movements in South Africa.
- **Airport and tourism** – the new international airport opened in May 2016, with scheduled commercial flights from October 2017. Tourist arrivals (Saints and non-St Helenians) have increased from about 570 in 2015 to about 650 (35% by air) in 2017 and nearly 1,200 (82% by air) in 2018.

- **Aid to St Helena** – total aid spending for St Helena was £51 million in 2017 of which 93% was provided by DFID. Major spending was for: financial aid £26 million; airport construction and operation £16.5 million; environmental protection and research £2.8 million; hospital improvements £2 million; and infrastructure £1.4 million.

2.4. Future Plans and Development

This section presents a brief review of: (i) CSH's 2020 Strategic Plan (prepared in 2016); and (ii) St Helena's Sustainable Development Plan 2018-2028. Both provide an insight into future prospects for both the Company and the Island's economy.

CSH's 2020 Strategic Plan

The Plan's stated vision is to "*Provide quality utility services safely and reliably, becoming self-sufficient by 2020*". This is a laudable aim, supported by plans that are clearly articulated. The Plan also highlights the fact that: "*Connect received considerable quantities of fully depreciated assets and systems with unsatisfactory reliability*", which have been a major challenge in terms of organization, replacement and financial resources. Furthermore, the Plan states that: "*Efficiencies made within the business are directed towards accelerating the many backlog issues inherited at the time of divestment but as these diminish efficiencies will be translated into cost reductions.*"

The Plan also emphasises CSH's key strategic focus areas regarding electricity, water and sewerage, with the aim of improved service delivery and sound finances – stated as follows:

- "Customers – to provide a stable predictable service to regulated standards
- Finance – operating in an ethically and professional manner with the aim of ultimately eliminating revenue subsidies from SHG by 2020
- Investment – to reverse the under investment in utilities infrastructure through asset replacement and expansion of the asset base to meet business objectives."

In the finance roadmap, the Plan states:

"With failing assets and a backlog of work it is important that efficiencies that are generated in the business are directed towards accelerating progress in the priority areas (i.e. asset replacement and new investment). *Therefore, operating costs are not expected to reduce (with exception of fuel), savings will be directed to a combination of dealing with the asset replacement backlog and subsidy reduction."*

In this context, it is important to emphasize that Section 2.9(b) of the operating license (see: Appendix C, Section C.4) requires CSH to ensure that "*its business is conducted on a normal commercial basis.*"

The Plan also recognizes CSH's corporate social responsibility to satisfy the needs of St Helena:

"We are committed to running our business in a responsible manner. We seek to protect and enhance the environment and provide great customer service. We will keep working in the years to come to play a bigger part in the community and to contribute to the economic success of St Helena" for:

- "Customers – aiming to provide great service to our customers
- Employees – happy, healthy and here
- Community – supporting the community
- Environment – aiming to be clean and green
- Stakeholders – trading in an ethical fashion"

CSH's main corporate performance targets are summarised in Table 1 below. These were prepared in 2016. The company states that an updated Business Plan will be prepared when the final details for the Power Purchase Agreement (PPA) for the Renewable Energy Project have been finalized with PASH (the selected company that will finance and install the new wind turbines). Based on the stated performance targets, the following observations are appropriate:

- Electricity and water – substantial improvements have been made in both provision and customer service delivery;
- Revenue subsidy – expected to fall to Zero in 2019/20, compared to an actual figure of £668,000 in 2017/18; and
- Consumer debt – appears to be under control.

CSH also prepared a SWOT analysis which provides a useful insight of the company's appreciation of its challenges and issues. The analysis is summarised in Appendix D, Table D.1.

Table 1 CSH – 2020 Strategic Plan: Corporate Performance Targets

FOCUS AREA	UNIT	2012/13 BASE	2017/18		2019/20 TARGET
			Target	Actual	
Electricity					
Renewable Energy	%	9.1%	28%	25%	80%
Renewable Energy	MWh	882	3,200	2,869	10,500
Fuel Efficiency	l/kWh	0.24	0.175	0.171	0.05
Interruptions to Consumer Supplies	nos.	146	100	83	90
Water					
Reservoir Storage Capacity	m3 000	111.8	174.5	174.5	194
Water Clarity	NTU (1)	4 to 5 (est.)	2	1	1
Microbiological Count	%	91%	95.5%	100%	95.5%
Network Failures	nos.	1,582	800	1,145	700
Sewerage					
Sewage Treatment Installed (2)	yes/no	no	Yes	No	Yes
Customer Service					
Electricity Connections – Time Taken	days	50	17	17	15
Water Connections – Time Taken	days	90	12	11	8
Response to Complaints – Compliance	%	80%	100%	100%	100%
Financial					
Revenue Subsidy	£000	£1,100	£550	£668	Zero
Consumer Debt					
• Total	£ 000	£275	£170	£321 (3)	£150
• Greater than 90 days	£ 000	£160	£60	£66	£50
Debtors – Greater than 90 days	nos.	194	88	251	84

Notes: (1) NTU = Nephelometric Turbidity Unit; (2) to be installed: Half Tree Hollow, Jamestown and Ruperts; and (3) excludes 5 major debtors that owe a further £367,000, which largely guaranteed by SHG.
Sources: (i) CSH – 2020 Strategic Plan, 2016; and (ii) CSH Actuals for 2017/18.

Finally, in the opinion of the Consultants – the Plan demonstrates a clear appreciation of the issues and challenges facing CSH; and provides the Board and senior managers with clear performance targets. Nevertheless, there are a number of aspects which would enhance operational and financial performance in the future: (i) brief regular annual reviews of the Plan and corporate performance; (ii) more discussion and presentation of tariff, investment and financial issues; (iii) comprehensive Action Plan to recover the outstanding trade and consumer debts; and (iv) preparation and reference to a financial planning model for CSH.

St Helena's Sustainable Development Plan 2018-2028

The SEDP provides a general overview of the prospects for sustainable development over the next 10 years from 2018 to 2028. The focus is on developing sectors that can increase exports and substitute imports. However, the Plan recognizes the Island's limiting factors, namely: (i) scale and remoteness; (ii) land availability; (iii) skilled labour: (iv) economies of scale; etc. The Plan "focuses on raising the standard of living and improving quality of life." With the new airport, tourism continues to be the main stimulus for economic growth and related commercial activity.

The Plan goals which relate most closely to the utilities sector are:

- "Reduce poverty and inequality
- Promote quality of life
- Raise the minimum wage
- Commitment to sustainable growth
- Develop training for Saints to take over internationally recruited roles
- Balance Government budget, plus support for infrastructure and sector development"

The SEDP Vision and Goals – with direct or indirect relation to utility service provision:

- “attract visitors and increase tourism;
- mitigate impacts of inflation on the lowest income groups;
- sustain and improve our natural capital;
- improve infrastructure (including electricity and water);
- develop, maintain and attract a skilled work force”.

Emphasis on infrastructure development and reinforcement is not highlighted as a specific target - there are a number of references in some sections of the SEDP, referring to:

- private funding sources need to be identified to support sectors to invest in cost saving infrastructure;
- education and training to promote staff development and increased skills acquisition;
- increase the supply of Renewable Energy to reduce dependence further on diesel generation and the significant cost of diesel imports;
- promote increased funding of public infrastructure; and
- reduce grants and subsidies from the UK.

The other notable factor is that the SEDP does not include any specific projections or targets in relation to: (i) population and employment; (ii) GDP and wages; (iii) tourism numbers; (iv) sector performance; (v) investment programmes; etc.

3. KEY TASKS

3.1. Review of Relevant Documentation

The Consultants have accessed all the documents and reports listed in the TOR, plus many others that were made available by CSH and other Government agencies. Appendix G lists the most important documents and reports. In discussions with SHG, CSH and URA, the Consultants emphasised that detailed review was only possible for key documents and reports – because of the limited time available under the Contract.

In addition, the Consultants held a series of meetings with key stakeholders and other interested parties in the community, including: (i) Island Councillors; (ii) senior SHG executives (Chief Secretary and Finance Secretary); (iii) Chamber of Commerce; (iv) "Unified Saints" – representing CSH customers; (v) URA executives; (vi) SHAS – Chief Auditor; and (vii) CSH – Board of Directors, CEO, senior managers, and operatives and technicians. The objectives for these meetings included:

- views on the performance of CSH in relation to: (i) divestment strategy; (ii) compliance with the Ordinance and License; (iii) operational performance; (iv) tariffs and finances; (v) SHG subsidy and grant funding; (vi) comparative efficiency; (vii) executive salaries; (viii) re-integration of CSH operations under direct SHG control; and (ix) preparations for possible privatization of CSH. These issues are addressed in later sections of this chapter, plus Chapters 4 and 5;
- discussion of specific issues; and
- requests for supplementary information and clarifications.

3.2. Current Framework for Utility Services Provision

3.2.1. General Framework

The current framework for Utility Services Provision is clear – as laid out in:

- Memorandum of Understanding (MOU) between SHG and DFID;
- Utility Services Ordinance, April 2013; and
- Utility Services Ordinance – License, June 2013.

The relevant details and clauses of these documents are presented in Appendix C. The basic structure is as follows:

- St Helena Government (SHG) – Government is the legal owner of CSH, which is licensed to operate as a state-owned enterprise. Therefore, SHG provides the legal enabling framework for the URA and CSH to operate in line with the divestment agreement between SHG and DFID.
- Utilities Regulatory Authority (URA) – under the Ordinance, the URA operates independently of Government and is mandated to review the operational and financial performance of CSH, with particular reference to applications for tariff increases and related adjustments. The Authority has the power to: (i) issue Directives to CSH; (ii) impose financial sanctions; and (iii) request the "Governor in Council" to suspend or revoke CSH's operating License in extreme circumstances.
- Connect Saint Helena Limited (CSH) – under the License, CSH provides the public utility services for electricity, water and sewerage to all domestic, commercial and Government customers on St Helena. The service includes: (i) connect all customers who want to be connected to each of the services; (ii) ensure that the assets and services are efficiently maintained and operated; (iii) design and implement new projects and investments; and (iv) maintain financial stability with the aim of eliminating the annual subsidy from SHG and achieving full cost recovery (FCR) by 2023.

3.2.2. Alignment to SHG's Strategic Intent

Since its establishment in 2013, the services and performance of CSH have been fully aligned with SHG's "strategic intent" over the last six years from 2012/13 to 2017/18, namely:

- Fulfil key conditions set out in the MOU between SHG and DFID i.e. *"divestment of non-core function, the removal of untargeted subsidies, and rationalization of the public sector"*.

- Comply with the conditions and obligations laid down in: (i) Utility Services Ordinance 2013; and (ii) Utility Services Ordinance 2013 - License (April 2013).

These statements are supported by subsequent assessments in the following sub-sections of this chapter and the analyses in Chapters 4 and 5.

The Consultants appreciate that there have been challenges along the way: in terms of: (i) proposed tariff increases, particularly in relation to the impact on low income families and the recent decline in the Island's economy; (ii) concerns about SHG's limited ability to exercise "*closer direction and control*" of CSH; (iii) views expressed by some Councillors and members of the "Unified Saints" that public utility services should be reintegrated as departments within SHG; (iv) public statements by some senior representatives that CSH is "inefficient" and has "wasted" money on the replacement of old service and maintenance vehicles; and (v) senior managers in CSH are "over-paid" in relation to similar positions within SHG. These challenges affect many new organizations, especially in the provision of utility services – but, final judgement should be based on realistic and regular assessments of actual performance of the State-Owned enterprise over the medium to long term.

3.2.3. Oversight and Regulatory Arrangements

Under the present legal structure, oversight of CSH's performance is the responsibility of two bodies:

- Board of Directors (BOD) - exercises overall direction and control of CSH's performance, planning, investment, etc.
- Utility Regulatory Authority (URA) – has the power to supervise, inspect, control and direct CSH in accordance with the Utilities Services Ordinance and the License.

Comments and observations on these functions are as follows:

- BOD – exercises the normal functions in an efficient and ordered manner with regular and extraordinary meetings that are minuted. The Consultants' meeting with members of the Board indicated that they are actively engaged and knowledgeable on the activities of the Company and their obligations according to the Ordinance and the License. Three aspects were noted: (i) at present there is not an official Board member that represents SHG; (ii) non-executive directors (NEDs) are appointed on two-year contracts irrespective of status, which can be renewed subject to a satisfactory performance review by the Chair; and (iii) only one member of the Board is from the private sector.

- URA – the Authority acts in accordance with the legal requirements of the Ordinance in its oversight of CSH – particularly in relation to general performance and applications for tariff increases. However, there are issues where the URA could investigate the need for specific action by the company e.g. (i) NRW reduction plans and action; (ii) action plan to reduce outstanding debts (accounts receivable); (iii) action on recommendations made by the internal auditor; etc. The Consultants are aware that the URA has limited human resources and relevant expertise – therefore, access to additional resources may be required (note: this is permissible under the Ordinance and would be paid for by CSH).

3.2.4. Governance and Administrative Arrangements

The St Helena Audit Service (SHAS) has published three recent reports that relate to the "governance and administrative arrangements" for utility services provision:

- Managing Grants and Subsidies – Performance Audit, March 2016
- Corporate Governance of the St Helena Government Group Entities – (i) Performance Audit, February 2018; and (ii) Management Response and Action Plan, February 2018

With reference to CSH, the Consultants' comments and observations on proposals in each of these reports are as follows:

- **Managing Grants and Subsidies** – (i) CSH's License should include a policy statement regarding future "profit/surplus" i.e. relating to payment of dividends and/or tax; (ii) effective use of key performance indicators (KPIs); (iii) require "mid-year assessment" reports to be produced; and (iv) preparation of a "close-out report" on the utilization of a specific grant or subsidy. These are sensible suggestions that could be added to CSH's License and monitored by BOD and URA.
- **Corporate Governance of CSH** – CSH's License should include a formal requirement that the Company's audited financial statements and related documents should be presented to the Legislative Council and reviewed by the Public Accounts Committee (PAC) – it should be noted that CSH's annual financial statements are available for public scrutiny and subject to review by PAC. Other suggestions by SHAS re: (i) increased oversight by Council Committees; and (ii)

development of a formal performance agreement between CSH and SHG. The Consultants believe that these suggestions would be a duplication of the responsibilities and powers vested in the URA.

Consultants' comments – under the current legislation, SHG does not have any direct representatives on the Board of Directors (BOD) – even though some of the current Non-Executive Directors (NEDs) are also SHG employees. Minutes of CSH's Annual General Meetings (AGM) refer to the presence of the Attorney General (AG) as the observer for SHG (Shareholder and Owner of CSH). This issue merits constructive review – providing it is not used by SHG to impose "closer direction and control" as envisaged by the Legislative Council Resolution dated 23rd March 2018. The current Governance and Administrative structure for CSH is appropriate and sufficient – with BOD and URA exercising the main responsibilities. SHG should focus on the key functions of: (i) setting policy; and (ii) framing the enabling legislative environment.

3.2.5. Performance Measurement and Monitoring KPIs

Performance measurement and monitoring of some key performance indicators (KPIs) are prepared by CSH and reviewed regularly by BOD and the URA. However, the existing published KPIs are focused on a limited range of physical indicators that are recorded by CSH, namely:

Network performance:

- Electricity - disruptions in the distribution network (nos.)
- Water - leakages in the distribution network (nos.)
- Water - treated samples clear in network and premises (average %)
- Water - microbiological integrity in network and premises (average %)

Connections – time taken to connect customers:

- Electricity connections (days)
- Water connections (days)

Table 2 summarizes the indicators in terms of URA targets and CSH performance from 2013/14 to 2018/19 (complete figures are presented in Appendix D, Table D.2). The results indicate the following:

- Network performance:
  - Electricity – performance has above URA targets, but the number of disruptions is still relatively high.
  - Water – (i) leakages remain above URA targets at more than 1,100 per year, which reflects the old-age of the assets and the high levels of Non-Revenue Water (NRW) (see: Section 4.4); and (ii) water quality is reported to be good.
- Connection times: for both electricity and water, the time taken to install connections has more than matched URA targets due to the improved efficiency and response times of CSH.

Table 2 KPIs - Network Performance and Connection Times

COMPONENT	UNIT	2013/14	2016/17	2017/18	2018/19
Network Performance					
URA Targets					
Electricity					
• Disruptions to Distribution Network	nos.	121	105	100	95
Water					
• Leakages in Distribution Network	nos.	1,424	850	800	1,150
• Treated Water Samples Clear	%	99.0%	99.5%	99.5%	99.5%
• Microbiological Integrity of Treated Water	%	99.3%	99.5%	99.5%	99.5%
CSH Performance					
Electricity					
• Disruptions to Distribution Network	nos.	105	92	81	92
Water					
• Leakages in Distribution Network	nos.	689	1,122	1,160	1,193
• Treated Water Samples Clear	%	97.7%	100%	99.2%	100%
• Microbiological Integrity of Treated Water	%	89.0%	100%	100%	100%

Connections - Time Taken					
URA Targets					
• Electricity Connections	days	45	18	17	15
• Water Connections	days	81	15	12	10
CSH Performance					
• Electricity Connections	days	44	17	12	3
• Water Connections	days	91	11	11	1

Source: Appendix D, Table D.2.

In addition, the Finance Department has recently prepared a range of financial KPIs in relation to Profitability, Efficiency and Balance Sheet ratios (see: Appendix D. Table D.3). These are useful additions that will require regular review by BOD and URA.

In relation to the Consultants' international experience, there are other KPIs that are worth considering for: (i) measuring efficiency improvements over time; and (ii) providing data for international comparison with similar utility service providers (i.e. Benchmark comparisons):

Physical KPIs

Electricity:

1. Line losses (%):
2. Staff numbers per 1,000 connections

Water

3. Non-revenue water (NRW): unbilled water as % of total production
4. Staff numbers per 1,000 connections

Unit Indicators

5. Revenue:
   - Overall - £ per kWh and m3
   - Production - £ per kWh and m3
   - Sold - £ per kWh and m3
6. Costs – for (i) direct operating costs (opex); (ii) opex + depreciation
   - Overall - £ per kWh and m3
   - Production - £ per kWh and m3
   - Sold - £ per kWh and m3
7. Other unit costs £ per kWh and per m3 produced and sold

Billing and Charges

8. Collection ratio (%)
9. Accounts receivable
10. Average tariffs in current and constant prices

Financial - apply to overall and segmental performance

11. Working ratio (%)
12. Operating ratio (%)
13. Profit margin (%)
14. Cost recovery: (i) full cost recovery (%); and (ii) O&M cost recovery (%)
15. Current ratio (%)
16. Liquidity ratio (%)
17. Average depreciation ratio (%)

Percentages

18. Revenue components – distribution
19. Operating costs – distribution as % of direct expenses & direct expenses + depreciation
    - Staff
    - Electricity
    - Others

Other Useful Indicators:

20. Inflation – retail price index (RPI)
21. Exchange rate - £ to ZAR (South African Rand)

3.2.6. Method for Utility Price Setting and Regulation

Utility price setting and regulation can be a contentious issue in relation to: (i) prices that customers are willing and able to pay for the services; and (ii) the stated financial and pricing objectives of the utilities provider in terms of: (a) full cost recovery (FCR); or (b) covering only annual O&M costs, with the shortfall being made up by Government subsidies or some other source of financial support.

In the case of CSH, the medium to long term objective for "*Utility Price Setting and Regulation*" is full cost recovery. In this context, the financial aims for CSH are to: (i) improve cost and operational efficiency; and (ii) apply to the URA for reasonable annual price increases that will reduce the Government subsidy over time.

The current system of utility price setting and regulation is as follows:

- CSH prepares annual submissions for utility price increases based on the prospective budget for the coming year and a target reduction in the Government subsidy.
- The submission is discussed with the Executive Council and a formal document is presented to the URA which reviews the proposal. The review process includes: (i) inviting comments and observations from the public; (ii) further discussions with SHG; and (iii) more detailed enquiries and discussions with CSH. In the final analysis, the URA has the legal authority to make an independent decision on the price increase that will be permitted. Under the Utility Services Ordinance 2013, the URA's decision is final.

The process outlined above is fairly straightforward, despite the fact that price increases (especially large increases) will always be controversial, particularly for low income households, pensioners and the disabled. However, there are ways and means of addressing these issues in order to mitigate some of the adverse impacts. These include:

- tariff setting structure – more detailed consideration of the pricing structure, in terms of: (i) allocation between standing and consumption charges; (ii) introduction of a basic minimum free "life-line" consumption figure; (iii) subsequent charges to be on an "increasing-block" structure (i.e. unit price increases with increasing levels of consumption); and (iv) detailed consideration of the pricing differentials between different customer categories in order to avoid/mitigate adverse cross-subsidization;
- preparation of annual household statements to assess the impact of proposed price increases on median, low and poor households. In addition, it would be useful to include the calculations for previous years;
- explain proposed price increases in both current and constant prices;
- more detailed engagement with customers to explain the rationale and the objectives behind the proposed price increases and adjustments. This engagement should be on a continuous basis – not "one-off" basis (see: Section 4.1.7);
- CSH to prepare a financial model covering three to five years. This would provide customers, SHG, URA and the Company with a clear picture of future expectations. The model should be flexible and be subject to annual updating.

3.3. CSH In-House Systems and Processes

3.3.1 General

The general assessment of CSH's in-house systems and processes is based on three sources of information:

- CSH's Internal Audit Reports – for 2016 and 2017, prepared by an external audit consultant
- *Review Report on Operational Efficiency, KETA Investments*, August 2018
- Supplementary enquiries by the Consultants.

The general conclusions of these documents and enquiries are that CSH is performing well and fulfilling the objectives set out in the Divestment Process and statutory legal obligations. However, the Consultants are aware that much remains to be done in terms of convincing SHG and the company's Customer Base. The Internal Audit Reports make several pertinent statements, namely:

- *"Connect continues to grow and mature as an organization. In the four years since it became independent from SHG, it has embarked on a series of asset renewal projects covering all three business areas: electricity, water and sewage.*

This has been essential because of the large amount of fully depreciated and unusable assets inherited at the time of divestment."

- *"The current 2020 Strategic Plan demonstrates a vision for utility supplies that will be cost effective and undoubtedly beneficial to the island. This involves further enhancement of renewable energy supply, thus reducing the dependence on diesel fuel, together with an expansion of water holding capacity by enlarging reservoirs."*
- *"The ongoing challenge will be to retain a team of qualified and motivated people."*
- *"Conclusion – the company continues to be on track to achieve the ultimate objective of operating on a self-sufficient basis. The management is well experienced and there is in place a robust set of controls and processes."*

Nevertheless, the Internal Audit Report 2017 highlights specific issues that should be addressed:

- CSH has "*no formal operating procedures for project management*" of its capital investment programme. The introduction of such procedures would: (i) ensure consistency of approach; (ii) continuity in the event of staff leave; and (iii) assurance that all required actions have been taken.
- Review of regular maintenance on water treatment plants. They have "*scheduled work sheets but there is little documented evidence of the work that is done.*"
- "*Environmental Protection legislation came into force in 2016 and this has had a significant impact on the business operations of Connect.*" In this context, CSH contracted an external consultant to provide appropriate awareness and training sessions.
- Regular management meetings (weekly and monthly) are key to effective control and operations.

However, it should be noted that the Internal Audit Reports (2016 and 2017) make no mention of the substantial trade debts (accounts receivable) that have accumulated and the need to implement a sustained Action Plan for effective recovery. CSH's audited financial accounts indicate that these debts have risen from £408,000 in 2013/14 to £503,000 in 2015/16 and £688,000 in 2017/18.

Main observations and conclusions in the *Review Report on Operational Efficiency (KETA Investments*, August 2018) are:

- *"The period following granting of the license was a challenging time for the company……Through a process of visioning, senior management made concerted efforts to shape the company …..into a new set of policies and procedures focused on improving efficiency and cost effectiveness."*
- *"Areas picked for analysis are: work teams and their performance, customer service, financial and administrative processes, records keeping and analysis, service delivery using KPIs, renewable energy generation, vehicle use, equipment, stock management, contingency planning and risk management."*
- *"The need to comply with utility license conditions has driven CSH management to be more efficient than before aware that consumers are watching closely the operation of CSH."*
- Key observations from the report are summarized as follows:

    - *"Work teams have become more cohesive, results oriented, have developed a positive attitude towards their roles and are proud to be part of the Connect brand name."*
    - *"When the capital programme and ongoing refurbishments are complete, a work study would need to be carried out to identify areas where further reductions in personnel can take place or where operations can be streamlined."*
    - *"The introduction of cellular phones has significantly improved communication among Work teams and with support personnel."*
    - CSH has acquired an appropriate number of updated suitably equipped vehicles that have enhanced performance and reduced travelling time.
    - Among other key activities: CSH operates an effective preventative maintenance programme; replacement of worn-out components; reduce pipe bursts by burying exposed water distribution lines; installation of robust water transfer systems; water loss monitoring through the introduction of strategically sited bulk meters; and efficient inventory management system

- CSH has installed an effective Data and Information Management System on a central server that can be accessed by all departmental managers.
- Financial management has benefited from the installation of Access Dimensions computer software.
- Risk management – CSH has compiled a risk register that is reviewed regularly by BOD and senior management.

Finally, the Operational Efficiency Report concludes: *"Five years is not a long time to completely transform a public service to a private company. A period of change management is inevitable. Stakeholders always wish for better efficiencies not aware that efficiency improvement requires resources. Review reports by URA indicate that CSH has made significant achievements in operational efficiencies."* The report also indicates further areas for improvement, including: (i) lean management training to further enhance effective skill levels; (ii) setting of staff efficiency improvement targets; and (iii) management plans and implementation should be subject to regular review and updating.

3.3.2 Workforce Sufficiency

CSH's reported staffing levels by main category are presented in Table 3 from 2014 to 2018. The figures indicate that staffing levels increased by 22% over five years from 60 in 2014 to 73 in 2018, with the main increase taking place in the three-year period 2016 to 2018. Prior to divestment, the reported total number of employees in the three services was 93 – indicating an effective reduction.

Service employees (foremen, technicians, operators, linesmen, plumbers, caretakers and laborers) in the electricity and water/sewerage divisions have remained more or less stable at between 42 and 49. The main increases have taken place in the Administration of the company, increasing from 13 in 2015 to 24 in 2018. The increase took place for several reasons:

- need for more technical management capacity to implement projects and oversee the replacement of old and fully depreciated assets;
- management needs during the drought period (August 2016 to May 2017); and
- expansion of the Finance and Business Administration Departments (including increased IT capability) to address the obligations of a modern state-owned company with designated legal and statutory obligations.

Table 3. CSH – Staffing Levels by Main Category (numbers)

CATEGORY	2012	2014	2015	2016	2017	2018
Electricity		24	23	20	22	25
Water & Sewerage		23	23	22	23	24
Administration		13	13	21	22	24
Total	93	60	59	63	67	73

Sources: (i) Annual Reports & Financial Statements; & (ii) Review Report on Operational Efficiency, KETA Investments, Aug. 2018

Recent reports (cited in Section 3) express the clear opinion that the current workforce is operating efficiently in addressing the management, technical and operating challenges that face a company that is only 5-years old. Nevertheless, the *Review Report on Operational Efficiency (August 2018)* makes the valid point that: *"When the capital programme and ongoing refurbishments are complete, a work study would need to be carried out to identify areas where further reductions in personnel can take place or where operations can be streamlined."*

In addition, two other facts are worth noting:

- Training – CSH has an ongoing training programme for staff at all levels, including: (i) skills development and upgrading; (ii) IT skills enhancement; and (iii) environmental awareness training; etc. (note: CSH spent £22,000 on training in 2017/18 according to the financial accounts).
- Management training – qualified "Saints" are "shadowing" two expatriate management positions: Head of Finance and Technical Manager (see: Organization Chart in Appendix D, below Table D.4). It is planned that they will take over these management roles when their training has been completed and the expatriate contracts have been completed in mid-2021.

Finally, it is worth noting that the annual URA reports have not raised specific concerns about CSH's staffing levels.

3.3.3 Outsourced and Call-Out Services

At present, CSH outsources the following service requirements: (i) out of hours call-outs; (ii) meter reading; and (iii) vehicle servicing and repairs. Comments on these activities are as follows:

- Out of hours call-outs – address issues related to the electricity, water and sewage networks
- Meter reading – assess whether the service should continue to be contracted out or brought in-house.
- Vehicle servicing and repair – question as to whether these services should continue to be contracted out or covered by CSH's own resources.

The results of this assessment are covered as follows:

Out of Hours Call Out Services:

In mid-2018, CSH engaged KESTA Investments of South Africa to prepare a Cost Comparison of Outsourcing versus In-House Services to cover Out of Hours Call-Out requirements for the electricity, water and sewage networks. The current out-source contracts cover:

- Electricity – private contractor *NT Powerechs*: covers: (i) from main high voltage (HV) bus bar at Rupert's Power Station to five 11kV distribution feeders; and (ii) entire low voltage (LV) distribution network.
- Water and sewage – private contractor *David Constantine*, covers water distribution network & sewage infrastructure.

The KETA report states that the evaluation focuses on cost effectiveness, value for money and operational efficiency. The comparative annual costs are summarized in Table 4. Both indicate that it would be more cost-effective for CSH to continue outsourcing the Out of Hours services:

- Electricity – estimated cost savings could amount to nearly £23,000 per annum over the next three years.
- Water & sewage – estimated cost savings could amount to a modest £3,900 p.a. for the three years from 2021 to 2023.

Table 4 Outsourcing – Cost Comparisons: Out of Hours Call-Out Contracts

COMPONENT	ELECTRICITY DISTRIBUTION NETWORK		WATER NETWORK AND SEWAGE INFRASTRUCTURE	
	2015-2018	2019-2021 (estimated)	2018-2020	2021-2023 (estimated)
Outsourced • Company • Annual Cost	*NT Powerechs* £16,200	*NT Powerechs* £17,820 (1)	*David Constantine* £21,656	*David Constantine* £23,821 (1)
In-House • Annual Cost		£40,706 (2)		£27,736 (2)
CSH's Annual Savings		£22,886		£3,915

Notes: (1) KETA Investments assumed 10% increase over existing contract; and (2) covers cost estimates for: manpower (standby allowances & overtime), cell phone airtime and vehicles. The report states that additional administrative, operational and financial costs were not assessed.

Source: Analysis of Outsourcing Versus In-House Service: Cost Comparison – Out of Hours Call-Out Contracts for Electricity, Water and Sewage, KETA Investments, September 2018

Nevertheless, the Consultants suggest that both contracts should be kept under regular review for the following reasons: (i) disruptions to the electricity network have declined considerably in recent years (see: Table 2); and (ii) continued replacement of old assets plus further improvements in the water network will reduce the frequency of disruptions. On the other hand, outsourcing does give a modest boost to the private sector. In addition, future reviews should be carried out in house (e.g. Departments of Business Support & Finance) to avoid the incremental cost of employing an expatriate company.

Meter reading

Meter reading for electricity and water has been outsourced since 2007 (i.e. before CSH was established) to a company called *Prime Numbers*. In 2018, the management decided to initiate a review to determine whether it would be more cost effective and efficient to bring the service "in-house". Consequently, a Business Case was prepared (dated November 2018). The key results of the review are as follows:

- Cost of *Prime Numbers* service rose from £42,300 in 2013/14 to £50,172 in 2017/18 – an increase of 19% over four years, which is more than the cumulative rate of inflation.
- CSH's estimate of In-House annual costs:
    - Billing Administrator - £10,000 per annum
    - 4 part-time meter readers (£400 per reader/month) - £19,200 per annum
    - IT set-up costs - £3,000 (non-recurring)
    - Data set-up costs - £3,000 (non-recurring)
    - Total costs: (i) 1st year £35,200; and (ii) annual costs thereafter £29,200 p.a. in constant prices.

- Net savings: (i) 1st year £14,972; and (ii) £20,972 p.a. thereafter.

The Business Case document states that the new service would commence in March 2019. In fact, CSH appointed a Billing Administrator (Metering) in mid-March and the in-house operation commenced on 1st April when the first set of readings was uploaded and the new system successfully validated. It is also reported that the potential savings could be higher if Smart Meters are introduced.

It should be noted that the total number of metered customers has increased by between 6% and 8% since 2013:

- Electricity – 2,758 in 2013/14 to 2,919 in 2017/18 – an increase of 5.8%
- Water - 2,855 in 2013/14 to 3,078 in 2017/18 – an increase of 7.8%
- Total – 5,613 in 2013/14 to 5,997 in 2017/18 – an increase of 6.8%

Vehicle servicing and repairs:
At present, the servicing and repair of CSH's vehicles is carried out by *Colin's Garage* in Jamestown. CSH reports that the arrangement is cost-effective and has been working satisfactorily. CSH also carries an inventory of vehicle spares and parts in order to avoid long delays in securing the necessary supplies. Furthermore, senior management states that alternative in-house servicing would be expensive in terms of investment and training. However, a comparative assessment has not been carried out. As a result of comments by the Consultants, CSH intends to introduce a system that will record the following for each vehicle: (i) work performance; (ii) mileage; (iii) fuel and oil consumption; (iv) servicing and repairs; (v) down-time; etc. These should provide improved indicators of vehicle performance and specific issues.

Other functions:
CSH has also undertaken brief cost comparisons for securing specific services or supplies through internal procurement versus outsourcing. The following tasks and supply requirements were reviewed: (i) reservoirs: repairs, relining and maintenance; (ii) topsoil procurement v crusher dust; (iii) sewage: survey, design and costing; (iv) cable laying; and (v) sewage tanker procurement. CSH's comparisons indicated modest to significant cost savings attributable to internal procurement – amounting to £139,000 in 2017/18. The details are presented in Appendix D, Table D.5. This exercise indicates that CSH is conscious of the need to promote cost efficiencies and value for money.

3.3.4 Asset Management and Maintenance Plans

CSH has ongoing asset management and maintenance plans that are designed and implemented to address the serious condition of the assets that were transferred to the company in 2013. Asset replacement and upgraded maintenance has been a prime focus of senior management, divisional service managers and the skilled staff. Nevertheless, it is important to point out that the complete replacement and upgrading of old and fully depreciated assets could not be completed in the five (5) years since Divestment without the provision of much greater financial, physical and human resources. In this context, CSH has adopted a realistic measured approach that takes account of the available resources.

Table 5 presents the latest cost estimates for asset management and replacement from 2015/16 to 2021/22. The total estimated cost amounts to £11.5 million, with the net sum that is still required amounting to £7.6 million. In this process, CSH has adopted a sustained policy of building a consolidated Depreciation Fund that can be accessed for asset replacement. This is a conservative and realistic approach that should be encouraged by the URA and supported by SHG – if CSH is to sustain the objectives set out in the Divestment Process, reduce the Annual Subsidy and promote a company that is Financially Self-Sustaining.

Table 5 CSH – Asset Management and Replacement (£000)

COMPONENT	2015/16	2016/17	2017/18	2019/20	2020/21	2021/22	TOTAL
Total Estimated Cost	9,967	971		411	34	108	11,491
Depreciation Fund (net movement)	1,438	886	979	1,114	1,114	1,110	6,641
Spend to Date	176	316	704	533			1,729
Adjustment for Losses & Amortized Grants			-464	444	-191		-1,058
Annual Shortfall	8,705	402	189	273	-930	-1,002	7,637
Running Total	8.705	9,107	9,296	9,568	8,639	7,637	

Source: CSH.

3.3.5 Administrative Overheads

The issue of administrative overheads is addressed in Section 3.5.

3.4. Interview Sample of CSH Employees

The Consultants held meetings with a selection of CSH employees, including: (i) Electrical Distribution Manager; (ii) Water Operations Manager; (iii) 2 technicians from the Electrical Department; and (iv) 2 technicians from the Water Department. The main aim of these meetings was:

- ascertain opinions and attitudes towards the Company & the services that they provide to customers;
- attitudes to CSH employment and working within the Company;
- opinions on their work environment and resources to carry out their respective tasks and functions; and
- attitudes to cost efficiency improvements and opinions as to where further improvements can be made.

Main views expressed from the perspective of Operational Managers:

- importance of weekly and monthly programme meetings;
- sustained training programme to upgrade and improve skill levels;
- maintenance and operational teams – appropriately equipped in terms of vehicles, tools and spares;
- appreciation of replacement and maintenance of old assets;
- leak reduction (non-revenue water) – major issue;
- staff safety issues are covered by company policies and staff awareness;
- importance of appropriate customer engagement;
- senior management open to ideas and suggestions for improvements;
- many customers live in outlying areas – with long connection lines for both electricity and water;
- views on outsourcing discussed with senior management;
- views on need to maintain and replace meters; and
- water supply – importance of preventative maintenance and sustained replacement of old assets.

Views of technicians:

- CSH is one of the preferred companies to work for;
- good awareness of safety issues and training requirements;
- importance of customer engagement and branding of CSH;
- vehicles are well equipped and reliable;
- clear allocation of duties and responsibilities on daily and weekly basis;
- importance of access to HR manager and fair regular performance reviews;
- monthly meetings promote corporate bonding and opportunity to express views and suggestions; and
- service delivery is improving.

3.5. Segmental Reporting and Related Financial Issues

This section assesses segmental reporting, overhead allocation and operational performance. While each issue is addressed separately, it is important to emphasize that they are all inter-linked.

3.5.1 Segmental Reporting

CSH introduced segmental financial reporting with presentations in the Annual Reports and Financial Statements for 2016/17 and 2017/18. It is important to state that the figures are based on the accounts that are audited by CSH's international independent external auditors – without any qualifications. The summary figures for 2017/18 and 2016/17 are presented in Table 6.

General observations on the figures are as follows:

- water and sewage are clearly loss-making divisions, with the SHG subsidy only added to the water division;
- electricity division reported operating profits of £228,000 in 2017/18 and £416,000 in 2016/17, but these were still insufficient to cover the losses in the water and sewage divisions; and
- amortized grants are posted uniquely to the corporate sub-head, when proportions should presumably be added to each of the operating divisions.

Table 6 CSH – Summary Income and Expenditure Statements by Division: 2017/18 and 2016/17 (£ 000)

COMPONENT	2017/18					
	Water	Sewage	Electricity	Internal Charges	Corporate	Total
Turnover – Total	485	113	4,012	-170	15	4,454
Cost of Sales	1,235	83	3,224	170	0	4,372
Gross Profit	-750	-83	787	0	15	82
Admin. Expenses	551	51	560	0	0	1,162
Gain – Asset Disposal	0	0	0	0	20	20
Subsidy – Grant	668	0	0	0	0	668
Amortized Grants	0	0	0	0	346	346
Operating Profit/(Loss)	-634	-22	228	0	341	-86
Component	2016/17					
	Water	Sewage	Electricity	Internal Charges	Corporate	Total
Turnover – Total	468	119	3,974	-195	0	4,367
Cost of Sales	1,542	116	2,945	152	0	4,450
Gross Profit	-1,074	4	1,030	-43	0	-83
Admin. Expenses	617	57	614	43	0	1,245
Gain – Asset Disposal	0	0	0	0	15	233
Subsidy – Grant	605	0	0	0	0	605
Amortized Grants	0	0	0	0	287	287
Operating Profit/(Loss)	-853	-53	416	0	302	287

Source: Appendix D, Table D.6.

3.5.2 Overhead Allocation

The allocation of overheads (administrative expenses) by division is based on distributions assessed by the Finance Department. The average allocation over the two years is: water 48%; sewage 4%; and electricity 48%. However, this may be an under-estimate of the allocation to the water division, because of the incremental management and overhead resources that have been necessary to address the demands of the Drought Programme (August 2016 to May 2017) and the ongoing asset replacement programme.

3.5.3 Operational Performance

Operational performance against budget provisions has been satisfactory – but, it is complicated by intensive and extensive discussions with SHG on proposed tariff increases and the annual subsidy. This ongoing situation also impacts the position and effectiveness of the URA and its legal obligations under the Utility Services Ordinance and CSH's License.

3.6. General Conclusions

The foregoing assessment of the Key Tasks specified in the TOR demonstrate that CSH is achieving most of the main objectives set out in the Divestment Process and the targets highlighted in the Utility Services Ordinance 2013 and the Licence. This is a considerable achievement given that the Company was only established in 2013 and had to address a wide range of key issues:

- old and fully depreciated assets;
- inadequate tariff levels and other financial weaknesses;
- lack of coordinated management and administration;
- limited and old O&M resources; and
- need for more consumer-oriented focus; etc.

Reports and documentation on the performance of CSH are extensive and reflect the importance of Electricity, Water and Sewage services on St Helena and the active engagement of all strands of the Community – SHG, Executive Council, URA, Chamber of Commerce, businesses and private citizens.

4. CONNECT SAINT HELENA - PERFORMANCE REVIEW

4.1. Review of Specific Issues Listed in TOR

4.1.1 Divestment - Stated Objectives of Divestment Strategy

The agreed Divestment Strategy was to establish a government-owned company that would be responsible for the provision of electricity, water and sewage services. The principal aim was to create an enterprise that would be: (i) customer-focused; (ii) independent from direct government control; and (iii) increasingly self-financing. The new company was expected to provide value for money based on improved services in terms of quality, promptness, reliability and cost-effectiveness. The over-arching financial objective is that the company should become self-financing over the 10-year period from 2013 to 2023, based on: (i) elimination of the annual subsidy from SHG; and (ii) ability to generate sufficient financial resources to cover: (a) replacement of fully depreciated and unusable assets; and (b) contributions to the capital costs of new investment projects.

In the first 5 years of operation, CSH has made significant progress through: (i) substantial and ongoing replacement of old assets; (ii) improvements in efficiency and productivity of the electricity service; and (iii) significant improvements in network performance and time taken to connect customers. However, CSH acknowledges that substantive improvements in the Water Service will take time – due to the inherited poor condition of the network and the assets, plus the costs and resources necessary to address the major issues.

Summary data regarding performance and operating costs are presented in Table 7, with further details by the main cost components in Appendix D, Tables D.7, D.8.1 and D.8.2:

Electricity:

- billed consumption increased by 10%, from 9.6 million kWh in 2013/14 to 10.5 million kWh in 2017/18;
- reported income (tariffs & charges) increased by 24%, from £ 3.2 million in 2013/14 to £ 4.0 million in 2017/18 – despite the fact that electricity tariffs remained unchanged in 2016/17 and 2017/18;
- average charges/tariffs rose by 12%, from £ 0.34 per kWh in 2013/14 to £ 0.38 per kWh in 2017/18;
- unit Sales costs remained stable at £ 0.29 per kWh, increasing to £ 0.31 per kWh in 2017/18;
- fuel costs ranged from £1.2 million in 2015/16 to £1.9 million in 2017/18;
- annual depreciation increased by 73% from £348,000 in 2013/14 to £602,000 in 2017/18;
- unit Administration expenses varied from £ 0.04 per kWh in 2013/14 to £ 0.05 per kWh in 2017/18;
- combined Unit costs (sales + administration) ranged from £ 0.34 per kWh in 2013/14 to £ 0.36 per kWh in 2017/18; and
- the results indicate that the Electricity Service was effectively achieving full cost recovery (FCR) – with no need for subsidies and more realistic assessments of annual depreciation costs.

Water:

- billed consumption increased by 6%, from 278,000 m3 in 2013/14 to 295,000 m3 in 2015/16. In the following years were impacted by the drought (August 2016 to May 2017), resulting in billed consumption falling to 263,000 m3 in 2016/17 and 246,000 in 2017/18;
- reported income (tariffs & charges) increased by only 8% from £ 450,000 in 2013/14 to £ 485,000 in 2017/18, with billed consumption declining quite significantly in 2016 and 2017 due to the impact of the drought;
- average charges/tariffs rose by 22%, from £ 1.62 per m3 in 2013/14 to £ 1.97 per m3 in 2017/18;
- unit sales costs varied from £ 3.44 per m3 in 2013/14 to £ 5.87 per m3 in 2016/17 and £ 5.02 per m3 in 2017/18;
- unit administration expenses varied from £ 1.50 per m3 in 2013/14 to £ 2.35 per m3 in 2016/17 and £ 2.24 per m3 in 2017/18; and
- combined unit costs (sales + administration) ranged from £ 4.94 per m3 in 2013/14 to £ 8.22 per m3 in 2016/17 and £7.26 per m3 in 2016/17 in 2017/18.

The results indicate the following general conclusions:

Electricity - CSH has improved financial performance significantly and eliminated the need for annual subsidies. Unit costs are now under control. The company is accruing modest annual surpluses of £228,000 to £416,000 per year and generating a more realistic depreciation fund (see: Section 3.5).

Water - the results for the water service indicate that the Company is still faced with significant financial challenges to: (i) reduce unit costs; (ii) eliminate the annual subsidy; and (iii) promote substantive improvements to achieve full cost recovery. Key observations are as follows:

- CSH to develop a comprehensive plan to reduce O&M costs in the water service – to be monitored by URA
- CSH to finalize and execute substantive NRW reduction plan (see: Section 4.4) – to be monitored by URA.

Table 7 CSH - Electricity and Water Services: Financial Performance Indicators 2013/14 to 2017/18

COMPONENT	UNIT	2013/14	2014/15	2015/16	2016/17	2017/18
Electricity						
Billed Consumption	kWh 000	9,576	9,388	10,023	10,301	10,501
Reported Income	£ 000	3,236	3,378	3,726	3,974	4,012
Average Charge/Tariff	£/kWh	0.34	0.36	0.37	0.39	0.38
Total Costs						
• Sales Costs - Total	£ 000	2,808	2,768	2,897	2,945	3,224
• Admin. Costs - Total	£ 000	423	444	481	614	560
• Combined Costs	£ 000	3,231	3,212	3,378	3,559	3,784
• Subsidy	£ 000	385	0	0	0	0
Unit Costs						
• Sales Costs - Total	£/kWh	0.29	0.29	0.29	0.29	0.31
• Admin. Costs - Total	£/kWh	0.04	0.05	0.05	0.06	0.05
• Combined Costs	£/kWh	0.34	0.34	0.34	0.35	0.36
• Subsidy	£/kWh	0.04	0.0	0.0	0.0	0.0
Water						
Billed Consumption	m3 000	278	276	295	263	246
Reported Income	£ 000	450	473	508	468	485
Average Charge/Tariff	£/m3	1.62	1.71	1.72	1.78	1.97
Total Costs						
• Sales Costs - Total	£ 000	956	841	1,206	1,542	1,235
• Admin. Costs - Total	£ 000	416	437	474	617	551
• Combined Costs	£ 000	1,372	1,278	1,680	2,159	1,786
• Subsidy	£ 000	711	845	777	603	668
Unit Costs						
• Sales Costs - Total	£/m3	3.44	3.04	4.09	5.87	5.02
• Admin. Costs - Total	£/m3	1.50	1.58	1.61	2.35	2.24
• Combined Costs	£/m3	4.94	4.62	5.69	8.22	7.26
• Subsidy	£/m3	2.55	3.06	2.63	2.29	2.71

Source: Appendix D, Tables D.7, D.8.1 and D.8.2..

Table 8 summarizes the improvements that have taken place in the Physical Performance Parameters set by the URA. The results clearly show that significant improvements have been made: (i) reduced disruptions in the electricity distribution network; (ii) treated water quality; and (iii) substantial reduction in time taken to install connections to both the electricity and water distribution networks. The only exception is the continuing challenge to address the problems of leakage and water losses in the distribution network. It is generally acknowledged that this major problem was inherited from the pre-

divestment period – with assets that were old, fully depreciated and prone to regular burst pipes. CSH has been addressing the issue with a planned and methodical approach that will require sustained action and resources. Further observations and comments are presented in Section 4.4.

Table 8 CSH – Network Performance and Connections-Time Taken

COMPONENT	UNIT	PRE-DIVESTMENT	2013/14	2014/15	2015/16	2016/17	2017/18
Network Performance							
Disruption – Electricity Distribution	nos.	146	93	123	112	92	81
Leakages – Water Distribution	nos.	1,582	689	897	996	1,122	1,160
Treated Water Samples – Clear (av.)	%	99.0%	97.7%	96.8%	99.5%	100%	99%
Micro. Integrity – Treated Water (av.)	%	96.5%	89.0%	91.8%	100%	100%	100%
Connections – Time Taken							
Electricity Connection	days	50	44	13	19	17	3
Water Connection	days	90	91	16	14	11	1

Source: Appendix D, Table D.2.

4.1.2 Divestment - Facilitate Elimination of SHG Subsidy

Based on the analysis of the financial data and performance of CSH, the Consultants expect that the Company will achieve the elimination of the Operating Subsidy within the 10-year license period, providing:

- URA and SHG maintain realistic support for reasonable price increases that are in line with the aims and requirements of the MOU and the Utility Services Ordinance.
- CSH secures substantive unit cost improvements in the water service and significant reductions in NRW levels.
- Renewable Energy Project (REP) is implemented promptly and effectively. In this context, the unit price and conditions in the Power Purchase Agreement (PPA) with PASH will be crucial in reducing the cost of energy provision; and opening the way for CSH and the URA to consider adjustments in the Electricity Tariffs and more modest increases in Water Tariffs – without inhibiting CSH's goal to break-even and achieve Full Cost Recovery (FCR).

Table 9 summarizes the relationship between CSH's audited figures for Total Turnover and Total Cost, and SHG's annual subsidy allocation. The data indicate the following:

- **Annual Subsidy** – declined by 45% in the first 4 years of operation from £ 1.1 million in 2013/14 to £ 605,000 in 2016/17; before rising to £668,000 in 2017/18, following the agreement to reduce the requested increase in Water Tariffs from 40% to 20%. The budgeted subsidies for 2018/19 and 2019/20 indicate that SHG is focused on retaining reasonable price stability in the utilities market, with subsidies of £703,000 in 2018/19 and £681,000 for 2019/20.
- **SHG Subsidy as % of Total Turnover** – this ratio has reduced significantly from 31% in 2013/14 to 15% in 2017/18, and budgets estimates of 14% for 2018/19 and 13% for 2019/20.

Table 9 CSH – Summary Financial Performance: Total Turnover, Total Costs and SHG Subsidy

YEAR	TOTAL TURNOVER (1)	TOTAL COSTS (2)	SHG SUBSIDY	SHG SUBSIDY AS %	
				Total Turnover	Total Costs
2013/14	3,592	4,507	1,110	31%	25%
2014/15	3,846	4,454	845	22%	19%
2015/16	4,074	4,888	777	19%	16%
2016/17	4,367	5,695	605	14%	11%
2017/18	4,454	5,534	668	15%	12%
Budget					
2018/19	4,982	5,810	703	14%	12%
2019/20	5,220	6,005	681	13%	11%

Notes: (1) includes income from: tariffs & charges, services and other general income; and (2) includes cost of sales & administrative expenses.

Sources: CSH Annual Financial Statements and Budgets for 2018/19 and 2019/20.

In relation to capital investment, CSH is still largely dependent on grant funding transfers from SHG. Table 10 summarizes the available figures for the five (5) years from 2013/14 to 2017/18:

- Total investment amounted to £ 11.2 million, of which £ 9.4 million (84%) was derived from Grant Funding and £ 1.8 million (16%) from CSH's own resources.
- Water infrastructure investment accounted for £ 6.6 million (59% of the total), which was largely needed to replace and improve many of the old, fully depreciated and unusable water assets.
- Electricity infrastructure investment amounted to £ 3.5 million (31% of the total) to improve network distribution and generation facilities.
- CSH's own capital funding (£ 1.8 million) – indicates that the company is willing and able to finance a proportion of its investment requirements through the active application of its accumulated depreciation fund. This should give SHG added confidence that CSH is implementing constructive financial policies for its own self-financing future. In addition, it is notable that CSH has invested £ 1.1 million (10% of the total) in vehicles and equipment which is necessary to sustain a credible maintenance and operations programme.

Table 10 CSH – Capital Investment in Electricity and Water Services 2013/14 to 2017/18 (£ 000)

COMPONENT	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Grant Funded						
Electricity infrastructure	84	1,603	1,266		405	3,358
Water infrastructure	283	1,568	1,000	1,925	1,246	6,022
Grant Funded - Total	**367**	**3,171**	**2,266**	**1,925**	**1,651**	**9,380**
CSH Funded						
Equipment	28	17		373	161	579
Vehicles	46	33	307		145	531
Electricity infrastructure			41	25	66	132
Water Infrastructure		4	372		181	557
CSH Funded - Total	**74**	**54**	**720**	**398**	**553**	**1,799**
Total	**441**	**3,225**	**2,986**	**2,323**	**2,204**	**11,179**
Distribution (%)						
Grant Funded	83%	98%	76%	83%	75%	84%
CSH Funded	17%	2%	24%	17%	25%	16%

Source: CSH.

However, the total elimination of Grant Funded capital investment is not likely in the near future, subject to the following factors:

- CSH has an ongoing capital investment programme that is under discussion with SHG (e.g. sewage treatment and disposal facilities for Half Tree Hollow (HTH) and Jamestown with a basic capital cost of £ 2.2 million).
- The imminent PPA for the Renewable Energy Project (REP) will provide some relief in the short to medium term – but, it should be recognized that the price per kWh that is being negotiated with PASH will include their investment return objectives and interest charges + the implications of rate adjustments in the future and the agreed risk sharing.
- In future, CSH could be permitted to apply for grants or soft loans from other external development agencies – for example, the Government of Montserrat and Montserrat Utilities Limited was in negotiation with the Caribbean Development Bank (CDB) for a soft loan to finance extension and improvements of its electricity generating facilities.

4.1.3 CSH Business Plan – Implementation Performance

CSH's Business Plan (June 2013) presented a comprehensive statement of the company's plans and projections for the four-year period from 2014/15 to 2017/18. The plan was based on optimistic expectations that the company's finances would develop in such a way that the annual Subsidy from SHG would decline significantly from £ 1.08 million in 2014/15 to £ 847,000 in 2015/16, £ 657,000 in 2016/17 and finally Zero in 2017/18.

Clearly, the Zero subsidy target for 2017/18 was not achieved – the actual figure was £ 668,000 (see: Table 9).

CSH states that: (i) the original Business Plan (2013) was prepared by SHG and approved by Exco as part of the divestment process; and (ii) the company's Board of Directors (BOD) did not exist when the plan was prepared. It is surprising that the original plan had such high expectations given the significant challenges that would face the new company, including: (i) poor asset base; (ii) significant investment requirements; (iii) high and fluctuating diesel costs; (iv) controversial issue of tariff increases; (v) customer reactions (affordability and ability to pay); (vi) Legislative Council's attitude towards "closer direction and control" of CSH; (vii) URA powers and regulation issues; and (viii) noted risks and uncertainties.

A much simpler plan was prepared was prepared by CSH and approved by BOD in 2016, entitled: *2020 Strategic Plan*. The main elements of the Plan are outlined in Section 2.4, which includes the following observations: *"the Plan demonstrates a clear appreciation of the issues and challenges facing CSH; and provides the Board and senior managers with clear performance targets. However, there are a number of aspects which would enhance operational and financial performance in the future: (i) brief regular annual reviews of the Plan and corporate performance; (ii) more discussion and presentation of tariff, investment and financial issues; and (iii) preparation and reference to a financial planning model for CSH."*

The CEO has stated that when the full details of the Power Purchase Agreement (PPA) with PASH are finalized – CSH will prepare a new Business Plan that will cover: (i) 2019/20 as the Base Year; and (ii) the final four (4) years of the Divestment Process period from 2020/21 to 2023/24.

4.1.4 Governance, Accountability and Administrative Arrangements

The governance, accountability and administrative arrangements are governed by the Utility Services Ordinance and the License. In general, the arrangements have been working well and are in line with the objectives of the Divestment Strategy and the establishment of a state-owned public sector enterprise that is required to function as a commercial entity with a specific customer focus.

Nevertheless, there are some elements that could be improved and made more effective. These are summarized as follows:

- amend legislation to require CSH's audited Annual Financial Statements, Management Letters and other relevant accompanying reports be presented to the Legislative Council (LC) and reviewed by the Public Accounts Committee (PAC). Note: despite the absence of a legal requirement, CSH's financial statements are reviewed by PAC;
- greater clarity is needed as to who is SHG's official representative on the Board of Directors and to whom that representative reports. Note: the minutes of the Annual General Meetings only refer to the presence of the Attorney General (AG) as the "Shareholder's Representative";
- need for greater clarity in the structure and decision-making regarding the responsibilities and evaluation processes for the key financial allocations of the "Government Subsidy" and "Government investment grants". This affects the inter-relationship between SHG, URA and CSH;
- URA should require: (i) brief mid-year performance reviews – so, appropriate corrective action can be taken if necessary; (ii) extend the number of KPIs; (iii) brief summary reports on the completion and performance of approved investment projects; and (iv) annual performance reviews of CSH's latest Business Plan;
- consideration should be given to: (i) the division of legal and financial responsibilities for the PPA agreement with PASH between SHG and CSH in terms of payment processes, final liability, risk sharing, etc.; and (ii) in future, whether CSH should be permitted to apply for external investment loans from appropriate international agencies. Note: consideration of these issues may be in process – but, the Consultants have not seen any relevant documentation.

These suggestions generally confirm some of the observations made by the Saint Helena Audit Service (SHAS) in their recent audit reports of state-controlled entities (SCE) published in 2016 and 2018. However, two of SHAS's recommendations state the following:

- *"Legislation …should be amended to ensure that Council Committees are able to exercise their oversight over the service delivery performance of SCEs by reviewing the non-financial information contained in the Annual reports of SCEs."*
- *"SHG should develop a system of corporate governance whereby SCEs objectives are properly aligned with government policy…The system should include a formal performance agreement between the SCE and the Government…"*

Consultant's comments: (i) these proposals should be reviewed carefully; because potentially, they cut across the responsibilities of the URA; and (ii) it would be more constructive for SHG to formulate a general policy document for

Electricity and Water that sets out the framework and objectives for the sector – without being prescriptive on the performance of CSH as a commercially oriented state-owned enterprise.

Finally, SHG should bear in mind:

- creating more layers of bureaucracy and control will increase inter-agency tensions and potentially adversely affect Utility Performance and Prices in a small island economy; and
- small state-owned companies like CSH need skill and stability in senior management to ensure that medium to long objectives are achievable.

4.1.5 Current License Compliance

CSH is in general compliance with the terms and requirements of the License (note: the main terms are set out in Appendix C, Section C.3). However, the Consultants suggest a number of possible minor amendments:

- Clause 15.1 – prior notice to increase prices/tariffs be increased from 14 to 30 days.
- Clause 16.2 – CSH to update and publish its Business Plan and provide brief regular performance reports.
- Clauses 3.2, 3.3 and 3.4 – consideration of an "annual service levy on CSH" to cover the URA's operating costs. This would be additional to CSH's responsibility for the costs of any specific investigation authorized by the URA.

4.1.6 CSH Key Performance Indicators

Section 3.2.5 presents an assessment of CSH's key performance indicators (KPIs). Currently, the reported types and number of KPIs are limited to physical indicators, namely:

Network performance:

1. Electricity - disruptions in the distribution network (nos.)
2. Water - leakages in the distribution network (nos.)
3. Water - treated samples clear in network and premises (average %)
4. Water - microbiological integrity in network and premises (average %)

Connections – time taken to connect customers:

5. Electricity connections (days)
6. Water connections (days)

The recorded figures are summarized in Appendix D, Table D.3 – in terms of the URA targets and the actual performance by CSH from 2012/13 to 2017/18. The results indicate that CSH has made steady improvements in five (5) of the six (6) KPIs – the only exception is the increase in the number of water leakages in the distribution network, which are still at high levels.

The Consultants suggest that the number of KPIs should be extended and reviewed regularly by the URA. Initially, the focus should be on financial and other performance KPIs. This would bring the assessments more into line with international practice and provide useful indicators for benchmarking. The specific selected KPIs are as follows:

Physical KPIs:1. Staff numbers per 1,000 connections

2. Non-revenue water (NRW): unbilled water as % of total production

Unit Indicators:

3. Revenue:
   - Overall - £ per kWh and m3
   - Production - £ per kWh and m3
   - Sold - £ per kWh and m3
4. Costs – for (i) direct operating costs (opex); (ii) opex + depreciation
   - Overall - £ per kWh and m3
   - Production - £ per kWh and m3
   - Sold - £ per kWh and m3

Billing and Charges

5. Collection ratio (%)
6. Accounts receivable
7. Average tariffs in current and constant prices

Financial – apply to overall and segmental performance

8. Working ratio (%)
9. Operating ratio (%)
10. Profit margin (%)
11. Cost recovery: (i) full cost recovery (%); and (ii) O&M cost recovery (%)

Percentages

12. Revenue components – distribution
13. Operating costs – distribution as % of direct expenses & direct expenses + depreciation
    - Staff
    - Electricity
    - Others

Other useful indicators:

14. Inflation – retail price index (RPI)
15. Exchange rate - £ to ZAR (South African Rand)

In relation to international experience, the Consultants highlight the importance of the following KPIs:

- Non-revenue water (NRW)
- Collection ratio (%)
- Accounts receivable
- Working ratio (%)
- Operating ratio (%)

4.1.7 Consumer Service Performance

Consumer service performance can be assessed and measured in a number of ways:

- KPIs listed by CSH and reviewed by the URA
- Consumer views in relation to: (i) individual issues; (ii) tariffs and pricing; and (iii) complaints
- Consumer engagement and public relations

In terms of service performance, the main indicators measured by CSH and reviewed by the URA indicate that service levels have improved – with the exception of leakages in the water distribution network (see: Section 4.1.6 and Appendix D, Table D.3). Nevertheless, the significant improvements that have taken place since Divestment do not appear to be fully appreciated by some sections of the Customer Base, especially in relation to the provision and charging for water services. Views on "*inefficiency and high increases in water tariffs*" and suggestions that "*SHG should exercise more control over CSH*" have and are being expressed by members of the Legislative Council and the representative committee of the "Unified Saints". CSH and URA, with appropriate support from SHG, need to be more engaged in supporting and promoting the progress that CSH has made since Divestment.

At present, CSH engages with its customers through a number of standard channels, including:

- advice printed on the reverse side of individual bills;
- visits to a consumer's premises by a staff member to address specific issues;
- periodic general and specific communications to consumers via: (i) leaflets; (ii) announcements in local newspapers (The St Helena Independent and The Sentinel); (iii) radio (Saint FM Community Radio and South Atlantic Media Services); (iii) SHG website; and (iv) CSH website – press releases;
- intermittent public meetings; and
- some consumers with computers and an internet connection can view and download reports and other documents from the websites of SHG, URA and CSH.

However, the Consultants suggest that it would be beneficial for CSH to be more pro-active in communicating directly with its customers. It is suggested that CSH should adopt a sustained Public Awareness and Communication Strategy that would involve the following activities, among others:

- regular Consumer Satisfaction Surveys (note: regular surveys are undertaken by UK water companies) – including questions concerning:

    1. Satisfaction with utility services
    2. Satisfaction with value for money

3. Views on fairness and affordability of charges
4. Integrity
5. Awareness of consumer rights and responsibilities
6. Satisfaction with and views on contact experiences
7. Others

- regular public meetings in different locations around the Island, to: (i) present summaries of CSH's activities; plus (ii) question and answer sessions.
- regular public open days at CSH's main facilities – with senior managers in attendance, presentations and availability of refreshments.

4.1.8 Cost Efficiency Improvements

Cost efficiency improvements have been a major challenge for CSH since 2013/14 - when seen against the background of: (i) serious inefficiencies in the pre-divestment period; (ii) old and fully depreciated and unusable assets; (iii) dispersed and limited management and control structures; (iv) limited access to investment resources; (v) ongoing issues concerning adequate energy generation; (vi) high levels of NRW; and (vi) other problems in the water supply and distribution system.

In the years since 2012/13, the figures in Section 4.1.1 indicate that CSH has made cost efficiency improvements. However, these should also be viewed against the backdrop of the sustained commitment to reduce the Revenue Subsidy and give CSH a firm financial foundation. Nevertheless, there are two major initiatives that should result in further cost efficiency improvements:

- **Renewable Energy Project (REP**) – should yield further cost savings through substantial reductions in the costs of imported diesel fuel for the Energy Generating Unit at Rupert's Bay. Section 4.2 provides estimates of the potential savings which could range from £1.6 million to £2.6 million per year, depending on the unit price assumptions for imported diesel. However, the net cost savings will only be known when the full results of the Power Purchase Agreement (PPA) are available.
- **Non-Revenue Water (NRW)** – the available figures indicate that current NRW is very high at between 40% and 50% of total water production (see: Section 4.5. These figures are a considerable cost burden to CSH in terms of incremental costs and lost revenue. The company's management has ongoing plans to address the issue; but it will take a number of years to realize the potential cost savings.

4.1.9 Asset Maintenance and Management Plans

The issues of asset maintenance and management plans are addressed in Section 3.3.4.

4.1.10 Cost Allocation Between Electricity, Water and Wastewater

The issues of cost allocation cost between the electricity, water and wastewater divisions are addressed in Section 3.5.

4.1.11 Pricing Model for Utility Services

The provision of basic utility services (electricity, water and wastewater) are essential for the day-to-day functioning of a small island economy like St Helena. It is also important to bear in mind that they are provided by a Monopoly Operator. Therefore, a fair and robust pricing model is a key component that will secure the medium to long term financial future of the services and provide an efficient affordable service to all customers. In the context of the Divestment Strategy, these objectives have proved to be a major challenge for SHG, URA and CSH.

CSH's basic approach to the pricing of utility services is set out in a recent Power Point Presentation entitled: *Utilities Costing Methodology, 26th September 2018*. The presentation sets out the following framework:

- Prices should aim to cover all annual operating costs (direct and indirect + depreciation) with the aim of achieving Full Cost Recovery (FCR) for each service, including:
    - **direct costs**: staff, energy, maintenance & repairs, miscellaneous services and others;
    - **allocated overhead costs:** management & administrative staff, office expenses, audit, property & inventory;

    - **depreciation costs**: annually for each service to reflect the capital costs of individual assets and accumulate the necessary funds for their future replacement (Consultant's note: this may require periodic revaluation of asset values to reflect relevant changes in asset prices, condition, etc.)
- Prices set at FCR should also: (i) encourage customers to use utility services more efficiently; (ii) provide funds to support infrastructure investment; and (iii) promote environmental conservation and preservation.
- Alternatively, prices can be set at "sustainable cost recovery" to cover annual O&M costs; while other costs (amortization and ongoing investment) would be covered by grants and other forms of external financing.

Against the background of the Divestment Strategy, CSH's medium to long term aim is to achieve Full Cost Recovery and provide for regular asset replacement through the accumulation of a designated depreciation fund.

At this stage in the drive to establish CSH as a self-financing government-owned enterprise – the Company is achieving the planned objectives with the support of the Board of Directors, URA and SHG – after substantive discussions.

In addition, the TOR poses the question as to *"whether there is scope to regulate future price increases with an efficiency driver such as RPI-X."* This option is considered below.

In the UK, the Government established two regulatory authorities to oversee the performance of privatized companies in the Electricity and Water industries:

- OFGEM (Office of Gas and Electricity Markets)
- OFWAT (Office of Water Services – now known as the Water Services Regulation Authority)

One of their main functions is the supervision and setting of reasonable prices in each sector for a defined number of future years – 5 years, in the case of UK privatized water companies. This can be achieved through the application of specific formulae e.g.:

- RPI-X: where:
    - RPI = retail price index (i.e. inflation)
    - X = the amount by which the company has to cut prices in real terms
    - Therefore, if inflation is 5% and X = 1%, then the company can increase prices by 5% - 1% = 4%

If the Regulator believes that the company can make further efficiency savings and that the proposed tariff increase is too high - then the Regulator can set X at a higher level.

- RPI +/- K price cap system applied to water companies, where:
    - K is the amount of investment that the water company needs to implement in terms of new, improved and replacement infrastructure. Therefore, a water company needs to invest in better water pipes, then it will be able to increase prices to finance this investment.

In the potential use of these "*efficiency drivers*", it is important to bear in mind that they are aimed at controlling the possibility of private monopoly companies earning excessive and unreasonable profits in the provision of key public utility services. This scenario could emerge if SHG chooses to privatize CSH at the end of the divestment process (i.e. 2023/24). The advantages and disadvantages of RPI-X regulation are as follows:

Advantages:
- regulator can set prices increases depending on measured performance and potential efficiency savings;
- if the company cuts costs by more than **X**, then some increase in profits and dividends may be permissible; and
- use of **RPI-X** is a means to reduce the potential abuse of monopoly power by a private company.

Disadvantages:
- potentially costly and difficult to decide what the level of **X** should be;
- danger that the regulator becomes too soft and allows private companies to earn excessive profits;
- regulator would require regular access to: (i) independent financial advice; and (ii) comparative performance data for similar operations on other small islands. This will increase the operating costs of the regulator; and

- private companies may argue that the regulator becomes too strict – possibly leading to the withdrawal of the private company.

Another potential yardstick that could be used is the "*Rate of Return*" indicator i.e. regulator assesses a "reasonable" level of profit based on the performance, investment and capital base of the private company. In relation to the use of this indicator, the regulator would need to guard against excessive "cost-padding", "collusive tendering" and other manipulative practices.

These issues may need to be considered further if it is decided to privatize CSH or form a public-private partnership.

4.1.12 Preparations for Transfer of Utility Provider to Private Sector

At the present time, it is understood that there have been no preparations for the possible transfer of CSH to the private sector. Nevertheless, if it is envisaged that SHG wishes to continue down this route, then the following actions would need to be set in motion by mid-2020 - if 2023/24 is seen as the target year:

1. Discussions between SHG and DFID – important will be to assess and decide what form of privatization would be preferred (e.g. management contract, lease contract, mixed ownership or concession).
2. Action Plan – to set out a time profile for all the actions that should be taken in sequence.
3. Drafting of potential bid process and bidding documents – (i) drafting of outline bidding documents and terms of reference; (ii) advertising placement to solicit Expressions of Interest (EOI) from suitably qualified firms; (iii) selection of shortlisted firms; (iv) finalization of detailed bidding documents and issue to shortlisted firms; (v) assess bids and select preferred candidate for negotiations; (vi) finalize and sign agreement.
4. Prepare legal instruments, statutes, ordinances and license for operation by the selected private company, including updating of the relationship with the URA in relation to monitoring of performance, pricing, etc.
5. Specific issues: (i) taxes, profits, dividend repatriation, etc.; and (ii) tariff setting method – yearly, three-yearly; etc.

The details and sequence of events outlined above will require the input of significant resources from SHG, DFID and supporting professional advisers with expertise in: (i) similar private sector frameworks; (ii) operational, financial and legal advice; (iii) drafting of necessary legal instruments; (iv) establish an SHG Steering Committee with the support of appropriate operational, financial and legal advisers; etc. Finally, the Consultants advise extreme care in relation to the mechanism and structure that might be negotiated for the setting of initial prices/tariffs and annual increases. There are numerous international examples where this issue has been a major contractual problem.

In the first instance, it is suggested that SHG/DFID should engage a suitably qualified Consulting Firm in 2020 to report on: (i) privatization options; (ii) benchmarking comparisons for other small islands; (iii) outline details for all the items listed above; (iv) draft implementation strategy and plan; etc.

4.2. Renewable Energy Project – Potential Impact

SHG and CSH have high expectations that the Renewable Energy Project (REP) will give a significant boost to: (i) the operational and financial performance of CSH; (ii) reduce imported diesel requirements for electricity generation to a minimum; (iii) enable CSH to set more appropriate and competitive tariffs for its utility services; and (iv) generate sufficient income to sustain full cost recovery without the need for annual subsidies.

The Consultants have not seen any studies of the potential impact of the REP or the draft Power Purchase Agreement (PPA) - with negotiations still ongoing.

Nevertheless, indicative estimates of the potential savings in diesel costs from 2020/21 to 2025/26 have been prepared – assuming the new wind turbines are installed, commissioned and working in 2019/20. CSH's Budget estimates for 2018/19 and 2019/20 assume: (i) electricity demand will increase by 8% in 2018/19 and 5% in 2019/20; and (ii) cost of diesel fuel by 8.3% in 2018/19 and 14% in 2019/20 – which are substantial increases.

Indicative projections from 2020/21 to 2025/26 are based on the following general assumptions:

- total electricity generation requirement – projected to increase at average of 3% p.a.;
- electricity by diesel generation (if new wind turbines are not installed) – projected to increase as % of total generation from 75% in 2020/21 to 80% by 2025/26;

- diesel required – increases from 2.6 million liters in 2020/21 to 3.2 million liters by 2025/26, assuming constant requirement of 0.255 l/kWh;
- diesel price – projected to increase 2.5% p.a. (main source: *Annual Energy Outlook 2019 – with Projections to 2050, US Energy Information Administration, January 2019*)

The indicative results are illustrated in Table 11, including estimates of the potential gross cost savings if the Renewable Energy Project (REP) is implemented on time by PASH.

- 80% - potential savings of £1.6 million to £2.3 million p.a.
- 85% - potential savings of £1.7 million to £2.4 million p.a.
- 90% - potential savings of £1.8 million to £2.6 million p.a.

These gross savings are substantial - but the net annual savings will need to take account of the following factors:

- Total annual costs of the Power Purchase Agreement (PPA).
- Annual costs of operating and maintaining the REP assets.
- Annual O&M costs for basic and standby operation of the Rupert's Bay Power Station.
- Potential costs associated with "mothballing" and/or sale of one or more of the existing diesel generators.

NOTE: INSERT LINES THAT SURROUND TABLE – SEE ORIGINAL TABLE !

Table 11 Indicative Estimates of Potential Diesel Cost Savings 2020/21 to 2025/26

YEAR	ELECTRICITY GENERATION (KWH 000)		DIESEL REQUIREMENT		DIESEL PRICE	TOTAL COST	REP - POTENTIAL SAVINGS (£ 000)		
	Total	Diesel	l/kWh	Liters 000	£/liter	£ 000	80%	85%	90%
Actual (1)									
2016/17	11,497	8,491	0.255	2,147	0.53	1,141	-	-	-
2017/18	11,577	8,708	0.255	2,218	0.62	1,383	-	-	-
Budget Estimates (2)									
2018/19	12,500	9,375	0.255	2,390	0.67	1,600	-	-	-
2019/20	13,130	9,850	0.255	2,510	0.76	1,910	-	-	-
Indicative Projections (3)									
2020/21	13,520	10,140	0.255	2,590	0.78	2,020	1,620	1,720	1,820
2021/22	13,925	10,580	0.255	2,700	0.80	2,160	1,730	1,840	1,940
2022/23	14,340	11,040	0.255	2,820	0.82	2,310	1,850	1,960	2,080
2023/24	14,770	11,520	0.255	2,940	0.84	2,470	1,980	2,220	2,220
2024/25	15,210	12,020	0.255	3,070	0.86	2,640	2,110	2,240	2,380
2025/26	15,670	12,540	0.255	3,200	0.89	2,850	2,280	2,420	2,560

Sources: (1) CSH data; (2) CSH budget estimates; and (3) Consultant's indicative projections based on specified assumptions.

4.3. Staff Costs and Salary Structure

CSH's salary structure and levels for senior management are all supervised by the company's Remuneration Committee (REMCO), which reports to the Board of Directors for the final decisions. The Terms of Reference for the Committee are presented in Appendix E – approved by the BOD, September 2018.

REMCO's TOR are clear and concise - key statements and responsibilities are summarized as follows:

- committee's function is to ensure that no Director or Manager is involved in deciding their own personal remuneration.
- ensure remuneration:

    - is internationally competitive to attract key skills and experience which are not available locally;
    - provides motivation and incentive to encourage best performance and aid retention of key skills;
    - supports the long-term interest of the company by ensuring succession of skills and experience as appropriate;
    - is affordable.
- performance-related elements should be transparent, stretching and rigorously applied;
- REMCO will comprise all Non-Executive Directors (NEDs), who will elect the Chair annually; but will not be the same as the Chair of the Main Board;
- REMCO Chair will be independent of the Shareholder;
- quorum for transaction of business is 2 NEDs and Committee will meet at least twice per year;
- meeting minutes will be circulated to the Main Board;
- REMCO Chair will be available to respond to Shareholder questions at the Annual General Meeting (AGM);
- Duties:
    - determine and agree framework for remuneration of the Executive Management Group (EMG) – including: (i) CEO; (ii) Chair; (iii) Executive Directors; and (iv) Senior Management Team (i.e. Technical Manager, Head of Finance and Business Support Manager);
    - remuneration for NEDs is matter for the Chair and Executive Directors of the BOD;
    - overall objective to ensure that all members of EMG have appropriate incentives to encourage enhanced performance;
    - policy will be reviewed as a minimum every 2 years;
    - determine targets for any performance related pay schemes;
    - REMCO is encouraged to seek independent input on salaries, deferred income (pensions) and incentives;
    - oversee any major changes in employee benefit structures throughout the Company; and
    - review and note annually the remuneration trends across the Company, St Helena and internationally for sector and job specific roles.
- REMCO can seek, subject to budgetary provisions, at the Company's expense up to date information on the international job market and industry trends.

In order to set the discussion in context, Table 12 summarizes CSH's total operating costs, total staff costs and key management staff costs from 2013/14 to 2017/18. The results indicate the following:

- total staff costs – have remained relatively stable at between 21% and 23% of total operating costs.
- key Management staff costs:
    - Total key management costs nearly doubled in the five-year period from £300,000 in 2013/14 to £439,000 in 2015/16 and £592,000 in 2017/18. In relation to these figures, CSH management requested some clarification. Therefore, the following statement has been added: *"In 2013, the figure for key management included the TC salaries and tax-free allowances. The figure for 2017/18 includes the remuneration for nine (9) individuals i.e. a three-fold increase in the senior management group."*
    - Increase reflects:
        - modest increase as proportion of total operating costs: 7% in 2013/14 to 9% in 2015/16 and 11% in 2017/18.
        - larger increase as percentage of total staff costs: 32% in 2013/14, 39% in 2015/16 & 45% in 2017/18.

In 2017/18, the average income of key management staff would have been in the region of £100,000 including incentive payments and pension contributions. The service periods for the senior managers are as follows: (i) CEO and Projects Manager – permanent positions since June 2015; (ii) Technical Manager – expatriate contract from May 2018 to May 2021; and (iii) Head of Finance – expatriate contract from July 2018 to July 2021.

In reviewing the positions of the Executive Management Group (EMG), the following factors should be taken into account:

- since the establishment of CSH in 2013, the EMG have been a central factor in the successful customer focused development of the Company, in terms of: (i) service improvements; (ii) asset replacement and upgrading; (iii) efficiency gains – especially in electricity services; (iv) increased financial stability; (v) significant reductions in SHG subsidies; and (vi) clear-sighted programmes to secure further cost reductions in electricity costs (e.g. REP) and continuing gains in water service provision (e.g. old assets replaced and improved, and substantial NRW reductions);
- Expatriate Technical Manager and expatriate Head of Finance will be replaced in mid-2021 by two qualified and trained Saints who are "shadowing" both positions and receiving additional training in the process. Therefore, it is likely that future salary levels for these Saints will be lower than the expatriate contracts – subject to decisions by REMCO and CSH's Board;
- consultants' experience – it is crucial to maintain leadership continuity, especially on a small Island where the impact of "change management" can and will have such important impacts; and

- finally, SHG and URA should bear in mind the control and management implications - if a decision is taken to privatize CSH in 2 or 3 years (see: Section 4.1.12).

Table 12 CSH – Total Operating Costs, Total Staff Costs and Key Management Staff Costs: 2013/14 to 2017/18

COMPONENT	UNIT	2013/14	2014/15	2015/16	2016/17	2017/18
Total Operating Costs						
• Cost of Sales	£ 000	3,629	3,532	3,889	4,450	4,372
• Administrative Expenses	£ 000	878	922	999	1,245	1,162
Total Operating Costs	£ 000	**4,507**	**4,454**	**4,888**	**5,695**	**5,534**
Total Staff Costs						
Operational Employees	£ 000	503	451	468	569	606
Administration						
• Key Management & Directors	£ 000	300	382	439	493	592
• Other Administrative Staff	£ 000	137	141	215	199	110
Administration – Sub-total	£ 000	437	523	653	692	703
Total - Staff Costs	£ 000	**940**	**974**	**1,122**	**1,262**	**1,303**
Distribution Percentages (%)						
% of Total Operating Costs						
• Total Staff Costs	%	21%	22%	23%	22%	23%
• Key Management & Directors	%	7%	9%	9%	9%	11%
Distribution of Staff Costs						
Operational Employees	%	54%	46%	42%	45%	47%
Administration						
• Key Management & Directors	%	32%	39%	39%	39%	45%
• Other Administrative Staff	%	14%	15%	19%	16%	8%
Administration – Sub-total	%	46%	54%	58%	55%	53%
Total - Staff Costs	%	**100%**	**100%**	**100%**	**100%**	**100%**

Sources: (i) CSH Annual Reports and Financial Statements; and (ii) CSH data.

4.4. Non-Revenue Water

Non-revenue water (NRW) is a significant issue for CSH - which has been exacerbated by the inherited old and poor condition of the network assets, including many old pipes that were laid above ground which have been prone to frequent bursts (see: Table 8). The data in Table 13 illustrate the serious nature of the issue, with estimated NRW increasing from 28% in 2013/14 to 36% in 2014/15 and 53% in 2017/18. CSH is aware of the problem and has set in motion a plan to reduce NRW significantly over the next two years.

In late-2017 and 2018, CSH began installing a number strategically placed bulk meters in order to identify and locate the main problem areas. Initial data provided by CSH for selected areas indicate medium to high levels of NRW – based on average readings over 10 and 35 days:

- Ladder Hill – NRW of 5% to 21%
- Barren Ground – NRW of 1% to 6%
- Levelwood:
  - 1st investigation – NRW of 59% to 87%
  - 2nd investigation (split into 4 areas) – NRW of 10% to 15% (after major leaks were located and fixed)
- Deadwood (bottom) – NRW of 66% to 71%
- Deadwood (top) – NRW of 63% to 78%
- Burnt Rock – NRW of 26% to 41%

Other areas are and will be investigated (e.g. Jamestown, Half Tree Hollow, etc.).

CSH management appreciates the seriousness of the problem and is addressing the issue as a matter of urgency in order to reduce NRW to a target average of 25% to 35%. This should result in substantial cost savings and improved billing receipts.

In addition, the Consultants suggest that CSH should investigate other issues related to NRW, namely: (i) regular repair and replacement of meters; (ii) accuracy of meter reading records; (iii) billing procedures; etc.

Table 13 Water Production, Billed Consumption and Non-Revenue Water 2013/14 to 2017/18

COMPONENT	UNIT	2013/14	2014/15	2015/16	2016/17	2017/18
Water Production						
• Treated	m3 000	322.8	385.9	405.6	406.2	449.1
• Untreated	m3 000	63.3	45.6	68.6	43.8	70.6
Total – Production	m3 000	386.1	431.5	474.1	450.0	519.7
Billed Consumption						
• Treated	m3 000	245.8	231.0	240.8	223.4	208.8
• Untreated	m3 000	22.5	45.4	54.3	39.4	37.2
Total – Consumption	m3 000	278.3	276.4	295.1	262.8	246.3
Non-Revenue Water						
• Treated	m3 000	77.0	154.9	164.7	182.8	240.3
• Untreated	m3 000	30.8	0.2	14.3	4.4	33.3
Total – NRW	m3 000	107.8	155.1	179.0	187.2	273.6
NRW – Percentages						
• Treated	%	23.9%	40.1%	40.6%	45.0%	53.5%
• Untreated	%	48.6%	0.4%	20.8%	10.0%	47.2%
Total – NRW	%	27.9%	35.9%	37.8%	41.6%	52.6%

Source: Appendix D, Tables D.8.1 and D.8.2.

4.5. Tariffs and Pricing of Utility Services

Tariffs and pricing are always major issues in the provision of utility services – and this is one of the main reasons for establishing the legal independence of a Regulatory Authority to reduce the impact of outside pressures in order to promote and sustain a financially viable public service.

This section assesses the demand and tariffs for electricity, water and sewerage services from 2013/14 to 2017/18.

Table 14 presents the consumer numbers and billed consumption for the three services:

Electricity:

- Metered consumers increased by 6% over the five-year period from 2,758 (86% domestic) in 2013/14 to 2,919 (85%) in 2017/18.
- Billed consumption increased by 10% from 9,576 MWh (45% domestic and 39% commercial) in 2013/14 to 10,501 MWh (42% and 41%) in 2017/18.

Water:

- Metered consumers increased by 8% from 2,855 (75% domestic – treated) in 2013/14 to 3,078 (73%) in 2017/18
- Billed consumption declined by 12% from 278,000 m3 (62% domestic and 27% commercial) in 2013/14 to 246,000 m3 (67% and 14%) in 2017/18. The main reason for the substantial fall in demand was the serious drought the impacted the island from August 2016 to May 2017.

Sewerage:

- Connections increased by 8% from 1,197 (91% domestic) in 2013/14 to 1,255 (90%) in 2017/18.

The figures clearly show the small size of the utilities market on St Helena, with the predominance of domestic consumers. In addition, many households live in small and isolated communities which increases the distance and fixed costs of providing the services.

Table 14 CSH – Consumers and Billed Consumption for Electricity, Water and Sewerage: 2013/14 to 2017/18

COMPONENT	UNIT	ANNUAL FIGURES					2013/14 - 2017/18 INCREASE (%)
		2013/14	2014/15	2015/16	2016/17	2017/18	
ELECTRICITY							
Consumer Meters							
Domestic	nos.	2,377	2,398	2,441	2,462	2,493	5.1%
Commercial	nos.	248	254	253	294	302	21.8%
Total	nos.	2,758	2,785	2,826	2,876	2,919	5.8%
Billed Consumption							
Domestic	kWh 000	4,308	4,474	4,617	4,549	4,452	3.3%
Commercial	kWh 000	3,703	3,429	3,860	4,251	4,356	17.7%
Total	kWh 000	9,576	9,388	10,023	10,301	10,501	9.7%
WATER							
Consumer Meters							
Treated Water							
• Domestic	nos.	2,129	2,172	2,200	2,223	2,261	6.2%
• Commercial	nos.	229	236	238	218	167	-27.1%
Total - Treated	nos.	2,360	2,410	2,441	2,463	2,513	6.5%
Untreated	nos.	293	294	298	297	285	-2.7%
Agriculture	nos.	202	257	265	267	280	38.6%
Total	nos.	2,855	2,961	3,004	3,027	3,078	7.8%
Billed Consumption							
Treated Water							
• Domestic	m3 000	171	180	181	169	165	-3.2%
• Commercial	m3 000	75	51	60	54	34	-54.9%
Total - Treated	m3 000	246	231	241	223	209	-15.0%
Untreated	m3 000	17	15	16	14	14	-16.8%
Agriculture	m3 000	15	30	38	26	23	49.5%
Total	m3 000	278	276	295	263	246	-11.6%
SEWERAGE							
Connections							
Domestic	nos.	1,087	1,093	1,111	1,119	1,124	3.4%
Commercial	nos.	65	68	68	71	79	21.5%
Total	nos.	1,197	1,207	1,228	1,240	1,255	4.8%

Source: Appendix D, Tables D.7, D.8.1 and D.8.2.

Table 15 presents the tariffs and charges for the three utility services from 2013/14 to 2017/18 for: (i) standing charges – to cover the fixed costs; (ii) unit tariffs – to cover the variable costs; and (iii) average tariffs and bills by customer category.

Note: table includes reported annual inflation for St Helena – increased by 14% over the 5-year period.

Electricity:

- Standing charges – ceased in 2016/17, so CSH has no designated charge to cover fixed costs
- Average tariffs:
  - General – tariffs remained unchanged in 2016/17 and 2017/18
  - Domestic – increased by 4.4% over the 5-year period from £0.296 per kWh in 2013/14 to £0.309 per kWh in 2017/18
  - Commercial/Gov't – increased by 13% from £0.407 per kWh in 2013/14 to £0.46 per kWh in 2017/18.
- Average bills per day:
  Domestic – increased by less 3% over the 5-year period, from £1.47 per day in 2013/14 to £1.51 per day in 2017/18

Water:

- Standing charges – increased by 30%: (i) domestic: from £6.60 per qtr. to £8.61 per qtr.; and (ii) commercial/gov't: from £19.80 per qtr. to £25.83 per qtr.
- Average tariffs:
  - Domestic – increased by 36% from £1.32 per m3 in 2013/14 to £1.79 per m3 in 2017/18
  - Commercial (treated) – increased by 46% from £2.48 per m3 in 2013/14 to £3.61 per m3 in 2017/18.
- Average bills per day:
  - Domestic – increased by 24% over the 5-year period, from £0.29 per day in 2013/14 to £0.36 per day in 2017/18.

Sewerage:

- Standing charges – increased by 44%: (i) domestic: from £10.45 per qtr. to £15 per qtr.; and (ii) commercial/gov't: from £16.50 per qtr. to £23.68 per qtr.
- Tariffs – at present, there are no charges for wastewater flows (note: elsewhere in the world, the charge is about 80% of the water tariff)
- Average bills per day:
  - Domestic – increased by 46% over the 5-year period, from £0.11 per day in 2013/14 to £0.16 per day in 2017/18.

General comments and observations are as follows:

Electricity:

- CSH should consider re-instating Standing Charges to reflect the fixed costs of the service
- Current tariffs are set at appropriate levels to cover the effective costs of service provision.
- Future – CSH may be able to reduce average tariffs if the PPA prices result in significant savings in annual diesel costs.

Water:

- Tariffs and charges have increased significantly to reflect: (i) reported costs of providing the service; and (ii) aim of sustained reductions in the substantial annual subsidy to CSH.
- Tariff increases in the last two years have been a major concern for Customers, SHG and the URA.
- CSH is under pressure to reduce unit costs and improve efficiency (e.g. significant reductions in NRW).
- CSH should consider possible adjustments in the charging structure to promote increased fairness and ability to pay: (i) standing charges to reflect fixed costs; (ii) domestic consumption tariffs, including: (a) basic "lifeline" block; and (b) increasing block tariff structure; and (iii) other options for commercial and government tariffs, including issue of cross-subsidization.

Sewerage:

- Reflect the tariff structure for water provision and future developments (e.g. proposed sewage disposal system for Jamestown and Half Tree Hollow.

Table 15 CSH – Tariffs and Charges for Electricity, Water and Sewerage: 2013/14 to 2017/18

COMPONENT	UNIT	ANNUAL FIGURES					2013/14 - 2017/18 INCREASE (%)
		2013/14	2014/15	2015/16	2016/17	2017/18	
INFLATION (av. incr.: retail prices) (1)	% p.a.	1.7%	2.1%	1.9%	2.6%	5.1%	14.1%
ELECTRICITY							
Bands							
Standing Charge							
• 1 phase	£/qtr	11	11.50	11.79	0	0	
• 2 phases	£/qtr	33	34.50	35.36	0	0	
Tariffs - users	£/kWh						
• Low: up to 400 kWh	£/kWh	0.212	0.22	0.23	0.30	0.30	41.5%
• Medium: 401 to 1,000 kWh	£/kWh	0.363	0.38	0.39	0.30	0.30	-17.4%
• High: more than 1,000 kWh		0.396	0.42	0.43	0.46	0.46	16.2%
Average Tariffs							
Domestic	£/kWh	0.296	0.309	0.320	0.314	0.309	4.4%
Commercial/Government	£/kWh	0.407	0.432	0.441	0.460	0.460	13.0%
Overall	£/kWh	0.354	0.370	0.382	0.392	0.393	11.0%
Average Bills							
Domestic – Per Day	£/day	1.47	1.58	1.66	1.59	1.51	2.7%
Domestic - Annual	£/year	536	577	605	580	551	2.8%
Overall – Per Day	£/day	3.17	3.20	3.52	3.67	3.69	16.4%

Overall – Annual	£/year	1,155	1,168	1,286	1.340	1,346	16.5%
WATER							
Tariffs and Charges							
Standing Charge							
• Domestic & Agriculture	£/qtr	6.60	7.00	7.18	7.18	8.61	30.5%
• Commercial & Government	£/qtr	19.80	21.00	21.53	21.53	25.83	30.5%
Tariffs							
• Treated: up to 15 m3	£/m3	0.86	0.90	0.93	0.97	1.16	34.9%
• Treated: more than 15 m3	£/m3	1.14	1.20	1.23	1.28	1.53	34.2%
• Commercial	£/m3	2.24	2.35	2.41	2.51	3.10	38.4%
• Untreated	£/m3	0.57	0.60	0.62	0.64	0.77	35.1%
Average Tariffs							
Domestic	£/m3	1.32	1.38	1.42	1.48	1.79	35.6%
Commercial Treated	£/m3	2.48	2.74	2.75	2.86	3.61	45.6%
Government Treated	£/m3	0	0	2.51	2.78	3.24	
Untreated	£/m3	1.02	1.15	1.15	1.25	1.46	43.1%
Agriculture	£/m3	0.92	0.84	0.82	0.94	1.19	29.3%
Combined	£/m3	1.57	1.53	1.57	1.67	1.98	26.1%
Average Bills							
Domestic – Per Day	£/day	0.29	0.31	0.32	0.31	0.36	24.1%
Domestic - Annual	£/year	106	115	117	113	131	23.6%
Overall – Per Day	£/day	0.43	0.40	0.43	0.41	0.44	2.3%
Overall - Annual	£/year	155	145	157	148	162	4.5%
SEWERAGE							
Tariffs and Charges							
Standing Charge							
• **Domestic**	£/qtr	10.45	11.50	11.79	12.50	15.00	43.5%
• **Commercial and Government**	£/qtr	16.50	18.15	18.61	19.73	23.68	43.5%
Average Bills							
Domestic – Per Day	£/day	0.11	0.13	0.13	0.14	0.16	45.6%
Domestic - Annual	£/year	42	46	47	50	60	42.9%
Overall – Per Day	£/day	0.12	0.13	0.14	0.14	0.17	41.7%
Overall - Annual	£/year	44	49	50	53	64	45.5%

Note: (1) Retail price index – St Helena Statistics Office.

Source: Connect St Helena

4.6. Audit and Risk Management

CSH has an Audit and Risk Management Committee that reports to the Board of Directors (BOD). The TOR for the Committee are presented in Appendix F. The Committee is comprised of the Non-Executive Directors (NEDs) and may engage "external experts" if necessary.

The main functions of the Committee are:

- Financial reporting – review and challenge the management regarding to the company's financial statements
- Internal control and risk management – monitor the integrity of internal financial controls and assess the effectiveness of systems to manage all aspects of financial risk.
- Internal audit – support the internal auditor and assess management response to the internal auditor's findings and recommendations.
- External audit – nominate and review the performance of the external auditor, and address major issues raised by the external auditor.
- Reporting to the Shareholder – the TOR do not itemize specific requirements for this important function.

Comments on specific components of these functions are as follows:

- Financial reporting – more emphasis should be given to: (i) key components of financial performance e.g. actions to reduce unit O&M costs of water supply; (ii) performance to reduce NRW; (iii) action to "fast track" the implementation of the Renewable Energy Project (REP); etc.
- Risk assessment and management is reviewed and updated every three months by the BOD, with advice from the Committee. CSH's risk matrix assesses specific risk in terms of: (i) impact and likelihood: (ii) actions taken and what needs to be done; (iii) target dates; and (iv) responsibility for action. The list of risks cover: (a) political and reputational; (b) technological; (c) legislative and regulatory; (d) environmental; (e) managerial and professional; (f) financial; and (g) physical. The matrix is comprehensive and the regular reviews should ensure that effective action is taken to minimize the risks.
- Internal audit – is an important function within all modern businesses (private and public). At present, CSH does not have the services of an internal auditor. CSH management reports that: (i) the post has been advertised, but there have been no applicants with the appropriate qualifications; (ii) discussions have been held with SHAS and SHG's internal audit office – without success. In the recent past, CSH has employed the services of a contracted international internal auditor (John K North: reports dated March 2016 and February 2017) at a reported cost of £18,000 for each input. Comment: (a) it is not clear whether the observations and recommendations in the two audit reports have been fully addressed; and (b) CSH has been without the services of an internal auditor for more than two years.
- Reporting to the Shareholder – this aspect should be documented and reported in the BOD minutes.

NOTE: TRY TO GET "GENERAL CONCLUSIONS" ON THIS PAGE

4.7. General Conclusions

The main results confirm that CSH is making substantive progress in providing much improved utility services to Consumers and a firm foundation to become financially self-sustaining with the elimination of the SHG subsidy and the potential for privatization.

In the first 5 years of operation, CSH has made significant progress through: (i) substantial and ongoing replacement of old assets; (ii) improvements in efficiency and productivity of the electricity service; and (iii) significant improvements in network performance and time taken to connect customers. However, CSH acknowledges that substantive improvements in the Water Service will take time – due to the inherited poor condition of the network and the assets, plus the costs and resources necessary to address the major issues. The financial results for the water service indicate that CSH is still faced with significant challenges to: (i) reduce unit costs; (ii) eliminate the annual subsidy; and (iii) promote substantive improvements to achieve full cost recovery.

5. UTILITIES REGULATORY AUTHORITY

5.1. Introduction

This chapter presents a brief overview of the responsibilities and performance of the Utilities Regulatory Authority (URA), even though it is not a direct requirement of the TOR.

5.2. Legal Requirements

The legal responsibilities of the URA are clearly set out in the Utility Services Ordinance 2013 (see: Appendix C, Section C.3.1). The main factors are:

- complete independence from SHG and any other public or private body;
- regulate the provision and development of public utility services;
- protect consumers from unreasonable prices;
- motivate and encourage utility providers to improve the delivery and quality of services;
- ensure stability and predictability in the medium to long term;
- support progressive reduction in the level of annual subsidies.

In the context of these responsibilities, the URA can issue specific Directives to the utility provider which are legally binding and enforceable. The URA can also: (i) initiate specific investigations of the utility provider; (ii) impose fines of up to £100,000; and (iii) in extreme circumstances petition the Governor in Council to disband the utility provider. To date, the URA has not used these powers - but they are important reserve powers when dealing with a monopoly service provider.

5.3. Organization and Structure

The URA is comprised of three members: Chairman (also the Island's Chief Magistrate (CM) and two others from the private sector; and the services of a secretary who is also the Judicial Services Manager (JSM). Discussions with the Authority indicate that most of the review work and reporting is carried out by the Chairman. Two reports have been prepared every year since 2013/14, focusing on: (i) CSH's annual application to increase prices; and (ii) review of the performance and quality of the services provided:

- *Report on the Maximum Charges or Fees to be Levied by Connect St Helena Limited*
- *Annual Report on the Quality of Services Provided by Connect St Helena Limited*

In preparing these documents, the URA is largely dependent on the initial reports, data and responses provided by CSH. In some instances, the Authority does initiate further enquiries into specific issues that are of public concern. In addition, the URA is fully aware of the discussions that take place between SHG and CSH regarding the Annual Subsidy and the Proposals for Tariff increases. In this context, the URA needs to strike a reasonable balance in satisfying the Divestment Targets and household affordability.

As noted previously, the search for a "*reasonable balance*" stimulates: (i) concerns expressed by the Legislative Council and individual councillors; (ii) segments of the business community as expressed by the Chamber of Commerce; and (iii) the representative committee of the "Unified Saints" which organized a public demonstration outside The Castle on 30th June 2018.

Finally, the reported general costs for the URA are £9,000 p.a. which are borne by SHG. It is worth noting that in some other countries the costs of the Regulatory Authority are paid via a specific Consumer Levy. On the other hand, if the URA wishes to initiate a specific investigation – these costs must be paid by CSH (see: Appendix C.3.1).

5.4. Performance – Review and Observations

The URA has a delicate path to navigate which is defined by four inter-linked objectives

- encourage the utility provider to become financially self-sustaining based on full cost recovery (FCR) prices;
- stimulate and promote sustained improvements in cost-efficient service delivery;
- approve reasonable price increases that consumers can afford; and
- promote sustained reductions in the level of Government subsidy.

In most scenarios, it is unlikely that the Authority will be able to optimize the four objectives at the same time and from year to year. Therefore, the URA must be pragmatic in adopting a balanced approach.General comments are as follows:

- Tariffs and charges – international experience indicates that utility pricing is always a controversial issue, especially when small island states like St Helena are vulnerable to economic downturns that can have a significant impact on low and median-income households.
- Service performance – since 2013/14, CSH has equalled or exceeded the annual performance targets set by the URA in terms of: (i) reduced disruptions in the electricity distribution network; (ii) improvements in water quality; and (iii) time taken to connect customers to the electricity and water networks. The only exception to these improvements is the continuing problem of leakages and bursts in the water distribution network which are still at high levels (see: Section 3, Tables 2 and 8).

Specific comments and observations on the URA's performance – both now and in the future are as follows:

Current:

- Power Purchase Agreement (PPA) and related issues – engage in key aspects of the process e.g.: (i) legal and contract aspects; (ii) risk sharing; (iii) prices; (iv) maintenance responsibilities; and (v) performance assessment.
- Non-Revenue Water (NRW) – assess CSH's performance and plans to reduce NRW.
- Asset replacement and maintenance – periodic performance review
- Encourage CSH to: (i) prepare an updated Business Plan; (ii) prepare a financial planning model for 3 to 5 years; and (iii) consider submission of tariff applications that cover 2 to 3 years.
- Benchmarking – encourage CSH to: (i) engage and share performance information on specific issues; and (ii) enrol in relevant international utility associations which would permit access to data and experience of similar utility providers.
- Follow-up on independent reports and investigations commissioned by CSH e.g. (i) internal audit reports; (ii) separate performance reports; etc.
- CSH's Remuneration and Risk Committees – review results and actions taken by the Board and CSH.
- Environmental legislation and related performance of CSH – regular review
- Consumer engagement – review and encourage CSH's engagement with consumers.

Future:

- Potential privatization – involvement in: (i) process to select the most appropriate privatization model/package for St Helena; (ii) company pre-qualification and selection; (iii) contract conditions; (iv) legislation and legal requirements
- Key financial issues related to privatization – (i) tariffs and pricing; (ii) taxation; (iii) profits and dividends; (iv) repatriation of profits; and (v) investment
- Plans and performance reviews
- Development and training of Saints staff.

It should be noted that some of the issues outlined above may require inputs of specific specialist expertise. The Ordinance gives the URA the authority to engage such expertise, which CSH will pay for.

5.5. General Conclusions

The URA is fulfilling its legal responsibilities as defined by the Utility Services Ordinance 2013. However, there are aspects of the relationship between SHG and CSH which can and do impinge on the statutory independence and authority of the URA. Therefore, the URA has adopted a pragmatic approach which does not compromise its authority in the short to medium term. However, if SHG opts to pursue the option of privatization then the authority of the URA will become much more significant – depending on whether there will be any changes in the existing legislation.

6. BENCHMARKING - SELECTED INTERNATIONAL COMPARISONS

6.1. Introduction

This chapter presents a brief overview of comparable benchmarks for Water and Electricity Services in similar or comparable islands and service providers – especially small islands. Section 6.2 focuses on Water Services as this is the main area of concern for SHG, Executive Council, Chamber of Commerce, local businesses, Consumers, URA and CSH. The review covers: (i) tariffs and prices; and (ii) a range of Key Performance Indicators (KPI).

Note: Montserrat Utilities Limited (MUL) is one of the closest comparable utility service providers to CSH – for both water and electricity services. However, the Consultants were unable to access comparable KPIs from MUL in the period from February to April 2019 - for the following reasons: (i) MUL website is not currently in service (www.mul.ms); (ii) communications were sent to the email addresses of MUL and the Ministry of Communications, Works and Labour – but, no replies were received; and (iii) not able to access a recent report entitled: *Report of the Performance of Montserrat Utilities Limited 2016 – covering tariffs, governance and potential private sector participation.*

6.2. Water Services

6.2.1 Water - Tariffs and Prices

It is useful to compare water tariffs for different small islands around the world as an indication of the comparative charge that is being levied in each location. However, over-reliance on direct comparisons should bear in mind the following facts:

- prices are determined by the financial policy and objectives of the Government and the service provider involved – ranging from full cost recovery (FCR) to minimal tariffs that are compensated by Government subsidies;
- prices are dependent on the actual cost structures of service provision, which can range from: (i) physical factors e.g. desalination, groundwater extraction and reservoir storage, pumping based on diesel generation or renewable energy, distance from the wellfield, treatment requirements, etc.; (ii) human factors: management and staffing efficiency, etc.; and (iii) asset and maintenance factors: quality and condition of existing assets, regular asset replacement, and efficiency of O&M services;
- access to and availability of appropriate levels of capital finance; and
- medium to long term aims for the service and how effectively the objectives are being implemented.

In 2018, CSH prepared a report that included comparative Benchmark water supply costs for Domestic consumers using 22m3 per quarter for St Helena and four (4) other islands. The results are presented in Table 16. The figures were checked and verified by SHG's Finance Department in a separate report entitled: *Socio-Economic Impact of Connect Tariff Changes 2018.* The SHG report concludes that: *"Despite the significant increases to water charges over the past two years. St Helena is still considerably cheaper than all other comparison islands, in cases such as Montserrat it is less than half the current costs."*

Table 16 Benchmarks - Average Domestic Water Charges in St Helena and Other Selected Islands - 2018

ISLAND	POPULATION	WATER CHARGES			COMPARISON TO ST HELENA	
		Unit (£/m3)	Standing (£)	Bill for 22 m3 (£)		
St Helena	4,000	£1.62	£12.05	£47.69		
Montserrat	5,000	£5.69	£0.00	£125.18	+£77.49	More
Ascension	900	£23.50	£0.00	£517.00	+£469.31	More
Alderney	1,903	£0.43	£0.00	£67.00	+£19.31	More
Aruba	105,000	£3.13	£0.00	£68.86	+£21.17	More

Sources: (i) Summary of Utility Price Benchmarks used in Tariff Proposal Justifications, CSH, July 2018; and (ii) Socio-Economic Impact of Connect Tariff Changes 2018, SHG, undated.

In order to extend the benchmark comparison, the Consultants have assembled the average water tariffs for 20 islands for 2016, 2017 and 2018. The data are presented in Table 17. Comments and observations are as follows:

- St Helena's average water prices of £1.35 to £1.91 per m3 over the three-year period compare favourably with other small islands like Montserrat, Nauru and Anguilla;
- many islands in the Caribbean and the Pacific are short of natural sources of water and have become increasingly dependent on desalination, which is more expensive in small processing units e.g. Bermuda, US Virgin Islands, Cayman Islands.
- privatized water companies – generally operate on higher tariff levels that reflect - full cost recovery (FCR), plus levels to cover other on-island and off-shore costs e.g. finance and interest charges, taxes, management charges and dividends. Water services are operated by private companies on Turks & Caicos Islands, Bermuda, Cayman Islands, etc.

Table 17 Average Water Tariffs by Island in 2016, 2017 and 2018 (US$ and £ per m3) (1)

Island	Population (000) (2)	US$/m3			£/m3 (3)		
		2016	2017	2018	2016	2017	2018
Bermuda	61	7.42	7.53	7.64	5.23	5.90	5.75
US Virgin Islands	32	7.24	7.26		5.10	5.68	
Nauru	11		6.46			5.06	
Cayman Islands	63			6.08			4.58
Netherlands Antilles	26	5.48	5.56	5.46	3.86	4.35	4.11
Anguilla	15			4.51			3.40
Jersey	100	4.23	3.58	4.13	2.98	2.80	3.11
Cape Verde	560	3.41	3.67	4.11	2.40	2.87	3.10
Guernsey	63	4.24	3.55	3.99	2.99	2.78	3.00
British Virgin Islands	32	3.96			2.79		
Aruba	106	3.70			2.61		
Antigua & Barbuda	104	2.58			1.82		
Isle of Man	85	2.87	2.66		2.02	2.08	
Montserrat	5	1.91	2.59		1.35	2.03	
St Helena	5	1.92	2.14	2.53	1.35	1.68	1.91
Guam	163	2.29	2.36		1.61	1.85	
American Samoa	56		1.94	2.03		1.52	1.53
Jamaica	2,906	1.72		1.95	1.21		1.47
Dominica	75	1.27			0.90		
Wallis & Fortuna	12		1.07			0.84	

Notes: (1) IB-NET definition: tariff comparison based on a consumption of 15m3 per month – average tariffs weighted by population served; (2) Estimates based on UN data; and (3) Exchange rates: 2016 US$1 = £0.705; 2017 US$1 = £0.783; & 2018 US$1 = £0.753.

Sources: (i) International Benchmarking Network (IB-NET), World Bank; and (ii) Exchange rates – www.xe.com

6.2.2 Water - Key Performance Indicators

Key performance indicators (KPIs) were also assembled for a number of islands in order to provide comparative measures with the performance on St Helena. Table 18 presents reported KPIs in 2017 for St Helena and eight (8) islands in the Pacific from the IB-NET database (note: similar comprehensive data for small islands in the Caribbean are not presented on the IB-NET website).

The figures indicate the following:

- service coverage – most of the islands provide 100% coverage, except Kiribati, Samoa and Vanuatu;
- domestic consumption – the average ranges from 80 lpd to 183 lpd, with St Helena at 100 lpd.
- staffing ratio – (i) Consultant's view - staffing ratios for seven (7) of the Pacific Islands are unrealistic at 1 to 2 employees per 1,000 connections; (ii) Palau ratio of 6.4 per 1,000 connections is more realistic; (iii) St Helena ratio at 7 to 11 per 1,000 connections (Note: 5 service providers on other Pacific Islands have ratios of 8.5 to 14.4 employees per 1,000 connections – source: *Finding Balance – Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea, ADB, 2012*);
- Non-Revenue Water – NRW is a serious issue for most small islands with reported levels ranging from 48% to 89%. In this context, St Helena is at the lower end of the range with 53%. Nevertheless, the issue should be addressed with a sustained Action Plan that targets a level of 25% to 30%;
- operating cost coverage – the ratios range widely from 31% to 125%, indicating that some service providers are more efficient than others. For St Helena, the ratio in 2017 was only 39% which indicates a serious challenge to increase efficiency and reduce unit O&M costs. CSH is well aware of this challenge and has ongoing action plans to address the issue; and
- collection ratios – are generally high, except for three islands with less than 72%. St Helena has a reported collection ratio of 85%, but this is under pressure because of large unpaid bills and mounting concern over affordability and ability to pay.

Table 18 Water KPIs in 2017 – Selected Islands

COMPONENT & KPI	UNIT	ST HELENA	AMERICAN SAMOA	FIJI	MARSHALL ISLANDS	PALAU	KIRIBATI	SAMOA	TONGA	VANUATU
Population	000	5	56	919	53	22	120	199	110	288
Service Coverage	%	100%	96%	97%	100%	100%	67%	76%	95%	69%
Dom. Cons.	lpd	100	183	163	n.a.	344	2	153	80	n.a.
Staff Ratio/1000 con.	nos.	11 (2)	1.0	1.11	1.02	6.4	0.7	0.9	1.68	0.28
NRW	%	53%	62%	48%	n.a.	59%	89%	54%	61%	24%
Av. Rev. per m3 (1)	£/m3	1.97	1.38	0.24	1.46	1.47	15.7	0.52	1.42	0.76
Av. Op. Cost per m3 (1)	£/m3	5.01	1.81	0.31	4.64	1.22	14.1	0.54	1.13	1.05
Op. Cost Coverage	ratio	39%	76%	80%	31%	120%	110%	96%	125%	72%
Collection Ratio	%	85%.	98%	100%	100%	72%	70%	95%	63%	97%

Notes: (1) IB-NET values converted at following exchange rate: 2017 US$ 1 = £0.783; and (2) For O&M employees only the ratio is 7 per 1,000 connections.

Sources: (i) International Benchmarking Network (IB-NET), World Bank; and (ii) Exchange rate 2017 – www.xe.com

6.3 Electricity Services

6.3.1 Electricity - Tariffs and Prices

Similar to Section 6.2.1, this section presents a range of Electricity prices for a number of small islands in other parts of the world. These provide a comparative benchmark of the value for money in each location. Nevertheless, direct comparisons can be misleading for the following reasons:

- prices can be dependent on the financial charging policy and tariff structure employed by each Government and/or the objectives of a private sector operator – ranging from heavy subsidies to full cost recovery;
- another factor which is often overlooked – if the service provider is inefficient and subject to frequent power cuts, then customers (especially hotels, commercial businesses and some private households) may invest in their own private generators – this implies much higher unit costs compared to the actual tariffs charged by the service provider;

- sources of electricity generation are also a key cost factor. Many islands are dependent on costly diesel generation (e.g. Montserrat, Ascension and Sark); although many are also diversifying into solar and wind generation (e.g. Ascension and St Helena);
- small communities and scattered population can also lead to higher costs related to an extensive distribution network with only small numbers of connections; and
- bullet points 3 and 4 also reflect the important impact of "economies of scale" on unit prices.

CSH sourced comparative benchmark prices for electricity services in five (5) other islands. The data have been verified by SHG and are reproduced in Table 19 – based on the average consumer using 500 kWh per quarter. The figures for 2018 indicate that electricity prices on St Helena compare favourably with other small islands, with the exception of Aruba in the Caribbean. However, it would be more instructive to compare the movement in prices over time; and, more significantly, to assess the comparative impact of the increased dependence on wind power and the reduction in diesel generation on St Helena.

Table 19 Benchmarks - Average Domestic Electricity Charges in St Helena and Other Selected Islands – 2018

Island	Population	Electricity Charges			Comparison to St Helena	
		Unit (£/kWh)	Standing (£)	Bill for 500 kWh per qtr (£)		
St Helena	4,000	£0.30	0.00	£150.00		
Montserrat	5,000	£0.32	0.00	£160.00	+£10.00	More
Ascension	900	£0.47	0.00	£235.05	+£86.05	More
Alderney	1,903	£0.38	£9.45	£198.60	+£48.60	More
Sark	500	£0.66	0.00	£330.00	+£180.00	More
Aruba	105,000	£0.14	£4.94	£74.94	-£75.06	Less

Sources: (i) Summary of Utility Price Benchmarks used in Tariff Proposal Justifications, CSH, July 2018; and (ii) Socio-Economic Impact of Connect Tariff Changes 2018, SHG, undated.

Comparative tariffs with other small islands in the Caribbean area are presented in Table 20. Comments and observations are as follows:

- St Helena's average electricity tariff of £0.30 per kWh is comparable to the prices on many of the Caribbean islands which are also largely dependent of diesel generation;
- key factors on the Caribbean islands: (i) electricity charges are levied on a base rate + fuel surcharge that is adjusted every month; (ii) some Governments levy VAT of 12%, 15% & 16% (not included in the unit rates in Table 20); and (iii) some are introducing an environmental levy (e.g. Anguilla 7%);
- company ownership and control: (i) state-owned (e.g. St Lucia and St Vincent); and (ii) privatized (e.g. Turks & Caicos Islands); amd
- company financial objectives: (i) most are based on full cost recovery (FCR); and (ii) some have low "lifeline" base rate tariffs (e.g. Anguilla and St Vincent).

Table 20 Average Domestic Electricity Consumption Tariffs by Island – 2018/19 (EC$ and £ per m3)

Island	Population (000) (1)	EC$/kWh (except Turks & Caicos)			£/kWh (2)		
		Base Rate	Fuel Surcharge	Total	Base Rate	Fuel Surcharge	Total
St Helena	5						0.30
Anguilla	15	0.630	0.31	0.94	0.19	0.09	0.28
Grenada	109	0.431	0.40	0.831	0.13	0.12	0.25
Nevis	12	0.510	0.51	1.02	0.15	0.15	0.30
St Lucia	180	0.749	0.027	0.776	0.22	0.01	0.23
St Vincent	110	0.425	0.3921	0.8171	0.13	0.11	0.24
Turks & Caicos (3)	36	0.260	0.1298	0.3898	0.20	0.10	0.30

Notes: (1) Estimates based on UN data; (2) Exchange rates: (i) EC$1 = £0.293; & (ii) US$1 = £0.753 and (3) TCI tariff in US$.

Sources: (i) Caribbean islands – electricity company websites, and (ii) Exchange rates – www.xe.com

Table 19 Benchmarks - Average Domestic Electricity Charges in St Helena and Other Selected Islands - 2018

Island	Population	Electricity Charges			Comparison to St Helena	
		Unit (£/kWh)	Standing (£)	Bill for 500 kWh (£)		
St Helena	4,000	£0.30	0.00	£150.00		
Montserrat	5,000	£0.32	0.00	£160.00	+£10.00	More
Ascension	900	£0.47	0.00	£235.05	+£86.05	More
Alderney	1,903	£0.38	£9.45	£198.60	+£48.60	More
Sark	500	£0.66	0.00	£330.00	+£180.00	More
Aruba	105,000	£0.14	£4.94	£74.94	-£75.06	Less

Sources: (i) Summary of Utility Price Benchmarks used in Tariff Proposal Justifications, CSH, July 2018; and (ii) Socio-Economic Impact of Connect Tariff Changes 2018, SHG, undated.

6.3.2 Electricity - Key Performance Indicators

Key performance indicators (KPIs) for small islands are reported by two regional electricity services associations: (i) Caribbean Electric Utility Services Corporation (CARILEC); and (ii) Pacific Power Association (PPA). Both associations prepare KPI Benchmarking reports. However, the reports prepared by CARILEC can only be accessed by members of the association. On the other hand, the latest PPA report is available, entitled: *Benchmarking Report - Pacific Power Utilities- 2017 Fiscal Year, Pacific Power Association, September 2018.* Summary KPI data have been assembled from this report for small electricity providers on islands in the Pacific Ocean - in order to provide comparative measures with the performance on St Helena.

Table 21 Pacific Islands - Small Electricity Utilities by Name and Island

Acronym	Name of Electricity Utility	Islands and Island Groups
	Chuuk Public Utility Corporation	Federated States of Micronesia
	Kwajalein Atoll Joint Utility Resources	Marshall Islands
	Kosrae Utilities Resources	Federated States of Micronesia
	Nauru Utilities Corporation	Nauru
	Public Utilities Board	Kiribati
	Te Aponga Uira O Tumu - Te - Varovaro	Cook Islands
	Tuvalu Electricity Corporation	Tuvalu
YSPSC	Yap State Public Service Corporation	Federated States of Micronesia

Note: Electricity Utilities with peak load of less than 5 MW.

Source: Benchmarking Report - Pacific Power Utilities- 2017 Fiscal Year, Pacific Power Association, September 2018.

The companies listed in Table 21 generally serve the main islands within each group of islands. The current estimated population for each island group is as follows:

Federated States of Micronesia - 105,000 (comprising about 600 islands

Marshall Islands - 53,000

Nauru - 11,000

Kiribati - 120,000

Cook Islands - 17,000

Tuvalu - 11,000

Table 22 presents a range of electricity KPIs in 2017 for St Helena and the eight (8) utility providers on islands in the Pacific Ocean. The figures indicate the following:

- load factor - range from 44% on Tuvalu to 79% in the Marshall Islands and Nauru;

- availability – CSH and the island companies have more or less 100% availability;
- fuel consumption – generally comparable between all service providers, ranging from 3.49 to 4.06 kWh/litre of fuel;
- renewable energy – St Helena has the largest renewable energy proportion, accounting for 26% of total generation – compared to less than 7% for some of the Pacific islands;
- network losses – St Helena compares favourably with most of the other utility providers; although two companies list losses as low as 2% and 7%;
- customers/employee ratio – St Helena's ratio of 96 customers per employee compares favourably with the other companies, except on Kiribati and the Cook Islands;
- service coverage – most of the island, including St Helena, have close to 100% coverage, with three companies reporting coverage of less than 70%;
- domestic usage – on St Helena domestic customers account for 44% of demand, compared to 23% to 51% for the other companies;
- financial operating ratio – CSH had a financial operating ratio of 74, which compares favourably with most of the Pacific island companies who reported ratios of 99 to 161;
- average supply cost – St Helen's average supply cost was £0.28 per kWh in 2017, which compares favourably with most of the small utility providers in the Pacific area.
- average domestic tariffs – St Helena's average domestic tariff was £0.30 per kWh, which compares favourably with most of the other small utility providers.

Table 22 Electricity KPIs in 2017 – CSH and Utility Providers on Pacific Islands (1)

KPI	UNIT	CSH	CPUC	KAJUR	KUA	NUC	PUB	TAU	TEC	YSPSC
Load Factor	%		66%	79%	53%	79%	60%	69%	44%	65%
Availability	%	100%	100%	99%	100%	100%	100%	100%	100%	99%
Fuel Consumption	kWh/l	3.95	3.94	3.62	n.a.	3.49	4.06	3.76	3.78	3.75
Renewable Energy	%	26%	2.0%	0%	6.9%	3.3%	6.0%	16.2%	18.8%	2.9%
Network Losses	%	10%	17%	34%	2%	28%	16%	7%	13%	16%
Customers/Employee	nos.	96	20	14	58	n.a.	202	124	12	26
Service Coverage	%	100%	23%	96%	100%	n.a.	45%	100%	98%	67%
Domestic Usage	%	44%	23%	48%	39%	51%	46%	33%	44%	24%
Financial Op. Ratio		74	88	161	117	106	127	78	114	99
Av. Supply Cost (2)	£/kWh	0.28	0.27	0.46	0.38	0.34	0.31	0.30	0.38	0.41
Av. Dom. Tariffs (3)	£	0.30	0.37	0.27	0.36	0.27	0.31	0.62	0.40	0.18

Notes: (1) Electricity Utilities with peak load of less than 5 MW; (2) based on exchange rate for 2017 of US$1 = £0.783; and (3) based on average domestic consumption of 500 kWh per month and exchange rate for 2017 of US$1 = £0.783.

Sources: (i) CSH; and (ii) Benchmarking Report – Pacific Power Utilities- 2017 Fiscal Year, Pacific Power Association, September 2018.

6.4 General Conclusions

Benchmarking yields useful insights into CSH's comparative performance with similar small utility service providers. The benchmark indicators for both water and electricity services generally indicate that Connect Saint Helena is providing improved services; even though, the Company is aware that significant improvements are still required in the provision of water services. The Consultants suggest that the benchmark comparisons should become a normal component of the Company's annual assessment by the URA and CSH itself. In addition, CSH might usefully consider the following suggestions: (i) establish a regular inter-change of information and experience with other small island utilities (e.g. Montserrat Utilities Limited and others); (ii) conduct regular reviews of international websites with benchmarking indicators (e.g. IB-NET (World Bank) CAWASA, CARILEC, PPA and others); and (iii) become An "associate" or "affiliate" member of international associations of water and electricity companies, which would yield more in-depth comparative experience (e.g. Caribbean Water and Sewerage Association - www.cawasa.org); Caribbean Electric Utility Service Corporation – www.carilec.org; and Pacific Power Association – www.ppa.org).

7. MAIN CONCLUSIONS AND NEXT STEPS

7.1 Main Conclusions

The assessment of the Key Tasks specified in the TOR demonstrate that CSH is achieving most of the main objectives set out in the Divestment Process and the targets highlighted in the legal Ordinance and the License. This is a considerable achievement given that the Company was only established in 2013 and had to address a wide range of key issues: (i) old and fully depreciated assets; (ii) inadequate tariff levels and other financial weaknesses; (iii) lack of coordinated management and administration; (iv) limited and old O&M resources; (v) need for more consumer-oriented focus; etc.

Reports and documentation on the performance of CSH are extensive and reflect the importance of Electricity, Water and Sewage services on St Helena and the active engagement of all strands of the Community – SHG, Executive Council, URA, Chamber of Commerce, businesses and private citizens.

Chapter 4 addresses specific issues in more detail. The main results confirm that CSH is making substantive progress in providing much improved utility services to Consumers and a firm foundation to become financially self-sustaining with the elimination of the SHG subsidy and the potential for privatization.

In the first 5 years of operation, CSH has made significant progress through: (i) substantial and ongoing replacement of old assets; (ii) improvements in efficiency and productivity of the electricity service; and (iii) significant improvements in network performance and time taken to connect customers. However, CSH acknowledges that substantive improvements in the Water Service will take time – due to the inherited poor condition of the network and the assets, plus the costs and resources necessary to address the major issues. The financial results for the water service indicate that CSH is still faced with significant challenges to: (i) reduce unit costs; (ii) eliminate the annual subsidy; and (iii) promote substantive improvements to achieve full cost recovery.

7.2 Next Steps

Following assessment of CSH's performance, our recommendations on next steps are as follows:

PERIOD	ACTIVITIES
2019/2020	• Conclude Power Purchase Agreement (PPA) with PASH • Install proposed new wind turbines on Deadwood Plain • Agree appropriate maintenance plan and costings for new wind turbines • Review future plans for Rupert's diesel generating station • Continue action plans to reduce NRW and unit O&M costs of water provision • Prepare new updated Business Plan for CSH to 2023/24, including financial planning model • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2020/2021	• Prepare Terms of Reference for potential Next Stage in the development of CSH • Issue request for Expressions of Interest (EOI) to conduct proposed study • SHG appoint Steering Committee for Next Stage in development of CSH • Determine short-list of Consultants and issue Request for Proposals (RFP) • Continue action plans to reduce NRW and unit O&M cost of water provision • Annual review and updating of CSH Business Plan • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2021/2022	• Select, negotiate and appoint Consultant • Conduct study for Next Stage in development of CSH • Comprehensive review of Next Stage Study with all Key Stakeholders • Initiate Next Stage Action Plan for CSH – including legal and contract requirements

	• Continue action plans to reduce NRW and unit O&M cost of water provision • Annual review & updating of CSH Business Plan - taking account potential impact of Next Stage Study • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2022/2023	• Commence implementation of Next Stage Action Plan for CSH • Annual review and updating of Business Plan – taking account potential impact of Next Stage Study • Hold and agree standard negotiations with SHG and URA on tariffs, performance and annual subsidy
2023/2024	• Implement Next Stage Plan for future of CSH

APPENDICES

APPENDIX A – TERMS OF REFERENCE

6.1 Introduction

Connect Saint Helena Ltd, a company registered under the Companies Ordinance 2004, was established on 1st April 2013. This followed Executive Council's decision for the St Helena Government (SHG) to divest its utilities services i.e. electricity, water and waste water. The divestment was approved in accordance with the Divestment Strategy where it was stated that "Divestment will enable functions to be transferred from the Public Service to: 1) private sector businesses, thereby encouraging growth in the economic section; 2) new commercially-oriented government-owned enterprises that have the potential to encourage private sector investment in the future; or 3) civil society organizations that have the potential to deliver services to the public or government."

In an SHG Press Release dated 4th December 2012, it was stated that "from 1st April 2013 St Helena Government will no longer deal directly with the provision of utility services namely electricity, water and drainage. As long planned, the provision of these essential services will be divested to a company –called "Connect Saint Helena' – which will initially be wholly owned by SHG. The company will consist of the assets and staff of the Energy and Water Divisions of SHG, in the form of a self-contained business unit. …SHG is implementing its strategy in order to reduce its footprint, and to grow the private sector. The Island needs to grow its economy and this move will generate economic benefits for all on St Helena. …There will also be opportunities in Connect Saint Helena Ltd for a new administrative team, where efficiency and customer service will be key attributes. In addition, a divested company operating outside the constraints of Government, will be more efficient and productive, reducing operating costs and improving its services. The activities of Connect Saint Helena Ltd will be regulated to protect the consumer in terms of service quality and prices."

In considering the proposal to divest utilities, Executive Council noted that the 2011 Memorandum of Understanding (MOU) between SHG and the Department for International Development (DFID) required SHG to eliminate untargeted subsidies, with the subsidy for Electricity being one of the most significant. It was stated that "*the move towards Divestment has highlighted a number of areas where costs can be saved, resulting in a reduction of the subsidy by DfID. These savings are identified in a Business Plan…"* A copy of the Business is attached at Annex A. It was also stated that *"The act of Divesting has also put focus on the indirect cost allocations. These are now being separately identified in a Financial Statement which will reflect (from SHG's aspects) the financial information in the Company' Business Plan. Those along with continued investment and similar tariff increase as would have been imposed by SHG enable significant progress to be made in delivering the MOU undertaking."*

In follow up discussion with Executive Council it was noted that *"The move towards divestment has highlighted a number of areas where costs can be saved. Combined with a restructuring of the system of tariffs, which is also explained at Annex A, this will facilitate* ***the elimination of the utilities subsidy over the coming ten years.*** *The financial basis for the operations of the government-owned company is identified in a Business Plan which has been circulated to all Elected Members. SHG's commitments to HMG under the MOU includes the elimination of untargeted subsidies, with the subsidy for Electricity being one of the most significant.*

The Utility Regulatory Authority

The Utility Services Ordinance, 2013 came into force on 1st April 2013. Its purpose was to establish a Utilities Regulatory Authority (URA) and to create a legal framework to facilitate private sector provision of public utility services; and for connected and incidental matters. The URA comprises the Chief Magistrate as Chairman and two members appointed by the Governor. The Judicial Services Officer is the Secretary. The URA's objectives and duties are set out in the Ordinance which states:

"4. (1) The objective of the Authority is to regulate the development and provision of public utility services in a manner which

(a) Ensures that users of such services are protected from both unreasonable prices and unreasonable low levels of service;
(b) Ensures (so far as is consistent with paragraphs (d) and (e)) that the prices charged for such services do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development in St Helena;
(c) Motivates Utilities Providers to improve the quality of the services they provide;
(d) Ensures stability and predictability in the public utilities industry in the medium and long terms;
(e) Supports a progressive reduction in levels of subsidy from public funds; and
(f) Has regard to any other regulatory objectives prescribed.

(2) The duties of the Authority are, having regard to its objective set out in subsection (1), to carry out the functions prescribed by or under this Ordinance and to ensure that Utilities Providers comply with –

(a) This Ordinance and any other Ordinance regulating public utility services;
(b) Regulations and directives issued under any such Ordinances; and
(c) The conditions of their licenses under section 6.

License 1st April 2013 for 10 years

The Utility Service Ordinance, 2013 makes provision for the Governor in Council to grant a license to a person or body of persons to provide utility services in St Helena for a period not exceeding 10 years. A license (dated 25 June 2013), with conditions, was granted to Connect Saint Helena Ltd for the period 1st April 2013 to 31st March 2023 to:

1. Generate, distribute and supply electricity,
2. Collect, store, treat and distribute water, and
3. Dispose of waste water.

See copy of license at Annex B.

External Audit Report – Corporate Governance of the St Helena Government Group Entities

The Saint Helena Audit Service carried out a performance audit on the governance of SHG state controlled entities (SCEs) during 2017/18 culminating in a report dated February 2018 which states *"The objective of the audit was to assess the adequacy of the mechanisms, processes, and relations currently in place to provide control and direction to entities to ensure that they are contributing to the overall attainment of SHG goals and objectives. This assessment will be done against best practices derived from currently existing global codes of Corporate Governance.*

The overall aim was to add value to the current corporate governance arrangements for the SHG group entities so that they can efficiently and effectively assist SHG in attaining the island's goals and objectives."

The Report confirms that Connect Saint Helena Ltd does have an appointed Board of Directors, one of whom is an SHG representative appointed by name rather than post; and, that AGMs are held as required by the Companies Ordinance. However, the Report states that there is no legislation in place to ensure that the company's audited Annual Financial Statements, Management Letters and any other accompanying reports are laid before Legislative Council so that they can be referred to the Public Accounts Committee (PAC) for scrutiny. Despite the legislation not existing Connects Financial Statements have actually been scrutinised by the PAC.

The Report highlights among other things that *"Council Committees do not provide any line of accountability or exercise any oversight over the service delivery performance of SCEs through the scrutiny of non-financial information contained*

in the Annual Reports of SCEs; and that "there is no strategic financial oversight of the SCEs in the form of a Group Finance Director role. Whilst the entities have access to operational financial management their ability to access strategic financial advice appears limited."

The Report contains a number of recommendations relating to governance of SCEs, including the following:

- Legislation should be amended to ensure that all SCEs' audited Annual Financial Statements, Management Letters and any other accompanying reports be laid in Legislative Council so that they are scrutinised by the PAC rather than brought to PAC attention by the Chief Auditor as a matter of importance
- Legislation or otherwise terms of reference should be amended to ensure that Council Committees are able to exercise their oversight over the service delivery performance of SCEs by reviewing the non-financial information contained in the Annual Reports of SCEs
- SHG should develop a system of corporate governance whereby SCEs objectives are properly aligned with Government policy as determined by ExCo on advice of the relevant member and Council Committee. The system should include a formal performance agreement between the SCE and Government in the form of a Statement of Intent (SOI) of Memorandum of Understanding (MOU)

External Audit Report – Managing Grants and Subsidies

The Saint Helena Audit Service has also carried out a performance audit to examine the management of grants and subsidies provided by SHG to non-governmental organisations. The operating subsidy provided to Connect Saint Helena Ltd was included within the scope of the audit review.

The audit examined the alignment between the Sustainable Economic Development Plan (SEDP) published by SHG, the public utilities development plan published by the Utilities Regulator, and the business plan published by Connect Saint Helena Ltd. The audit report published in March 2016 identified that whilst there is some degree of cascading, there are gaps in the reporting framework which should be addressed.

"*With regards to the Public Utilities Ordinance, and the objectives that can be identified from the Ordinance, we have noted that levels of service, quality and sustainability are all addressed throughout the structure of monitoring. The SEDP does not cover all the objectives such as (b), (e) and (f). We also noted a gap in the adequacy of the subsidy award letter as there is no alignment to the SEDP targets and/or Utilities Regulatory Authority (URA)* regarding utilities provision."

The report recommended for the larger grants and subsidies the policy framework and associated administrative procedures should include the following specifics:

"a) Objectives defined in the SEDP should align with respective statute set by Legislative Council to ensure consistent monitoring of performance

b) The policy should deal with instances where subsidy receiving bodies make a profit/ surplus and the resulting treatment of those funds

c) Key performance indicators should be established at the outset which will provide a basis for monitoring and performance evaluation. These KPIs must be set through a consultative process

d) SHG should put in place a mid-year assessment process to evaluate performance and determine if variations or other interventions are required including corrective actions required of the entity management.

e) A close-out report should be a condition so that a reporting or feedback mechanism is in place after utilisation of the grant or subsidy and this report must include the necessary supporting information to allow evaluation of the reporting entity/ organisation's performance against the predetermined KPIs."

Renewable Energy Project and PASH Global

In a SHG Press Release issued in April 2018, SHG and Connect Saint Helena Ltd announced that PASH, based in the UK, has been chosen as the preferred bidder to provide their renewable energy solution to St Helena. The Press Release stated that *"The project will result in the majority of the Island's energy needs being met by renewable sources… The project will also mean that less diesel will be used to produce electricity on St Helena, which will reduce the Island's environmental footprint and reduce sensitivity to future increases in the price of diesel. …The project supports the aims of the Energy Strategy notably that "St Helena will increase the production of energy through renewable sources, and reduce the Island's reliance on imported fuels, increase fuel security and price stabilisation'. It will also support the 10 Years Plan's aim to 'Invest in renewable energy with a view to becoming 100% self-sufficient' and supports the Sustainable Economic Development Plan by 'increasing the amount of renewable energy on-Island, reducing reliance on diesel and encouraging improvement of distribution networks required to avoid significant increases in energy costs in the future.'* Negotiations with PASH Global on the details of the contract are ongoing.

Legislative Council Resolution

On 23rd March 2018, the following motion was passed by the Legislative Council:

"That this House believe it is the best interest of St Helena that responsibility for the management of the Island's utilities services (meaning Electricity, Water and Sewerage) is subject to closer direction and control of St Helena Government and resolves that an urgent assessment of the advantages and disadvantages of such an action should be undertaken to inform appropriate action."

6.2 Scope of works

In response to the Saint Helena Audit Service Performance Audit Reports and the Legislative Council Resolution, the St Helena Government is commissioning a full review of the utilities service provision by Connect Saint Helena Ltd to ascertain whether:

1. The divestment is meeting the stated objectives of the Divestment Strategy including in particular whether the entity is more efficient and productive in terms of reduced operating costs and improved services;
2. The divestment will in fact facilitate the elimination of SHG operating subsidy and publicly funded capital investment during the 10 year license period;
3. The business plan, which contained the financial basis for the operations of the government-owned company and which informed the decision to divest the services, has been/is being satisfactorily implemented and value for money is being achieved;
4. The existing governance, accountability and administrative arrangements are adequate in design and effective in operation;
5. There is compliance with the current License and whether there is need to amend the License to improve service delivery and cost effectiveness;
6. Connect Saint Helena Ltd's KPDs are aligned to the accountability framework, are relevant to the strategic aims of SHG, and required performance is being delivered;
7. Continuous improvement is being delivered to consumers in terms of service performance
8. Continuous improvements is being secured in terms of cost efficiency and to identify and propose specific cost reduction measures or operational efficiencies which could be made in the future;
9. Realistic and costed asset maintenance and management plans have been developed which are designed to maintain or improve the water and electricity infrastructure;
10. The allocation and apportionment of costs between water, electricity and waste water divisions is reasonable and provides fair reporting of the financial performance of these operating segments;

11. The pricing model for electricity and water services reflects the economic costs of the provisions of these services and whether there is scope of regulate future price increases with an efficiency driver such as RPI-x; and
12. There are measures which could be implemented to prepare the utility provider for any future transfer to the private sector whilst protecting the consumer and public interest.

The review will also consider and report on the impacts of the renewable energy project on the cost, service provision and business as a whole.

In addition, the review should also benchmark and compare the operation, using applicable industry benchmarking/ best practices metrics, and with a similar and suitable service provider in an operating environment similar to St Helena.

6.3 Key Tasks

Key tasks will include:

1. Review of all relevant documentation including the following:
    a. Business Case and Business Plan for the divestment;
    b. Connect Saint Helena current Business Plan, Budget and Accounts;
    c. Submissions by Connect Saint Helena to the Utilities Regulatory Authority;
    d. Reports and directives issued by the Utilities Regulatory Authority;
    e. Connect commissioned reports concerned Connect's activities;
    f. The Utility Services Ordinance, 2013;
    g. The License;
    h. St Helena Energy Strategy;
    i. The External Audit Report – Corporate Governance of the St Helena Government Group Entities;
    j. The External Audit Report – Managing Grants and Subsidies;
    k. Submissions by Connect Saint Helena Ltd regarding tariff proposals & SHG subsidy; and
    l. Obtain the views of the key stakeholders and other interested parties in the community through a public call for submissions and meetings with stakeholders.
2. Examine the current framework for utility services provision, consider alternative options and provide comments and recommendations on:
    a. Alignment of provision with the strategic intent of Government, including present day relevant of that strategic intent;
    b. Oversight and regulatory arrangements;
    c. Governance and administration arrangements;
    d. Performance measurement and monitoring KPI's; and
    e. Formula/ method used to set and regulate prices for utilities.
3. Review Connect Saint Helena Ltd's in-house systems and processes, provide comment and make recommendations on efficiency measures that could lead to cost savings and/or improved service delivery in all three service areas i.e. water, electricity and waste water disposal. The review should include but should not be limited to:
    a. Workforce sufficiency and operational deployment;
    b. Outsourced and after-hours call-out services;
    c. Outsourced meter reading services;
    d. Infrastructure asset management and maintenance plans; and
    e. Administrative overheads including management and support services and how they compare with SHG and its other state control entities.
4. Interview and survey a random sample of connect employees to understand attitudes to making efficiency savings and identity examples of continuous improvements which have been implemented, and suggestions of continuous improvements which could be implemented.

5. Critically analyse the segmental reporting, overhead allocation, and operational performance against budget, business plan and business outcomes and advise on any discrepancies and areas for improvements.

6.4 Supporting documentation

In addition to this document, prospective bidders will find on the SHG e-Procurement system, In-tend:-

- Supporting Annexes A1-A5 TORS Connect Review Cost Centres
- Supporting Annex B1 TORS Connect Review Utility License

6.5 Outputs and deliverables

A draft report outlining the methodology, evidence-based findings, together with practical time bound and costed recommendations which address the issues raised should be submitted to the Chief Secretary, Mrs Susan O'Bey within 12 weeks of contract award. Comments will be provided by SHG (to include comments from Elected Members) within 2 weeks of submission. The final report is to be submitted within 2 weeks of receipt of SHG comments.

APPENDIX B – PERSONS MET AND CONSULTED

A. St Helena Government

1. Elected Council Members (8th February)
2. Susan O'Bey, Chief Secretary
3. Dax Richards, Financial Secretary
4. Marc Lockley, Corporate Procurement Executive, Corporate Procurement Office
5. Christie Joshua, Procurement Officer, Corporate Procurement Office
6. Gillian Francis, Deputy Chief Secretary, Corporate Services
7. Lindsay Shankland, Director of HR and Organisational Development

B. Chamber of Commerce

8. Dr Corinda Essex, President and Councillor (8th February)

C. Representative Committee of "Unified Saints"

9. Five members of Committee of "Unified Saints" (7th February)

D. Connect St Helena (CSH)

10. Board of Directors (5th February):
    - Mike Durnford (Environmental Risk Manager, SHG), Chairman and non-executive director
    - Nicole Shamier (Chief Government Economist, Corporate Services), non-executive director
    - Elizabeth Clingham (Blue Belt Manager – marine conservation, sponsored by FCO), non-executive director
    - Carolynn Thomas (entrepreneur, private sector), non-executive director
    - Note: not present at the meeting:
        - Barry Hubbard (CEO and executive director)
11. Barry Hubbard, Chief Executive Officer (CEO)
12. Phanual Shangwa, Head of Finance
13. Susan Henry, Finance Manager
14. Laurence Muranganwa, Technical Manager
15. Ronald de Reuck, Project Manager – Capital Programme
16. Clare Harris, Business Support Manager
17. Andrew Robinson, Electricity Generation Manager
18. Colin Anthony, Electricity Distribution Manager
19. Paul Duncan, Water Operations Manager
20. Adam Grocock, Electrical Lines Technician
21. Alex Henry, Electrical Technician
22. David Peters, Water Maintenance Co-ordinator
23. Leyon Moyce, Water Distribution Section – Network Plumber

E. Utilities Regulatory Authority (URA)

24. Nicholas Aldridge (Chairman and Chief Magistrate)
25. Elizabeth March (retired, private member)
26. Paul Hickling, private sector entrepreneur
27. Yvonne Williams, Secretary to URA and Judicial Services Manager

F. Saint Helena Audit Service (SHAS)

28. Phil Sharman, Chief Auditor

G. Department for International Development (DFID)

29. Christopher Maughan, DFID Representative

APPENDIX C – UTILITIES SECTOR LEGAL DUTIES AND RESPONSIBILITIES

C1 Introduction

This appendix highlights key sections and statements from documents that impact the legal establishment, operation and performance of Connect St Helena Ltd in delivering the utility services of electricity, water and sewerage. The documents are:

- Memorandum of Understanding between SHG and DFID, 2011
- Utility Services Ordinance 2013
- Utility Services Ordinance – Licence 2013
- Connect St Helena – Mission and Core Values

C.2 Memorandum of Understanding (MOU)

"1.1 Air access has the potential to enable economic growth in St Helena, leading to the elimination of St Helena's financial dependence on the UK.

1.2 …..The longer term vision is sustainable and inclusive economic growth and social development which will enable St Helena eventually to become self-sustaining……SHG is determined to honour the commitments made in this MOU as a critical first step in realising this vision.

2.2 As a pre-condition for signature of an airport contract, DFID must be satisfied that policies, plans and principles governing land, immigration and investment, have been completed on time.

Immigration – a simple transparent and development-friendly system for non-St Helenians to be allowed to enter, live, work and acquire land in St Helena.

Capacity – the appointment of appropriate executive expertise to drive and oversee reform in land, immigration and investment.

3.1 DFID must also be satisfied with progress across a number of other areas, as follows:

Institutional and other arrangements to support the reform programme – SHG will ensure that appropriate institutional arrangements to support and deliver the reform programme are in place by December 2011. This programme will cover, among other areas: …….divestment of non-core functions , the removal of untargeted subsidies , and rationalisation of the public sector.

Key actions to achieve this are:

- *firm targets for divestment of non-core functions and rationalisation of the public sector*
- *strategy for eliminating untargeted subsidies across the public service and implementation started.*

A lack of human resource is one of the major risks in achieving this ambitious reform programme. As an ongoing commitment, SHG will identify shortages of skill and support staff in any area related to the reform programme, and will develop recommendations with regard to its provision. This will include senior posts/functions whose specific tasks will be to drive and ensure the successful implementation of key elements of the reform programme. Both long and short-term requirements will be included in the Technical Cooperation Programme.

DFID undertakes to support SHG by providing appropriate funding for Technical Cooperation, to achieve completion of the MOU commitments to standard, on time and to budget."

C.3 Utility Services Ordinance 2013 (effective from 1st April 2013)

C.3.1 Utilities Regulatory Authority (URA)

"….the Authority ….shall act independently and shall not be subject to the direction or control of the Governor, the Executive Council or any other person or authority."

"Objective and duties of Authority:
4. (1) The objective of the Authority is to regulate the development and provision of public utility services in a manner which:

- *(a) ensures that users of such services are protected from both unreasonable prices and unreasonably low levels of service;*
- *(b) ensures (so far as is consistent with paragraphs (d) and (e) that the prices charged for such services do not create unreasonable hardships for households or unreasonable hinderance to commercial and economic development in St Helena;*
- *(c) motivates Utility Providers to improve the quality of the services they provide;*
- *(d) ensures stability and predictability in the public utilities industry in the medium and long terms;*
- *(e) supports a progressive reduction in levels of subsidy from public funds; and*
- *(f) has regard to such regulatory objectives (if any) as prescribed."*

"Powers of Authority:
5. (1) The Authority may, for the purpose of performing its duties under section 4, issue Directives to a Utilities Provider in connection with the provision of any public utility service, and, without prejudice to the generality, such Directives may impose requirements concerning:

(a) the quality or standard of service which the Utilities Provider must deliver to its customers;
(b) payments of compensation (or abatement of charges) to compensate customers when the service provided does not meet the standards so set;
(c) the maximum charges or fees to be levied by a Utilities Provider for providing the public utility service;
(d) the terms and conditions on which public utility services are to be provided; and
(e) other such matters (if any) as may be prescribed."
(2) All Directives issued under subsection (1) shall be published in the Gazette.
(3) Where a Directive issued under subsection (1) is inconsistent with any term or condition of a licence under section 6, such term or condition shall prevail:
Provided that, if a term or condition of a licence is lawfully amended (or additional terms or conditions are imposed), any Directive issued prior to the amendment shall prevail over the amendment.
(4) The Authority (or any person authorised by the Authority in that behalf) may, for the purpose of performing its duties under section 4, at all reasonable times (having given at least three days' notice) enter upon all or any premises used or occupied by any Utilities Provider for the purpose of inspecting books, documents and records kept by the Utility Provider in connection with its business as such.
(5) If the Authority is satisfied that a Utilities Provider has failed to comply with a Directive, or with a condition of its licence, the Authority may order the Utility Provider to pay a penalty not exceeding the sum of £100,000; and such penalty shall be payable and enforceable (and accountable for when paid) in every respect as if it were a fine imposed following a conviction in the Supreme Court; but the imposition of such penalty is not a conviction for a criminal offence.

C.3.2 Utilities Provider (UP)

"6 (1) The Governor in Council may grant a licence to a person or persons to provide public utility services in St Helena on such terms and conditions, not inconsistent with this Ordinance, as the Governor in Council may determine.
(3) A licence under subsection (1) may be granted for such period (not exceeding 10 years) as the Governor in Council may specify in the licence.
(4) A Utilities Provider shall:

(a) comply with all the lawful Directives issued by the Authority under section 5(1); and
(b) perform and observe each and all of its obligations under its licence

(5) Where a Utilities Provider is licenced:

(a) to generate, distribute and supply electricity:
(b) to collect, store, treat or distribute water, or to dispose of waste water."

C.3.3 Subvention or subsidies by Government

"11 (1) The Financial Secretary may pay to a Utilities Provider, out of sums duly appropriated or deemed to have been appropriated from the Consolidated Fund, such sums as may from time to time be authorised by the Governor in Council by way of grant to support either capital or recurrent costs of the Utilities Provider.
(2) Grants made under subsection (1) may be made unconditionally or subject to such conditions as the Governor in Council considers necessary or desirable to ensure that the sums so paid are applied only for the purposes intended in the making of the grant.
(3) Without prejudice to the generality of subsection (2), conditions may concern any of the following matters:
(a) circumstances in which the Utilities Provider shall charge, for the services it provides to its customers, fees or charges less than the maximum fees or charges permitted by a direction under section 5(1)(c);
(b) actions which the Utilities Provider must take (or refrain from taking) in relation to the maintenance, development or expansion of the infrastructure used by the Utilities Provider to supply public utility service;
(c) the keeping of accounts and other records concerning the use of the grant, and the production of those accounts and records to the Financial Secretary for inspection."

C.4 Utility Services Ordinance 2013 – Licence (effective from 1st April 2013)

*"2 **Scope of The Licence***

2.1 This Licence authorises the Utilities Provider to:
(a) Generate, distribute and supply electricity,
(b) Collect, store, treat and distribute water, and
(c) Dispose of waste water.

2.7 The Utilities Provider shall supply to the Authority:
(a) a copy of its annual return on the same date on which it is required to be filled in accordance with the Companies Ordinance 2004; and
(b) a copy of its annual report and accounts within 6 months of the end of each accounting period of the Utilities Provider.

2.9 The Utilities Provider shall ensure that:
(a) the administration and management of the business associated with the establishment, maintenance and operation of Services as the case may be shall be conducted from St Helena; and
(b) its business is conducted on a normal commercial basis.

3. Provision of Information.
3.1 For the purpose of monitoring the Utility Provider's compliance with the Conditions and the Relevant Law, the Utilities Provider shall provide to the Authority in the manner and at the times required by the Authority, any documents, accounts, returns, estimates, reports or other information required by the Authority, including the documents, accounts, returns, estimates, reports and other information specified in this Licence.

3.2 The Authority may require an examination, investigation or audit of the Utilities Provider's business relating to the provision of Services or its compliance with the Conditions, all lawfully issue Directives of the Authority and all applicable laws, rules, regulations and Ordinances of St Helena including the Relevant Law, and the Utilities Provider shall provide any assistance requested by the Authority in relation to any such examination, investigation or audit. The Authority may issue Directives with regard to the manner in which such examination, investigation or audit is carried out.

3.3 In particular, the Authority may authorise a person to carry out an examination, investigation or audit or may require the Utilities Provider to arrange for an independent examination, investigation or audit of any aspect of the provision of Services to ensure compliance with the Conditions. The utilities Provider shall allow the Authority's authorised representative to attend at, enter and inspect and premises under the Utilities Provider's control, and to take copies of any documents and to acquire any information in the control of the Utilities Provider, as may be required in order to carry out the examination, investigation or audit.

3.4 The Utilities Provider shall bear all reasonable costs associated with any examination, investigation or audit conducted under this Condition 3.

4. Compliance

In addition to the Conditions, the Utilities Provide shall comply with any obligations imposed on it by the lawfully issued Directives of the Authority and all applicable laws, rules, regulations and Ordinances of St Helena including the Relevant Law.

10. Environment

The Utilities Provider shall comply with all applicable Environmental Laws …….

12. Separate Accounts

Within three months of the Licence Commencement Date, the Utilities Provider shall prepare and maintain accounting records in a form that enables the activities specified in any directives issued by the Authority to be separately identifiable, and which the Authority considers to be sufficient to show and explain the transactions of each of those activities. The Authority may issue Directives as to the basis and timing of relative reports.

15. Price Regulated Services

15.1 Where the Utilities Provider intends to introduce new prices, in relation to the provision of Services, it shall publish notice of the same at least 14 days prior to their coming into effect or it shall publish notice at such longer periods as may otherwise be required by law and the Utilities Provider shall provide full details of the same to the Authority at the same time as the publication notice is required. The Utilities Provider shall ensure a minimum period of 3 calendar months has elapsed before the introduction of further such new prices unless otherwise authorised by Directive of the Authority.

15.2 In fulfilment of its objectives and duties in terms of Section 4 of the Utilities Service Ordinance 2013 the Authority may issue Directives as to the maximum level of charges the Utilities Provider may apply for the provision of Services. A determination may:

(a) provide the overall limit to apply to such charges;

(b) restrict increases in any such charges or require reductions in them whether by reference to any formula or otherwise;

(c) provide for different limits to apply in relation to different periods of time falling within the periods to which any determination applies.

15.3 All published prices introduced by the Utilities Provider shall be transparent an non-discriminatory and shall be cost justified.

16. Service Levels

16.1 The Utilities Provider shall develop and operate the provision of Services so as progressively to achieve service levels in line with best practice and such other benchmarks as the Authority may issues Directives to from time to time.

16.2 Without limiting the requirements of Condition 16.1, within nine months of the Licence Commencement Date the Utilities Provider shall submit to the Authority a plan setting out the target levels it will achieve in accordance with Condition 16.1 for provision of Services (to be known as the "Public Utilities Development Plan") and a service monitoring plan (to be known as the "Public utilities Monitoring plan") which provides for accurate measurement of each of the target levels set out in the Public Utilities Development Plan, together, "the Plans".

16.3 The Plans will describe:

(a) how actual performance will be monitored

(b) the process for the collection and analysis of suitable data; and

(c) the procedures for internal review and performance improvement planning by the Utilities Provider.

16.6 The Authority may include as a condition in this Licence the targets specified by the Utilities Provider in the plan and the Utilities Provider shall be deemed to be in breach of its Licence if the target levels are not achieved.

16.7 Within thirty days of each annual period during the Term, the Utilities Provider shall provide the Plans during the preceding year, as set out in Condition 16.2.

C.5 Connect St Helena – Mission and Core Values

C.5.1 Mission

"Connect Saint Helena's mission is to provide utility services safely, reliably and at a viable cost to our consumers."

C.5.2 Core Values

"Our shared core values are the foundation on which our business is based; the team beliefs. We are expected to act in accordance with them. They shape our company culture which in turn shapes how we communicate with our customers and each other. They are:

- *People matter*
- *We treat each other with dignity, trust and respect*
- *We work as part of a team*
- *We embrace diversity, honesty and openness*
- *We recognise that professional differences of opinion will exist and will strengthen the way we do things*
- *We support the active recruitment, retention and development of the very best people*
- *We expect every member of our team to be accountable and, where applicable, to demonstrate leadership*
- *We adopt the principle of simplicity wherever we can*
- *We demand of ourselves the highest standards of ethical behaviour*
- *We believe that our future success lies in developing long term relationships with our team members, customers, suppliers, contractors and all those with whom Connect Saint Helena Ltd has contact."*

APPENDIX D – SUPPORTING TABLES AND DATA

D.1 Introduction

This appendix presents a number of supporting tables and data.

D.2 Tables

TABLE D.1 CONNECT ST HELENA – SWOT ANALYSIS

INTERNAL	EXTERNAL
STRENGTHS 1. Structure of accounting system 2. Qualifications of senior team 3. Skills of technical team	1. Informed Regulator
WEAKNESSES 1. Limited on Island resources 2. Low unemployment 3. Significant depreciated assets	1. Limited on Island legal support 2. Complicated Supply logistics 3. Project implementation challenges
OPPORTUNITIES 1. Staff reward/retention/benefits 2. Direct access to market place 3. Excellent public relations 4. Smart meter reading pre-payment 5. Elimination of operating subsidy	1. External funding opportunities 2. Air access
THREATS 1. Loss of key staff 2. Upward pressure on salary costs	1. Environmental legislation 2. Fuel price fluctuation 3. Capacity of private sector to deliver as required 4. Unwanted third party intervention

Source: 2020 Strategic Plan, Connect St Helena, 2016.

TABLE D.2 KPIs - NETWORK PERFORMANCE AND CONNECTION TIMES: 2013/14 TO 2018/19

COMPONENT	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
NETWORK PERFORMANCE							
URA Targets							
Electricity							
Disruptions: Distribution Network (nos.)		121	121	110	105	100	95
Water							
Leakages: Distribution Network (nos.)		1,424	1,282	1,154	850	800	1,150
Treated Water Samples Clear (%)		99.0%	99.0%	99.5%	99.5%	99.5%	99.5%
Microbiological Integ. of Tr. Water (%)		93.3%	94.3%	99.5%	99.5%	99.5%	99.5%
CSH Performance	**Pre-Divestment**						
Electricity							
Disruptions: Distribution Network (nos.)	146	105	123	112	92	81	92
Water							
Leakages: Distribution Network (nos.)	1,582	689	897	996	1,122	1,160	1,193
Treated Water Samples Clear (%.)	99.0%	97.7%	96.8%	99.6%	100%	99.2%	100%
Microbiological Integ. of Tr. Water (%)	96.5%	89.0%	91.8%	100%	100%	100%	100%
CONNECTIONS - TIME TAKEN							
URA Targets							
Electricity Connection (days)		45	41	36	18	17	16
Water Connection (days)		81	73	66	15	12	10
CSH Performance	**Pre-Divestment**						
Electricity Connection (days)	50	44	13	19	17	12	3
Water Connection (days)	90	91	16	14	11	11	1

Sources: URA and CSH.

TABLE D.3 CSH - FINANCIAL PERFORMANCE INDICATORS: 2013/14 to 2017/18

Component	Unit	2013/14	2014/15	2015/16	2016/17	2017/18
Profitability Ratios						
Gross Profit Ratio	%	-1%	8%	5%	-2%	2%
Net Profit Ratio	%	-12%	9%	5%	-5%	-6%
Efficiency Ratios						
Non-Current Assets Turnover Ratio	ratio	0.24	0.23	0.23	0.23	0.22
Fuel to Electricity Tariff	%	66%	52%	38%	36%	42%
Total Expenditure to Turnover	%	125%	116%	120%	130%	124%
Employee Costs to Turnover	%	26%	25%	28%	25%	29%
Administrative Costs to Turnover	%	24%	24%	25%	29%	26%
Balance Sheet Ratios						
Current Assets to Current Liabilities	ratio	5.5	10.4	7.8	11.4	10.8
Cash & Bank Balances to Current Liabilities	ratio	2.8	6.6	3.1	2.6	3.9
Debtors Turnover Days	days	41	38	45	33	56
Accumulated Depreciation to Asset Ratio	%	57%	53%	51%	51%	50%
Fixed Assets Growth Percentage	%		13%	9%	4%	7%

Source: Finance Dept., CSH.

TABLE D.4 CONNECT ST HELENA - STAFFING LEVELS BY MAIN CATEGORY

Component	Unit	2012	2014	2015	2016	2017	2018
Employees - average							
Electricity	nos.		24	23	20	22	25
Water	nos.		23	23	22	23	24
Administration	nos.		13	13	21	22	24
Total	**nos.**	**93**	**60**	**59**	**63**	**67**	**73**

Source: Connect St Helena.

CONNECT ST HELENA – CURRENT ORGANISATION CHART

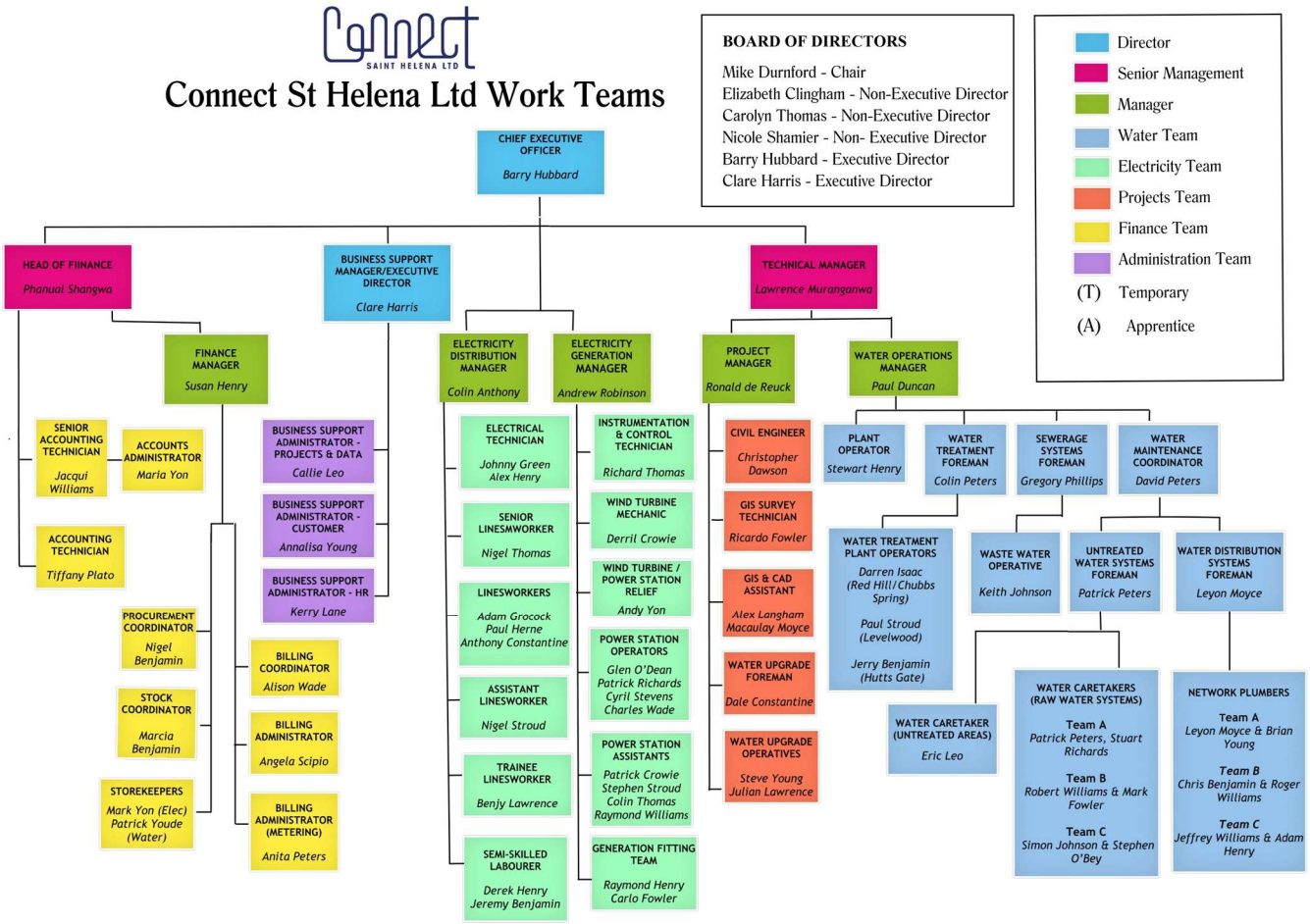

TABLE D.5 CSH – OUT SOURCING AND PROCUREMENT – ESTIMATED COST SAVINGS 2017/18

REF.	DESCRIPTION	TASK ALTERNATIVE	COST SAVING (£)
1	Harpers 1 Reservoir Embankment Collapse Repairs and Scree Removal	Use of Water Staff Overtime vs Outsourcing to External Contractor	8,127
2	Re-Lining of Tobacco Plain Reservoir	Use of Excess Material from Previous Reservoir Lining Jobs vs Making Use of Water Staff Overtime	6,086
3	Preparation Works (anchor trenching, etc.) for Re-Lining of Harpers 1 and Hutts Gate Reservoirs	Use of Water Staff Overtime vs Outsourcing to External Contractors	5,486
4	Reservoir Site Maintenance – 2017/18	Use of Water Staff Overtime vs Outsourcing to External Contractors	17,031
5	Topsoil Procured vs Crusher Dust	Purchased Topsoil to be Spoiled from Isaacs Contractors (Sandy Bay) vs Crusher Dust for Pipe Laying (Bedding)	37,500
6	Surveys, Design, Costing (incl. Business Case) of Ladder Hill Septic Tank & Sewage System Upgrade	Carrying Out Work In-House vs Outsourcing to External Contractors	2,586
7	Laying of Cable from Redhill Generator to Scott's Mill Pump House	Use of Water Staff Overtime vs Outsourcing to External Contractors	5,607
8	Procurement of Sewage Tanker	Direct Sourcing Using an Agent vs Formal Tender	56,412
Total Cost Saving			**138,835**

Source: CSH Statements and Estimates

TABLE D.6 CONNECT ST HELENA - INCOME STATEMENTS BY DIVISION (£ 000)

	2017-18					
Component	**Water**	**Sewage**	**Electricity**	**Internal Charges**	**Corporate**	**Total**
Turnover						
Unit Charges Tariff	356		3,886	-169		4,072
Service Charges	113	69	49	-1		230
Other Service Income	16	43	77		15	151
Total - Turnover	**485**	**113**	**4,012**	**-170**	**15**	**4,454**
Cost of Sales	**-1,235**	**-83**	**-3,224**	**170**		**(4,372)**
Gross Profit	**-750**	**30**	**787**	**0**	**15**	**82**
Administrative Expenses	-551	-51	-560			-1162
Gain on Disposal of Assets					-20	-20
Revenue Grant - Subsidy	668					668
Amortised Grants					346	346
Operating Profit/(Loss)	**-634**	**-22**	**228**	**0**	**341**	**-86**
Revaluation Loss					-90	-90
Interest Receivable					22	22
Finance Costs					-5	-5
Net Profit/(Loss)	**-634**	**-22**	**228**	**0**	**269**	**-159**
	2016-17					
Component	**Water**	**Sewage**	**Electricity**	**Internal Charges**	**Corporate**	**Total**
Turnover						
Unit Charges Tariff	345		3,769	-194		3,919
Service Charges	101	64	84	-1		249
Other Service Income	22	56	121			199
Total - Turnover	**468**	**119**	**3,974**	**-195**	**0**	**4,367**
Cost of Sales	**-1,542**	**-116**	**-2,945**	**152**		**(4,450)**
Gross Profit	**-1074**	**4**	**1030**	**-43**	**0**	**(83)**
Administrative Expenses	-617	-57	-614	43		-1245
Revenue Grant - Drought Mitigation	233					233
Gain on Disposal of Assets					15	15
Revenue Grant - Subsidy	605					605
Amortised Grants					287	287

Operating Profit/(Loss)	**-853**	**-53**	**416**	**0**	**302**	**-189**
Revaluation Loss						0
Interest Receivable					18	18
Finance Costs					-7	-7
Net Profit/(Loss)	**-853**	**-53**	**416**	**0**	**313**	**-177**

Sources: CSH - Annual Reports and Financial Statements 2016/17 and 2017/18.

TABLE D.7 ELECTRICITY - CUSTOMERS, BILLING AND GENERATION

Component	Unit	2013/14	2014/15	2015/16	2016/17	2017/18
Customers - metered						
Domestic	nos.	2,377	2,398	2,441	2,462	2,498
Commercial	nos.	248	254	253	294	302
Government	nos.	133	133	132	120	119
Total	nos.	2,758	2,785	2,826	2,876	2,919
Billed						
Domestic						
Low User	kWh 000	2,684	2,762	2,847	2,860	2,885
Medium User	kWh 000	1,273	1,304	1,359	1,297	1,308
High User	kWh 000	351	407	410	392	259
Domestic - Total	kWh 000	4,308	4,474	4,617	4,549	4,452
Commercial	kWh 000	3,703	3,429	3,860	4,251	4,356
Government	kWh 000	895	786	926	918	1,103
Street Lighting (Gov't)	kWh 000	103	105	105	107	92
Power Station - Usage	kWh 000	568	595	515	476	499
Total	kWh 000	9,576	9,388	10,023	10,301	10,501
Annual Av. Consumption						
Domestic	kWh 000	1.8	1.9	1.9	1.8	1.8
Commercial	kWh 000	14.9	13.5	15.3	14.5	14.4
Government	kWh 000	7.5	6.7	7.8	8.5	10.0
Combined	kWh 000	3.3	3.2	3.4	3.4	3.4
Daily Av. Consumption						
Domestic	kWh	5.0	5.1	5.2	5.1	4.9
Commercial	kWh	40.9	37.0	41.8	39.6	39.5
Government	kWh	20.6	18.3	21.4	23.4	27.5
Combined	kWh	8.9	8.7	9.2	9.4	9.4
Electricity Generation						
Diesel	kWh 000	9,594	8,620	8,039	8,491	8,708
Wind	kWh 000	1,008	2,337	2,453	2,145	1,974

Solar	kWh 000	68	106	802	862	895
Total	kWh 000	10,670	11,063	11,294	11,497	11,577
Non-Revenue Electricity	kWh 000	1,094	1,675	1,271	1,197	1,076
NRE Percentage	%	10.3%	15.1%	11.3%	10.4%	9.3%
Generation by Source						
Diesel	%	89.9%	77.9%	71.2%	73.9%	75.2%
Wind	%	9.4%	21.1%	21.7%	18.7%	17.1%
Solar	%	0.6%	1.0%	7.1%	7.5%	7.7%
Total	%	100%	100%	100%	100%	100%
Diesel Fuel Used						
Quantity	litres 000	2,448	2,208	2,086	2,147	2,218
Utilization	litres/kWh	0.255	0.256	0.259	0.253	0.255
Total Cost	£ million	1.767	1.471	1.137	1.141	1.383
Unit Cost	£ per litre	0.72	0.67	0.55	0.53	0.62

Source: Connect St Helena.

TABLE D.8.1 WATER - CUSTOMERS, BILLING AND PRODUCTION

Component	Unit	2013/14	2014/15	2015/16	2016/17	2017/18
Customers - metered						
Treated Water Domestic	nos.	2,129	2,172	2,200	2,223	2,261
Commercial	nos.	229	236	228	218	167
Government	nos.	2	2	3	22	85
Total -Treated	nos.	2,360	2,410	2,441	2,463	2,513
Untreated	nos.	293	294	298	297	285
Agricultural	nos.	202	257	265	267	280
Total - Customers	nos.	2,855	2,961	3,004	3,027	3,078
Billed						
Treated Water Domestic						
Commercial	m3 000	90.4	94.9	97.1	94.0	93.7
More than 15m3	m3 000	80.0	85.5	84.2	75.2	71.4
Domestic - Total	m3 000	170.5	180.3	181.3	169.2	165.1
Commercial	m3 000	75.3	50.7	59.5	53.9	34.0
Government	m3 000	-	-	0.1	0.3	9.8
Total - Treated	m3 000	245.8	231.0	240.8	223.4	208.8
Untreated	m3 000	17.1	14.9	16.1	13.9	14.2
Agricultural	m3 000	15.4	30.5	38.2	25.5	23.0
Total	m3 000	278.3	276.4	295.1	262.8	246.1
Annual Average Cons.						
Treated Water	litres 000	80.1	83.0	82.4	76.1	73.0

Domestic						
Commercial	litres 000	328.9	215.0	249.8	247.1	203.5
Government	litres 000	0.0	0.0	36.7	14.1	115.1
Combined - Treated	litres 000	104.1	95.9	98.7	90.7	83.1
Untreated	litres 000	58.4	50.7	54.0	46.8	50.0
Agricultural	litres 000	76.3	118.6	144.1	95.4	82.3
Total	litres 000	97.5	93.4	98.2	86.8	80.0
Daily Average Cons.						
Treated Water Domestic	litres	219	227	226	209	200
Commercial	litres	901	589	684	677	558
Government	litres	0	0	100	39	315
Combined - Treated	litres	285	263	270	249	228
Untreated	litres	169	139	148	128	137
Agricultural	litres	209	325	395	261	225
Total	litres	267	256	269	238	219

Continued/over

TABLE D.8.2 WATER - CUSTOMERS, BILLING AND PRODUCTION

Component	Unit	2013/14	2014/15	2015/16	2016/17	2017/18
Water Supply by Source						
Treated Water Redhill	m3 000	127.6	159.3	167.9	148.5	165.1
Hutts Gate	m3 000	104.0	110.4	120.5	122.7	128.1
Jamestown	m3 000	71.6	91.3	91.2	100.6	105.6
Levelwood	m3 000	19.6	24.9	26.0	34.4	50.3
Total -Treated	m3 000	322.8	385.9	405.6	406.2	449.1
Untreated	m3 000	63.3	45.6	68.6	43.8	70.6
Total	m3 000	386.1	431.5	474.1	450.0	519.7
Non-Revenue Water						
Treated	m3 000	77.0	154.9	164.7	182.8	240.3
Untreated	m3 000	30.8	0.2	14.3	4.4	33.3
Total	m3 000	107.8	155.1	179.0	187.2	273.6
NRW Percentages						
Treated	%	23.9%	40.1%	40.6%	45.0%	53.5%
Untreated	%	48.6%	0.4%	20.8%	10.0%	47.2%
Total	%	27.9%	35.9%	37.8%	41.6%	52.6%
Supply by Source						
Treated Water Redhill	%	33.0%	36.9%	35.4%	33.0%	31.8%
Hutts Gate	%	26.9%	25.6%	25.4%	27.3%	24.7%
Jamestown	%	18.6%	21.2%	19.2%	22.4%	20.3%

Levelwood	%	5.1%	5.8%	5.5%	7.6%	9.7%
Total - Treated	%	83.6%	89.4%	85.5%	90.3%	86.4%
Untreated	%	16.4%	10.6%	14.5%	9.7%	13.6%
Total	%	100%	100%	100%	100%	100%

Source: Connect St Helena

APPENDIX E – REMUNERATION COMMITTEE TERMS OF REFERENCE

This appendix presents the Terms of Reference for CSH's Remuneration Committee – approved by the Board, September 2018.

Introduction

The Remuneration Committee's function is to ensure that no Director or Manager is involved in deciding their own personal remuneration. Ensuring that remuneration:

a) *Is internationally competitive to attract key skills and experience which are not available locally*
b) *Provides motivation and incentive to encourage best performance and aid retention of key skills*
c) *Supports the long-term interest of the company by ensuring succession of skills and experience as appropriate.*
d) *Is affordable*

Executive Directors and Senior Managers remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied. There should be a formal and transparent procedure for developing policy on executive remuneration and for determining the remuneration packages of individual directors. Whilst the Chair of the Board of Directors is part of REMCO he/she will not take part in any discussions relating to their remuneration.

Composition

REMCO will comprise of all Non-Executive Directors and the Chair of REMCO will be decided by the Non-Executive Directors on an annual basis but will not be the same as the Chair of the Main Board. The REMCO Chair will be independent of the Shareholder. With a limited pool of potential directors, the Board of Connect Saint Helena Ltd acknowledges that, at this time, it is unlikely to be able to fully comply with best practice. The Committee cannot be entitled to vote and will not be included when determining if the committee is quorate.

Secretary

Secretarial support will be provided by the Company Secretary or their nominee.

Quorum

The quorum necessary for the transaction of business is two (2).

Meetings

The committee shall meet at interval sufficient to fulfil the obligations of the Committee with the expectation that this will be at least twice per year and at such other times as are appropriate.

Meetings will be convened by the Secretary on the request of any Director with agenda items and supporting documentation being provided to members at least three working days prior to the meeting.

The Secretary will minute the proceedings and resolutions of the committee meetings including those present and those in attendance.

The minutes, after being agreed by the committee, will be circulated to the members of the Main Board and presented by REMCO Chair. The REMCO Chair will be available to respond to Shareholders questions at the Annual General Meeting (AGM).

Duties

The duties of the committee are:

1. *Determine and agree with the Board a framework or broad policy for the remuneration of the Executive Management Group which will include: the Chief Executive Officer; Chair; Executive Directors and Senior Management Team. The Senior Management Team are defined as follows and such other staff who upon appointment/promotion are stated to be part of the Senior Management Team.*
    - *Technical Manager*
    - *Head of Finance*
    - *Business Support Manager*

The remuneration of Non-Executive Directors is a matter for the Chair and the Executive Directors of the Board.

2. *Ensure that the policy takes into account all necessary factors with the overall objective being to ensure that all members of the Executive Management Group of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company. The policy will be reviewed as required but as a minimum every two years.*
3. *Approve the design of, and determine targets for, any performance-related pay schemes operated by the company and approve the annual payments made under such schemes. In setting rewards, the key objective is reward adequately to attract, retain and motivate executive talent. REMCO is encouraged to seek independent input on salaries, deferred income (such as pensions) and incentives.*
4. *Determine the policy for and scope of pension arrangements for each Executive Director and Senior Management Team members.*
5. *Review the design of any share incentive plans for approval by the Board and Shareholders and the ongoing administration and appropriateness of all share-based remuneration.*
6. *Approve any supplementary payments (in excess of contractual terms) for members of the Executive Management Group upon early termination of employment contract.*
7. *Within the terms of the agreed policy, and in consultation with the Executive Directors where appropriate, determine upon appointment and any review of remuneration, the total individual remuneration package of each member of the Executive Management Group including bonuses, incentive payments and other awards.*
8. *Oversee any major changes in employee benefits structures throughout the Company.*
9. *Review and note annually the remuneration trends across the Company, St Helena and internationally for sector and job specific/roles.*
10. *At least once per year, review its own performance and terms of reference to ensure that it is operating effectively. The review and any recommended changes should be proposed to the Board for consideration and approval.*

Authorisation

REMCO is authorised to seek and procure, subject to budgetary provision, at the Company's expense, independent up to date information on international job market and industry trends and any other information, including legal and professional advice that it may require to perform its duties.

APPENDIX F – AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. INTRODUCTION

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing;

1. *The financial information that will be provided to the Shareholders and the Public;*
2. *The systems of internal controls that management and the Board have established;*
3. *All audit processes;*
4. *Compliance with laws, regulations, directives and policies that may apply*

The main responsibility for financial reporting, information systems, risk management and internal controls of the Connect Saint Helena Ltd is vested in management and is overseen by the Board of Directors.

2. COMPOSITION

The Audit Committee will comprise of all Non-Executive Directors and can include independent non-board members.

Ideally, at least one member of the Audit and Risk Committee will have recent and relevant financial experience. However, the Audit and Risk Committee has the authority to procure such external experts or advisors as it determines appropriate to assist the Committee in the performance of its duties, subject to budgetary provision.

Executive Directors, Company Managers and Internal/External Audit representatives may attend by invitation of the Committee - but have no voting rights.

The Chair of the Audit Committee will be decided by the Non-Executive Directors on an annual basis but will not be the as the Chair of the Main board. The Audit Committee Chair will be independent of any Shareholders.

3. SECRETARY

The Company Secretary, or their nominee, shall act as the secretary of the committee.

4. QUOROM

The quorum necessary for the transaction of business is two (2).

5. MEETINGS

Meetings will be held not less than twice per year to coincide with key dates in the Company's financial reporting cycle.

The Internal/External auditor may request a meeting if they consider it necessary.

Meetings will be convened by the secretary on the request of any Board member with agenda items and supporting documentation being provided to members at least three working days prior to the meeting.

The minutes, after being agreed by the committee, will be circulated to the members of the main Board and presented by the Audit and Risk Committee Chair.

6. DUTIES

6.1. Financial Reporting:

To review and challenge where necessary, the actions and judgements of management in relation to the Company's financial statements, before approval by the Board and before scrutiny by the auditors.

6.2. Internal Control & Risk Management

- *To monitor the integrity of the Company's internal financial controls*
- *To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial risk, including financial reporting and nonfinancial risks including fraud and IT.*

6.3. Internal Audit

- *To establish the internal audit programme and ensure that the internal auditor has direct access and is accountable to the Committee*
- *To review and monitor management responsiveness to the Internal Auditors findings and recommendations.*

6.4. External Audit

- *To nominate the External Auditor and approve the terms of engagement.*
- *To oversee the Company's relations with the external auditor*
- *To discuss with the external auditor, before the audit commences, the nature and scope of the audit.*
- *To assess annually the qualification, effectiveness and independence of the external auditor. To include seeking information from the auditor about policies and processes for maintaining independence including the rotation of audit staff*
- *To review with the external auditor any major issues that arose during the course of the audit and to obtain agreement from Management and the external auditor as to how errors are to be resolved or agreement as to why certain errors may remain unchanged.*
- *To assess the effectiveness of the audit process by reviewing whether the auditor met the agreed audit plan*

6.5. Reporting to the Shareholder

At the Annual General Meeting, the Chair of the Audit Committee shall report to the Shareholder(s):

- *A summary of the Audit Committee's role and how its duties were carried out.*
- *The Committee's satisfaction with independence of the External Auditor*
- *The Committee's view of the Financial Strategy*

7. STANDARDS

It is recognised that on island resources are limited and therefore international best practice may not be achieved. However, the Audit and Risk Committee takes guidance from the following:

- *The UK Corporate Governance code published by the Financial Reporting Council.*
- *Guidance on Audit Committee published by the Financial Reporting Council.*
- *Guidance note Terms of Reference for the Audit Committee published by the Institute of Chartered Secretary and Administrator.*

APPENDIX G – DOCUMENTS AND REFERENCES

A. General – St Helena Government

1. Memorandum of Understanding – between SHG and DFID, 2011
2. Legislation:
   - 2.1 Utility Services Ordinance, April 2013
   - 2.2 Utility Services Ordinance – Licence, June 2013
3. Desk Study into the Options for the Divestment of Public Utilities, April 2011
4. Policy for Regulatory Provider, November 2012
5. St Helena's Sustainable Economic Development Plan 2018-2028
6. St Helena – Energy Strategy, October 2016
7. Socio-Economic Impact of Connect Tariff Changes 2018, undated
8. St Helena Statistics Office:
   - 2016 Population and Housing Census – Summary Report, June 2016
   - 2017 Household Expenditure Survey, May 2018
   - Household Expenditure by Quintile
   - Employment Income Data in Current & Constant Prices by Decile: 2012/13 to 2017/18
   - Statistical Bulletin No. 11, 2018, December 2018
9. Report to Legislative Council on the Formal Session of the Public Accounts Committee – Re: Connect St Helena Ltd (Connect) 2016/17Audited Annual Financial Statements, May 2018

B. Connect St Helena (CSH)

10. 2020 Strategic Plan, undated
11. Report and Financial Statements:
    - Year ending 31 March 2018
    - Year ending 31 March 2017
    - Year ending 31 March 2016
    - Year ending 31 March 2015
    - Year ending 31 March 2014
12. Asset Register as at 31st January 2019
13. Subsidy Proposal:
    - Year 2019-2020, undated
    - Year 2018-2019, undated
14. Annual Report to Utilities Regulatory Authority:
    - Year ending March 2018
    - Year ending March 2017
    - Year ending March 2016
    - Year Ending March 2015
15. Utilities Tariffs – July 2018 Tariff Revision Justification
16. Utilities Tariffs – October 2017 Tariff Revision Justification
17. Utilities Tariffs – 2016/17 Tariff Revision Justification
18. Utilities Tariffs – 2015/16 Tariff Revision Justification
19. Utilities Tariffs:
    - The Average Domestic Consumer Uses, June 2018
    - Utilities Tariffs Commencing:
      - 1st July 2018
      - 1st October 2017
      - 1st April 2016
20. Utilities Tariff Charges – Questions and Answers, June 2018

21. Tariff Review 2017 Communication Plan
22. Summary of Utility Price Benchmarks Used in Tariff Proposal Justifications
23. Tariff Reviews: 2017-2017; and 2015-2016
24. 2017-2018 Subsidy Review (updated following meetings with Chairpersons Assembly), undated
25. Utilities Costing Methodology, September 2018
26. Corporate Risk Register, November 2018
27. Business Plan 2014-2017, June 2013
    - Attachment 1: Projected Cash Flows – Annual Summary
    - Attachment 2: Projected Cash Flows - Detail
    - Attachment 3: Projected Profit and Loss
    - Attachment 4: Projected Balance Sheet
    - Attachment 5: Detailed Budgets
28. Review Report on Operational Efficiency, Keta Investments, August 2018
29. Analysis of Outsourcing Versus In-House Service: Cost Comparison – Out of Hours Call-Out Contracts for Electricity, Water and Sewage, KETA Investments, September 2018
30. Internal Audit Report, J K North Consulting, February 2017
31. Internal Audit Report, J K North Consulting, March 2016
32. Business Case – Insourcing Meter Reading, November 2018
33. HTH and Jamestown Sewage Project – Outline Costing Model Scenarios, undated
34. Connect Corporate Register
35. Annual General Meetings - Minutes:
    - Meeting on 23rd January 2019 – supporting documents:
    - Meeting on 24th January 2018 – supporting documents:
        - Chairman's Brief to the AGM
        - Annual Report of the Audit & Risk Committee to the Shareholders of Connect Saint Helena Ltd for the year 2018
    - Meeting on 26th January 2017 – supporting documents:
        - Annual Report of the Audit & Risk Committee to the Shareholders of Connect Saint Helena Ltd for the year 2017
36. Management Accounts – Commentary to the Board:
    - Year Ended 31 March 2017
    - Year Ended 31 March 2015
37. Remuneration Committee (REMCO) – Terms of Reference, September 2018
38. Employment by Utility Service
39. Policy and Procedures Manual
40. Connect Vehicles:
    - Note on Vehicles, February 2019
    - Maintenance Vehicles – Date of Acquisition, Cost, etc.
    - Vehicles – Servicing and MOT Schedules

C. Utilities Regulatory Authority (URA)

41. Report on the Maximum Charges or Fees to be Levied by Connect Saint Helena Ltd:
    - July 2018
    - October 2017
    - 2016/17
    - 2015/16
    - March 2014
42. Annual Report on the Quality of Services Provided by Connect Saint Helena Ltd:
    - 5th Annual Report 2017/18
    - 4th Annual Report 2016/17
    - 3rd Annual Report 2015/16
    - 2nd Annual Report 2014/15
    - 1st Annual Report 2013/14

D. St Helena Audit Service (SHAS)

43. Corporate Governance of the St Helena Government Group Entities – Performance Audit, February 2018
44. Corporate Governance of the St Helena Government Group Entities – Management Response and Action Plan, February 2018
45. Managing Grants and Subsidies – Performance Audit, March 2016

E. Benchmarking Sources

46. Montserrat:
    - Montserrat Utilities Limited (MUL) Act, January 2008
    - Performance Review of Montserrat Utilities Limited – Value for Money in Delivery of Service to the Public, March 2018
    - Note: the website of Montserrat Utilities Limited (www.mul.ms) was not operational in February-March 2019
47. The IBNET Water Supply and Sanitation Blue Book 2014: The International Benchmarking Network for Water and Sanitation utilities Databook, World Bank, 2014
48. Performance of Water Utilities in Africa, World Bank, 2017
49. Benchmarking as a Management and Regulatory Instrument for Caribbean Electric Utilities, Delft University of Technology, Netherlands
50. Performance Benchmarking of Caribbean Utilities, Caribbean Electrical Utility Services Corporation (CARILEC), June 2005
51. Manual of Performance Benchmarking, Pacific Power Association and Asian Development Bank, July 2002
52. Finding Balance – benchmarking the Performance of State-Owned Enterprises in Papua and New Guinea, Asian Development Bank, 2012
53. Finding Balance 2016 – Benchmarking Performance of State-Owned Enterprises in Island Countries, Asian Development Bank, 2016
54. Pacific Power Utilities - Benchmarking Report – 2017 Fiscal Year, September 2018

F. Others

55. Utilities Pricing Review – Electricity, Water, Wastewater and Solid Waste, by M.T. Summerfield, December 2011
56. Utilities Pricing Review – Update on Specific Issues Related to Electricity, Water and Wastewater, by M.T. Summerfield, April 2013
57. Indexation of Future Price Control in the Water Sector, Oxera, March 2016 (report prepared for OFWAT)
58. RPI/CPI Review Correction/True Up – including Model Assumptions and User Guide, OFWAT, April 2016
59. Setting Price Controls for 2015-20 – Policy and Information Update, OFWAT, April 2014
60. Towards Water 2020 – Policy Issues: Regulating Monopolies, OFWAT, July 2015
61. Annual Energy Outlook 2019 – with Projections to 2050, US Energy Information Administration, January 2019

G. Websites

62. www.ib-net.org (International Benchmarking Network for Water and Sanitation Utilities)
63. www.gopa.org (Global Water Operators' Partnership Alliance - UNHABITAT)
64. www.carilec.org (Caribbean Electric Utilities Corporation)
65. www.cawasa.org (Caribbean Water and Sewerage Association)
66. www.esawas.org (Eastern and Southern Africa Water and Sanitation Regulators Association)
67. www.esawas.org (Eastern and Southern Africa Water and Sanitation Regulators Association)

www.bdo.co.uk