



**St Helena  
Government**

**ST HELENA GOVERNMENT**

**RESPONSE TO RECOMMENDATIONS ON THE  
PERFORMANCE AUDIT REPORT:**

**THE 1, 2, 3 MAIN STREET HOTEL DEVELOPMENT**

## **ST HELENA GOVERNMENT RESPONSE TO RECOMMENDATIONS ON THE PERFORMANCE AUDIT REPORT: THE 1, 2, 3 MAIN STREET HOTEL DEVELOPMENT FEBRUARY 2020**

The Financial Secretary in his capacity as the responsible member of Executive Council submits a response to the actions that have either been taken or is planned in response to recommendations contained in the reports of the Audit St Helena External Auditors.

This report provides responses to the recommendations in the Performance Audit Report: The 1, 2, 3 Main Street Hotel Development February 2020.

The table below explains the colour coding applied for the disposal of recommendations.

Implemented - no further action required and the matter is recommended to be closed.
Accepted – but matter not fully implemented and remains open for action in monitor.
Disputed – requires reconsideration and therefore remains open to monitor.

No	Recommendation	Responsibility	Response	Timescale
1	The project experienced cost escalations during construction as a result of inadequate risk mitigation. <b>SHG</b> should strengthen its risk identification and mitigation procedures for all projects and investments to ensure this is not repeated.	<b>SHG</b> Programme Manager	Accepted.  However the cost escalation was due to the deterioration of sterling against the SA Rand as a result of the decision on Brexit. There was also only a finite level of budget available for the project at the outset, so normal mitigation such as significant contingencies were not possible.  Risk management is a key component of the full blown business case within our programme management processes, however SHG will review whether these need to be strengthened.	By 30/9/20
2	<b>SHG</b> should develop a methodology for including appropriate optimism bias estimates into its forecasting.	<b>SHG</b> Chief Economist	Accepted	By 31/3/21
3	<b>SHG</b> should develop a methodology for revisiting any forecasts, particularly where sensitivity analysis shows that assumptions may alter model outputs to a high degree.	<b>SHG</b> Chief Economist	Accepted.	By 31/3/21
4	Journey's tourism projections should no longer be used for any <b>SHG</b> decision making. SHG should publish some revised projections for future tourist visitors as soon as possible.	<b>SHG</b> Statistician/Chief Economist	Accepted. Journey's tourism projections are no longer used.  SHG will consider whether it should issue revised tourist visitor projections.	By 31/3/21.

No	Recommendation	Responsibility	Response	Timescale
5	<b>SHG</b> should estimate the subsidy it will provide to the hotel over the coming years up until its anticipated divestment to inform a prudential financial management strategy.	<b>SHG</b> Financial Secretary	The following estimated subsidy requirements have been identified: 2020/21 £200k 2021/22 £100k 2022/23 £zero	Action completed.
6	<b>SHG</b> should review the Hotel Management Agreement (HMA) and consider whether there is adequate incentive in place for Mantis to minimise costs and maximise revenue	SHHDL Chair of Board.	SHHDL is legally bound to the HMA it negotiated with Mantis in April 2017. Incentive to maximise revenues and minimise costs kick in from October 2020, (i.e. after completion of the first three years of the Operational period). From October 2020, Mantis Management Fees are based on 4% of <i>Adjusted Gross Revenue</i> , plus 9% of Gross Revenue less Operating Expenses. HMA allows for KPIs. These were agreed with Mantis in October 2019.	Action completed.
7	<b>SHG</b> should ensure SHHDL has established effective contract management arrangements for the duration that it remains in public ownership.	<b>SHG</b> Financial Secretary	The Board of SHHDL is responsible for managing the contract with Mantis, the skill set on the Board of Directors have been broaden to ensure the necessary functions of an effective board can be discharged.	Action completed.
8	<b>SHG</b> should design a structured divestment strategy for the hotel which outlines: •Timeline •Expected sale price •Buyer conditions •Expected benefits and costs •Prudential financial impact	<b>SHG</b> Financial Secretary.	Accepted – the different components of an exit strategy exists and will be brought together.  The Hotel was constructed in the expectation that it would be released to the private sector at the earliest opportunity. <b>SHG</b> is not in the business of running hotels, directly or indirectly.	By 31/3/21

No	Recommendation	Responsibility	Response	Timescale
			<p><b>SHG</b> Subsidy is planned to end in 2022.</p> <p>The Hotel, including the freehold, featured in the St Helena Investor prospectus, launched by ESH in November 2019.</p> <p>ESH is promoting the Hotel as an investment opportunity.</p> <p>SHG's aspiration is to recover cost of its investment.</p>	