

TERMS OF REFERENCE FOR A REVIEW OF UTILITIES SERVICE PROVISION BY CONNECT SAINT HELENA LTD

Location: St Helena

Duration:

16 weeks (12 weeks to draft a report of which at least 2 weeks are on island and 2 weeks to finalise report after comments are received.

Inputs: Estimated to be approx. 30 working days (over a 16 week period which includes travelling) which includes time to call for comments from the public; time to review documents, reports, financial statements, accounts etc; and spending a period of 2 weeks on-island to make direct enquiries and to meet with stakeholders.

Background

1. Connect Saint Helena Ltd, a company registered under the Companies Ordinance 2004, was established on 1 April 2013. This followed Executive Council's decision for SHG to divest its utilities services ie 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 sector; 2) new commercially-oriented government-owned enterprises that have the potential to encourage private sector investment in the future; or 3) civil society organisations that have the potential to deliver services to the public or the government.*"

2. In an SHG Press Release dated 4 December 2012, it was stated that "from 1 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 Ltd.' - **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 divestment 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 be 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."

3. In considering the proposal to divest utilities, Executive Council noted that the 2011 Memorandum of Understanding (MOU) between SHG and 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 Plan 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’s Business Plan. Those along with continued investment and similar tariff increases as would have been imposed by SHG enable significant progress to be made in delivering the MOU undertaking.”*¹

4. 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.”*²

5. 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 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

¹ Ex Co Memo 49/12 of 2 August 2012

² Ex Co Memo No 73/2012 dated 22 November 2012

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 licences under section 6.³

6. Licence 1 April 2013 for 10 years

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

7.1 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 during 2017/18 culminating in a report dated

³ Section 4 of the Utility Services Ordinance, 2013

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 for scrutiny. Despite the legislation not existing Connect’s 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 the 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 LegCo 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) or Memorandum of Understanding (MOU).*
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7.2 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 Development Plan 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 SDP 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 SDP targets and/or Utilities Regulatory Authority (URA) targets. Furthermore there is no condition in the letter of award to Connect which links the funds to any of the targets (SDP or 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 SDP 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."

8. Renewable Energy Project and PASH Global

In an 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 Year 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.

9. Legislative Council Resolution

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

"THAT this House believes 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."

10. Scope of Work

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:

- (a) 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.
- (b) the divestment will in fact facilitate the elimination of the SHG operating subsidy and publicly funded capital investment during the 10 year licence period
- (c) 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.

- (d) the existing governance, accountability and administrative arrangements are adequate in design and effective in operation
- (e) there is compliance with the current Licence and whether there is need to amend the Licence to improve service delivery and cost effectiveness
- (f) Connect Saint Helena Ltd's KPIs are aligned to the accountability framework, are relevant to the strategic aims of SHG, and required performance is being delivered
- (g) continuous improvement is being delivered to consumers in terms of service performance
- (h) continuous improvement 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.
- (i) realistic and costed asset maintenance and management plans have been developed which are designed to maintain or improve the water and electricity infrastructure
- (j) 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
- (k) the pricing model for electricity and water services reflects the economic costs of the provision of these services and whether there is scope to regulate future price increases with an efficiency driver such as RPI-x
- (l) 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 practice metrics, and with a similar and suitable service provider in an operating environment similar to St Helena.

11. Key Tasks

Key tasks will include:

- (a) review of all relevant documentation including the following:
 - Business Case and Business Plan for the divestment
 - Connect Saint Helena Ltd current Business Plan, Budget and Accounts
 - Submissions by Connect Saint Helena Ltd to the Utilities Regulatory Authority
 - Reports and directives issued by the Utilities Regulatory Authority
 - Connect commissioned reports concerning Connect's activities

- The Utility Services Ordinance, 2013
- The Licence
- St Helena Energy Strategy
- The External Audit Report - Corporate Governance of the St Helena Government Group Entities
- The External Audit Report – Managing Grants and Subsidies
- Submissions by Connect Saint Helena Ltd regarding tariff proposals and SHG subsidy

(b) obtain the views of key stakeholders⁴ and other interested parties in the community through a public call for submissions and meetings with stakeholders

(c) examine the current framework for utility services provision, consider alternative options, and provide comments and recommendations on:

- alignment of provision with the strategic intent of Government, including present day relevance of that strategic intent.
- oversight and regulatory arrangements
- governance and administration arrangements
- performance measurement and monitoring KPIs
- formula/ method used to set and regulate prices for utilities

(d) 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 ie water, electricity and waste water disposal. The review should include but should not be limited to:

- workforce sufficiency and operational deployment
- outsourced and after-hours call-out services
- outsourced meter reading services
- infrastructure asset management and maintenance plans
- administrative overheads including management and support services and how they compare with SHG and its other state control entities

(e) interview or survey a random sample of Connect employees to understand attitudes to making efficiency savings and identify examples of continuous improvements which have been implemented, and suggestions of continuous improvements which could be implemented.

⁴ Including elected members, SHG officials, URA and the Connect Saint Helena Ltd Board of Directors

(e) 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 improvement.

(f) identify industry and best practice metrics and a suitable and similar peer utility service provider operating in an environment similar to Saint Helena, to use for the benchmarking exercise; and report on effectiveness and efficiency of Connect Saint Helena Ltd against these benchmarks highlighting areas for improvement where appropriate.

12. Outputs and Deliverables

A draft report outlining the methodology, evidenced based findings, together with practical time bound and costed recommendations which addresses the issues raised in paragraph 10 should be submitted to the Chief Secretary 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.