



**SAINT HELENA
AUDIT SERVICE**

**FAST
TRACK**

VALUE FOR MONEY

**FERRY
SERVICE
CONTRACT**

V56

July 2009

FINAL

VFM Auditor: Sheridan Richards. Report review carried out by Tony Kilner.

The Audit Service would like to acknowledge with appreciation the assistance given by all SHG staff involved.

1. Introduction

1.1 Fast Tracks are examinations conducted at the request of the Public Accounts Committee (PAC) relating to a specific element of the economy, efficiency and effectiveness of a government department or public body.

1.2 The PAC requested a 'Fast Track' audit in March 2009 to review the Ferry Service Contract.

1.3 The Audit Service was asked to answer the following questions:

- What are the new contractual arrangements;
- What is the effect on the budgeted payments of the accounting arrangements highlighted in the Audit Management Letter 06/07, recommendation 9;
- What were the budget and actuals for the Ferry Service Contract for the last few years; and
- Do current arrangements give value for money?

2. Background

2.1 Our assessment is based upon:

- Interviews with the Chief Development Officer and the Chief Finance Officer;
- Review of contracts; and
- Review of expenditure including transactions from Finance accounting ledger.

3. Findings

What are the new contractual arrangements?

3.1 The Ferry Service is contracted out by SHG to provide an essential service to fisherman and yachts as well as performing security sweeps for ships in the harbour. The Ferry Service Contract was initially awarded in 1991 and after 15 years was terminated due to poor performance.

3.2 The current contract was awarded in 2006 for a three year period and in 2008, was amended in line with Contract Regulations after consultation with relevant officers. The contract will expire in June 2009 which will conclude the three year period.

3.3 The new contractor receives a fixed management fee and a fixed fee for usage by SHG personnel. SHG contributes to the projected operating deficit for each year as estimated in the contractor's business plan and this is paid in quarterly installments, subject to these payments not exceeding the actual deficit.

3.4 SHG imposes conditions in the contract such as not employing staff who are under the age of 18 years or who have been convicted of an offence involving children, all persons employed having at least 5 years of experience in operating boats, providing a medical report for all persons operating, insuring the Ferry boat, paying all premiums payable, submitting books of accounts and performance reports at the end of each quarter. The contractor shall ensure that SHG has first call on the use of the Ferry

Service when this is required for official business and during the provision of the Ferry Service, SHG will permit the contractor to retain any fees collected from passengers using the service. In addition, the contractor may also be required to make financial contributions towards the depreciation of the SHG assets under his management.

What is the effect on budgeted payments of the accounting arrangements highlighted in the Audit Management Letter 06/07, recommendation 9?

3.5 The Audit Management Letter for 2006/07 reported 'SHG owns a ferry boat which is leased to a contractor under the condition that he operates a bank account to which contributions shall be made over the life of the lease for the depreciation of boat and transfers the bank account balance to SHG on expiration of lease. In June 2006 one lease expired and another was entered into. Contributions of £7k received on expiration of lease were credited to a deposit account against which £3.5k repairs expenditure was debited. This accounting treatment is considered inappropriate on the basis that expenditure was not subject to the normal appropriation process and receipts and payments were not appropriately classified as revenue and expenditure. It is recommended that management ensure that receipts and payments are appropriately classified and cease operating the deposit account'.

3.6 The deposit account was closed and an account with the Bank of St Helena was set up in April 2008 for depreciation payments. Joint signatories are needed from the contractor and the Chief Development Officer for all account transactions. This account with the Bank of St Helena belongs to SHG and these funds are specifically for the Ferry Boat.

3.7 This account also records contributions by the contractor towards the depreciation of the Ferry replacements parts. Finance Management Ordinance (Cap 142) Section 7(1) states 'all revenues or other monies raised....for the purposes of the Government (not being revenues or other monies payable into another fund in accordance with the provisions of this Ordinance) shall be paid into and form the Consolidated Fund'. The depreciation contributions are revenues raised for the purpose of Government and should be accounted for in accordance with the Financial Management Ordinance. (Recommendation 1).

3.8 If the requirement for the contractor to make contributions to a depreciation account was removed, then the subsidy from SHG to the contractor would not need to be as high, but SHG would have to meet unpredictable repair and replacement costs.

What were the budget and actuals for the Ferry Service Contract for the last few years?

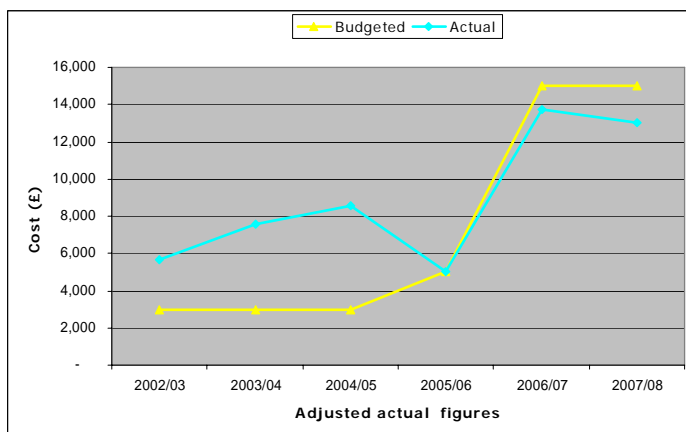
3.9 The budget and actual payments for the Ferry Service during financial years 2002/03 to 2007/08 as per accounting ledger is shown below:

| Financial Years | Budgeted £ | Actual £ | Variance £ |
|-----------------|------------|----------|------------|
| 2002/03 | 3,000 | 5,663 | 2,663 |
| 2003/04 | 3,000 | 7,608 | 4,608 |
| 2004/05 | 3,000 | 8,547 | 5,547 |
| 2005/06 | 5,000 | 5,000 | 0 |
| 2006/07 | 15,000 | 17,466 | 2,466 |
| 2007/08 | 15,000 | 9,284 | (5,716) |
| Total | 44,000 | 53,568 | 9,568 |

3.10 From reviewing the budget and actual payments above, it seems there was an overspend in 2006/07 however, quarterly payments are now paid in advance. If we adjust the figures to show them in the year to which they relate, the adjustments would be:

| Ferry Service | Budgeted £ | Adjusted £ | Variance £ |
|---------------|------------|------------|------------|
| 2006/07 | 15,000 | 13,725 | (1,276) |
| 2007/08 | 15,000 | 13,025 | (1,975) |

3.11 The graph showing the adjusted actual figures compared to budgeted figures for the Ferry Service Contract for 6 years is shown below:



3.12 The budget for the Ferry Service increased by 60% in 2005/06 and a further three times in 2006/07. Ferry Service payments have increased from an average of £7,000 per year to around £13,000.

3.13 Between 2002/03 and 2005/06 the contract was under the old management and the contractor received a fixed operational fee and contribution towards the deficit for each year. In addition, a contribution was made by Solomon & Co for providing services to them. Whilst there was no deficit in 2005/06, the contractor advised that he could not operate on the contract fee and requested additional money. However, the contractor did not provide accounts to support this request and because this was not a requirement within his contract, SHG could not determine the profit or loss that was being incurred.

3.15 The contract fee was increased in 2008 after negotiation because the accounts and revised business plan presented by the contractor demonstrated that the Ferry Service was making a greater loss than anticipated and required additional funding.

Do current arrangements give value for money?

3.16 The Ferry Service provides transportation of persons and their belongings from the shore to any vessel in harbour waters or vice versa, provide transportation of persons between vessels moored in the harbour, the ferrying of passengers from Jamestown wharf to Rupert's Jetty or vice versa, carrying out security sweeps for ships and occasionally guiding yachts to their mooring points.

3.17 The Development and Economic Planning (DEPD) monitors the Ferry Service in accordance with the Ferry Service contract and contractor's business plan. This includes monitoring any complaints that the Ferry Service encounters. In the opinion of the Chief Development Officer the service provided is good and represents a considerable improvement on the level of service previously provided.

3.18 Although this is done, there is no objective against which to measure the effectiveness of the Ferry Service operations. DEPD deals with the operational side of the Ferry Service and is involved with the contractual arrangements. However there is no mention in DEPD's Business Plan of the Ferry Service. (Recommendation 2) The Ferry Service budget is listed under Finance Miscellaneous. This is because Finance controls the payments but there is no objective in their Business Plan that relates to the Ferry Service either. The Ferry Service supports the operations of the harbour which is currently the responsibility of the DEPD and therefore DEPD should be responsible for the cost. (Recommendation 3).

3.19 In 2006, the contract was put out to tender and two expressions of interest were received. However, one later withdrew, resulting in the remaining tenderer being awarded the contract for three years. In 2008, the contract fee was amended; it was not tendered as it was an amendment to the current contract and is for one year only, which will conclude the three year period.

3.20 The current contract states 'This agreement..... shall continue for a period of one year in the first instance and thereafter from year to year until determined in accordance with the provisions of this agreement'. The contract has not been advertised since three years ago, when no other quotations were received other than the current contractor.

3.21 The current contract comes to an end in June of this year and a new contract has not been awarded, although the current contractor has been asked to submit a business plan in relation to future provision of the Ferry Service. On receipt of this, it will be decided whether to extend the contract or re-advertise it. If it is decided to extend the current contract, it will continue from year to year. Quotations should be obtained in accordance with Contract Regulations to encourage competitive tendering, so that the best possible value to SHG can be achieved. (Recommendation 4)

4. Summary of Recommendations

| | RECOMMENDATION | Officer responsible for implementation | Priority | Implementation expected to be complete by: (Month, Year) | Management Comments |
|----|--|--|---------------|--|---|
| 1. | We recommend that the depreciation account with the Bank of St Helena be accounted for in accordance with Financial Management Ordinance CAP (142) Section 7(1). | Chief Finance Officer | <i>High</i> | 31 March 2010 | Will discuss with the FS and look at the options available |
| 2. | We recommend that DEPD set objectives, actions and targets in their Business Plan to measure the effectiveness of the Ferry Service operations. | Chief Development Officer | <i>High</i> | Will be included in Business Plan for 2010/11 | Agreed |
| 3. | We recommend that the budget for the Ferry Service should be held by DEPD so that the costs of the Ferry Service are shown transparently. | Chief Development Officer | <i>Medium</i> | Will be included in Business Plan for 2010/11 | This will be looked at as part of the budget process |
| 4. | We recommend that DEPD obtain quotations in accordance with Contract Regulations to encourage competitive tendering so that the best possible value for SHG can be achieved. | Chief Development Officer | <i>High</i> | 31 March 2010 | Further consideration will be given to contracting out, with a view to the new contract being in place by financial year 2010/11. |