



**SAINT HELENA
AUDIT SERVICE**

**FAST
TRACK**

VALUE FOR MONEY

**METER
READING
SERVICE
CONTRACT**

V55

March 2009

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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 October 2008 to review the procurement of the revised Prime Numbers Contract.

The Audit Service was required to answer the following questions:

- What objectives quarterly reading are designed to meet;
- Whether they do so effectively;
- Was the revised meter reading contract awarded under normal contract procedures;
- Was the revision of the Meter Reading Contract in accordance with Contract Regulations;
- Did SHG Officers make decisions on the revised proposal with proper regard to value for money; and
- Did SHG consider other economical options for reading meters, such as installing prepayment electricity meters in homes, so only a water meter would require reading?

2. Background

2.1 Our assessment is based upon:

- Interviews with the Manager/Head of Public Works and Services Department;
- Review of correspondence and minutes of meetings leading up to the change to quarterly readings; and
- Review of documentation concerning the contract.

3. Findings

What objectives quarterly reading are designed to meet and whether they do so effectively.

3.1 Reading meters is necessary in order for electricity and water customers to be reliably billed. From 19th September 2006 readings were taken only once a year and remaining quarterly bills were based on estimates.

3.2 The estimates were not always reliable and this led to complaints. Sometimes when a bill was issued based on an actual meter reading it would be a lot higher than the estimates and some customers faced difficulty or hardship in paying such bills while others found that they could not pay the bills at all.

3.3 On top of this the way electricity is charged for has changed (twice) and become more complicated since the move to annual meter reading was made. The rate charged for a unit of electricity differs depending on the total electricity used in any one quarter. This has made estimated reading even less satisfactory and customers were asked to ring in their own readings (at their own expense.) As a result a group of senior officials including

the Financial Secretary and the Head of Department Public Works and Services decided to revert to a system of quarterly billing.

- 3.4 In summary the objectives are to ensure that quarterly bills are more reliable with a view to improving debt collection, improving service to customers and avoiding hardship to vulnerable persons. Quarterly meter readings have only just been reintroduced, so it is not possible to judge from the evidence whether these objectives have been met, but we consider that they are likely to.

Was the revised meter reading contract awarded under normal contract procedures and was the revision of the meter reading contract in accordance with Contract Regulations;

- 3.5 The revised meter reading contract was regarded as a variation to an existing contract rather than as the award of a new contract. It was therefore awarded in line with the procedures for variations to contracts that are outlined in the contract regulations, rather than under the contract procedures covering new contracts. The procedures for variations to contracts require the variation to be authorised by the Accounting Officer (i.e. the Head of the Public Works and Services Department) and by the Financial Secretary (where it is likely, as in this case to increase the contract price by more than 15%) and this was done. Under this procedure the Tender Board is required to be informed, but is not involved in the decision to vary the contract.

- 3.6 The revised contract differed in that it required quarterly rather than annual readings and the price for the services was higher (although the price per reading was lower). Like the original contract, the revised contract was for a three year period, but as the revised contract was signed two years into a three year contract this had the effect of extending the contract by two years.

- 3.7 It could well be questioned whether the provisions for the variation of contracts are intended to cover the extension of contracts. The Contract Regulations do not however make specific provision for contracts to be extended and the variations procedures have been used in previous cases to extend contracts. The Financial Secretary is already aware of this and it is planned to revise the Contract Regulations by the end of April 2009. We welcome this. (See recommendation 1.)

Did SHG Officers make decisions on the revised proposal with proper regard to value for money;

- 3.8 Having made, on quite compelling grounds, the decision to revert to quarterly billing, SHG officials were faced with a problem as Prime Numbers still had a little over a year to run on a contract for annual meter reading. The choices facing officials were to negotiate a new contract with Prime Numbers, or to negotiate an early end to the Prime Numbers contract which would allow SHG to tender for a new contract for quarterly readings or make arrangements to bring meter reading back in-house. The option of renegotiating a contract with Prime Numbers was attractive, because it was

the quickest way of getting quarterly meter readings started.

3.9 Prime Numbers' proposal was for a new three year contract, expiring two years after the end of the old contract. Moving to quarterly readings, but only for the year remaining of the old contract was not attractive to Prime Numbers as it did not provide sufficient time to repay the investment in setting up quarterly readings and recruiting staff.

3.10 The result of accepting Prime Numbers' proposal was to delay the possible retendering of the contract by two years, and such a retendering might have gained a better deal for SHG. In effect the contract was extended without retendering and as we have already noted above, SHG's policy in regard to such extensions is not clear. Against this officials had set the benefit of moving to quarterly billing more quickly than would be possible if a tendering exercise was undertaken, and the costs of early termination of the existing Prime Numbers contract. These factors had to be taken into consideration alongside the price, which represented a significant reduction in the per reading cost to SHG compared to the old contract.

3.11 Having also reviewed correspondence between the officials making the decision, we have no reason to conclude that officials acted unreasonably or with insufficient regard to value for money.

Did SHG consider other economical options for reading utility meters, such as installing prepayment electricity meters in homes, so only a water meter would require reading?

3.12 Officials did consider other options. Prepayment electricity meters would require costly investment up front in equipment, software and training. If used just for electricity the saving would be small as water meters would still need reading. Options that were considered in more detail were using PW&SD staff (more expensive when on-costs and overheads considered), using additional part time staff reading meters in the areas where they live, (experience found this led to a high level of misreads and difficulties in recruitment) or using some combination of the two. The Audit Service considered the contracting out of meter reading in its January 2008 report on Central Utilities Billing and concluded that the contracting of the meter reading service provides an efficient service to the water and electricity divisions, and nothing in this review has caused us to alter our opinion.

4. Summary of Recommendations

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
1	<p>The Financial Secretary is already aware that Contract Regulations do not make specific provision for contracts to be extended. It is planned to revise the Contract Regulations by the end of April 2009.</p> <p>We welcome this and note it here in order to facilitate follow up. (See paragraph 3.7 above.)</p>	FS	High	April 2009	Agreed