


# CAYMAN ISLANDS

# 2018/2019 Session of the

# LEGISLATIVE ASSEMBLY

# REPORT

## of the

## STANDING

## PUBLIC ACCOUNTS COMMITTEE

**on the Report of the**
**Office of the Auditor General on the**
**Major Capital Projects Follow Up - October 2017**

*Laid on the Table of Legislative Assembly on this* 6th *day of* Sept, *2018*
by the Chairman of the Public Accounts Committee - Hon D Ezzard Miller

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# REPORT OF THE STANDING PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE OFFICE OF THE AUDITOR GENERAL ON MAJOR CAPITAL PROJECTS: FOLLOW UP – OCTOBER 2017

## SUMMARY REPORT

### 1. REFERENCE

The Standing Public Accounts Committee of the Cayman Islands Legislative Assembly, established under Standing Order 77(1), met to consider the following Report prepared and submitted by the Auditor General:

***Major Capital Projects: Follow Up –October 2017***

### 2. DOCUMENT CONSIDERED

In accordance with the provision of Standing Order 77(3), the Committee considered the following Auditor General Report which was referred in the House of the Legislative Assembly:

- Report of the Office of the Auditor General on *Major Capital Projects: Follow Up –October 2017*

### 3. CHAIRMAN AND MEMBERS OF THE COMMITTEE

The following Members of the Legislative Assembly are the present Members of the Standing Public Accounts Committee: –

Hon. D Ezzard Miller, MLA – Chairman

Mr. Christopher S. Saunders, MLA – Member

Mr. Austin O. Harris, Jr, MLA – Member

Hon. Bernie A. Bush, MLA – Member

Ms. Barbara E. Conolly, MLA – Member

### 4. MEETINGS OF THE COMMITTEE

The Committee held three (3) meetings to consider the Report:

(i) Tuesday, 24th October 2017

(ii) Tuesday, 12th December 2017

(iii) Thursday, 25th January 2018 *(hearing)*

### 5. ATTENDANCE OF MEMBERS

The attendance of Members at the meetings is recorded in the Minutes of Proceedings which are attached to and form part of this Report.

## 6. PERSONS IN ATTENDANCE

In accordance with Standing Order 77(8), the following persons were in attendance at the meeting held with witnesses on **Thursday, 25th January 2018**:

- Mr. Garnet Harrison, Acting Auditor General - Office of the Auditor General
- Ms. Angela Cullen, Director of Performance Audit - Office of the Auditor General
- Mr. Julius Aurelio, Audit Manager - Office of the Auditor General
- Hon Kenneth Jefferson, JP, Financial Secretary and Chief Officer - Ministry of Finance and Economic Development
- Mr. Matthew Tibbetts, Accountant General, Treasury Department - Ministry of Finance and Economic Development

## 7. WITNESSES CALLED BEFORE THE COMMITTEE

In accordance with the provisions of Standing Order 77(4), the Committee invited public officers and a former Minister of Government to give information and explanation to assist the Committee in the performance of its duties. The following persons appeared before the Committee to give evidence on **Thursday, 25th January 2018**:

- Mr. Tristan Hydes Deputy Chief Officer - Ministry of Commerce, Planning and Infrastructure
- Hon Kenneth Jefferson, JP, Financial Secretary and Chief Officer - Ministry of Finance and Economic Development
- Mr. Max Jones, Director, Public Works Department
- Mr. Peter Ranger, Chief Project Manager of the Major Projects Office (MPO)

## 8. PRACTICE AND PROCEDURE OF THE COMMITTEE (S.O 77(6))

The Committee agreed that in accordance with the provisions of Standing Order 77(6), all meetings at which witnesses were invited to provide information should be held in an open forum. This decision was taken to promote openness and accountability in Government.

## 9. INTRODUCTION AND PAC COMMENTS

**9.01** The Audit and Report of the Auditor General was carried out in the Cayman Islands. The objective of the audit was to determine how well the Government had responded to previous OAG reports on major capital projects and whether the actions it had taken had improved the management of major capital projects.

**9.02** The Committee agrees with and accepts the 11 recommendations made by the Auditor General, summarised in Appendix 3 of the OAG report. The Committee urges the Government to implement the recommendations as a matter of priority, given the number of major capital projects that either have commenced or are about to be undertaken.

**9.03** The Committee recommends that:

- The Financial Secretary and Attorney General formally sign off on the financial and legal sections of business cases of the entire project and the operational cost going to Cabinet for approval.

- The OAG provides an update on the recent re-development of the Owen Roberts Airport Terminal through an audit report.

## 10. GOVERNMENT MINUTE

**10.01** The Public Accounts Committee wishes to draw Government's attention to Standing Order 77 sub-order 7 which reads;

*"The Government Minute shall be laid on the Table of the House within three months of the laying of the report of the Committee and of the report of the Auditor General to which it relates."*

The PAC expects the Government to honour the requirements of this Standing Order.

## ACKNOWLEDGEMENT

The Committee is most appreciative of the efforts of the Auditor General and her staff in presenting very fair, comprehensive and informative Report and for the support, assistance and constructive advice given throughout its deliberations.

The Committee also thanks the staff of the Legislative Assembly for the assistance provided.

**REPORT OF THE COMMITTEE TO THE HOUSE**

The Committee agrees that this Report be the Report of the Standing Public Accounts Committee to the House on the following Report of the Office of the Auditor General: *Major Capital Projects: Follow Up –October 2017*

Hon. D. Ezzard Miller, MLA - Chairman

Hon. Bernie A. Bush, MLA - Member

Mr. Christopher S. Saunders, MLA - Member

Ms. Barbara E. Conolly, MLA - Member

Mr. Austin O. Harris, Jr, MLA - Member

# Legislative Assembly of the Cayman Islands

## THE STANDING PUBLIC ACCOUNTS COMMITTEE

**MINUTES**

**Meeting held**
**Tuesday, 24th October 2017 at 1:30 pm**

Minutes of proceedings of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building, Grand Cayman on **Tuesday, 24th October 2017 at 1:30 pm**

**Present:** Hon. Ezzard Miller, MLA – Chairman
Mr. Christopher Selvin Saunders – Member
Hon. Bernie Alfredo Bush, MLA - Member
Ms. Barbara Elizabeth Conolly - Member

Ms. Manesa Webb, the Committee Clerk

**Apologies:** Mr. Austin Osmond Harris, Jr – Member

**Attendees:** Ms Sue Winspear - Auditor General, Office of the Auditor General
Ms Angela Cullen - Director of Performance Audit, Office of the Auditor General
Mr Julius Aurelio - Audit Manager, Office of the Auditor General

### 1. Meeting to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 1:30 pm.

The Chairman gave a brief welcomed to the Members and thanked them for attending the Public Accounts Committee ("PAC") meeting. He also welcomed the Auditor General and thanked her tea, for attending the meeting.

### 2. Apologies

Apologies were offered by Mr. Austin Osmond Harris was unable to attend the meeting.

**3. Auditor General's Update:**

The Office of the Auditor General (OAG) staff presented the *Office of the Auditor General Major Capital Projects - Follow Up October 2017* report to the Public Accounts Committee members. During the presentation the OAG staff touched on the following topics:

Major Capital Projects - Follow Up October 2017

- Exhibit 2 – Status of Seven Major Capital Projects Reviewed as Part of the Follow – Up Audit.
- Exhibit 5 – The Budgeting and Accounting Framework.
- The Approvals Process For Budgets And Major Capital Projects Are Aligned.
- Conclusion.
- Appendix 1 - About the Audit.
- Appendix 2 - Government's Progress in Implementing Precious OAG Recommendations.
- Appendix 3 - Recommendations.

**4. Any Other Business:**

- The PAC Members discussed the new appointments to the education council of the Cayman Islands, which is featured in the Cayman Islands Gazette, dated Monday, 25th September 2017. Issue No.20/2017.

**5. Scheduling of Next Meeting**

The next meeting were confirmed for:

- Tuesday, 12th December 2017 at 10:00 am

**6. Adjournment**

There being no further business, the Chairman adjourned the meeting at 2:00 pm.

# Legislative Assembly of the Cayman Islands

## THE STANDING PUBLIC ACCOUNTS COMMITTEE

## MINUTES

**Meeting held**
**Tuesday, 12th December 2017 at 10:00 am**

Minutes of proceedings of the Standing Public Accounts Committee held in the Large Committee room of the Legislative Assembly Building, Grand Cayman on **Tuesday, 12th December 2017 at 10:00 am**

**Present:** Hon. Ezzard Miller, MLA – Chairman
Mr. Christopher Selvin Saunders – Member
Hon. Bernie Alfredo Bush, MLA - Member
Ms. Barbara Elizabeth Conolly – Member
Mr. Austin Osmond Harris, Jr – Member

Ms. Manesa Webb, the Committee Clerk

**Attendees:** Ms. Sue Winspear - Auditor General, Office of the Auditor General
Ms. Angela Cullen - Director of Performance Audit, Office of the Auditor General
Mr. Patrick Smith - Director of Financial Audit, Office of the Auditor General
Mr. Winston Sobers- Audit Manager, Office of the Auditor General

### 1. Meeting to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 10:13 am.

The Chairman gave a brief welcomed to the Members and thanked them for attending the Public Accounts Committee ("PAC") meeting. He also welcomed the Auditor General and thanked her team, for attending the meeting.

### 2. Apologies

There were no apologies.

## 3. Approval of Minutes:

- Tuesday, 10th October 2017 *(Hearing)*

The above minutes was **approved** on a motion moved by Mr. Austin Osmond Harris and seconded by Ms. Barbara Elizabeth Conolly.

- Tuesday, 24th October 2017 *(Hearing)*

The above minutes was **approved** on a motion moved by Mr. Austin Osmond Harris and seconded by Ms. Barbara Elizabeth Conolly.

- Tuesday, 24th October 2017 *(Meeting)*

The above minutes was **approved** on a motion moved by Ms. Barbara Elizabeth Conolly and seconded by Hon. Bernie Alfredo Bush.

## 4. Matters arising from Minutes:

There were no matters arising from the minutes.

## 5. Approval of Auditor General Invoice(s):

- *Invoice 207032 dated 7 December 2017 for the amount of $211,585.00*

The above invoice was **approved** on a motion moved by Ms. Barbara Elizabeth Conolly and seconded by Mr. Austin Osmond Harris.

## 6. Review of the OAG Report(s):

The Office of the Auditor General (OAG) staff presented the *Office of the Auditor General Major Capital Projects - Follow Up October 2017* report to the Public Accounts Committee. During the presentation the OAG staff discussed the Finance function framework, and reviewed the following topics:

- Exhibit 4 – Assessment of seven MCPS against the MPO Government framework on page 19.
- Exhibit 5 – The Budgeting and Accounting framework on page 24.

In addition, the Office of the Auditor General (OAG) staff discussed the *2015-16 Financial Audit General Report on the Entire Public Sector* to the Public Accounts Committee. During the presentation the OAG staff touched on the following topics:

- Exhibit #2 Entity Qualifications 2015-2016 on page 9.
- Appendix A – Status of the 2015 -2016 Audits on page 17.

The Public Accounts Committee agreed that the OAG create a schedule of Witnesses for the *2015-16 Financial Audit General Report on the Entire Public Sector,* and *Major Capital Projects - Follow Up October 2017* report hearings for January 2018.

The Public Accounts Committee agreed that during the upcoming *2015-16 Financial Audit General Report on the Entire Public Sector* hearings in January 2018, that certificates will be presented to the unqualified and qualified Witnesses.

**7. Auditor General's Update:**

The Auditor General, Mrs. Sue Winspear presented the Public Accounts Committee with the following documents:

- Quarterly Report to 30 September 2017
- 2017 Letter of Engagement from Baker Tilly (OAG's External Auditors)

The Public Accounts Committee members agreed for the Chairman to sign the 2017 Letter of Engagement from Baker Tilly (OAG's External Auditors).

**8. Any Other Business:**

The Chairman presented the new Commonwealth Association of Public Accounts Committees (CAPAC) PAC Principles document to the committee. During the presentation the chairman touched on the topics:

- The PAC Principles.
- Standards of Good Practice for PACs.
- CAPAC Membership Process.

The Chairman asked that the CAPAC principles and good practice be circulated to all members and, the Auditor General to allow for more discussion and possible adoption at the meeting on Monday, 8th January 2017 at 10:00 am

**9. Scheduling of Next Meeting**

The next meeting was confirmed for:

- Monday, 8th January 2017 at 10:00 am

**10. Adjournment**

There being no further business, the Chairman adjourned the meeting at 11:30 am.

# Legislative Assembly of the Cayman Islands

## THE STANDING PUBLIC ACCOUNTS COMMITTEE

**MINUTES of Meeting with Witnesses**
**Thursday, 25th January 2018 at 10:00 am**

**Major Capital Projects – Follow Up dated October 2017**

Minutes and verbatim transcript of the meeting of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building, Grand Cayman on Thursday, 25th January 2018 at 10:00 am.

**Present:**

Hon. Ezzard Miller, MLA – Chairman

Mr. Christopher Selvin Saunders, MLA – Member

Hon. Bernie Alfredo Bush, MLA - Member

Mr. Austin Osmond Harris, Jr, MLA – Member

Ms. Barbara Elizabeth Conolly, MLA - Member

Ms. Manesa Webb, the Committee Clerk

**Apologies:** There were no apologies.

**Attendees:**

Mr Garnet Harrison– Acting Auditor General, Office of the Auditor General

Ms Angela Cullen – Director of Performance Audit, Office of the Auditor General

Mr Julius Aurelio – Audit Manager, Office of the Auditor General

Mr. Kenneth Jefferson - Financial Secretary/Chief Officer- Ministry of Finance and Economic Development (FED)

Mr Matthew Tibbetts - Accountant General Ministry of Finance and Economic Development (FED)

**Witnesses:**

Mr. Tristan Hydes - Deputy Chief Officer, Ministry of Planning, Lands, Agriculture, Housing and Infrastructure.

Mr. Max Jones- Director, Public Works Department

Mr. Peter Ranger - Chief Project Manager, Major Projects Office

Mr. Kenneth Jefferson - Financial Secretary/Chief Officer, Ministry of Finance and Economic Development (FED)

Ms. Anne Owens - Senior Assistant Financial Secretary, Ministry of Finance and Economic Development (FED)

## 1. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the meeting to order at 10:30 am.

## 2. Welcome

The Chairman gave a brief welcome to the Members and thanked them for attending the Public Accounts Committee ("PAC") Hearing. He also welcomed the Acting Auditor General and thanked him along with the OAG staff, Hon. Kenneth Jefferson and Mr. Matthew Tibbetts for attending the hearing.

The Chairman advised the Committee that they would be dealing with *Major Capital Projects – Follow Up dated October 2017*. Mr. Garnet Harrison, the Acting Auditor General, offered opening remarks on the background and current standing of the Major Capital Projects. The Chairman then opened the floor to questions from the Members of the Public Accounts Committee.

**3. Review of Major Capital Projects – Follow Up dated October 2017:**

- Major Capital Projects – Follow Up dated October 2017

The meeting commenced at 10:35 am and the Chairman invited the witness and resource persons to the Chamber and asked them to state their names and take an oath by holding in their hand the Bible.

The following persons appeared in their named capacity as witnesses before the Committee for this Report:

- Mr. Tristan Hydes - Deputy Chief Officer - Ministry of Planning, Lands, Agriculture, Housing and Infrastructure.
- Mr. Max Jones - Director, Public Works Department
- Mr. Peter Ranger - Chief Project Manager -Major Projects Office

The Committee continued the meeting with the next witnesses at 12:05 pm. The following persons appeared in their named capacity as witnesses before the Committee for this Report:

- Mr. Kenneth Jefferson - Financial Secretary/Chief Officer- Ministry of Finance and Economic Development (FED)
- Ms. Anne Owens - Senior Assistant Financial Secretary - Ministry of Finance and Economic Development (FED)

The Chairman thanked the witnesses for attending the meeting of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building.

**4. Any Other Business:**

There was no other business.

## 5. Scheduling of Next Meeting

The next meetings with witnesses were confirmed for:

- Wednesday, 21st February at 9:00am
- Thursday, 22nd February at 10:00am
- Friday, 23rd February at 10:00 am

## 6. Adjournment

There being no further business, the Chairman adjourned the meeting at 12:45 pm.

# OFFICIAL VERBATIM TRANSCRIPT
# STANDING PUBLIC ACCOUNTS COMMITTEE
# WEDNESDAY
# 25 JANUARY 2018
# 10:00 AM

*Meeting with witnesses*

## "MAJOR CAPITAL PROJECTS FOLLOW UP"

Verbatim transcript of the Standing Public Accounts Committee meeting held 25th January 2018, at 10:00 am, in the Chamber of the Legislative Assembly Building, George Town, Grand Cayman.

**Present:** Hon. D. Ezzard Miller, MLA, Chairman
Hon. Bernie A. Bush, MLA, Member
Mr. Austin O. Harris, Jr., MLA, Member
Mr. Christopher S. Saunders, MLA, Member
Ms. Barbara E. Connolly, MLA, Member

Ms. Manesa Webb, Clerk

**In attendance:** Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development
Ms. Anne Owens, Senior Assistant Financial Secretary, Ministry of Finance and Economic Development
Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development

**Audit Office:** Mr. Garnet Harrison. Acting Auditor General
Ms. Angela Cullen, Director of Performance Audit
Mr. Julius Aurelio, Audit Manager, Performance Audit
Mr. Winston Sobers, Audit Manager

**Witnesses:** Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure
Mr. Max Jones, Director, Public Works Department
Mr. Peter Ranger, Chief Project Manager, Public Works Department

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*[Hon. D. Ezzard Miller, Chairman presiding]*

**The Chairman:** Good morning, let the record show that we have a quorum present and I would like to call the Committee to order. I apologise for the late start because of the traffic issues in the eastern highway around Hurley's and some of us were late getting in. Today we are going to deal with the Auditor General's Report, Major Capital Projects follow-up, dated October 2017. At this time I would invite the representatives from the Ministry of Commerce, Planning and Infrastructure to come inside the Chamber.

### ADMINISTRATION OF OATHS OR AFFIRMATIONS

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** I do solemnly, sincerely and truly declare and affirm that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth and nothing but the truth.

**Mr. Max Jones, Director, Public Works Department:** I do solemnly, sincerely and truly declare and affirm that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth and nothing but the truth.

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** I do solemnly, sincerely and truly declare and affirm that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth and nothing but the truth.

**The Chairman:** Good Morning. Let me take the opportunity to welcome Tristan Hydes and his delegation that are here to give evidence on the major capital projects. We have had proper apologies from

Mr. Alan Jones, the Chief Officer who is travelling with the Minster today. Without further ado, we will get on and just a little bit of House rules; the first time you are asked a question before you answer, just identify yourself with your name and title and at this time I will ask the Acting Auditor General to make a few opening remarks on the matter before the Committee.

**Mr. Garnet Harrison, Acting Auditor General:** Mr. Chairman, Members of the Public Accounts Committee, Officials from the Ministry of Finance, ladies and gentlemen, good morning. Before I begin with my opening remarks I would like to offer apologies also on behalf of Sue Winspear, the Auditor General, to the Committee Members and witnesses, as Ms. Winspear is unable to be with us here today.

I would like to begin by taking the Committee Members through the reasoning for conducting the audit work being discussed today; discuss some of the key findings and highlight how we believe government could use these reports to improve how it manages public resources. I have with me today, Ms. Angela Cullen, the Performance Audit Director who led the audit woks supporting the report you will be reviewing today, and Mr. Julius Aurelio, the Audit Manager for Performance Audit.

This performance audit was a follow up of our two previous reports on Major Capital Projects by my office that were published in 2012 and 2015. It focused on how well the Government had responded to our previous reports and whether the actions taken had improved the management of major capital projects. The audit reviewed arrangements in place and carried out a high level review of project documents for the seven major capital projects that were live at the time of our audit. Exhibit 2 on page 7 of the report provides a summary of these projects.

We timed this audit for 2017 as the Government had a number of major capital projects underway and planned for the five years ahead. The estimated cost of these major capital projects is around $500 million. In addition, the Government is planning to deliver two of these projects through Public Private Partnerships, generally referred to as PPP Projects. This will be the first time the Cayman Islands Government has ventured into alternative financing arrangements for capital projects. It is estimated that although the private sector partners will pay for the upfront construction cost, the Government will pay lifetime operational chargers of around $280 million to $310 million to the private sector partners over 20 to 25 years.

Our audit found that Government had made significant progress in implementing the recommendations made in the previous reports in relation to governance and management to major capital projects. This is positive and welcome news. However, we also found that limited progress had been made in importing the budgeting frameworks, strategic planning for capital investment or reporting information of the progress of major capital projects. I will provide a little more on these findings.

Our audit found that the Government has significantly improved its approach to project management since my office previously reported. It has established a center of expertise, the Major Projects Office within the Public Works Department and has staffed this with professional and experienced project managers. This is a welcome step and I believe a good example of functional leadership across government, however, the way it has been set up and funded poses some risk that could undermine its sustainability in the long term.

The Government has also developed a governance framework for major capital projects that is in line with recognised good practice and sets out the key stages and key decision points. The framework covers the fundamentals of good project management, although, there are still areas where we believe could be improved. For example, the framework did not set out any role for statutory authority, government company boards or chief executives which is a significant gap, especially where projects will be operated by and sit on the balance sheets of those SAGCs.

Moving on to the application of the framework, the Major Projects Office started using the framework in December 2016. From our review of the seven projects, we found that most of the projects had started before this date. Our audit identified some of the project documents were not as comprehensive or robust as they could have been or if they were to be prepared now in line with the governance framework.

My Office reported in 2015 that the budgeting process for major capital projects needed improvement; this has not happened. The budgetary framework and approvals process for major capital projects are still not aligned. Our audit found examples where insufficient budgets had been provided for some projects even though they had been given the go ahead by Cabinet.

Investing in major capital projects need long term commitment as many take four year or longer to complete from start to finish. A certain and steady stream of funding is needed to ensure that the projects are delivered on time and within budget, otherwise, they could be delayed or end up costing more than originally planned.

Our audit highlighted the need for a long term capital investment plan. I strongly believe that the Government should prepare such a plan to help inform decision making, identify priority projects, the funding required, time scales needed to deliver them and ensure that capital investment decisions are affordable in the short, medium and long term. Having a large number of projects all reaching a critical stage at the same time could create challenges if sufficient capital funding is not available or potential suppliers

cannot handle the volume of work. So, it is important that this is well planned. This is increasingly important as government looks to alternative forms of financing for capital projects as well, which commit funds over the longer term. Finally, a report discusses the need for better information on major capital projects for the Cabinet and Legislative Assembly, reporting back on progress and final outcomes as an important part of the accountability process.

Our audit report includes 11 recommendations that we believe, if implemented, would further improve project governance and management and significantly improve the government's planning, budgeting and reporting of major capital projects. These recommendations are set out in Appendix 3 on pages 42 to 47 of the report. I am pleased to note that the Government has accepted all of the recommendations made.

In summary, the development of the project management's arrangement through the creation of the major capital projects office is a very positive improvement in managing major capital projects. However, there remains much to be done in developing an overarching capital investment strategy and to improve the budgeting and financial frameworks to ensure that major capital projects are adequately funded and value for money is achieved. Thank you.

**The Chairman:** Thank you, Acting Auditor General. I will now open the floor up to questions.

Mr. Austin would you like to start?

## MINISTRY OF COMMERCE, PLANNING AND INFRASTRUCTURE

**Mr. Austin O. Harris, Jr.:** Thank you Mr. Chairman. Good morning to the Members of the Public Accounts Committee, the Audit Team and certainly the witnesses this morning.

As we just heard from the Major Capital Projects, June 2012 Auditor General Report and the subsequent follow up Report, October 2017, the Auditor General estimated the Capital cost of major plan capital projects coming in around $500 million over a five year period to 2022. The Auditor General recommended the need for a standardised approach to project management.

In mid-2014 the Major Projects Office was created presumably in response to the Auditor General's Report. However, the operation of that Major Projects Office is somewhat unique and speaks to the funding nature that the Auditor General's Office also just moments ago referred to. We understand the Major Projects Office is unique in many respects, in that it's not a fixed body with fixed annual budget but instead chooses to recruit project managers from Ministries and SAGCs on a fix term contract.

I wonder if the witnesses can explain, first of all the rationale for setting up and funding the Major Projects Office in this way; if they are able to identify that there have been any complications in the current arrangement, and lastly, are there any plans to change the Major Projects Office in the way that it is organised, funded and or operated? I am happy to ask those questions again individually if the witnesses require.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Good Morning, Mr. Chairman. Tristan Hydes, Deputy Chief Officer for the Ministry of CPI—Commerce, Planning and Infrastructure. First off, I would like to reiterate my apologies for the Chief Officer who is on official travel. Thank you, sir.

I am going to turn it over to one of the experts here, the Director of Public works, but I am going to say that the Ministry at the time is still very much committed to the Major Projects Office. We see it as an integral part of, not just Public Works, but infrastructure development as a whole in the Cayman Islands. It is essential and we are giving it all the support we can and I think one of the major reasons why it is structured the way it is, is for the flexibility to take on projects as they come along. It gives us a lot more flexibility.

Now, I am going to turn it over to the Director that he can add a little bit more to this specifically.

**Mr. Max Jones, Director, Public Works Department:** Good morning, Max Jones, Director of Public Works Department.

I think the first question was why it was established in the way it was in the first place. There were challenges in getting the major projects staffing established initially. Government was in its period of austerity and new posts were hard to come by and we were trying to work out how best to set this up. I think it's fair to say that project management for a major project is a part of the cost of delivering a project. So, in order to get the project manager's post established in the first palace, we had discussions with the various ministries and statutory authorities, simply put—Public Works didn't have those posts to hire those staff. Arrangements were made whereby, the relevant ministry or statutory authority would hire the staff from the capital funding for the projects, which, as I said, is really a correct way for the funding to take place because it is a true charge to a capital project and then, by way of a Service Level Agreement (SLA), those staff were seconded to Public Works Department.

It wasn't an ideal arrangement but somehow we felt we had to get this Major Projects Office kicked off and that was why it was established in that way in the first place. Ideally, my strong view is that those staff, those project managers would be hired directly

by Public Works. The reason I say that is I believe at this point in time the Director of Public Works, Public Works Department has the responsibility to deliver the management on these projects and to deliver the projects, and I therefore believe it's necessary that we have full authority over the staff. The present time it's a slight split because they are hired not by us but by somebody else.

Having said that, we are already underway; it is accepted that this needs to change, so to date, we have transferred the senior project manager for airports who was hired by the Airport's Authority and he is now a Public Works Department employee but he is not funded by Public Works as the funding is still coming from the major capital project. So, Public Works has a Service Level Agreement (SLA) with the Chief Executive Officer of the Airports Authority. So, the Senior Project Manager is now hired directly by us but the funding is transferred through this SLA to make payment. This, I think, is quite an acceptable arrangement for it because it gives us full authority over the employee but it means that the funding is still getting charged back correctly to the Capital Project. So, that the first of those moves that's taking place and we are in discussion as well on moving the other. So, I believe probably by the end of this year all other majority of those staff will be Public Works staff funded by way of a SLA with the Authority.

**Mr. Austin O. Harris, Jr.:** Thank you for that. Mr. Chairman, through you, leading to the second question: Outside of the difficulty as you just mentioned of having a project manager employed by one entity but working for the next, are there any other complications that demonstrated themselves from the establishment of the Major Projects Office that perhaps require further fine-tuning?

**Mr. Max Jones, Director, Public Works Department:** There were certainly other complications with the staffing arrangements, for example, authorities have different benefit packages than government and even between the authorities are different benefit packages. So, we certainly end up with a group of senior project managers, always different vacation entitlements, different pension entitlements, and again, that's not an ideal situation when they are all working in the same office.

So again, as they all move over to Public Works it will all be rationalised and everybody will be on the same terms and benefits basically.

**Mr. Austin O. Harris, Jr.:** And just a final follow-up: Obviously, there are some changes to the organizational structure of the Major Projects Office as you have just identified. Are you able to say to this Committee, what is the timeline for completion for those changes, whether, it be the fixed project managers, the fixed annual budgets? When can we expect all of those other details to be finalised, in your anticipation?

**Mr. Max Jones, Director, Public Works Department:** We anticipate all of those changes taking place by the end of this year and then all of those senior project managers were then, in terms of the budget, the funding for them, they would all be on a SLA where their entire costs, their salaries, their pensions, all of their benefits, airfares, bringing them over or whatever it is, all of that will be charged back to the capital project so it becomes a capital cost.

**The Chairman:** That contradicts the commitment given to the Auditor General in Appendix 3, because in Appendix 3, for that recommendation, the commitment by the Ministry was to have the one for the Cayman Islands Airports Authority transfer by the 1st of October 2017 and to have the senior project managers for school, the waste management and cruise berthing project, all transferred to PWD by the 31st March 2018. Are there any particular difficulties that that's now being put off for nine months?

**Mr. Max Jones, Director, Public Works Department:** I think probably I should have reviewed what that section said before I responded. I have to say we are a little bit behind that schedule at the moment. There is nobody keener than me to do this as quickly as possible because its effectively Public Works Management that suffers the complications that this causes, but I think as you can imagine there's an awful lot going on at the Major Project Office at the moment where we are at key stages of a lot of projects, so we are a little behind that schedule but we will certainly be pushing to get it done as quickly as humanly possible.

**The Chairman:** Is any of that related to the fact, that, both of those—the berthing facility and the waste management are going to be done under Public/ Private Partnerships? Is there a reluctance for the . . . Who is it providing the project managers on those two cases? Is it the private sector or government?

**Mr. Max Jones, Director, Public Works Department:** No, the senior project managers are both government project managers. So, on the cruise berthing project the senior project manager is currently employed by the Port Authority but seconded to Public Works Department; that is the next one we are anticipating moving over to Public Works Department. We are targeting the statutory authorities first because their terms and conditions are the most different.

On the Integrated Solid Waste Management Project (ISWM), they are hired through the Ministry of Health, and again, seconded to Public Works Department.

**The Chairman:** So, how is the accounting going to be handled to allow the project manager to be charged as part of the capital project if these are being managed by the private sector? As I understand it, government is not intending to be investing any capital funds in either of these two projects.

**Mr. Max Jones, Director, Public Works Department:** The PPP consortiums will have their own project management but it is essential that government also has a project manager overviewing that whole process. So, I am talking about the government project manager.

**The Chairman:** As an independent body overseeing it.

**Mr. Max Jones, Director, Public Works Department:** Yeah.

**The Chairman:** And government will be paying for that person.

**Mr. Max Jones, Director, Public Works Department:** Exactly. But all of the project management for the PPP consortium will be their cost. So, government always will have a cost on a PPP project because it's an awful lot of managements for the life of that project to ensure things go well and it is being carried out in accordance with the contracts and requirements.

**The Chairman:** Any idea how you are going to handle legally, effectively, practically, that scenario where the private sector has their project manager who says everything is going according to planned copacetic and the Government says, *No, no, no, no; it is not going.* Who is going to be the final arbitrator or who is going to have the authority?

**Mr. Max Jones, Director, Public Works Department:** Well, the legal contracts for PPP will lay out very clearly all the requirements. I am not saying there won't be scenarios where legal interpretation will be required for that, but at the end of the day it is the Government who oversees these contracts, so it is the Government that will be deciding whether contract requirements are met. If that is contested by the PPP, then there will be attempts to resolve that but both sides also have their legal entities to resort to if it's not able to resolve that. We would hope those things will be resolved but we know that's not always the case.

**Mr. Christopher S. Saunders:** Thank you very much, just a quick question. What does the structure of the MPO looks like, the Major Projects Office? How many staff and the basic structure?

**Mr. Max Jones, Director, Public Works Department:** Okay. So, to my right is the Chief Project Manager. Mr. Peter Ranger is the Head of the Major Projects Office. Peter Reports directly to me as Director of Public Works. Peter has five senior project managers reporting to him, one for each of the major projects that is either, in implementation or moving towards implementation. And we are about to take on a project administrator to support those who are in the process of preparing to take on a project administrator to provide administrative project report to those senior project managers.

We also have a number of employees that were second in and out of that Major Projects Office. In the past at Public Works we have had to send employees overseas to get the kind of experience that is available on these major projects, and we certainly want to take maximum advantages, the fact that these major projects with professional staff on board are happening right here and we want as much as possible to rub off on key staff in Public Works Department.

We have, for example, one young Caymanian staff [member] who spent a couple of years in the Major Projects Office. She has now moved out and has been promoted to Senior Project Manager within Public Works. And we have another senior member staff just started for six months into the Major Projects Office to gain that kind of experience.

**Mr. Christopher S. Saunders:** Sorry, what I was trying to get at, and ultimately, with projects of this size, there's a lot of risk involved. What I am looking for is a structure that manages the various aspects of the risk that would be involved. So, what I would expect at a minimum is that there would be certain basic functions that the MPO would have in place and then, depending on the project, we would have someone kind of rolling in and out on the technical side. So, what I am looking for is a base structure in place and depending on projects, I wouldn't expect someone doing something on the airport that, with your level of expertise, would be the same person in Solid Waste Management.

I am looking for the base structure first; the mangers risk. The reason why I am raising this is that unfortunately the Government has built a reputation and multiple governments, not just anyone, that a project is going to cost $50 million and it ends up costing $100 million. And when you see projects go that far off, it normally means a lot of the risk that a project would have undertaken was not managed for or mitigated upfront. At the end of the day you can't get around risk. What I am looking for is just to make sure that there is a framework in place to manage the various risks and that is what I am trying to get at. Because you have a project manager, it doesn't mean if financial risk shows up or a legal performance type

or . . . there are so many different risks that can come up and that is what I am trying to get at in terms of the management of that risk or the various risks.

**Mr. Max Jones, Director, Public Works Department:** Yeah, we fully recognise the major risks with all these projects that have to be correctly managed and mitigated. We would just like to point out that the two projects or parts of projects that have completed so far, under the Major Projects Office, have had good performance in terms of cost and time. The John Gray High School Gymnasium was completed on time and within budget and the first phase of the Owen Roberts Airport was completed within budget. A little over run-time but it was completed within budget.

I am going to hand over to the Chief Project Manager to just talk a little bit about how we manage risk and the consultants involved, which is a support structure to the Major Projects Office.

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Thank you, Max. Peter Ranger, Chief Project Manager at the Public Works.

To answer your question, it ties back to the governance structure. So, if government wants to deliver a new project; for example, the school, it would come to Public Works Major Projects Office, we have an outlined strategy in what we want to achieve. So our job then is to assist with what's called the strategic outline case and in doing that we must look at a long list of options, everything from not doing the work at all, to do nothing, do minimum and anything else in between. So, at this kind of initial briefing stage, our job is to gather all the evidence on the need for the project, what the long term ambitions are; in general anything you need to know about.

Also, at that stage, what we also look to do is to put some high level benchmarking cost in place and it is one of the recommendations in the report which is now being put forward, therefore, when the strategic outline cases come and is presented to Cabinet with a project demand, at that point in time, we in the project office have gathered all the information that you need. At that point in time if Cabinet wants to pursue ahead with the project to go to a next stage, which is called the outline business case, we would then hire in external consultants and we then, in project office, project manage on behalf of the Government to deliver your requirements. So, the OBC [Outline Business Case] stage is really the point where we then go out to the market place of legal consultants, technical consultants, and commercial consultants.

To really take that long list of options and to get to a short list of options and then come forward with a plan for government, to me, the key issue of project management when you talk about project failures or cost overruns, normally when you track them back, they all track back to the very start. So, we start off with a schedule which was too short, a cost which was wrong, et cetera. So, with the new framework, the first phase of the project, the strategic outline case is really what we want to get down and ask, *What does the Government want from this project?*

To give you an example, George Town Police Station, we looked at that when the Government came and said we need a new police station, in response to that question, the question we should be asking ourselves is: *RCIPS, how do you want the police [INAUDIBLE] in the future? Do you want to a range of smaller police stations? Is this a police station that's at the administrative building?* So really, the SOC [Strategic Outline Case] is a briefing point for us, where our job is to try and achieve the best value for money for government and give you all the options.

**Mr. Christopher S. Saunders:** It then begs the question: Where does the disconnect come from in the sense of . . . because having gone through the budget process, one of the things that the Auditor General raised is that when these projects are supposed to be completed, there's then, the capital cost and then there is operational cost. The budget itself then has literally excluded operational cost. For example, I can tell you, using the airport where we have the different phases coming, I would have expected in going through the recent budget process where we would have seen at least a good amount of cost increase on the airport side because we now have a bigger facility. What we are trying to get at is the connection that once a project is completed, how does it then fit into the operational framework because it has now been raised where the operational cost or the ongoing operational cost of having a new project was actually excluded from the recent budget process?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** As it says in the report there is a slight disconnect so from the SOC stage through to the OBC, in the outline business case our job is to choose for margin for example 25 years to give a CAPEX [Capital expenditures] and OPEX [Operating expenditures]. That's in the OBC, we then move forward, we do our design, we deliver project to the Capex, quite where that funding goes (if that makes sense) from the outline business case onto the product being delivered and then run by government for twenty five years; that's where there's a slight disconnect.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Mr. Chairman, through you, from the OPEX side, that's really with the entity, whether it's a SAGC [Statutory Authority and Government Company] or whether it is a real government entity but—

**Mr. Christopher S. Saunders:** The catch is from the public standpoint; the public sees government. And, like I said, unfortunately, what we are really looking for and our purpose here is just to make sure that the risk is managed. That's what we are looking for because at the end of the day I would expect the Airports Authority depreciation expense increased in terms of their budget because they have a bigger facility that requires more depreciation expense, and all we are looking for is to make sure that there is that level of connectivity. And that's really what it is; it's just managing the risk because at the end of the day these are very complex and very challenging projects but at the end of the day the public needs that assurance that there is connectivity between all government; everyone is singing on the same sheet where we have now done a project but then the money to operate it, we have not set aside any money to operate it.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Well, in all fairness, we do lay that out in the outline business case, both the CAPEX side and the OPEX side. So the entities do know of their responsibility. I don't think I am qualified to speak to them and how they handle it once we deliver it but what we are responsible for is really delivering it to them but they are aware of it and obviously should—

**Mr. Christopher S. Saunders:** The challenge you have Tristan (and I am sorry for you and this one goes to the other guys), because your Ministry now is the one that's actually signing these purchase agreements, you need to know exactly what it is that you are also purchasing. I remember those big documents, they had the Chief Officer and the Minister's signature on them and one of the things that the budget process revealed is that the statutory authorities knew what they were selling, the Ministries didn't know what they were buying, and it is that disconnect now that we need to start working on fixing. I don't expect to get there overnight but this is something I want to put out there because that was evident in the budget process, where the expertise . . . and you see the thing about it is it impacts the governance.

When I see the seller of a product coming here to explain it instead of the Minister or the Ministry, it frightens me because just like a vendor, it is like you are going out, you are buying something and you are going to have the vendor to come inside here and answer the question; that wouldn't fly. In this case, the vendor is still the statutory authority and the Ministry is still the entity that's buying. And what we need to make sure, going forward, is that the Ministry itself that has these overall responsibilities, especially now since you have the Public Authorities Law and everything else where you have more responsibilities and you guys have better governance in place. So, there is no entity because you are the ones signing off on the purchase agreement.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Agreed. But you know, it's not always our Ministry that is signing off on the OPEX side. I mean it depends as in the case of the Airport per say, it is the Ministry of Tourism. But we do lay out to them and they are aware of it. So, it is for them to manage and to speak to, I think.

Going back to your original question though, I think one thing that we are also focusing on the MPO is our consortium of consultants. While we have project managers that are project managing these projects, we want to build that consortium with expertise that we don't have to almost . . . every individual project has to have a separate entity or consultant where we have a consortium of consultants that we can pull from and manage the overall projects better, and I think that is the point of the MPO to sort of find those synergies and take advantage of them.

**Mr. Christopher S. Saunders:** The consortium you are referring to, are you talking internal to the Government?

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Yes, our consultants—

**Mr. Christopher S. Saunders**: One of the things I can tell you I am fearful of too, is that every time there is a project and we bring in someone from outside, the knowledge that we would have that would have remained in house, has now gone back to somebody else that gets that experience and we would have lost that.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** No that's what . . . Exactly!

**Mr. Christopher S. Saunders:** When you say consultants I just wanted to make sure that we were clear—

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Yeah, well, it depends—

**Mr. Christopher S. Saunders:** —because when you say consultants, it wasn't someone external.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** No, not necessarily, but it could be. For instance, in a legal case or financial case we might have to draw on outside consultants but they are our consultants and

what we try to do in most cases is when we do that, we try to assist from a government perspective in building our expertise up as much as possible, so that eventually we will have that consortium to have for ourselves.

**Mr. Christopher S. Saunders:** Going back to the several project managers that you have in office, I am assuming now, I think the five or six . . . I think you said several?

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Five

**Mr. Christopher S. Saunders:** Those are all full time government employees?

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Yes, but again that is sort of the flexibility of the MPO. They are for the life of the project. It is not intended that they . . . because obviously they are experts to that project. So, once that project falls away or becomes operational, then that transitions on, so it really depends on the expertise.

**Mr. Christopher S. Saunders:** And do you follow it into the operational phase when it's finished? So, they get seconded and let's say you go back to the airport; that in-house knowledge that they would have picked up in the MPO has now gone back to Owen Roberts to continue on the operational side?

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** I will let the director speak.

**Mr. Max Jones, Director, Public Works Department:** Just to clarify a little. The senior project managers we employ are high level expert project managers; they generally only do major, major projects. If we move to a phase where government is not doing major projects, we will not hold them nor would we have the work to justify their salaries. So, they come in for the projects, they will all stay on for a period after the project, to manage the final accounts and to see the project is fully closed off, but unless government has more major projects going on and certainly just to clarify at the moment: I have worked at Public Works and it will be 35 years in April and I have never seen us doing this volume of major projects. In the past it has been one major project here, a little bit of a gap, two projects, back down to zero. We have never had the continuity of major projects to keep these major project staff on a fulltime basis. These are people that often move from one country to another just carrying out major project management. So, we won't necessarily keep them forever, no; very simply put.

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Sorry, just to add to what Max said there. The whole purpose of the chief project manager and the government structure and everything else is to put a process in place so that in the future if government has a project to do, it comes to Public Works, Public Works then assesses the project and says, *I have staff in-house who can do it,* it depends on the complexity. If we don't have staff in-house, if is then like a cruise berthing airport which is specialist, then they will look to bring those people in. But the whole remit of bringing staff through the Offices is that in the future of three or four years' time, these projects are finished and everybody leaves, the whole process, the MPO sits within Public Works with staff who have worked on it, so there is a [INAUDIBLE break or [INAUDIBLE] break; all that knowledge is not lost. So, part of the remit for chief project managers is to leave the government structure standardised and then get procedures in place for our Public Works documents again for future projects.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Mr. Chairman.

**The Chairman:** A follow up: Again, going back on the acceptance of the recommendations, the Deputy Governor was to issue a policy directive by the 31st December 2017, to Chief Officers and Heads of SAGCs, that, all major projects were to be adhered to the governance framework of the Major Projects Office. Can anybody confirm that that policy directive has been done?

**Mr. Max Jones, Director, Public Works Department:** I can confirm that the policy directive is drafted and ready to go out. There is a further recommendation about modifying the government structure to make it more appropriate for statutory authorities as well. We have a draft of that. We didn't want the directive to go out until we can send out both—

**The Chairman:** Just for my and the public's edification, why is there a different approach to major project management for central government and for SAGCs?

**Mr. Max Jones, Director, Public Works Department:** There's not necessarily a difference in the project management approach but the governance structure lays out all the sign offs at various time frame. So, for example when the strategic outline case is complete it must go, in the case of a government project, to Cabinet for sign off. It goes to the Chief Officer perusal and to Cabinet prior to moving to the next stage. In a statutory Authority, you have a different situation with the chief executive

officer and the board. So, it is just a case of changing the language slightly because it has to have a board approval.

**The Chairman:** Are you saying that SAGCs are allowed to take on major capital projects at executive level without board and Cabinet approval?

**Mr. Max Jones, Director, Public Works Department:** No, I am saying that the sign-off phase for each of the stages, it is not achieved . . . it is just different entities signing off and working out—is it that the Chief Executive Officer that have authority to sign-off at this point or does it need to go to the board and then Cabinet, and that was what the audit report was pointing out; that the first governance structure that was done, was very much using just the terminologies if it was a government project. So, it is just some slight massaging of the terminology and we have made a draft of those changes within Public Works Department and it's currently with the statutory authorities and we just need to get their feedback to make sure they are in agreement with it, and, at that point, the Deputy Governor who has his directive drafted, will send that out with what we thought at one point might be too separate but we think now, just one governance structure that has small areas applying to statutory authorities versus government.

**The Chairman:** So, you are not likely then to meet the 1st of March deadline to have all this on your website available for all and sundry if you haven't gotten the directive issued?

**Mr. Max Jones, Director, Public Works Department:** We believe we will still meet that date. Our aim was to present the procurement website, so anybody interested in procurement, that's the first place they would go. The procurement office, their website is about two weeks from up and running. It is not actually up and running yet, so we still believe we can meet that 31st March deadline.

**Mr. Austin O. Harris, Jr.:** Mr. Chairman through you.

Gentlemen, thank you very much for those answers. I want to be careful with my question so as to not sound critical but I am seeking some elucidation on this point as it relates to costs. I preface it by stating what the Auditor General defined in terms of the Major Projects Office in their 2017 follow-up report by stating that the MPO is a good example of functional leadership across the government. But what my colleague, Mr. Saunders, was asking in terms of your fixed costs; the number of employees or staff that are permanent to the MPO versus the consultants that are brought in, we have seen in the past where the Auditor General makes a recommendation which the Government's response is the formation of a new department or office and over time that office, because of its funding or staff complement, they become funding behemoths just like another department and that's taking money from government coffers itself.

Notwithstanding the fact that by all indication we are on the precipice of another development boom and therefore as you have quite rightly identified, the Major Projects Office is quite busy, but, can you identify to this Committee what your fixed costs in terms of staff of the MPO or as compared to the consultants or other additional staff that are brought in that are there on fixed-term contracts as oppose to fixed-term costs?

**Mr. Max Jones, Director, Public Works Department:** Through you, Mr. Chair: At the present time we have the chief project manager and the future project administrator that would be direct government employees, and, as we have mentioned, we are bringing the other senior project managers over to government. I don't have all the costs of the top of my head for that, but all of those costs are going back to the individual project. None of the costs sit on government's recurrent budget. So, the entire MPO is charged back at an at costs basis to the relevant client project. So, it all gets capitalised by the capital project. So, I am not sure if that is answering your question.

**Mr. Austin O. Harris, Jr.:** Yes. I am trying to determine, obviously, perhaps the labour costs associated with your office that require annual funding from the government and obviously trying to determine whether those costs will be fixed or on an annualised basis, the expectations to form part of the budget or whether or not those fix-term contracts will be shared with SAGCs and therefore won't be a fix cost to the MPO.

**Mr. Max Jones, Director, Public Works Department:** So, none of those will appear on government's recurrent budget. The entire MPO is capitalised back to the capital project.

**Mr. Austin O. Harris, Jr.:** What is the amount that the MPO is capitalised at this point?

**Mr. Max Jones, Director, Public Works Department:** Probably the best way I can answer that is the values of the service level agreements we have with the clients, which covers all the costs. So, the first project manager that has moved across from the airport side, we have a SLA with the client where they pay Public Works, and I am guessing the numbers; this is salary, pension, all cost associated, somewhere of $130,000 to $140,000. So, each senior project manager, let's say somewhere between, $120,000 to $140,000; I just don't have the exact figures with me. And that's for the directly employed project managers to a particular project. We then have the more

overhead costs of the office which is the chief project manager, the future Project administrator, and some office costs, computers, whatever, whatever. And, we have a $300,000 a year SLA which is shared between the different major projects that are underway.

So again, in terms of the six of projects we are managing, I think the cost level is very manageable if we were to compare that with what private sector project management cost would be, it is quite small.

**Mr. Austin O. Harris, Jr.:** Again, Mr. Chairman, forgive me, through you. Just so I can understand it, if we have five senior project managers at the top end of $140,000 plus another $300,000 for administrative equipment and whatnot, we are in the ballpark of a million dollars. Is that a safe figure state that that's what you are capitalised at?

**Mr. Max Jones, Director, Public Works Department:** Yeah, it is somewhere in that order. Again, just to bear in mind that typical private sector project management cost run in the order of 2 per cent of the project, so, when you look at the size of projects we are managing, I think it does present good value for government to do it the way we are doing it and I think significantly better control for government as well.

**Mr. Austin O. Harris, Jr.:** Thank you for that.

Mr. Chairman, through you, just to follow-up, so the general public doesn't have a heart-attack in listening to these numbers: When the MPO was initially created in mid-2014 you had the role of project manager for the cruise berthing facility and the airports redevelopment project. The John Gray High School Gymnasium was added after that. Can you state to this Committee the total number of projects at present that the Major Projects Office is overseeing, participating or otherwise involved in?

**Mr. Max Jones, Director, Public Works Department:** We currently have seven major projects on the books (Help me out here Peter)—we have the Cruise berthing, the airport, the ISWM's, the John Gray high school, the long-term Residential Mental Health Facility, the New Police Facility and the new Courts Facility. Now the new Police and Court facility are in the very early stages; they are pre-outline business case. The others are all moving along.

**The Chairman:** When you are dealing with the triple Ps and you are doing a strategic outline case, do you set limitations as to what the project can cost, based on the problem it is trying to solve, or is this wide open and whatever the PPP agreement comes up with, is acceptable as a cost to the project?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Yes sir, in a strategic outline case we don't actually dictate the funding, so in the SOC we would have a project with a long list of options and at that stage we wouldn't be saying traditional construction, triple P or anything else. That would be the outline business case and at that point we would have external commercial financial consultants to give us the numbers so that if you are looking at it as an option for procurement you would see the difference between triple P, traditional construction et cetera. So, at the SOC we wouldn't be saying that it has to be a triple p; it would really be the next stage for that.

**The Chairman:** Let me be specific to see if I can get the answer I am looking for. We have been told constantly over the last serval years in Finance Committee and otherwise in this Parliament by the Minister of tourism, that the two Piers are not going to cost $300 million but they don't know what it is going to cost. Have you done a strategic outline case for the cruise piers and in that strategic case, is there some estimate/guesstimate upward limitations cost that the project cannot justifiably exceed included in that outline business case?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Sorry, we were just conferring there. So, yes, on the cruise berth, all that was actually run through in the outline business case, so with our current consultants as we move through our procurement phase on the promote design that's being done and what is currently out to tender, we are still on line with those figures for the outline business case.

**The Chairman:** Is there any particular reason why those numbers are military secrets?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** No, no, the figures for the OBCR [Outline Business Case Report] are no secret but the way the funding works is the fact that in terms of the triple P, the bidders will bid back on how we are going to split the pass of usage fee. So, that commercial amount will be when the tenders come back, government will have different bids which will be money coming from cruise lines, private equity—

**The Chairman:** Yeah, but at this point I am not trying to get how we are going to pay for it out of the public treasury because this idea that the piers are not going to cost the people of the Cayman Islands anything, you and I both know is a pipe dream. What I am trying to get at is in doing the strategic business case, particularly in the case like the cruise piers where we have had contracts signed for amounts to build it. Does the strategic business case include a figure

about which the PPP cannot come in? If we were going to spend $600 million to build two cruise piers, I would suggest that that would not be acceptable as part of the strategic case because we don't have the income to serve it.

**Mr. Max Jones, Director, Public Works Department:** So, just to go back to the outline business case because the outline business case is a public document and it estimates the cruise berthing project at . . . this is the construction cost of $150 million to $180 million. So we—

**The Chairman:** You are saying that you're strategic business case for the two cruise piers in George Town says that you believe you can build two piers in George Town Harbour for between $150 million to $180 million?

**Mr. Max Jones, Director, Public Works Department:** Correct.

**The Chairman:** And do you remember what the contract that was signed for the two piers five/six years ago was?

**Mr. Max Jones, Director, Public Works Department:** I don't recall but I am confident in our figures.

**The Chairman:** Pardon?

**Mr. Max Jones, Director, Public Works Department:** I don't recall but I am confident that the outline business case is—

**The Chairman:** If I recall, it was over $250 million; somewhere in that region. So, we have had sufficient reduction in construction cost in Cayman that you can now come up with a strategic business case that prices a project below signed cost about five years ago? More than five years now; seven years ago?

**Mr. Max Jones, Director, Public Works Department:** Yeah, so—

**The Chairman:** And you are confident in your figures?

**Mr. Max Jones, Director, Public Works Department:** Well, what I can say is that marine engineers and experts in this field were involved in the outline business case. We now have different marine engineering consultants on board; experts in this area and both those two costs are tallying. I can't speak to the veracity of the previous estimates and bids.

**The Chairman:** One other question: When talking about strategic business case and stuff for government-owned companies, do you have any involvement in the Cayman Airways procurement of new planes? And, were you involved in developing any kind of strategic outline business case for that activity.

**Mr. Max Jones, Director, Public Works Department:** No sir, we were not involved in those at all, no.

**The Chairman:** On the solid waste management, the impression that the public got, including myself, was when the strategic case was being developed, it included going out for a triple P but that triple P included dealing with the problem as it exists on solving that problem. Am I correct?

**Mr. Max Jones, Director, Public Works Department:** As in the problem of the existing dump?

**The Chairman:** Yes.

**Mr. Max Jones, Director, Public Works Department:** Yes, that's correct. The remediation of the current dump is included in that project, yeah.

**The Chairman:** So, what has changed in that the Government in this financial period is removing . . . (remind me chief)—was it $16 million from the environmental fund to prepare the dump for the advent of the triple P?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** On the ISWM's Project, for an outline business case for the procurement, government had to look at the land for remediation so as soon as the waste energy plants are up and running and all the garbage is divert of that facility, again, with yard waste et cetera, we can close the dump.

Now, if we had taken the cost of the landfill closure in for triple P, it would have cost a huge amount of money over the life of the project. So, the Government is actually paying for the landfill remediation through those funds.

**The Chairman:** So, the change on the strategic plan is that your office believes that the Government can save money if it pays for the remediation PRI [Primary Rate Interface] work to the advent of the triple P?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** No, it is actually part of the triple P so it is within the financial model of the triple P. So, the contractor will get paid when that landfill is remediated for the works as opposed to putting it over a twenty-five year period.

**The Chairman:** And you are comfortable with that arrangement?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Yes sir, we have our eternal advisors KMPG that have done the financial model and—

**The Chairman:** Will that lead to a reduction in the triple P?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** Yes it will do.

**The Chairman:** And to whose benefit will that be; the private sector or to government?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** The Government's.

**The Chairman:** Go ahead.

**Mr. Austin O. Harris, Jr.:** Thank you, Mr. Chairman.

Speaking of the major capital projects, I think seven you mentioned earlier-on that your office is presently engaged in. An article appeared in the local media November of last year stating that **"[Grand Cayman] is in the midst of an unprecedented development boom with over one thousand new projects approved for planning in 2017 followed by more than 700 in 2016."** Obviously these are not major projects but because our economy is largely based on development, I think this is good news.

In 2012 the Auditor General report looked at the issue of the procurement process, particularly in major capital projects to ensure fairness in the process and the ability for local Caymanian companies to participate. I think in 2012 the Auditor General report recommended that improvements be made to the procurement process to ensure that they are conducted in a fair and open manner and that they encourage competitiveness but also ensuring that only qualified contractors with the capability to deliver contract requirements are successful.

The Auditor General's Office went on to mention and recommend improvements in both the oversight and the selection of bidders.

Through you, Mr. Chairman, I wonder if the witnesses can state how the procurement process has since been enhanced to address the concerns raised by the Auditor General which also have a wider public interest.

**Mr. Max Jones, Director, Public Works Department:** It is probably best that I speak to how we will be carrying out the procurement on the major projects to give an idea. I think one of the points you raised, sir, was about involvement of local contractors and, of course, one of the concerns with these major projects, they are very specialised so you are not expecting to find local contractors generally with the ability to necessarily, for example, ISWM's is a very specialised project. So, how he have dealt with that is that we go through a procurement process and we go through a prequalification process first where we advertise to identify contractors with the necessary capabilities, knowledge and skills to deliver these projects. So, we end up with a shortlisted group of contractors.

Now, in both the prequalification phase and the procurement phase, to try and encourage the involvement of local contractors there's a scoring system within each of these where they get a number of points. Let's talk to the prequalification first on their experience in the types of projects. So, they have to present projects and they get a number of points for that; the experience of the team they are bringing to the project, the skills of their project management staff and engineering staff but we also have a section where they get points for involvement of local contractors. So, that's how we try to motivate involvement of local contractors within these major projects which, yes, it would be very easy for them just to all go overseas if we don't do something like that. So that's how we've tried to address that.

I think generally speaking, particularly with these major projects, we are following best practice. The governance structure that we have developed details from start to finish with the project all the key stages sign offs and the direction we will follow and the Auditor General's Office has confirmed that the governance structure is what would be considered best practice worldwide. So, we believe we are following good practice and procedures to ensure that the procurement is in accordance with Government's Laws and Regulations in accordance with best practice around the world.

**The Chairman:** Are there any plans by the Ministry to go to real public tendering/opening tendering as opposed to the secret form that we have now?

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Mr. Chairman, if you could, are you kind of speaking to where the public can come and attend and see the public open—

**The Chairman:** Well, you either have open public tendering or you have what we have now, which is closed secret tendering and the only thing the public hears about is the successful bidder. So, the public has no way of knowing what the competition was. In my view, when I talk about public tendering, I am talking about tender documents being opened in front of the public, in front of the press and the amount of each bid for that project announced publicly so that everybody knows who the Government selected.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Mr. Chairman, I think that is more of a question for CTC but just—

**The Chairman:** No, no, that's not a question for CTC, that's a question for your Ministry or whoever puts forward the Procurement Law because it is missing from the Procurement Law now. I filed an amendment that your Ministry wouldn't accept and allow it.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Well, I am going to say this though; the tenders that are open now, all of the bidders get the cost of the project and—

**The Chairman:** But I don't. I don't care what the tenders get. The public whose money you're spending needs to know.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** I will take that under advisement sir and I will try to have my Chief Officer look into it and see how we can develop a strategy to go towards what you are suggesting.

**The Chairman:** Yeah, I don't really think it needs a change in the Law, I just think it needs to change in the policy of the way the CTC operates, because the general public now has no way of knowing whether successful tender was three, four, five times the next tender, since they can't make any comparison.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** I have noted it, sir.

**The Chairman:** Okay.

**Mr. Christopher S. Saunders:** Sorry, Mr. Chairman, through you again.

Going back to the governance structure: The MPO's Office is with PWD; correct?

*[No audible reply]*

**Mr. Christopher S. Saunders:** Alright. What I am trying to determine of page 324 of the Budget Statements which is in looking at item MP3 where it says "Project Management", and this relates to the Ministry of Commerce, Planning and Infrastructure (CPI). One of the qualities underneath there, it says basically that: "The projects will be overseen by the Chief Project Manager within the Ministry". [UNVERIFIED QUOTE]

Is there another Chief Project Manager within the Ministry?

*[No audible reply]*

**Mr. Christopher S. Saunders:** This has a million dollar cost on it so what I am trying to get at and just to put it out there: If you guys are capitalising the cost that goes within the project, it means then, that those employee costs generally, would have been covered in the project and we would have voted on a capital budget separate, which would have included those costs. So, it means there's also operational cost here for over a million dollars, which per the budget document it says within the Ministry. So, I am trying to determine what that cost represents.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Mr. Chairman, through you, I think that refers to separate Project Management costs for other related projects that the Ministry is doing. I am not really 100 per cent sure of it, sir. It could be just a matter of verbiage that spilled over from how it had been structured in the past as well. I don't really have that document in front of me to be honest with you.

**Mr. Christopher S. Saunders:** Okay.

**Mr. Max Jones, Director, Public Works Department:** Sir, I can . . . sorry.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Sorry.

I will look into though and –

**Mr. Christopher S. Saunders:** Yeah, it is just the description that says "Projects will be overseen by the Chief Project Manager within the Ministry." So, that's what I was trying to understand; if there was a duplication of cost, but I can only go by what we voted on or what was presented to us.

**The Chairman:** Have there been any changes to the Major Project Office since the Auditor General's report in October 2017?

**Mr. Max Jones, Director, Public Works Department:** No sir, there has been no changes . . . a minor change; we have a temporary person in at the moment who is assisting with the project administration until we fully recruit that post but other than that, the last senior project manager was recruited early 2017 but I don't think since this report there has been any real changes to the Major Projects Office.

**The Chairman:** The Major Project Office has developed templates for strategic outline cases—outline business case, final business case. Are those things done by the Ministries and you try to fit your assessment project into their template?

**Mr. Peter Ranger, Chief Project Manager, Public Works Department:** So, one of the things that comes out of the governance structure for every project there is a project steering committee, a body brought together to develop a briefing scope. In that steering committee it's always say for the Ministry, it's the Chief Officer, Mr. Jones, Director of Public Works, myself, the Senior Project Manager and other interested parties, be it DoE, Planning, et cetera. So, in terms of documents coming from all of these projects being at different stages, we thought it would be [INAUDIBLE] order to go and start pushing standards on people when they are all at different phases.

What we have done is as each projects moves through a new phase we develop a standard template. So, for John Gray High School which was happening SOC while this audit was getting done, we now have a new standard, strategic outline case that identifies all the issues that were in the report in terms of benchmarking costs et cetera. So what we now use is that the next project that comes along we will use John Gray as a yard stick because people don't really tend to respond to documents that are just generic. What we want to do is to say this is a good example of an SOC done on the new government structure for Jon Gray and every project that comes along we would use that template, same of the OBCs et cetera.

**Mr. Austin O. Harris, Jr.:** Mr. Chairman, through you, just to follow up to that specific question: In 2012 the Auditor General noted that a key missing element central to all major capital projects was a properly defined business case or strategic outline. The business case strategic outline was recommended in order ensure that there were clearly established objectives and definition of need. The estimated project costs and delivery, but they also went on the recommend in their words "Appropriate legal instrument to be in place prior to the commencement of a major capital project, in order to better protect the interests of the Cayman Islands and as an example the Auditor General highlighted the major school project where none of this existed and as a result of it the country suffered in major cost overruns." Through you Mr. Chairman, can the witness tell us what work, if any, has been completed in establishing the criteria as set out and or recommended by the Auditor General's Office?

**Mr. Max Jones, Director, Public Works Department:** So there are probably two main areas of contract here. We are employing a lot of consultants on these projects. So, we have consultant template contract which has been approved by Legal which we use as a basis for all of our consulting contracts and again, just to specify, all contracts are different, so it is always developed from that.

When we are getting into the major capital projects and these are very specific and complex projects, particularly when we are looking at for example the PPPs, we have specialist PPP legal consultants and commercial consultants. So, they are able to advise us and these consultants have been selected because of their expertise in PPPs and their expertise in the particular type of project. They basically advise us by getting the latest documentation on these projects, so we are generally working with state of the art contracts that are coming out of the UK or other Overseas Territories. We do not have within the Cayman Islands those kinds of contracts because we have never done these kinds of projects before, but we are quite confident that through the consultants we are getting the up-to-date and most appropriate contracts for the projects we are doing. All of these also have to go through government's Legal Department to ensure that they comply with local law et cetera.

**Mr. Austin O. Harris, Jr.:** But Mr. Chairman, again, specific to the appropriate legal instrument that protects the Cayman Islands from cost overruns; in other words, a developer contractor says that they are going to build a school for $100 million and they outline this in their business case. What protection do the Cayman Islands have that that $100 million dollars won't turn into $150 million or $160 million? Again, loosely using those numbers, but certainly evidence of this did happen in the school's project. In addition to your basic template, is there a separate specific legal instrument that defines the agreement to engage and commence in those capital project to protect the Cayman Islands specific to cost and to avoid cost overruns?

**Mr. Max Jones, Director, Public Works Department:** I think it is fair to say that there is no contract in the world that doesn't cater to variations and the likes, as always, any modern contract has contractual terms to deal with how variations will take place. When the contractor sings the contract, he is committing to deliver what is showing on the drawings and the [INAUDIBLE] at that time.

Changes take place. These can be client changes; can be unforeseen issues that come up; for example, you're excavating a foundation and suddenly you found a 15 foot deep soft spot that you have to excavate. It always is that you pay for those extras because if you don't, if you throw that under the contractor he inflates his bid because he knows he is responsible for everything. So, all standard contracts allow for pricing, for what is known at the time and tem specifying very clearly a methodology for how you will then price any changes that take place. And yes, we certainly have those in place and even at the project management level, we can't protect against client changes. If the client decides they want to add another classroom there is an extra cost to that and

we are operating on the client's direction. Our job as the project managers is to manage those contracts in accordance with the contract terms . . . well, first making sure that the contracts are appropriate and then managing the contract within those terms.

I just want to hit on the point that Peter mention earlier because generally speaking, those contracts that overrun badly, it's not that when you get to the point of awarding a contract something goes drastically wrong afterwards, it is the lack of thinking up front, the lack of scope definition up front and I think it is fair to say in the past we have suffered from this sometimes where there has been a rush to get the project done, so the designs are rushed, this is rushed. It is so important to allow the correct timeframes. And major projects do take a long time.

I think the Auditor General's report points out that the new Government Administration Building was a successful project but it was four/five years in the development. It takes time, so that the most important part of these projects is the thinking right up front to ensure first, that, you know what it is you want to build and you have client agreement; everybody is on the same page on what's to be built and if you have that firm starting point you know what the scope is. As long as you provide the correct project management along the way, you are on a fairly safe bet, but it is the upfront thinking to make sure that the project that is on the paper is what we really want and we don't find out further down the line that that's not quite what we want, we want something else and that's when the cost escalates through the roof.

Again, I would say I am very confident with the Major Projects Office that we have the right people in place with the right knowledge and the right skills to manage these projects because, of course, that's one of the other keys, having competent project management on these projects, so that when variations are taking place, they are correctly recorded, they are correctly costed so that you keep control of those things. Strong project management is a key feature for mitigating some of these issues.

**Mr. Christopher S. Saunders:** Thank you very much for that answer, Mr. Jones.

I am not sure if you guys have access to the report that we had receive from the Auditor General but I am kind of glad to hear your answer a while ago because, I am looking, and just for the sake of the public, the key stages and milestones they have in the MPO governance framework for major capital projects on page 13, are the strategic outline case or the SOC, and moving on to the outline business case, and there is a developed preferred option and a final business case, and then, there is construction, completion, handover and operation and post-completion and evaluation. So, it starts with strategic outline case and then it moves to an outline business case.

When I move to page 19 which is the assessment of the seven projects that's being done, under the strategic outline case of the seven projects, not one of them complies with the governance framework within the basic interception. You then move to the outline business case. Again, except for . . . well, the John Gray, the Integrated Solid Waste Management, the cruise berthing and the long term mental facility, those comply with the governance framework. But, I am trying to understand on the strategic outline case, it didn't comply but on the outline business case it actually complies. Maybe this is something that the auditors can maybe explain to me within the different steps where it didn't comply within the strategic outline but it complied in the outlined business case. That is just for my own understanding. Sorry, maybe that's not directly for you guys, maybe it is more on the Auditor's side; it's their report.

**Ms. Angela Cullen, Director of Performance Audit, Audit Office:** Angela Cullen, Director of Performance Audit from the Office of the Auditor General.

Just to clarify, through you, Mr. Chair, the point: As we see in the report, most of the projects that we looked at had started before the MPOs new governance framework was in place and was started to be implemented, but we did compare the documents that we had against that governance framework. So, at the time we looked at the SOCs that had been developed, none of them complied with the requirements that there are now in the MPOs doing government's framework. Now, that's not to say that new projects . . . and Mr. Jones made reference to the John Gray High School phase 3, that, they have taken on board the comments we have made in this report and the SOC for that phase of that project. Now, we should know if we went back, we would have to have a tech and comply within the framework. So it's as projects move through the phases. So, because some of these were developed quite a while ago they didn't comply with what we would expect to see now. The outline business cases were a better quality but because some of them were much more recent, the SPMs and then the MPO had been heavily involved in the development of those OBCs.

**Mr. Christopher S. Saunders:** Thank you very much.

This now brings my other question: The initial SOCs, were they prepared by the external consultants or were they done internally by government?

**Mr. Max Jones, Director, Public Works Department:** If I could answer that at the same time to just add in a little comment. I think it is necessary to understand the history of the MPO. The MPO, historically Public Works did the majority of government capital projects and then we have gone through this period where capital projects were carried

out by other means, and we kicked off the MPO and it was basically my good friend Jim Scott, who is no longer with us and myself who were the staff of the MPO at day one. We didn't have quite the experience of all the expert staff we have at the moment, so we, in SOCs, PPPs and all these kinds of projects. So, we along with members of the Steering Committee produced the initial SOCs. I don't think we did a bad job but it didn't meet everything that we are now looking for with more knowledge.

**Mr. Christopher S. Saunders:** Sorry, I don't want to prolong it. What I want to just make sure, is that we didn't pay anybody externally.

**Mr. Max Jones, Director, Public Works Department:** No. They were done in-house.

**Mr. Christopher S. Saunders:** So, that's fine. That's all I just need to make sure. What I was really getting at was to make sure because I saw other Ministries purchase SOCs, so I just wanted to make sure that we didn't go outside.

**Mr. Max Jones, Director, Public Works Department:** Sure, yeah.

**Mr. Christopher S. Saunders:** That's cool, that's fine.

**Mr. Max Jones – Director of the Public Works Department:** The main miss was that we weren't costing SOCs at that time, we now cost SOCs.

**The Chairman:** Any other questions?

Thank you all, Mr. Tristan, and your team for coming.

**Mr. Tristan Hydes, Deputy Chief Officer, Ministry of Commerce, Planning and Infrastructure:** Thank you.

## MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

**The Chairman:** If we could have the Ministry of Finance and Economic representatives.

*[Pause for witnesses to enter Chamber]*

**The Chairman:** Mr. Jefferson and Ms. Owens, I don't think we have too many questions for you all. I guess the major question is: How are we progressing the adjustments that are needed to the budgeting process to allow for this, to use your phraseology, "OPEX *and* CAPEX" on these major projects? And, are we looking to move to the position where a project is budgeted in its totality, even if it is allocated annually, so that there is an understanding and expectation that we have some money this year? But there has to be money next year which will be carved out of government's revenue prior to any caveat of monies for capital, so that we have continuity of work.

**Mr. Kenneth Jefferson, Financial Secretary/ Chief Officer, Ministry of Finance and Economic Development:** Thank you, Mr. Chairman. It is now good afternoon to you and the Committee Members.

Mr. Chairman, would you wish for me to take an affirmation?

**The Chairman:** No, that's okay.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you very much for that vote of confidence, Mr. Chairman.

I would just like to start with some very, very brief opening remarks to say that certainly the Ministry of Finance welcomes the report by the Audit Office now before the Committee because its intentions are good and positive. We see them as that report trying to suggest to government how it can improve its capital appraisal, how it can improve its capital budgeting, and very importantly as well, how it improves the reporting of information with respect to capital. To Cabinet—reporting to Cabinet, reporting to the Legislative Assembly and reporting to the public.

Mr. Chairman, to answer your question, sir: The reality is now, that we have set in place budgets for the Calendar Year 2018 and 2019. The reality is also, Mr. Chairman, that for the 2018 Financial Year and onwards, the Public Management and Finance Law has been changed so that the Government is now obliged to report to the Legislative Assembly and to have financial information gazetted as well, with respect to each quarter. And so, the quarter ending the 31st March 2018, we are legally obliged to present the financial information six weeks later, so by mid-May. We see that as the first opportunity to improve the extent of information, particularly with respect to capital expenditures.

We have heard from the Major Project Office's Chief Officer, Mr. Hydes; that in terms of capital expenditures and operating expenses, that that office in particular, does help in the specification of both elements of cost. Where, certainly, we have, in government as a whole, have fallen down, is not reporting to any great extent beyond, and up until now, the one year horizon for an annual budget. So, we see appropriations being made for one year to construct a major project with very little information about what happens in year two, year three. We see the upcoming May deadline for reporting as an opportunity to repair that damage and we certainly intend to do so. It will require, quite obviously, quite a bit of work in terms of getting the information from agencies so that we are able to report. And for future

budgets as well, we have the opportunity timewise (but not a lot of time), to improve the budget information for the financial years, 2020 and 2021.

It is quite startling to know that the next Strategic Policy Statement is actually due next year, 1st of May 2019. The Strategic Policy Statement for the Financial Years 2020 and 2021 is actually due next year. So, what I would say is we have the opportunity timewise to improve budget information and so forth, that's true, but it's not an unlimited obviously period of time. We certainly do acknowledge that it's important that the budget documentation actually shows quite clearly the history, the life, the time it takes to complete a project, the capital cost involved and the operational cost involved.

Mr. Chairman, we also note too that one of the recommendations in the report deals with the specification of a capital development fund (that might not be the precise term) but it's clear that that recommendation is suggesting that unused appropriations at the end of a financial year don't expire but can go forward to the second year and the third year. That, Mr. Chairman, is something that obviously the Government would seriously consider. Obviously, the Public Accounts Committee may wish to make that as a recommendation and obviously the Government has to respond in the Government Minute. That would require a fairly simple change to the Public Management and Finance Law which presently states that appropriations expire at the end of the financial year.

I am going on quite a bit, Mr. Chair. I think the Government would obviously be very reluctant to say that all appropriations can carry forward indefinitely. I think the Government would be more comfortable with the capital expenditure carrying forward but the recurring expenditure expiring at the end of a financial year, because otherwise it becomes extremely difficult then to keep track of the financial position of the Government if all appropriations can carry forward indefinitely in the future. It becomes very difficult to achieve that but certainly it's the capital development fund concept is something I think the Government can look at.

**Mr. Christopher S. Saunders:** Thank you, Mr. Chairman. Thank you, Mr. Jefferson.

One of the things that came out of the Auditor General's report was the issue of disconnect between when a capital project is finished and then the operational cost. One of the things I was curious about is during the strategic outline case or the outline business case, I am assuming that within those business cases there are sections of finance to sign-off on with regards to the numbers or some of the financial assumptions used. What I would like to know is that, does the Ministry of Finance sign-off on those in terms of the numbers? Or is that done at a different Ministry level?

What we are trying to just make sure is that there is some level of connectedness because if you guys have visibility on what is being singed-off in terms of the financial numbers, then, at least when the budget comes around, you guys would know for it to be included. So, the question is: Are you guys signing off on the financial models or the financial assumptions that are used in those, whether it is the strategic outline case or the outline business case?

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you, Mr. Chair.

Mr. Chair, the honest answer is that the Ministry of Finance generally does not get asked that specific sign off procedure for us to carry that out when the strategic outline business cases are being done. Under the Project Future methodology, individual teams can look at specific plans for their particular Ministry and indications of costs are included in those documentations. I sit as a part of the Steering Committee group on the Project Future and would see such details where they are present. If the project then proceeds to the point where it gets included in the annual budgets, it is not often the case that, like I said, the history of the future cost of the project is outlined in any great degree; it is usually the one year horizon, the two year horizon now that gets included.

**Mr. Christopher S. Saunders:** Thank you very much.

This definitely then begs the question because, like with any business case there will also be the legal aspect of it and I would like to at least know that the Attorney General's Office is at least signing-off on business cases and if that is the case (and I have to make that assumption), at least government's legal advisor is doing that part of any business case where you will have the legal aspect of it. And, if that is the case, then, wouldn't the same apply for finance, whereas, the main finance person for government would also be doing the same thing that the Attorney General would be looking at? I am making assumption. I don't know if the auditors can tell me if the Attorney General is actually singing-off on the legal aspect of these business cases. I am assuming there is a legal risk management within these business cases; let me start with that assumption. Are there financial risk and legal risk included in these businesses cases as would be expected in any best practices, and if so, who is signing them off?

**Ms. Angela Cullen, Director of Performance Audit, Audit Office:** Through you, Chair.

Yes, business cases should have financial and legal implications in each of them. I can't answer whether the attorney General is signing-off on the

legal aspect of the legal part of these business cases before they go to Cabinet. I don't know. I can find out.

**The Chairman:** Just a follow up: Years ago before you could take a capital project forward to Cabinet, it used to go to the private sector investment committee, to which a sign-off was therefore required from finance that that project could fit into the government's budget and it could be funded prior to it going to. Now, it would be going to the Major Project Office for strategic . . . well, at some point in time, I would hope that there is a requirement for Finance to look at the numbers and determine whether the country can afford it or not before we go through this elaborate process.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you Mr. Chair.

Mr. Chair you are absolutely right. The Public Sector Investment Committee (PSIC) is still a legal requirement under the financial regulations. The threshold for the committee to look at Government expenditures is quite low. It is $300,000 and up, and it's not restricted to capital construction projects. The financial regulations actually define what the capital project is meant to be, and so, it actually simply says in the regulations that a capital project is any item that would be capitalised on the balance sheet. So, if an agency goes out and purchases a fleet of vehicles, that's a capital project for the purposes of the Public Sector Investment Committee (PSIC).

Mr. Chair, to you and the Committee members, the Public Sector Investment Committee is not in operation and I will attempt to explain why. I think it is fairly easy to establish the committee in terms of putting persons forward. The regulations actually say that the purpose of the committee is to advise Cabinet via the Minister of Finance on the viability of capital projects and it then lists the areas that the committee would look at in determining if it is viable or not. It talks about the economic aspects, the financial aspects, the environment and so forth.

What has prevented the operation of PSIC is, simply one of timing. Up until thus far, the actual budget process would frustrate the operation of PSIC. We have the Strategic Policy Statement just prior to now. It was due on the 1st of December each year. We then moved into the new calendar year and around February/March we then went into preparing for the full year budget that was going to start on the 1st of July; those dates have now changed. What has happened up until now has been that the civil service, the government as a whole, has not been forth coming readily in presenting projects for the PSIC's consideration and you only get an indication of what would be agreed projects for placing in the upcoming budget when it is very close to the budget date, and so, time wise, there would be very little opportunity for the committee to consider a multitude of projects; the viability of them and to report to Cabinet. So, I think it is fairly easy to establish the committee but it is the timing of projects becoming available to the committee so that it can carry out its function in a timely way.

If you ask me, well, if the committee says, *Well, what's going to change now—*

**The Chairman:** But if I recall correctly before a ministry or a department could request a funding for an investment, there had to be some referral and consideration by the PSIC. I agree with you, if we are going to do it after we have submitted a request for the budget, it is meaningless. I think the reason for it was that we made sure there was some consideration of all of those factors; the viability that can only impact, whether government was likely to afford it, whether it actually solved the problem we're trying to address because many of these projects don't necessarily fix the problem in the end, and, it used to be that that was a pre-requirement, as I recall. Why was it changed and when was the PSIC abandoned?

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Mr. Chairman, I think I would probably struggle to answer those questions. I do know that in 2004, 1st November, I became the Financial Secretary and the PSIC have not operated since then. I think it might have been around 1999 or thereabouts.

**The Chairman:** I am talking '88, '99 or '92.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Okay.

**The Chairman:** I have a pretty good idea why it wasn't [INAUDIBLE] and usually a political decision as opposed to any justifiable governance structure adjustment.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Right.

Mr. Chairman, I will be quick. I don't want to leave the impression with the Committee or the public that the projects are not reviewed. Obviously, there is a Strategic Policy Statement process in which the Ministries and Portfolios will actually come before Ministers of Government, present what they wish to undertake in the course of an upcoming year and that is often over a day or two processes. I will say fairly, that in those presentations there certainly is an indication as to what the costs are for the upcoming year and oftentimes there will be a total cost as well; it mightn't be spilt out into year two, three or four, but there is an upcoming cost in the next financial year and a total cost.

Oftentimes there are indications as to what the operational costs are as well; not always. And those costs, Mr. Chairman, and Committee members are very often beyond what government can afford, and so, those plans are severely reduced because of government affordability issues, and out of that process we do get a Strategic Policy Statement with absolute monetary values for expenditures of the immediate financial year upcoming and the two years beyond that.

We then take those limits to expenditures for Agencies, Ministries, Portfolios and Offices and up until recently around February/March time, those absolute amounts are then used to prepare detailed budgets. Projects then emerge in February/March time for Cabinet's consideration, Caucus's consideration and being brutally honest, Mr. Chair, oftentimes the limits that were established in the Strategic Policy Statement, the request coming forward exceed those limits and so, there is another round of trimming back by Honourable Ministers and backbenchers to get the request from the detailed budget preparation stages back to close proximity to the Strategic Policy Statement numbers.

So, although a project may not be now formally sent and reviewed by a nonexistent PSIC, there is scrutiny and I did—

**The Chairman:** All I want to try and eliminate is that presentation you get when you publicly state in the Strategic Policy Statement what projects and what it would cost, but then, invariably when you get to the actual budget preparation, there are all kinds of other things thrown in and then there is a reevaluation of priorities which should have taken place prior to the Strategic Policy Statement being made.

The value of the PSIC when I was in government was that that happened prior to, and therefore, they didn't have to make that second round of . . .

**Mr. Christopher S. Saunders:** Quick question, Mr. Chairman, in just following up.

I am trying to understand if the PSIC is still in the regulations, then, from the audit report standpoint now, and the OBC of the part that speaks to complying with governance framework. Wouldn't that in essence, if that part is required and wasn't done, automatically mean that the Outline Business Case does not comply with the governance framework?

**Ms. Angela Cullen, Director of Performance Audit, Audit Office:** Good question and thank you for asking for clarification, and through you, Mr. Chair.

The governance framework—the MPOs governance framework that has drafted, actually, at the moment, doesn't include a requirement to go through PSIC because PSIC doesn't exist, but as in legislation, you are absolutely right. So, they have taken a pragmatic approach because it doesn't exist, there is no requirement because then all of them would fail. If PSIC was set up and established under the legislation, that step needs to be added into the governance framework.

*[Inaudible interjection]*

**Ms. Angela Cullen, Director of Performance Audit:** Yes.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Yes.

Mr. Chairman, if I could just comment. It certainly is the intention of the Ministry of Finance to resurrect PSIC. We are having a discussion as to where that would fit in the process, so, if I could, just sort of a discussion area, draw the Committee's attention to page six of the repot where it speaks to Exhibit 1—Key Stages of Good Project Management. Having a discussion within the Ministry of Finance about where PSIC is best placed within that scheme there, we see first of all, developing the strategic outline case, develop outline business case, and so forth. So, where would PSIC approval or review fall within that?

Initially we feel the review by PSIC could actually take place after the outline business case. There's obviously considerable possibilities of overlapping of work between the Major Project Office; things that they would look at, the information that they would input. There is potential for overlap between PSIC and the stages prior in the development of the strategic outline business case and the outline business case. So, we do want very quickly to sit with the Major Project Office amongst other agencies, to decide where a good place is for PSIC to first have its input.

**The Chairman:** I would suggest that PSIC should take place prior to the strategic because (and maybe I am off base) I see PSIC as a more general and less detail and specific exercise in determining what the Government is willing to invest its money into and what it can afford. Once the Government sets the areas that it is willing to invest and it can support financially, then, I think it should go to the strategic thing and there is where the details of that particular project . . .

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you, Mr. Chair. I just want to be absolutely clear: The Ministry of Finance will be resurrecting the PSIC.

**Ms. Angela Cullen, Director of Performance Audit, Audit Office:** Thank you, Chair, through you. I think

it's a good discussion to have the Ministry of Finance in between the MPO and looking at where PSIC could play a role. I think it is important that it plays a role at the right times and that the strategic outline case, the outline business case and the final business case are all commitments to spend money. So, the strategic outline case, now that it includes an estimated cost and it will be an estimate, it is generally an approval. If that is approved, it is approved to then go ahead and employ consultants to develop an outline business case which may cost somewhere between a few hundred thousand dollars and more. So actually, there is a commitment then to spend money.

At the outline business case approval stage, that is a commitment to spend a lot more money, so that's what you're getting and to yes, we are moving onto the procurement phase, we will need to spend a lot more money. And final business case is generally before the construction contracts are signed, so that is the big commitment before you could be spending anywhere between $10 million and $300 million. So it is important that PSIC plays a role in all of these stages when there are commitments to money that actually will affect potentially the next year's budget and future years' budgets also.

**Mr. Christopher S. Saunders:** I am happy to see that it is actually being resurrected, but the one thing I would like for the Ministry of Finance to consider is the inclusion of the finance sign-off and the legal sign-off, just for completeness. One of the things, again, when we are looking at the budget, what we find is a disconnect between when these projects are finished and when the budgeting is coming through, and we need to just make sure we tighten that up a little bit and I will feel a little bit more comfortable. And I am sure this country will feel a little bit more comfortable to know, at a minimum, that the Financial Secretary and the Attorney General has some sign-off somewhere in the process, so that at least there are no surprises.

In any organisation, any business case would have their legal person and their finance person signing-off on it, I don't see why the Government should be any different. So, that is just something to consider as we try to tighten up the governance model.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Mr. Chair, just very quickly before Mr. Harrison speaks, to say that again the opportunity now, has presented itself for work to be done by PSIC. We obviously have an '18 and '19 budget now, with projects included within it, and so, I think what has lacked the functioning of PSIC in the past has been perhaps the lack of a push by persons within the civil service to actually resurrect it. I think, along came the FFR with the disciplines that that imposed upon us, so the civil service has now gotten into the regime of outline business cases and strategic outline cases, which are essentially what the present financial regulations require chief officers to present PSIC for its review. So, we have gotten accustomed now to these business cases scenario which wasn't around before, but I think it's now myself and the Deputy Governor pushing chief officers and agencies to *say, You shall present information for the public sector investment committee to review.*

**Mr. Austin O. Harris, Jr.:** Mr. Chairman, through you: Speaking of the commitment to spend money and for those of you following along, this question is in reference to Appendix 3 of the major capitals follow up, October 2017, recommendation number 8, which is found on page 45 and 46. It notes that some of the capital projects will be funded through alternative financing methods such as the public/private partnerships and under that agreement as I understand it, construction costs will be paid for by private sector partners whilst government will be paying for the annual operating costs. Examples of this triple P can be found in the cruise berthing facilities, the Integrated Solid Waste Management (ISWM) and perhaps others.

The Auditor General also noted that most or some of these major capital projects will span periods greater than four years or your typical election cycle. Therefore it is entirely possible if not regularly happens, that we have a project started by one administration but completed by another.

In Recommendation No. 8, the Auditor General's Office noted that they could find no evidence to ensure that budgets cover the entire life of the project and that full life costs are built into the current and/or future budgets, and they have even gone on to recommend that perhaps the creation of a reserved fund might be considered which would be ring-fenced throughout the life of that contract.

I wonder, through you, Mr. Chairman, if the witness might explain what, if any methods have been employed to address this gap which serves, in my opinion anyway, to ensure value for money on the significant public expenditure that these major capital projects represent. Thank you, Mr. Chairman.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you, Mr. Chairman.

As always, the best answer is the honest answer. We have, just embarking on consideration for the triple Ps in government, and I should say up front that it should be clearly understood—and I am not referring to the Committee members, I am speaking more generally to the wider public—that the real purpose of entering into public/private partnerships should never be about taking debt off the balance sheet of government. That should never be the

objective. The objective of public/private partnerships should always be that it is more cost effective, more cost efficient for a private contractor to provide a needed service than the government itself can do so. That is to me, the real objective; it's not about keeping debt off the balance sheet, which, I think, it has been accepted now that the PPP arrangements are extremely difficult, If not impossible to not be regarded as debt; they are debt.

Mr. Chairman, to attempt to answer Mr. Harris' question, the approach has to be as we have heard from the Major Project Office, that in developing the outline business cases, et cetera, for projects, operational cost and capital cost are available. Unfortunately, those types of information are not forthcoming form the individual ministries, portfolios when detail budgets are being prepared but it has been said to the Committee that those pieces of information do exist. What the Government can do is to obtain those pieces of information, place them in its annual budgets to make it clear to MLAs, to Members of the Legislative Assembly and to the public what the total cost, capital cost and operating cost of a project over its entire life will be, and if a decision is made to proceed with such a project, then everyone is aware of the full cost. And if there is then a change in government before the project is complete, an incoming government would obviously be aware of what the cost implications are and will have to make the decision whether to continue the project or to discontinue the project.

So, the answer to the Member's question is a plan, an intention to include such costs in budget documentation in the future so that everyone can be aware of it. I think, also, Mr. Jones earlier made a very important point that perhaps the most critical point is the careful review of what essential is going to be the guiding document that governs these relationship to carefully review and take whatever time is necessary to do so, to scrutinise the provisions and the sections within those documents, because once signed, those become essential your guiding principles, your cost restrictions, your legal obligations. So, the important thing would be to pay careful attention to what those draft agreements are saying. If I haven't addressed the Member's question, I will be willing to try again.

**Mr. Christopher S. Saunders:** Mr. Jefferson, I firstly must thank you for that very honest answer. And I think it is also important for potential partners of government to recognise that it is also incumbent upon them to make sure it happens, because if you find yourself in a situation where that process isn't followed and the Government changes, the private contractor must also recognise now, that they stand a chance of being exposed and being caught out. At the end of the day, a parliament by itself is parliamentary supremacy or parliamentary sovereignty, where no current government can bind a future government or whatever.

So, the message has also got to be to the public that, *You guys need to make sure that this is also followed* because if you try to embark on an unpopular project and try to think you can squeeze something in prior to election and the Government changes, there is a very fat chance that that project may be stopped and you may be caught out too. So, I think, at the end of the day what you are saying is completely correct where these are the times where the public needs to be fully on board and fully made aware of what it is that the country is embarking on. And I have said it before and I will say it again, the public business cannot be done in private. So, I think, at a minimum, that message needs to be sent and I just want to say thanks very much for your answer.

**The Chairman:** Any other questions?

Thank you very much, Mr. Jefferson, and we look forward to all these things being done.

**Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development:** Thank you, Mr. Chairman, and Committee Members.

**The Chairman:** Thank you all. The meeting is adjourned until February 21st. You will get notices closer to date. The meeting is adjourned at 1:45 [pm].

**At 1:45 pm the Public Accounts Committee Meeting adjourned until February 21st, 2018.**