PARLIAMENT

OF THE CAYMAN ISLANDS

~~2020/2021~~ Session

2021 - 2022

REPORT

of the

STANDING

PUBLIC ACCOUNTS COMMITTEE

on the Reports of the Office of the Auditor General on:

1. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project - Progress Update as at August 2018 (January 2019);
2. Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and
3. Improving Financial Accountability & Transparency: Budgeting (December 2020)

Laid on the Table of Parliament on this 15th *day of* July *2021*
by the Chairman of the SPAC the elected member for North Side.

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REPORT OF THE STANDING PUBLIC ACCOUNTS COMMITTEE ON THE REPORTS OF THE OFFICE OF THE AUDITOR GENERAL

1. REFERENCE

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

i. ***Owen Roberts International Airport (ORIA) Terminal Redevelopment Project Progress Update as at August 2018 (January 2019)***
ii. ***Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and***
iii. ***Improving Financial Accountability & Transparency: Budgeting (December 2020)***

2. DOCUMENTS CONSIDERED

In accordance with the provision of Standing Order 77(3), the Committee considered the following Reports which were referred in the House of Parliament:

i. ***Owen Roberts International Airport (ORIA) Terminal Redevelopment Project Progress Update as at August 2018 (January 2019)***
ii. ***Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and***
iii. ***Improving Financial Accountability & Transparency: Budgeting (December 2020)***

3. CHAIRMAN AND MEMBERS OF THE COMMITTEE

The following Members of Parliament are the present Members of the Standing Public Accounts Committee:

Hon. Roy M. McTaggart - Chairman
Hon. Katherine A. Ebanks-Wilks
Ms. Barbara E. Conolly
Ms. Heather D. Bodden
Mr. Dwayne S. Seymour
Mr. Isaac D. Rankine

4. MEETINGS OF THE COMMITTEE

The previous Committee held meetings to consider these Reports on:

(i) 7th January 2021 *(Administrative Meeting)*
(ii) 27th January 2021 (*Hearing*)
(iii) 28th January 2021 (*Hearing*)
(iv) 29th January 2021 *(Hearing)*

The present Committee held a meeting to consider these Reports on:

(i) 19th May 2021 *(Administrative Meeting).*

The present Committee has unanimously agreed to adopt the minutes of the old PAC as presently drafted and approve them for tabling, together with the verbatim transcripts, for the purpose of approving and endorsing the Office of the Auditor General's reports, for tabling in the House of Parliament.

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 meetings held with witnesses.

- Mrs. Sue Winspear - Auditor General, Office of the Auditor General
- Ms. Angela Cullen - Deputy Auditor General (Performance Audit)
- Mr. Patrick Smith - Deputy Auditor General (Financial Audit)
- Mr. Winston Sobers – Audit Manager, Office of the Auditor General
- Mr. Gabriel Ncube – Audit Project Leader, Office of the Auditor General
- Ms. Brittany Clarke – Audit Trainee, Office of the Auditor General
- Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
- Mr. Matthew Tibbetts - Accountant General, 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 persons to give information and explanations to assist the Committee in the performance of its duties.

The following persons appeared before the Committee to give evidence on **Wednesday, 27th January 2021:**

- Mr. Tom Guyton - Chairman, Cayman Islands Airports Authority
- Mr. Albert Anderson - Chief Executive Officer, Cayman Islands Airports Authority
- Ms. Sheila Thomas - Chief Financial Officer, Cayman Islands Airports Authority
- Mr. Roy Williams - Senior Project Manager (Airport Development), Public Works Department

The following persons appeared before the Committee to give evidence on **Thursday, 28th January 2021:**

- Mr. Richard Noel - Managing Director, McAlpine, Ltd.
- Mr. Steve Gaffing - Project Manager, McAlpine, Ltd.
- Mr. Stran Bodden - Chief Officer, Ministry of District Administration, Tourism and Transport
- Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
- Mr. Matthew Tibbetts - Accountant General, Ministry of Finance and Economic Development

The following persons appeared before the Committee to give evidence on **Friday, 29th January 2021:**

- Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
- Mr. Matthew Tibbetts - Accountant General, Ministry of Finance and Economic Development
- Ms. Nellie Pouchie - Chief Officer, Ministry of Health, Environment, Culture & Housing
- Mr. Troy Claxton - Chief Financial Officer, Ministry of Health, Environment, Culture & Housing
- Mr. Albert Anderson - Chief Executive Officer, Cayman Islands Airports Authority
- Ms. Sheila Thomas - Chief Financial Officer, Cayman Islands Airports Authority

8. PRACTICE AND PROCEDURE OF THE COMMITTEE

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. PAC RECOMMENDATIONS

On review of the Reports of the Office of the Auditor General on:

i. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project Progress Update as at August 2018 (January 2019)

ii. Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and

iii. Improving Financial Accountability & Transparency: Budgeting (December 2020)

and on critical analysis of witness testimonies, the PAC endorses and strongly supports the recommendations of the Auditor General and her team, noting also that management within the Civil Service has agreed with the Office of the Auditor General's recommendations.

10. GOVERNMENT MINUTE

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.

ACKNOWLEDGEMENTS

The Committee is most appreciative of the efforts of the Auditor General and her staff for the support, assistance and constructive advice given throughout its deliberations.

The Committee also wishes to thank the staff of the Parliament 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 Reports of the Office of the Auditor General:

i. *Owen Roberts International Airport (ORIA) Terminal Redevelopment Project Progress Update as at August 2018 (January 2019)*
ii. *Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and*
iii. *Improving Financial Accountability & Transparency: Budgeting (December 2020)*

Hon. Roy M. McTaggart, MP - Chairman

Hon. Katherine A. Ebanks-Wilks, MP – Member

Ms. Barbara E. Conolly, MP – Member

Ms. Heather D. Bodden, MP – Member

Mr. Dwayne S. Seymour, MP – Member

Mr. Isaac D. Rankine, MP – Member

Parliament
of the Cayman Islands

PUBLIC ACCOUNTS COMMITTEE

ADOPTED MINUTES

Meeting held
Thursday, 7th January 2021 at 10:00 am

PAC Members Present:

Mr. D. Ezzard Miller, MP - Chairman
Mr. Austin O. Harris, Jr., MP – Member
Mr. Christopher S. Saunders, MP - Member
Mr. David C. Wight, MP – Member

PAC Members Absent:

Hon. Barbara E. Conolly, MP – Member
Mr. Bernie A. Bush, MP - Member

PAC Clerk: Mrs. Patricia Priestley

Attendees: Mrs. Sue Winspear - Auditor General
Ms. Angela Cullen - Deputy Auditor General (Performance Audit)
Mr. Patrick Smith - Deputy Auditor General (Financial Audit)
Mr. Julius Aurelio - Audit Manager

1. Meeting to Order

There being a quorum present, the Chair called the meeting to order at 10:14 am.

2. Apologies

Apologies received from Hon. Barbara Conolly and Mr. Bernie Bush for their absence.

3. Approval of PAC Minutes

- Tuesday, 1st December 2020 (*Hearing*)
- Tuesday, 1st December 2020 (*Administrative Meeting*)

The Minutes were reviewed and unanimously approved on a motion moved by Mr. Austin Harris and seconded by Mr. Christopher Saunders.

4. Matters arising from Minutes

There were no matters arising.

5. Approval of Auditor General's Invoice

The Auditor General, Mrs. Sue Winspear, advised the Committee that Invoice number 207437 covered two months (November and December 2020) and the Office of the Auditor General (OAG) had ended the year under budget. The Auditor General explained that this was largely due to COVID-19 impact on client availability to undertake performance audits and all audit staff working on financial audits during the busy season.

Invoice number 207437 dated 31 December 2020 in the amount of $130,937.08 was unanimously approved on a motion moved by Mr. Austin Harris and seconded by Mr. Christopher Saunders.

The Chairman acknowledged the Committee's approval by returning a signed copy of the Invoice to the Auditor General.

6. Auditor General's Update

- *ORIA Update and Schedule Hearings*

The Auditor General advised the Committee that there had been no further progress since the last administrative meeting. The OAG was still not in receipt of a final account of cost of the airport expansion. The Auditor General felt that the Committee could proceed to schedule a hearing for ORIA if they wished (reference item 8).

7. Consideration of the OAG Reports

i. Financial Reporting of the Cayman Islands Government: General Report 31 December 2019 (December 2020)

The Auditor General advised the Committee that this annual report summarizes the entity audits on the financial audit side. The Auditor General was pleased to inform the Committee that most of the 2019 financial audits were completed on time notwithstanding the impact of Covid-19. The report identified thirty-six unqualified audit opinions, nine of which have an emphasis of matter (EOM). The main reason for the EOM in the audit opinion was non-compliance with the Public Authorities Law.

The Auditor General advised that she was most concerned about the financial position of the Cayman Turtle Conservation and Education Centre Ltd. (CTCEC) and Cayman Airways (CAL); and CAL's 2019 audit remained outstanding.

The Auditor General was also very concerned about the three year delay of the audits of the Ministry of Health, Environment, Culture and Housing (HEC&H) and the Cayman Islands Airports Authority (CIAA).

The Deputy Auditor General (Financial Audit), Mr. Patrick Smith (Mr. Smith), advised the Committee that nine audits remained outstanding, as follows:

- HEC&H – 2016-2017, 2018, 2019.
- CIAA – 2016-2017, 2018, 2019.
- National Housing and Development Trust – 2019.
- Utilities Regulation and Competition Office – 2019.
- CAL – 2019.

Mr. Smith was pleased to advise that a new Chief Financial Officer had been appointed to the HEC&H; consequently, he anticipated completion of their three outstanding financial audits by June 2021.

Mr. Smith was concerned about the lack of progress with the audits of CIAA. The reason the client said they were unable to engage with the audit was the airport expansion project taking priority.

The Auditor General concluded that she was generally pleased with the overall improvement made to the financial reporting of the Cayman Islands Government.

ii. Improving Financial Accountability and Transparency: Budgeting (December 2020)

The Auditor General presented the Budgeting Report to the Committee as the first of three performance audit reports on improving financial accountability and transparency. The Auditor General advised the Committee that this report is intended to address the overly complicated Budgeting system which consequently lacks transparency.

Reference was made to the seventeen recommendations listed in the back of the report. The Auditor General expressed her hope that at least some of these recommendations will be implemented in time for the next budget cycle but drew PAC's attention to the management responses which suggested no changes would be made until the budget cycle after that.

8. Consideration of Public Hearings and PAC Report

- **PAC Report on the Annual Reports of CTCEC for the periods ending 31st December 2017, 2018, and 2019 respectively**

As requested by the CEO, the Auditor General presented to the Committee a copy of the Performance Related Pay Scheme sample mistake letter from the HR Manager acknowledging a misinterpretation of a section of the Pay Policy Guide.

The Chairman invited the Auditor General to present her briefing note, dated 6th January 2021, to the Committee which provided an analysis on the allocation of utility and maintenance costs between the retail side and the farm side of the business and a comprehensive review and analysis of the Performance Related Pay Scheme.

Discussion ensued.

The Chairman proposed and the Committee agreed that they not recall any further witnesses. The Chairman proposed that he would begin working on the recommendations for the PAC Report with the assistance of the OAG and the Committee Clerk.

The Chairman proposed and the Committee agreed that in accordance with legal requirements, they should write to the Anti-Corruption and Standards in Public Life Commissions informing them of the CEO being involved in proposing senior management salary scheme changes that would benefit him to the Board of Directors and participating in the discussion rather than recusing himself.

9. Any Other Business

a) PAC Hearings

The Committee agreed to set the dates for the hearings for 27th, 28th and 29th January 2021 on the following reports:

i. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project.
ii. Improving Financial Accountability and Transparency: Budgeting (December 2020)
iii. Financial Reporting of the Cayman Islands Government: General Report 31 December 2019 (December 2020).

The Committee agreed to request the attendance of the following persons as witnesses:

i. <u>Owen Roberts International Airport (ORIA) Terminal Redevelopment Project</u>
- Mr. Tom Guyton - Chairman, CIAA
- Mr. Albert Anderson - Chief Executive Officer, CIAA
- Mr. Roy Williams – Senior Project Manager (Airport Development), PWD
- Mr. Ian Pairaudeau, Retired Managing Director, McAlpine, Ltd. (subsequently changed to Mr. Richard Noel - Managing Director, McAlpine, Ltd.)
- Mr. Stran Bodden - Chief Officer, Ministry of District Administration, Tourism and Transport

ii. <u>Improving Financial Accountability and Transparency: Budgeting (December 2020)</u>
- Mr. Kenneth Jefferson - Financial Secretary / Chief Officer, Ministry of Finance & Economic Development
- Mr. Matthew Tibbetts - Accountant General, Ministry of Finance & Economic Development

iii. <u>Financial Reporting of the Cayman Islands Government: General Report 31 December 2019 (December 2020)</u>
- Mr. Kenneth Jefferson - Financial Secretary / Chief Officer, Ministry of Finance & Economic Development
- Mr. Matthew Tibbetts - Accountant General, Ministry of Finance & Economic Development
- Ms. Nellie Pouchie - Chief Officer, HEC&H
- Mr. Troy Claxton - Chief Financial Officer, HEC&H
- Mr. Albert Anderson - Chief Executive Officer, CIAA
- Ms. Sheila Thomas - Chief Financial Officer, CIAA

The Committee agreed that the Chairman, Auditor General and Committee Clerk would arrange the schedule of witnesses.

b) Verbatim transcripts

In response to a query from the Auditor General, the Committee Clerk clarified the process for dealing with verbatim transcripts in that witnesses are no longer given their transcript to check for accuracy as too many witnesses were misunderstanding the process and seeking to change their testimony whereas the purpose was merely to check for transcribing errors.

10. Scheduling of Next Meeting

The next meetings were confirmed for the following dates:

- Wednesday, 27th January 2021 *(Hearing)*
- Thursday, 28th January 2021 (*Hearing)*
- Friday, 29th January 2021 (*Hearing)*
- Wednesday, 3rd February 2021 (*Administrative Meeting)* (subsequently changed to Wednesday 10th February 2021)

11. Adjournment

There being no further business, the Chairman adjourned the meeting at 11:27 am.

Parliament of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

ADOPTED **MINUTES of Meeting with Witnesses**
Wednesday, 27th January 2021 at 9:15 am

OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA) TERMINAL REDEVELOPMENT PROJECT - PROGRESS UPDATE AS AT AUGUST 2018 (JANUARY 2019)

PAC Members Present:

Mr. D. Ezzard Miller, MP - Chairman
Mr. Bernie Bush, MP - Member
Hon. Barbara E. Conolly, MP – Member
Mr. David C. Wight, MP – Member
Mr. Austin O. Harris, Jr., MP – Member

PAC Members Absent:

Mr. Christopher S. Saunders, MP - Member

PAC Clerk: Mrs. Patricia Priestley

Attendees: Mrs. Sue Winspear - Auditor General
Ms. Angela Cullen - Deputy Auditor General (Performance Audit)
Ms. Brittany Clarke – Audit Trainee, Office of the Auditor General
Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
Mr. Matthew Tibbetts - Accountant General, Ministry of Finance and Economic Development

Witnesses: Mr. Tom Guyton - Chairman, Cayman Islands Airports Authority
Mr. Albert Anderson - Chief Executive Officer, Cayman Islands Airports Authority
Ms. Sheila Thomas - Chief Financial Officer, Cayman Islands Airports Authority
Mr. Roy Williams – Senior Project Manager (Airport Development), Public Works Department

1. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the Public Accounts Committee Meeting to order at 9:15 am.

2. Welcome

The Chairman welcomed the Members of the Committee, together with Attendees and thanked them for attending the Public Accounts Committee (PAC) Hearing dealing with the Office of the Auditor General's report, Owen Roberts International Airport (ORIA) Terminal Redevelopment Project - Progress Update as at August 2018 (January 2019).

The Chairman invited the Auditor General, Mrs. Sue Winspear, to present the Office of the Auditor General's report, Owen Roberts International Airport (ORIA) Terminal Redevelopment Project - Progress Update as at August 2018 (January 2019).

The Chairman invited the witness, Mr. Tom Guyton, to the Chamber. Administration of oath was administered, and thereafter, the witness was welcomed and thanked by the Chair for attending the meeting.

The Chairman invited the Members to question the witness and reminded the witness to state his name and title for the record before answering the first question addressed to him.

Discussion ensued.

Before departing the Chamber Mr. Guyton was again thanked by the Chairman for attending the hearing.

The Chairman invited the witnesses, Mr. Albert Anderson, supported by Ms. Sheila Thomas, to the Chamber. Administration of oath was administered, and thereafter, the witnesses were welcomed and thanked by the Chair for attending the meeting and told to state their names and titles for the record. Discussion ensued with questions being asked to the witnesses by the PAC Members.

Before departing the Chamber, Mr. Anderson and Ms. Thomas were again thanked by the Chairman.

The Chairman invited the witness, Mr. Roy Williams, to the Chamber. Administration of oath was administered, and thereafter, the witness was welcomed and thanked by the Chair for attending the meeting.

The Chairman invited the Members to question the witness and reminded the witness to state his name and title for the record before answering the first question addressed to him.

Discussion ensued.

Before departing the Chamber, Mr. Williams was again thanked by the Chairman.

3. Any Other Business

There was none.

4. Adjournment

There being no further business, the meeting was adjourned at 2:50 pm.

PARLIAMENT OF THE CAYMAN ISLANDS
COMMITTEE OF PUBLIC ACCOUNTS

OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA)
TERMINAL REDEVELOPMENT PROJECT

Official transcript relating to the Official Report of the Standing Public Accounts Committee Meeting—27 January 2021

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PAC Members Present:

Mr. D. Ezzard Miller, MP, Chairman

Mr. Bernie A. Bush, MP, Member

Mr. Austin O. Harris, Jr., MP, Member

Mr. Christopher S. Saunders, MP, Member

Apologies: Ms. Barbara E. Conolly, MP, Member

Mr. David C. Wight, MP, Member

In attendance: Ms. Patricia Priestley, PAC Clerk

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

Mr. Matthew Tibbetts, Accountant General
Ministry of Finance and Economic Development

Audit Office: Mrs. Sue Winspear, Auditor General, Office of the Auditor General

Ms. Angela Cullen, Deputy Auditor General, Office of the Auditor General

Mrs. Brittany Clarke, Professional Audit Trainee, Office of the Auditor General

Witnesses: Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority

Mr. Albert Anderson, CEO, Cayman Islands Airports Authority

Ms. Sheila Thomas, CFO, Cayman Islands Airports Authority

Mr. Roy Williams, Senior Project Manager, Major Projects Office

OFFICIAL VERBATIM TRANSCRIPT
STANDING PUBLIC ACCOUNTS COMMITTEE
WEDNESDAY
27 JANUARY 2021
9:15 AM

Meeting with Witnesses

"OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA) TERMINAL REDEVELOPMENT PROJECT"

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Wednesday, 27 January 2021, at 9:15am, in the Chamber of the House of Parliament, George Town, Grand Cayman.

[Mr. D. Ezzard Miller, Chairman, Presiding]

The Chairman: Good morning, everyone.

Let the record show that we have a quorum present and I am calling the meeting to order at 9:15am. We have apologies from Mr. Christopher Saunders who is unable to make the meeting today.

Today we will be discussing the report by the Auditor General on the Owen Roberts Airport as it relates to the new terminal that was built, so I will ask Mr. Clarke to please bring in the first witness.

[Pause]

CAYMAN ISLANDS AIRPORTS AUTHORITY

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good morning, Mr. Guyton. First of all let me express the Committee's gratitude for accepting our invitation to attend this hearing.

As you would have been made aware, we are here today to discuss the Owen Roberts International Airport (ORIA) Terminal Redevelopment Project. The only rule is that when you are asked the first question you to state your full name and the position you represent so that it appears in the official record.

We start off as we usually do by asking the Auditor General to give a few opening remarks about the project.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman.

Good morning to you, members of the Public Accounts Committee, witnesses, officials from the Ministry, colleagues, and every one listening in. Thank you for the opportunity to make some opening remarks.

The report we are considering today is the Owen Roberts International Airport (ORIA) Terminal Redevelopment Project, which was a progress update report as at August, 2018.

As I said, the audit was carried out in 2018, therefore it was while the project was live and it provided a snapshot in time. My Office carried out this performance audit at the request of the Public Accounts Committee and it assessed progress made with the terminal redevelopment project as at August 2018, in relation to time, cost, and quality.

The report issued at that time contained a number of issues that were confidential and commercially sensitive and that could have created significant challenges and potentially additional costs to the public purse had they been reported publicly. These issues related to the final estimated costs of the project and the performance of the lead consultant on the project.

The report was made public in January 2019, hitherto only having been given to the Members of the Legislative Assembly, although at this time, a number of the issues remained commercially sensitive and so the report included a number of redactions. The Public Accounts Committee (PAC) decided not to hold a hearing at that time because the project was still ongoing and they preferred to wait until the commercially sensitive issues had been resolved to allow proper public scrutiny. The audit covered three main areas:

1. Project management and governance;
2. Timescales for the project; and
3. The total estimated cost.

We found that a separate business case for the project was never prepared; instead, the Cayman Islands Airport Authority relied on the master plan and the Outline Business Case that was prepared for the redevelopment of all three of its airports back in 2013. Project management was hampered by the poor performance of the lead consultant appointed to do this, which led to numerous delays.

At the time of our report, the project was expected to be largely completed by December 2018 and fully operational by February, 2019; this was much later than the originally planned completion date of March, 2018. As at August 2018, the total estimated cost of the project was $64.37 million—this was almost 20 per cent more than the contracted prices and 24 per cent more than the initial cost estimate of $51.9 million. Around $5 million of this additional cost was as a result of changes made to the scope of the project by the board of the Airport Authority after contracts had been signed and Exhibit 2 on page 19 of the report sets out the changes in estimated costs between May 2014 and August 2018.

Since the report was written, my Office has kept the project under review and provided updates to the committee at regular intervals. My latest understanding is that although the project has not yet reached final close due to ongoing negotiations, the final costs are now almost certain.

I look forward to supporting you today and have with me Ms. Angela Cullen and Mrs. Brittany Clarke who undertook the audit.

Thank you.

The Chairman: Thank you, Auditor General.

Mr. Guyton, as Chairman of the board, can you tell the PAC what kind of general governance structure was put in place by the board to manage this project?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Morning.

My name is Thomas Guyton; I am the Chairman of the Cayman Islands Airports Authority Board of Directors.

In terms of governance, there was a steering committee set up early on, let me go to my notes for the details. The steering committee met regularly and reported to the board monthly, unless there was reason to report to the board more often than that. Steering committee was briefed by the lead consultant on a regular basis.

Decisions on variations cost overruns up to $50,000 were made by the steering committee; anything over $50,000 was referred to the board. The board was not involved in day-to-day management of the project.

The Chairman: Can you tell us where you are now, what time you expect to have complied with all the contractual obligations for this project and what the final figure is likely to be?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes, I think there is one more meeting to be held next week or the week after. I can tell you at this point all five elements of the project are complete; the final cost will be no more than $74.3 million.

The Chairman: Is there any particular explanation why this has taken roughly two years after completion?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I think if you had to point to one major factor it would be underperformance of the lead consultant, RS&H [Group].

Numerous delays; an example, when the drawings were first submitted they were submitted as a hundred per cent drawings, we later found out they were no more than 75 per cent completed, resulting in the Bill of Quantities being based off 75 per cent completed documents.

The Chairman: Who accepted these drawings as being complete?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I cannot answer that. I think you have our Project Manager coming in later.

The Chairman: Was the board not involved in such a major decision as to deciding on advice from your consultants whether drawings were completed or not?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: There is no expertise on our board to determine if a complex set of drawing was 75 or 100 per cent completed. We were relying on the experts involved including Public Works Department, Major Projects Office (MPO), and our own project managers.

The Chairman: The Project Manager was not required to report to the board that he had received drawings that were complete or incomplete before the green light was given to proceed with the project?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I think it was Denise Stabler at the time. I am sure if she realised at the time that they were incomplete she would have reported that to the board.

The Chairman: Who was your Project Manager consultant?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Our Project Manager from Public Works Department was Denise Stabler. She had to leave mid-project and Roy Williams Public Works Department finished the project. Jim Scott from Public Works Department was also involved.

Public Works Department and Major Project Office have done a great job for us. How they did not discover the inadequacies in the original drawings is beyond me.

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

I want to say good morning to the witness and thank him for attending this morning. I want to stick with the lead consultant RS&H, as outlined by the Auditor General's report.

First of all Mr. Guyton, I understand that there is presently a dispute, if you will, between the Airports Authority and RS&H that may or may not involve litigation. Can you tell this Committee whether that dispute and all of its moving parts has been dealt with or are there still outstanding matters involving that dispute that may limit the questions that this Committee may ask?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: In terms of legal action that is still pending as to whether that is advisable or not. I believe a decision is going to be made in early February on that as well.

In terms of monies outstanding, we have that in hand now. We know the total costs.

Mr. Austin O. Harris, Jr.: Alright. This is a follow up and again, if any of these questions tend to border on some of the challenges of that litigation, I trust that you would say so.

As I understand from the Auditor General's report, RS&H was not the first choice out of the tender; they did not win the tender. In fact, another company won—Chalmers Gibbs, I believe—but it quickly became apparent that the company that won the tender lacked the requisite experience and/or abilities to deliver the project, so a decision was taken to swap the lead consultant from Chalmers Gibbs to RS&H and if my notes are correct, the director of Public Works, the then Project Manager from the Major Project Office and the Chairman of the Central Tenders Committee agreed to the swap.

Is that correct?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: That is correct.

Mr. Austin O. Harris, Jr.: It was also noted, that RS&H did perform satisfactorily during the design development stage from January to October 2015, but the Airports Authority first raised their concerns about RS&H during phase 1 of the project, which occurred between October 2015 and September 2016.

What were some of the deficiencies early on, outside of the drawings that the Airports Authority first had concerns about, as it related to RS&H?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Outside of the drawings, you would have to talk to the Project Managers. The first red flag that we were aware of on the drawings were the electrical submissions to Building Codes Unit (BCU).

I think at the end of the day there were 14 separate submissions before those drawings passed BCU; that was the point where it started becoming evident that the drawings were not 100 per cent accurate and complete.

Mr. Austin O. Harris, Jr.: As it relates to those drawings and of course, the overall 24 per cent increase in overall cost of the project, how much did those delays impact the overall increase in the overall deliverable price?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Let me defer to the Project Manager because he is the numbers man and he has all that broken down for you. He can answer that to the
penny.

Mr. Austin O. Harris, Jr.: Alright. Let me ask you another question.

The oversight that the Chairman just asked about, as I understand it, the Project Steering Group made the project decisions and the Cayman Islands Airports Authority board ratified those decisions, so it was a combination oversight of your board and the Project Steering Group. Is that correct?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes.

Mr. Austin O. Harris, Jr.: The Strategic Outline Case for the project stated that the Project Steering Group would meet monthly and those reports would be provided to the board of Directors of the Cayman Islands Airports Authority so as to ensure that governance framework. Was that the agreement?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Correct.

Mr. Austin O. Harris, Jr.: We understand that shortly after RS&H became the lead consultant, one of the earlier signs, perhaps even before the delays in electrical drawings and what not were experienced, that the first signs of trouble came as a result of there being no monthly meetings for the initial five months,

namely July and November 2014; and then only seven meetings in the year March 2015 to February, 2016, which would have covered both the design stages of the project and the initial phase one of the project.

Was this a red flag also, in terms of the performance challenges that the board may have had with RS&H?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I do not necessarily think so.

My understanding is that the committee was informed there was just a lot of background technical work going on. There may not have been formal meetings, but at no time was the steering committee or the board left in the dark.

The Chairman: Just one supplementary: how did the steering committee report to the board, was it done verbally or in writing in the form of a structured report?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Both. We had verbal briefs, PowerPoints, diagrams, drawings, numbers; it just depended on the phase of the project.

The Chairman: But at all times that they made these verbal or PowerPoint presentations there was a document to which the board could refer and of which we could get copies of now, if we ask for them—of all of those reports?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes, obviously you can get any copies of anything that was presented. I cannot say there was a document for every meeting, but we were briefed at every meeting to my recollection.

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

Just a kind of after-the-fact question: what lessons did the Cayman Islands Airports Authority board learn from the Owen Roberts International Airport redevelopment project, whether they relate to the lead consultant or the overall project?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: One of the big issues was that the cost consultant was employed by the lead consultant. I think one of the lessons learned by the MPO and ourselves would be to also hire a cost consultant on our own staff.

Do not set the budget before design work.

Final Business Case, as the Auditor General has advised, although I will say the Final Business Case would have been very close to the Outline Business Case in this situation. There was very little difference in the signed contract values versus The Outlined Business Case estimated values.

Mr. Austin O. Harris, Jr.: The Auditor General's Office noted, and it is certainly not unique for the Airport Redevelopment Project but, one of the major factors relating to the increase in overall cost was the various variations in project scope. I think the report totalled an overall 92 different variations to the project that contributed, if not were responsible, for the increase in the estimated project cost which according to the initial Outline Business Case was $51.9 million, and then increased to a total of $64.4 million as of August 2018.

Do you accept that in large part, these variances led to those cost overruns?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: There are a couple of different pieces to that.

There were 412 variations due to errors and omissions in RS&H's drawings—that was over half of the variations and they cost over $12,372,000 for correction.

Tenet variations during the course of the project: 72 amounted to $531,000.

There were 79 just for unforeseen situations at a cost of $1.150 million and there were 236 that came before the board at a total of $5.6 million.

On the board approved variations, I will say that the board never approved any variations until money was found, separate and apart from the original budget to pay for them.

There were $4.7 million—just to back up…

To fit this project end of the budget we had to strip a lot of desirable elements from the project. In 2017, 2018, 2019 we had a large windfall in cash at the airport and because we had the cash, we went back and revisited some of the things that had been stripped from the project—I think there is a listing of all the board-approved variations—and we did approve to add some back in.

For the most part, those items had been bid in the early bid documents so we had a price; we had just cut them from the original bid to fit into the budget. I know the Auditor General described them as cost overruns, but we knew exactly how we were going to pay for those; it was not intended that they would be paid for out of the original budget. We had cash ring-fenced for those add-ons.

The Chairman: Was there an amendment done to the contract to make sure that these things were going to be done at the original submission cost?

Why were all these additions not the subject of a separate contract?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I cannot really answer your second question but yes, everything was documented, costed and presented to the board for approval before

we approved it and as I said, cash was found and ring-fenced. It was from supplemental cash.

The Chairman: You said they were in the original design and the original budget but you took them out for cost purposes and to lower the price of the contract?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes.

The Chairman: Okay. Did that happen before or after the project was bid?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: It happened over the course of the project. An example would be rain-covers. To fit into the budget, we had to eliminate several sections of the rain-covers in the front of the terminal and once money was found we put them back in.

Another example would be an upgrade in the glass to hurricane glass. Even though the airport terminal is not a designated hurricane shelter, we felt it would be worthwhile to upgrade the glass to hurricane glass, since we had the money and construction was ongoing.

The Chairman: But the hurricane glass was in the original proposal and it was taken out for cost purposes?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I believe so but I am not 100 per cent certain on that.

The Chairman: On a side point: have you taken the advice in your answer to the Member for Prospect, that the thing learnt is that you hired a cost consultant?

Have you done that for the ongoing project on the air side of the airport; do you have your own in-house cost consultant?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Again, I would defer to Mr. Williams, the project manager. He can give you all the details; he is running that project for us.

The Chairman: But Mr. Williams is not an independent entity running the project; the board uses him to manage it and the question is: have you given him instructions to have an independent cost consultant?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Actually, he works for the Major Projects Office and we rely on them to manage the project. I am sure they have an independent cost consultant, but I am not involved at that level of detail.

The Chairman: Does he not take guidance from you in terms of the scope of the project? The management of the project is left entirely to the Major Projects Office and you just accept their recommendations?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: We approve the design documents.

Basically, again, we (the board) are not construction people; we are not constructions managers. We have to defer to the experts. Major Projects Office has done an amazing job for us; we have 100 per cent confidence in their abilities. I believe that project is nearing completion now as well.

The Chairman: Mr. Bernie, then Mr. Wight.

Mr. Bernie A. Bush: Through you, Mr. Chair. Knowing what you know now, and by the way, those rain coverings you just spoke about—

Mr. Austin O. Harris, Jr.: Canopies?

Mr. Bernie A. Bush: Still getting wet; they are not much use. Knowing what you know now, what do you think you and the board should have done differently?

[Inaudible interjections]

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: That is a difficult question to answer because process was followed, a Request For Proposal (RFP) was put out, tenders were reviewed.

RS&H has a world-wide reputation. They build airports, this is what they do. This was not their first project. They were highly qualified on paper. I do not know what went wrong with them. They fired their on-site—well, it was not on-site, he was in and out—project manager in the middle of the project. I do not know what we could have done differently. Based on the submissions and the bids for the project, there really wouldn't have been a better choice than RS&H on paper.

The Chairman: Mr. Wight.

Mr. David C. Wight: Thank you Mr. Chairman and good morning to the Chairman of the Airport Authority, Mr. Guyton.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Good morning.

Mr. David C. Wight: Having stated earlier that the board is not involved in the day-to-day decisions, can you know let the Committee know how the board is kept up to date on progress, and how the board was

involved in making key decisions relating to the project?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Okay.

Our CEO, Albert Anderson and our Chief Officer, Stran Bodden were members of the steering committee and were authorised, within contingencies in the project budget, to approve changes in variations up to $50,000 which were day-to-day decisions.

The board was updated monthly. If there was a major over $50,000 decision to be made we were available for special meetings.

Sorry, does that answer your question?

Mr. David C. Wight: Yes it does in a way, but then also…

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Sorry; I think that governance structure is outlined in the business case itself, it describes the governance structure and the setup of the steering committee reporting to the board.

Mr. David C. Wight: Okay; thank you.

The Chairman: Can you tell us who the members of the project steering committee were?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I don't know that off the top of my head, other than our two board members.

The Chairman: So the board was not involved in the appointment of this steering committee?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Not all members, no.

The Chairman: So who appointed members that you were not aware of or you did not approve of?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: With respect, it has been almost six years, I do not recall how the steering committee was selected and set up.

The Chairman: But the evidence you have given is that you relied very heavily on this steering committee. So the only people that reported to the board from that steering committee would have been your CEO and who else?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: The CEO, the project manager and also Mr. Stran Bodden were on that committee. I am not saying I did not know who was on the committee, I am just telling you now I don't remember who was on the committee during the course of the project.

Mr. Anderson dealt with him on a daily basis so he will be able to tell you exactly…

The Chairman: But he was a member of the committee, so the committee did not report to him, the committee only reported to the board?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: No.

Well, in the governance structure, yes, the committee reported to the board. The committee representative that actually reported to the board was the CEO, the project manager when necessary…

The Chairman: So was the Ministry involved in this steering committee and what kind of role did it play therein?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: The chief officer was on the steering committee and he also sits on our board.

The Chairman: And no one saw any possibilities of conflict there?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: No, sir.

The Chairman: Okay, wow.

Just to follow-up on the Member for Prospect's question about the possibilities of legal action: you indicated that there may be a possibility of that but you also gave evidence earlier that you expect to finalise the figure and meet all the contractual obligations on the project in one more meeting to be held in the next couple of weeks.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Whether or not we pursue legal action is separate and apart from the final accounts.

The Chairman: So, this final amount of $74 million… Do you have a breakdown of the project costs—that is, the building, and furniture?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I believe so.

You would like to know the final costs?

The Chairman: Yeah. I think you gave us that already—$74,030,000.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes, sir.

The Chairman: Okay.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority:

Construction phase 1	$3.787 million
Baggage handling system	$2.80 million
Consultant labour (RS&H)	$4.425 million
Furnishing and equipment	$1.04 million
Construction phase 2	$61.97 million

The Chairman: Is that the final figure or was that the contracted figure on the original contract?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: It will be no more than that figure.

The Chairman: Right, but what was the original contract for the phase 2 construction?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: The original $44.046 million and then there were board approved additions of $4.3 million, bringing it to $48.352 million.

The Chairman: But the agreed figure for construction costs is $67 million versus the $44 million contracted for?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: For phase 2?

The Chairman: Yeah.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Well it was $44 million, plus board additions of $4.3 million for a total of $61.9 million

The Chairman: Yeah, but 44 plus 4 does not give me 60…

[Pause]

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: No, no; I am saying the budget—the contracted cost was $44 million plus $4.3 million in additions from the board; the final figure, the close out, was $61.9 million.

The Chairman: It was 61.9?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: For phase 2.

The Chairman: Okay.

Mr. Austin O. Harris, Jr.: Mr. Chairman.

The Chairman: Yes, go ahead Mr. Austin.

Mr. Austin O. Harris, Jr.: You mentioned that the amount payable to RS&H was in the region of $4.25 million, but you also acknowledged that the delays in regular meetings to inform the Project Steering Group and the board of directors, plus the flaws in the design contracts led to the increased cost.

Is there any planned action to recoup that $4.25 million that was paid to RS&H?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Again, that is the subject of a meeting to be held in early February to make a decision as to whether or not legal action is advisable.

Mr. Austin O. Harris, Jr.: As a follow-up, Mr. Chairman:

I think everyone in this room will agree that the overall project provided value to the Cayman Islands in terms of its continued growth. I think the Auditor General's Office acknowledged that the redevelopment of the terminal was essential for the growth of the Cayman Islands economy. To increase the number of passengers—both residents and tourists—it was essential to improve the flow of the airport and improve their travel experience overall.

While the borders have been closed, since March of 2020, not a lot of movement has taken place in the airport. As part of Heroes' Day, I recently had the opportunity to at least walk through it with my colleagues, and it is a far cry improvement compared to what it was. So I think it goes without saying that the project, at face value, certainly is an improvement on what existed prior and certainly should be able to accommodate the growth that the country may experience in tourism, as well as domestic air travel.

My concern, however, is that the project started out on shaky footing from the very beginning. The initial tender—awarded by the Central Tenders Committee—questioned the experience and capability of the company that won the tender.

In a meeting of the minds that included the Central Tenders, the Procurement, the Major Project Office and Public Works, the decision was taken to take on RS&H, as you stated in testimony, because this is their business. They build airports and certainly on paper, they looked or seemed to be the most qualified, but it did not take long for the problems with that lead consultant to raise their head, whether it was delays in the meetings provided to the oversight group to the Airports Authority, or design flaws that led to cost overruns.

Why was the decision not taken from much earlier on—as it had been to swap lead consultants in the beginning—to address the deficiencies that were being identified by RS&H? What was the motivation on the part of the Airports Authority board to—for lack of a better word—continue to give RS&H the benefit of the doubt?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I believe that there was no point where we felt like it would be beneficial to fire the lead consultant and start over. At all times when that discussion was had, it would have been much more expensive and cause significant additional delays.

As the project matured we had the Major Projects Office (MPO) come on board with highly competent project managers. We finished the project largely because of them and in spite of RS&H, but to get
another lead consultant on board and bring them up to speed, there was never a point where we felt like that was the best course of action.

Also keep in mind, when we started this project the terminal was operating at double its design capacity and throughout the course of the project, over five years, we had a boom in tourism; we had to stay open every day and accommodate passengers. It was just a difficult project from the outset.

The Chairman: That was known in the very beginning so that cannot be a reason why we had all of this 'mess up' if you want to call it that.

What was the justification and purpose of the changes that the board agreed to from the original design/drawings?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Again, there were improvements to the finished product basically that we found we could afford over the course of the project; for the most part, they were elements that had been stripped out to meet budget.

The Chairman: Okay, but were they basically to increase the capacity of the building? Was there any expansion of the footprint for any of that or was it just design and flow?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yeah, no.

I have a list here somewhere that I can dig up for you but no, it was not a square footage increase; it was improvements to different elements of the design.

The Chairman: Okay. So none of those increased the handling capacity or the lifespan of the building? I think originally the lifespan of the building, in terms of being able to serve the traveling public, was supposed to be 25 years, and if you read the current press reports we are already at capacity.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I would not say we are at capacity, but we are definitely approaching the trigger points for additional capacity much quicker than was forecast. When the design was done they took an optimistic, pessimistic, and current trend line estimates; pre-COVID we were well ahead of where we expected to be at that point.

As with all airports, this airport should have capital projects ongoing at all times, and if we need to expand, we expand. There are plans in place to expand the current footprint, additional terminals.

The Chairman: It is our understanding that there was quite a delay in the purchasing of the baggage handling equipment; is there any explanation for that?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I believe the lead consultant again, RS&H, was something like a year late in the design drawings for that.

The Chairman: So those were not part of the original design drawings that were accepted by your project manager as being complete?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: That is correct. That was a separate project.

The Chairman: Okay.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: A channelling system.

The Chairman: I think the outgoing baggage handling is covered, it is under a roof; the incoming baggage handling is exposed to the elements.

Is there any truth to the reports that because it has been exposed to the elements we have lost all warranty on it? What is the board doing to replace those pieces of wood and temporary roof that have been out there now for a couple of years?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I am not sure on the warranty question. I did not know we had a piece of equipment fail because of exposure to weather.

We have a design for an additional roof on that side. Again, it was something that should have been in the original design but because of COVID budgeting it is on hold at the moment, but we do have a design and I believe we have gone out to bid on it but we just have not pulled the trigger.

The Chairman: I find it difficult to accept your contention that you are 100 per cent confident in your project manager when he accepted these drawings without these… I mean, even me would expect that something like baggage equipment would be under cover and that is something that any layman should be able to pick up from a set of drawings.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I think after the fact I would agree

with you. Early on in the project—it is a complex project and it was missed.

Ms. Barbara E. Connolly: Through you, Mr. Chairman to the witness: the Project Steering Group has met monthly since August 2016 and attended monthly design workshops and project updates in the early design stage of the project. However, the Auditor General's report identified a number of gaps in the Projects Steering Group meetings.

There were no meetings for five months between July and November 2014. During that time, the procurement process for the lead consultant (RS&H) for design cost and contract administration carried out only seven meetings in a year from March 2015 to February 2016. During this time, the contract for phase 1 construction was signed and the tender documents for phase 2's construction were issued. There were no meetings in the six months between March and August 2016; during this period, the contract for construction of phases 2, and 3 were signed. These were important key milestones.

Can the witness say why regular meetings were not held during these crucial times?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I can tell you what I have been told in response to the auditor's findings.

There are times in all projects when there are intense periods of technical work, for example during drawing, tender document production, tender review periods when there is less need for steering committee meetings to take place. During the October 15th to September 16th period, less steering committee meetings are needed as phase 1 was a more straightforward phase of the project; also a lot of technical work was underway on drawings for phase 2.

Our view is that steering committee members were generally kept well up to date and were aware of issues and risks, as most were regularly involved in technical and other meetings throughout the course of the project. However, we accept that records of decisions made by steering committee members outside of steering committing meetings could have been more consistently recorded in the next steering committee meeting minutes.

Ms. Barbara E. Connolly: Through you Mr. Chairman to the witness: going forward, in terms of oversight groups, because an oversight committee is actually supposed to meet regularly to make decisions, receive regular updates on progress, and access emerging risks and issues and agree on corrective actions to be taken.

So my advice is: going forward, based on the strategic outline or what should have actually transpired was and based on the Strategic Outline Case is those monthly meetings may have identified some of those risks, if they were held on a monthly basis.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I agree.

Mr. Austin O. Harris, Jr.: I am just sticking with cost for a moment; $51 million was the original expected cost according to the Outline Business Case (OBC). We understand from the latest figures that that number presently sits at $74 million.

Does $74 million represent the final cost for the Owen Roberts International Airport redevelopment project as was laid out in the initial Outline Business Case?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes, and just a note on that: the Outline Business Case base number was $51.9 million in 2014, not accounting for construction inflation.

In addition, the Outline Business Case clearly included a 25 per cent risk allowance for expected risks over the course of the project, based on it being a 30 year old building and not knowing what we did not know going in. If you adjust the $51.9 million for construction costs and apply the 25 per cent risk factor, you come to—I think it is $71.08 million. We came in at just around three per cent over that figure.

Also, I would just like to say that we did have Cabinet and FCO approval for the business case, which included the 25 per cent risk allowance on the $51.9 million 2014 base number.

Mr. Austin O. Harris, Jr.: Speaking of that risk allowance, the Outline Business Case, as you correctly mentioned, suggested a risk allowance of between 20 per cent and 30 per cent. However, the actual allowance for the contingency throughout the phase, I think phases 1 and 2 of this project, was set at 6 per cent of estimated construction costs for phases 2 and 3, or approximately $2.5 million.

I wonder, because you mentioned this twice already: was this reduction in risk allowance—from 20 or 30 per cent as recommended by the Outline Business Case to 6 per cent—done to meet budget at least at face value? What was the thinking that cost overruns could be as little as 6 per cent when the Outline Business Case stated 20 or 30 per cent? Certainly, when we look at the numbers it would appear that the Outline Business Case was accurate.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: There are two different figures: the 6 per cent is contingency for construction variances; the risk allowance was out there. We obviously were not going to tell the contractor that we knew that could happen. RS&H lobbied hard to reduce contingencies down to 6 per cent and they felt

confident that they could complete the project within that 6 per cent.

Mr. Austin O. Harris, Jr.: We acknowledge the cost overruns and we acknowledge that they were significantly more than was initially estimated in the Outline Business Case; however, I think it is important to note that despite some media publications, particularly one as early as October 2020 that suggested the project would top CI$100 million in total, the project never reached anywhere near $100 million.

Well, perhaps close to it at $74 million, but the $100 million price tag as has been stated, and to date, never been amended in the news media, is not correct. Would you agree with that statement?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Absolutely. As I said, the airport redevelopment project which had five elements will end up costing not more than $74 million or within three per cent of the Outline Business Case that was approved by Cabinet and the FCO.

I believe what happened, where that $100 million figure came from, is that they combined two completely separate capital projects at the airport, but as I said before, the airport will have capital projects ongoing every year if we do what we should do, in terms of modernising and keeping up with our competitors.

Mr. Austin O. Harris, Jr.: The project was funded by the government injecting $15 million in financial support and the remainder of the funding was planned to come from the Airport Authority passenger facility charges, but given the significant cost overruns, we understand that some of those monies had to be borrowed. Can you state how much money was borrowed to ensure the completion of this project?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: There was no borrowing to ensure the completion of this project.

The borrowing is related to the airside works project that's been during the COVID period here, so obviously our revenue has dropped off to zero, but the terminal building was funded and was originally intended to be funded entirely out of passenger facility charges. The government wanted the project hurried up because of the under-capacity situation we were in. So I think they injected the $15 million to tighten the timeline by two years.

Mr. Austin O. Harris, Jr.: Just for clarification, whether it be for news media that may be preparing to pen a second article or the general public who are listening and trying to understand the differences in projects: we had the Owen Roberts terminal redevelopment which dealt with the expansion of the terminal, the passenger waiting area, the departure lounge, et cetera.

Then we have a second project which includes the airside redevelopment which, in my mind, includes the expansion of the runway as well as the delivery of the taxiway, I think that's the right language. Is that the extent of the second air-side redevelopment or are there other factors involved in it?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: There are a couple other elements; I mean, the airside works project was driven by audit findings and we were required to resurface the runway if we were going to continue receiving the British Airways or any triple sevens.

While we had paving works going on, we added a couple of elements which would be the parallel taxiway from the end of the runway back up to the main apron. We expanded the main apron to properly accommodate the triple sevens and to give us additional parking stands, which were sorely needed, and lengthening of the runway to the extent that we could towards Crew Road.

Mr. Austin O. Harris, Jr.: For the benefit of the listening audience and certainly for my own elucidation: both the terminal redevelopment project and the airside redevelopment project were put in place specifically to increase the number of passengers—both tourist and domestic—to a certain figure. However, we also heard in testimony that whether it be the attractiveness of the Cayman Islands, I think largely by the success we have enjoyed with the COVID pandemic, and if I may be so bold to say that we have proven to be one of the safest places on the planet, I think that will also lead to the attractiveness for visitors to come to our shores.

Can you state to this Committee the anticipated shelf life—if you will—of the existing project enhancements both of the terminal and the air-side? How many visitors or how many movements were those two projects combined expected to manage on an annual basis, and how much more in your estimation, is that growth going beyond that number and obviously in need of further development?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I don't have those numbers at hand. I can get them for you, but I can tell you that we are working from a 20-year master plan that includes trigger points and passenger volumes.

On the master plan we do have a greenfield terminal site to the north of the new apron. There is also the possibility of a concourse building along the new apron and tying into the new terminal. We are updating the 20-year master plan at this time to take into consideration the accelerated growth pre-COVID

because we feel like it is going to come back. I feel like we are in good shape.

The terminal building that you talked about overcrowding and beyond capacity, it is really only on a Saturday that that happens and up until now, we have said yes to everybody who wants to come between 12:00 and 4:00 on a Saturday basically.

We have to implement slot management systems and we have to offer incentives to have airlines consider other days other than Saturdays. I think the hotels also like to change all their guests on a Saturday, so Saturday is really the only problem that we have; all other days of the week we have plenty of capacity. So that is another issue we have to deal with, there are other ways to deal with it other than just continuing to build.

I think the next phase immediately, if we need capacity is to expand the new departure and arrival halls to the south; there is room there to gain quite a bit of square footage. We are taking in the upstairs space and fitting that out as additional passenger handling area as well. Originally, that was going to be a VIP lounge but we had no takers on that, no airlines seem to be interested, so we said *well, rather than do that, let us add,* and I believe we picked up another 200-odd seats upstairs plus a lounge area.

So the master plan is a great document. On the air-side works; again, the parallel taxiway was just one component from the master plan, eventually there will be a parallel taxiway from end to end. We have stretched the runway as far as we can stretch it right now without closing Crew Road or going into the North Sound. There are some quick wins we could do; we could extend 400 feet of runway and safety area into the North Sound that would only have to support a truck not an airplane, and we would gain back 400 feet that were taken for an end safety area.

There are options; I mean I wish we had 300 more acres of land but we do not, so I think it's very important that we stick to the master plan. We do not allow anything to be built that is not on the master plan; we feel like it will be adequate for years to come.

Mr. Austin O. Harris, Jr.: On that question, and it is just a two-part response: we talked about the need to potentially increase the square footage in terms of your footprint. At least at the moment in the planning stages does that include horizontal expansion, that is, some of the properties that may be commercial today may one day, at least at the drawing board, encompass an Owen Robert's International overall footprint, or is the view, as you stated in terms of increasing passenger capacity to go vertically, adding a third or fourth floor to the airport?

What are the expansion methodologies or some of the ideas that are being tossed around, in terms of what that future expansion will look like?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Well I do not think there is any consideration of vertical expansion on the existing site but any future building—again, it is a greenfield, so we would build whatever is required. The connector building between the current building and the greenfield terminal could very well be a two-story concourse, much like where you board Cayman Airways in Miami.

In terms of extra land, it costs money. We feel we have acquired all the land we can around the existing runway; it is unfortunate we did not acquire land 20 years ago but, there is a lot of room for expansion with the land and the master plan that we have.

Mr. Austin O. Harris, Jr.: Is there any consideration as has been rumoured? I mean you said it yourself, certainly it would be nice to have an additional 300 acres of land but we simply do not.

Do you see Owen Roberts International terminal—both the land side and the air side—serving the long-term future needs of the Cayman Islands or do you and your board envision that perhaps a fit-for-purpose airport may have to be developed in the future, perhaps on an alternative site where there are 300-plus acres available?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I would say that our board is focused on the property that we do have. It was a struggle to get a $74 million terminal funded; I can imagine the cost of a greenfield land acquisition runway… You know, that is for the government to decide.

Mr. Austin O. Harris, Jr.: But just for the avoidance of doubt and of course, the ongoing rumour mill, there are no plans, drawings or otherwise on the table right now looking at an alternative site?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: No, not our board. I think that is beyond our remit.

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

The Chairman: Okay.

Mr. Guyton, you mentioned earlier in response to Mr. Austin that the project was intended to be funded from your own revenue. The problem that I have with that answer is: when can we expect your audited 2016/2017 accounts, your 2018, 2019, and 2020 accounts?

Is there any particular reason why, with all of this going on, your board has not been able to produce accounts?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: I believe we are waiting on the audit.

The Chairman: I do not think so but I will let the Auditor General answer.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Mrs. Winspear, can you help me there?

[Inaudible interjection]

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Through you Mr. Chairman: yes, you are waiting on the audit but we believe that we are waiting on information from the client, but we do have a separate session on Friday to discuss that.

The Chairman: *[…Inaudible]* to that session, so I just wanted to get his view.

So the board's view is that it is the Auditor General's Office fault that the accounts have not been done?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Yes, the accounts are done in fairness to the CIA management team. There are Auditor General Audits, CA audits, COVID measures, and two major capital projects, so if they have not given the resources they should have. I think they will be catching up quickly, but the accounts are done. I am confident of that.

The Chairman: Okay; of course.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Sorry Mr. Chairman, just to clarify: the accounts are done; obviously they are not audited. We will talk further on Friday. We have been trying to engage with the Audit and Risk Committee on the board as well, but without success so far.

The Chairman: Okay; any other questions?

Ms. Barbara E. Connolly: Mr. Chairman through you, I have one final question going back to the lead consultant.

As a result of the lead consultant's poor performance from early days, did the board at any time consider terminating that contract?

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Again, the board was not involved in day-to-day management of the project; we relied heavily on the project manager, the steering committee, and Major Project's Office and at no time during the project was it recommended that we consider firing the lead consultant.

The Chairman: Are there any other questions?

[Pause]

The Chairman: If there are no other questions, thank you very much Mr. Guyton for coming before the Committee.

Thank you very much.

Mr. Thomas Guyton, Chairman, Cayman Islands Airports Authority: Thank you for having me.

The Chairman: Thank you.

We will take a suspension and come back at 10:50 am.

Proceedings suspended at 10:25 a.m.

Proceedings resumed at 11:10 a.m.

The Chairman: The Committee is called back to order; let the record show that we have a quorum present.

[Pause]

CAYMAN ISLANDS AIRPORTS AUTHORITY

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth, so help me God.

Ms. Sheila Thomas, Chief Financial Officer, Cayman Islands Airports Authority: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth, so help me God.

[Pause]

The Chairman: Good morning, Mr. Anderson and Ms. Thomas. On behalf of the Committee, I want to express our appreciation and gratitude for you attending this hearing. You would have been informed that the hearing is about the Owen Roberts International Airport Terminal Development project.

We have some questions to ask you about the project; the only rule is that when you answer the first question, you state your full name and title so that it appears in the official Hansards. Mr. Austin, you can lead off.

Mr. Austin O. Harris, Jr.: Thank you, Mr. Chairman. Certainly I would like to echo the Chairman's remarks by welcoming the two witnesses this morning and thanking them for their attendance.

It is generally accepted that the Airports redevelopment project was necessary for the continued growth of the country; it certainly has fulfilled much of its expectations in terms of providing better space and flow of both tourist and domestic air travel. We also accept and understand that in the media's standpoint the terminal redevelopment project, in many cases, gets lopped into the airside redevelopment when we talk about overall costs, but I think it is important to stipulate as identified earlier this morning, that they represent two separate projects, albeit on the same site.

We are here today to determine whether or not the money spent in this project represented value for money, as well as to examine some of the decisions and complexities that were evident throughout this project. In that vein, I would like to begin by focusing on the governance framework of this project. We understand that this project was being delivered through the Cayman Islands Airports Authority or a statutory authority and not the Major Projects Office, as is outlined under the Public Authorities Law.

We also understand that you, Mr. Anderson as Chief Executive Officer for the Airports Authority led the Project Steering Group that provided oversight for this project. My first question to Mr. Anderson is who appointed the Project Steering Group? How did you and other members receive your appointment to that steering group?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Mr. Chairman, I joined the Airports Authority in March of…

[Inaudible interjection]

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I am sorry—I am Albert Anderson, Chief Executive Officer at the Cayman Islands Airports Authority.

I joined the Authority in April of 2014 and at that time, the steering group was already established, so I cannot speak to who appointed the team. At that time, it included people from the Department of Environment and other government agencies. As the project developed, the steering group changed; I think I became the chairman in late 2014.

The membership today—and it has changed over time because various people left—includes the Chief Officer for the Ministry of District Administration, Tourism and Travel, the project manager, the head of the Major Projects Office and four members of the CIAA management team.

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

You mentioned that the Project Steering Group was already in place when you arrived at the Authority. Can you state who appointed you to the Project Steering Group?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The chief officer.

Mr. Austin O. Harris, Jr.: The chief officer.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: He was the chairman of the steering group at the time.

Mr. Austin O. Harris, Jr.: The chief officer of the Ministry was the chairman of the Project Steering Group—

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: At the time.

Mr. Austin O. Harris, Jr.:—prior to your appointment.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes.

Mr. Austin O. Harris, Jr.: I am curious. At the time that you were chairing the Project Steering Group, were you also a member of the board of directors and performing your role as chief executive officer of the Authority?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, I was.

Mr. Austin O. Harris, Jr.: Did you at any time perceive a conflict in the responsibilities and obligations of either the Project Steering Group or, of course, your substantial position as CEO?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, I did not.

Mr. Austin O. Harris, Jr.: What were the reporting lines as it relates to the Project Steering Group? Who did you report to and who did you receive instructions from?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I reported to the board and received instructions from the board.

Mr. Austin O. Harris, Jr.: And you were a member of the board?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, a non-voting member of the board.

Mr. Austin O. Harris, Jr.: A non-voting member.

The Owen Roberts Terminal development project received its guidance initially through the Outline Business Case, (OBC) which was prepared in 2014. The OBC was approved by Cabinet on the 5th August 2014 and thereafter, by the Foreign and Commonwealth Office under the Framework for Fiscal Responsibility which we were compliant with, on the 15th August 2014.

Phase 1 for the Owen Roberts International terminal did not begin until a year later in September 2015 with phase 2 commencing the following year, on May 2016. The OBC stated that the project would take eight years to complete, however, it was decided that the project should and could be delivered in a much faster time scale of three years. When was this decision taken and by whom?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: That was done probably in late 2014, I cannot remember the exact date, but it was around late 2014 or early 2015. It was discussed at the Steering Committee and then there was a discussion with the board on it. I believe we did a presentation to Cabinet or Caucus and throughout that process we decided to shorten the timeframe.

Mr. Austin O. Harris, Jr.: The Project Steering Group, as stipulated by the OBC, were to receive monthly project updates from the lead consultant and we understood that that was not necessarily always the case. In particular, we heard testimony that there were occasions when the Project Steering Group would go months without an update from the lead consultant. In one case, it was three months, in another case it was five months, and I think it was 10 months before the Project Steering Group received its first update from the lead consultant.

In your opinion as chairman of the Project Steering Group, what were the reasons for these delays, particularly given that the project started but the lead oversight body in the governance framework—the Project Steering Group—were not informed for up to 10 months of work that had already begun? What were some of the reasons why that occurred?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The Project Steering Group were certainly kept informed. The meetings were not consistent in that timeframe for a couple of reasons:

1. A large part of that timeframe was the design stage; not much happening. The consultants were in the process of designing the project; and
2. In 2015 – 2016, phase 1 of the project was being built. Phase 1 was a very simple phase of the project; basically pouring concrete, so the Steering Group stayed in touch.

I think this is an area where they should probably have continued to meet and record the way things were going but the members of the Steering Group, if we recall, I said were members of my management team. They were also part of a team of people who worked on a weekly basis with the contractors and the consultants on being able to continue airport operations while the construction was happening. So they were very close to the project.

Some discussions were had by email and I accept that the meeting should have been held to record when they were updated.

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

The cost of the Owen Roberts terminal redevelopment was estimated at $51 million in 2014; the final figure came in at just a little over $74 million, in terms of the terminal itself. This increase in overall cost came as a result of a number of variations or changes to the scope of the contract. The Project Steering Group was among the first to make amendments to the scope in August 2015.

After the contract design the project was awarded, and the procurement of phase 1 was completed, the Airports Authority board decided that it wanted to make a number of changes to the scope of the project. There were three, in particular, which included:

- New parking facilities
- Landside canopies to provide protection for passengers against the weather; and
- Bringing forward the planned implementation of new generators.

In phase 2, at the request of the Cayman Islands Airport Authority, a further three changes in scope were added; that included:

- Upgrading to hurricane-grade windows;
- Upgrading offices of the second floor; and
- Replacing old sections of roof, based on quality inspections.

We heard from the chairman of the board that there were an astounding 412 variations to the contract made by the lead consultant, RS&H and that there were a further 90 changes made by the contractors, 60 of which had to do with—I believe—the design errors and omissions that were made by the consultants; so, 500-plus variations made to this contract.

Mr. Chairman, using only the 2014 OBC as a guide, my question to the witness is: why was a Final

Business Case not developed and published, given the significant change in scope from the original design plans? I know it was discussed, but it never materialised. Why was that?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, there was some discussion about the Final Business Case.
I think there was some confusion as to when it needed to be done and that was primarily because the project came together in several different parts—there was phase 1, there was a baggage handling system, there were phases 2 to 5—and they were all bid separately. There was no one point, until late in the programme when we knew what the total bid contract or months would be. I should not say late in the project but certainly quite a while after the start of phase 1. That discussion was going on at the time but at the end of the day it was an oversight in terms of the Final Business Case.

I do believe that the Final Business Case would not have been significantly different from the OBC, which is a comprehensive document that covers most of the requirements of a business case. The only major change would have been that the costs in the Final Business Case would have been the actual contracted costs, not estimates, and the risk allowance in the OBC would have been captured and nailed down in the Final Business Case.

Mr. Austin O. Harris, Jr.: We understand that the oversight of this project was managed by the Project Steering Group, as I mentioned earlier, and not the Major Project Office that is outlined in the Public Authorities Law and I believe the reason for that was that this development started before the Public Authorities Law took effect. However, that does not excuse the fact that the process for oversight could have, and some might argue should have, been amended to become compliant with the Public Authorities Law. In your estimation, why was that not done?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Well, from a contractual and construction perspective the Major Projects Office were the oversight. They fed back into the steering committee, and there were two members of the Major Project Office on the steering committee, so to say that the project was not overseen by the MPO is, I think, not correct.

Mr. Austin O. Harris, Jr.: Is it your testimony that whilst you as CEO of the Airports Authority, the chief officer of the Ministry and other laymen members of the Project Steering Group were not engineers, contractors experienced in airport redevelopment, that the Project Steering Group was satisfied that the requisite expertise required to provide oversight for a $50 million plus project was sufficient in the membership that made up the Project Steering Group?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, we were. The membership from the Major Projects Office brought the expertise from the construction side and the membership from the Airports Authority…A key part of this project was keeping operations going while the construction was happening, so it was crucial that we had people who managed operations at the airport as part of the steering committee.

Mr. Austin O. Harris, Jr.: Given that this project occurred over a number of years, going back to as early as 2015—now six years after the fact—whenever the Public Accounts Committee or any other body is charged with the obligation of dissecting the decisions made after the fact and are reliant on witness testimony; but accepting the fact that six years is a long time —I barely remember what I did yesterday let alone six years ago—asking questions to those persons who had oversight six years after the fact can be somewhat difficult and I appreciate that.

However, an important part of the governance framework requirements—either as outlined under the Public Authorities Law or as accepted as general best practice—requires that proper minutes, meetings and documentation exists that would allow auditors or any committee to dissect the decisions that were made and understand those decisions based on the written record.

We were told that the Project Steering Group had input into all the decision-making as part of this project was concerned. But, we also understood from the record and from the Auditor General's report that this decision-making did not occur in the setting of a properly constituted, regularly scheduled monthly meeting. Instead, some of these decisions occurred in a sort of round-robin format, whereas they were determined over email correspondence. So, it was not a single meeting but a question was asked on Monday and by Thursday, after several back and forth, a decision was made regarding either a change order or variation or whatever challenges that the Project Steering Group had to make.

An example of this was the procurement process for the baggage handling system which was, as we understood, determined by email. What was missing, according to the Auditor General's findings, was any kind of formal records that would enable this Committee or the Auditor General's Office to be able to dissect the decisions made and understand the reasoning made six years in the past.

Can you tell this Committee:

1. Why the Project Steering Group took the position to make decisions based on

email correspondence and not a formal meeting; and

2. Why does there appear to be an absence of a formal record that can show how those decisions were arrived at?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, I agree that there were those situations where communications or decisions were made by email or sometimes discussions on the phone.

This was at the very beginning when we had, I think, not as much guidance as we had later on in the project. By late 2016—I am pretty sure it was late 2016—things started to flow more smoothly, the committee met regularly and we got it to where it should have been but I agree that it did not start out the way it should have.

Mr. Austin O. Harris, Jr.: Given that, as heard earlier, there will be—and should certainly be expected to be—ongoing redevelopments of the existing Owen Roberts footprint, we have just completed the terminal redevelopment project, we are engaging in the airside redevelopment, which includes the extension of the runway, the inclusion of the taxiways, and we anticipate that we will see further ongoing expansion over time, as does occur in every major international airport in the world.

However, given the fact that you only came on as CEO in 2015, you were thrust into a major oversight role as chairman of the Project Steering Group for a major project having cost the public purse some $74 million to date, can you state to this Committee:

1. What lessons have you learned?
2. What things would you do differently, particularly given the fact that we have airside projects that are still ongoing?
3. Would you agree that, whilst it was not followed in the Owen Roberts International terminal redevelopment, a final OBC should be the standard procedure when dealing with major capital works going forward?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, I think a number of lessons were learned; the last one you said is probably the most significant one, which is to make sure we complete the process of a Final Business Case. The need for a continuous record of decisions and actions that were taken, I think is also a lesson learned.

I think we went into this project with the mind-set that this is the money that we have and we have to squeeze everything into it, and in my view, going forward, it should start differently. It should start with *a 'what is it that we want?'* and if it ends up '*this'* but we only have '*this*', then we find a way to work either with that or around that.

Just to go back a little bit, I believe this was the first major project that eventually fell under the new Procurement Law. The Procurement Law was not in place when it started. I might be wrong and the Auditor General can correct me, but I think it may be a good case study for future projects, as to how we can improve generally, but the Final Business Case, the continuous records of decisions…

I think also one of the lessons that the Project's Office has learned is that we have to have the main cost consultant for the project on our team, because it held us up immensely on this project that they were not directly under our control.

I am sure there are a lot more that the project manager can speak to but for me, those are the key points.

Mr. Austin O. Harris, Jr.: As the Chief Executive Officer of the Cayman Islands Airports Authority you are responsible for the day-to-day operations of the airport which include dealing with the air traffic of passengers, be they tourist or domestic; anticipating the expansion and growth in this area—whether as a direct result of government efforts or the success we have achieved in protecting our community from the COVID pandemic.

I believe I say without fear of contradiction, that the Cayman Islands represents one of the safest places on the planet as it relates to COVID-19, and that in and of itself has to be an attractive quality for visitors to the Cayman Islands. We see the virtual nomad system where persons are coming here to work and whatnot, so there are many different avenues and certainly once our borders open, as difficult as the economy is for many today, that will improve and we can anticipate large volumes of air travel.

My final question is: as CEO—regardless of what we could have done better and the lessons that have been learned in this redevelopment project, and the ongoing redevelopment—are you satisfied, that the Owen Roberts terminal redevelopment project achieved its overall objectives and is working for the airport and the people who use those facilities?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, absolutely. I think we got great value for money for what was delivered.

Cayman's success has proven that we are probably going to have to do more, earlier than we thought we would. Just as an example, from 2014 to 2018 the growth of passengers through Owen Roberts was about 45 per cent and that is way above what was projected. The most likely growth rate was somewhere around two to three per cent per annum, so we had a step change and that step change went

on while we were doing this project, which also impacted the delivery of the project.

I think we now have a terminal in place that can handle that capacity; however, it is not just about the size of the terminal, because we can build it twice as big as it is now and we might still have congestion if all the traffic comes in at one o'clock on Saturday, so it is about looking at ways to mitigate that outside of construction. Things like slot management, which we are actively looking at now, and working with the hotels to see how they can help us spread the traffic. That is a discussion we have had before and we need to pick it up again.

From a longer term view, interact more with the Department of Tourism. We interact quite regularly with them; in fact, the whole sort of trajectory of growth was done with their input in 2014 and we are continually in touch with them, but I think we need to make it more organised so that it happens when it should.

The Chairman: Bernie.

Mr. Bernie A. Bush: Through you Mr. Chair.

Can you explain to the listening public why the decision was not made to help people getting off planes who are still getting wet with gateways, runways—whatever you want to call them?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Jet-ways, from the aircraft straight into the terminal.

Basically, that came down to cost. I have had this discussion several times with various people and I do not think most people understand the total cost. One jet-way, probably a second-hand one, will cost anywhere between $500,000 and $700,000 just to buy it; then there is a lot of infrastructure that has to be put in place to support it.

The cost that we were advised by our consultants to put the whole infrastructure in place, was anywhere from $2 million to $2.5 million per jet-way, understanding that to put in two jet-ways is not going to solve the problem on a day when we have eight or ten aircraft on the ground.

Mr. Bernie A. Bush: Mr. Chairman through you.

That same figure was thrown out here in Parliament and one thing about technology in this day and age, you can always find out what the cost is in our sister Caribbean countries. I can categorically say that you gave a better explanation than what was given in here, because you spoke of the infrastructure that goes around it.

I know the jet-ways, brand-new and category five rated for hurricanes, were nothing up in some of those figures I am hearing banded about, but then you did speak of the structure to deal with it. The public is constantly asking, how could you all build the airport and we are still getting wet coming off the planes? With these overrun costs, I guess you could have found some money someplace to put them in, because the public is not too pleased about that, but I guess they don't count.

Through you Mr. Chairman, the last question is: is there anything that you would have done differently from what you all learned through this?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I guess that is a similar question to what were the lessons learned, so yes there are quite a few things we would have done differently, as I previously explained. I think the core basis of how we went about dealing with the project is just one of the things that we should have done that we did not and that we need to get right the next time.

If I can just go into the airside project for a bit, I think some of the lessons that we learned from this project we corrected on that project, and so far it is going quite well.

The Chairman: Mr. Anderson, the CEO who gave evidence earlier deferred many of our questions to the steering committee and the project manager.

One of the things that comes out in the Auditor General's report, and evidence given by the CEO this morning, is that the steering committee accepted plans which they thought were a 100 per cent complete, but he described as being only 75 per cent complete.

Was it the steering committee that accepted the design plans and started the project without knowing whether they were complete? What kind of review of the plans did the steering committee do?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The steering committee reviewed the plans from a functionality and probably from an aesthetics perspective, to make sure that functionally, it would meet the requirements that we were after. There was no one on the steering committee who could have looked at those plans and said, for example, *they got a sewer pipe and it stops right here but it should be going over there*. There was no one that could look at that kind of detail and say that the plans were incomplete.

It is only now that we have seen all of the changes that we had to make in order to complete the construction that we realised that the plans were actually incomplete. These plans went through Planning and Building Control. Fortunately, on the electrical side they picked up quite a few issues early on in the project, which caused the first delay on phase 2; they had to redo the electrical plans quite a number of times before the Planning or the Building Control people passed the electrical and that was clearly a very useful exercise.

In terms of some of the other things, there were a number of things that would have gone through Building Control and Planning as well, and none of those issues were picked up. There was a vast amount of documents with a vast amount of information on them. There is certainly no one on the steering committee that could have picked that up.

The Chairman: I will agree on the technical side, but something as simple as the baggage handling; the outgoing baggage handling was well covered in the drawings obviously but the incoming baggage was exposed to the weather. I mean, that is something that any layman should have been able to pick up.

Why were those kind of things not picked up by the steering committee or the project manager?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I can tell you that when I look at it myself there is a cover over the baggage handling system; it is just not deep enough. I did not have enough expertise in my head to understand that it is not deep enough to keep the rain out. But yes, someone could have picked that up beforehand and ensure that it was right.

The Chairman: The CEO suggested that there were some 412 changes to the actual drawings, an example you just gave was the sewer pipe. Was that picked up by the contractor or the project manager, and how would these changes come about?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I think it was the contractor but I am not 100 per cent sure; but there were a number of changes that were identified by the contractor and had to go back to the design team to actually design what should have been there. Then of course, that would have been an increased cost because the contractor did not bid for that.

The Chairman: Did you supply a certified Bill of Quantities for the contractor to bid on or was the contractor expected to do their own Bill of Quantities?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, the Bill of Quantities was done by our consultant.

The Chairman: Okay; and that was certified as being accurate and that was what the contractors bid on?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes.

The Chairman: I just want to understand how the steering committee seems to be structured from the evidence that you and the CEO have given.

The steering committee was made up by management of CIAA, board members, persons from the Ministry and persons from the Major Project Office?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The only board member on the steering committee was me.

The Chairman: This morning the CEO said that Mr. Stran…

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Sorry, I am sorry, yes.

The Chairman: Okay.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The chief officer was also there.

The Chairman: The question I am leading up to is: where are the checks and balances, if everyone who should be checking what is going on is on the same committee, and no one seems to be independently reviewing the things that are ongoing?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I suppose you could say that there should be someone independent. The makeup of the committee when I first came on board—and this was in the concept stage when the master plan was being done—I had more people from different areas of government: the Department of Environment, I think MRCU was on it and a few others.

At that time, that is probably more of what you were talking about, the kind of people that would probably reduce the chance of there being a conflict, but as the construction started, it just made sense that we would have operational people on the committee because we had to make decisions on the fly, on a day-to-day basis, and the best people to do that were the people who were on the ground trying to get passengers through a building that was being constructed, so it made sense that we had operational people on the committee.

The Chairman: Was the steering committee the group that made the decision on price charges by the contractor related to the changes that you all approved or was there an independent…?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Sorry, can you repeat that?

The Chairman: Was it the steering committee that made the decision to accept the pricing by the contractor on these 400-odd changes?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: In some cases, yes. In some cases it had to be done. I mean, it was like, *you are on the ground this has to happen* and you just had to say '*go ahead and do it'* and then the price comes later. In many of those cases the price is not finalised until you actually have the final account.

The Chairman: Did the steering committee require the contractor to use the same pricing formula that he used to price the original contract, whether that was an hourly charge or a project charge?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, the same rates that he used to bid was what he had to use for any changes.

The Chairman: Okay.

Something that seemed to have been the basis of all the problems was the decision by the Tender Assessment Committee.

They had a consortium of consultants who bid on this, but it seems from information that we have, that the Tender Assessment Committee made a decision to select only RS&H to be the project consultant for drawings and building, et cetera. What was the basis of that decision?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I think there probably needs to be some clarity around that. There was a consortium who bid under the name of Chalmers Gibbs and that group of companies—I don't know if I am allowed to call the names, but there was a group of companies…

The Chairman: You are in Public Accounts Committee, you can call them.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: There was a group of companies including AMR, JEC, Chalmers Gibbs, the RS&H and I think that's it or I may have missed one.

The Chairman: ARUP.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Sorry?

The Chairman: The ARUP Group. I don't know who that is but that is the information that I have.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Okay.

They put in the winning bid under Chalmers Gibbs. The lead project manager at the time—and that speaks to the whole assessment committee—decided that of that group of people, the one with the most airport construction experience was RS&H; but it was done under the name of Chalmers Gibbs.

The request was not to change who won the bid, it was to change who would be the lead consultant on the project because they were the ones with the expertise and the skillset that was demonstrated by the documentation they provided and research that was done, that they had done this before.

The Chairman: But in doing that, you eliminated all local knowledge.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No. Sorry, no we did not; they were still all a part of the group, they were just being led by RS&H, instead of Chalmers Gibbs.

The Chairman: That was the consortium with existing local knowledge that produced plans that were only 75 per cent complete and electrical drawings that had to go to the BCU 14 times, as the CEO said, before they could get it right?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: It was that group.

The Chairman: Wow. Okay; but there was no one in that group that had Mechanical, Electrical, Public Safety, Fire (MEPF) experience, yet they were selected.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Well…

The Chairman: Which is probably the reason the sewer pipe was short of the connection.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: The lead consultant had MEPF expertise on their team. That is all I can say.

The Chairman: Evidence given by the CEO this morning suggests that on the recommendation of the steering committee, the board just kind of arbitrarily eliminated certain things in order to meet budget.

Is that the process or was there some kind of rationale used like, '*well, we can we can do without this now to keep in the budget'*, as opposed to all of these things that you had to add back. For example,

the 15 pound-windows which were in the original drawings went down to six or nine pounds to reduce price, but in the middle of it you had to go back to the 15 pound.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yeah.

The Chairman: Is there an explanation for that kind of decision making?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yeah, I mean, if you just take the windows as an example: early on there was a discussion in the concept stage before drawings were actually finalised, to say, *yeah, we could go for this but this is going to drive the cost up quite a bit so if we do this we meet the requirement. The place is not a hurricane shelter, so it will be fine*.

Then we found out that the money available to us when the project was about to start was more than we thought we would have so that was when then the decision was taken. Well, that particular one actually came later on after the construction had started but it was because funds were available that we made the decision to put some of these things back in. I think the architects call it 'value engineering' when you adjust things to fit within a price envelope, but when we found out we had more funds available, then we said, *well then, maybe we should put it back to what we wanted to start with.*

Mr. Austin O. Harris, Jr.: Mr. Chairman.

The Chairman: Yes, go ahead.

Mr. Austin O. Harris, Jr.: If I may just ask one question along the same lines that I think you are focusing on now.

We accept the witness testimony that the decision was taken by all and sundry, which included members from the Major Project Office and the Public Works Department to swap out the lead consultant from Chalmers Gibbs to RS&H based on what was identified. I think the chairman of the board stated that RS&H dotted all the "I"s and crossed all the "T"s and looked good on paper.

We were also told that the lead consultant performed satisfactorily during the design and development stages of the project from January to October 2015; but it was later discovered during phase 1 between October 2015 and September 2016, that there were a number of concerns regarding the performance of RS&H, who again at this stage, were swapped out because they were considered to be the expert in this area.

There were concerns related to the time taken to respond to the contractor's requests for information—and this is found on paragraph 35, page 14 of the Auditor General's report; concerns over the submitting of approvals and pricing, concerns over the agreement to the contract variations, which earlier on we stipulated exceeded 500 different variations over the life of the contract, as well as submitting monthly status reports.

A key aspect to the governance framework which seeks to ensure value for money is that key decision makers are kept informed of the project's risks and issues as they happen. We are informed through the Auditor General's Office that the early concerns identified over the performance of RS&H never reached the Project Steering Group. These concerns were raised by the Airports Authority but the Airports Authority decided, for whatever reason, that it was not significant enough to raise those concerns with the Project Steering Group that had overall oversight.

I am curious as you gave testimony earlier that you served both as chairman of the Project Steering Group but also fulfilled your role as a non-voting member to the Cayman Islands Airports Authority board. Why is it that the early concerns of performance by RS&H were raised and identified at the board level, but it was decided not to raise it as a red flag at the Project Steering Group level?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I think that goes back to my previous comments that those discussions, I am pretty sure were had with the steering group members but not necessarily in a meeting setting. It also goes back to the fact that we need to have those meetings and record that we did these things. So, again, that is one lesson learned.

Mr. Austin O. Harris, Jr.: Do you believe if those concerns had been brought to the attention of the Project Steering Group at that early stage, action could have been taken to address the performance issues sooner, versus waiting until the project was much further advanced; things like the baggage handling system, the incomplete design drawings, the challenges in receiving the approvals, all of which were the responsibility of RS&H?

Do you believe after the fact, that had those red flags been raised earlier, we may have avoided some of the challenges and in particular, cost overruns that certainly raised their ugly head further on in the project development?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Action was taken with RS&H, just to clarify that—even though it may not have been recorded in a steering committee meeting—in terms of voicing our concerns and demanding improvement however, they would improve for a while and then fall back.

To the extent that the RS&H lead project manager for the job was fired, I think at some time in

early 2017, and was replaced with another guy who was not much better and was fired in late 2017. We then got a third project manager who was much better but had a lot of baggage to deal with from what happened previously. We had no issue with this particular project manager; he was very responsive and seemed to be doing all the right things, but there was too much that had already happened and it just led us down a pretty bad path with RS&H.

As I said, the steering committee were aware of what was going on. I think the actions that were taken would have been the same if we had recorded those discussions. I believe we tried everything we could with RS&H, however, the main action that could have been taken would have been to release RS&H and take on a new set of consultants but that would have had any number of problems and additional costs.

I am sure, with my limited construction knowledge—and I have had this discussion with the head of the MPO—it would have cost us a lot more to engage a new architect to take over work that someone else had started and ask them to complete it within the same budget.

Mr. Austin O. Harris, Jr.: Can you state whether RS&H receive the contracted $4.096 million which was their portion for services rendered, despite these performance concerns?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes; they were paid and no one has said that they did not deliver what they were contracted to deliver; they just did not do it in the right time frame. The main impact on this project was delays; delays, delays, delays.

We stopped paying RS&H sometime in early 2018, maybe around April or May and they continued to work until past July, but we told them that we were not paying them any more money and they had to finish what they committed to do.

Mr. Austin O. Harris, Jr.: But these delays, as you just gave testimony, had a value—

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes.

Mr. Austin O. Harris, Jr.: And these delays contributed to the cost overruns.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes.

Mr. Austin O. Harris, Jr.: And these delays, whether they be plans or otherwise being incomplete; despite looking good on paper and having more experience in airport redevelopment, as we heard in witness testimony, these delays and actions—or lack thereof—by RS&H, cost the taxpayer more money, yes?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, however, let us take the missing sewer pipe, for example: if that had been there at the beginning, we still would have had to pay for it. So yes, it did cost more; how much that would be, is difficult to calculate. All of that is the basis of this ongoing dispute that we have now with RS&H.

Mr. Austin O. Harris, Jr.: Just a final question: are there any plans or considerations for pursuing action against RS&H at this time or any future period?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: That is a matter of discussion with our legal counsel. We have a meeting with them soon to try and close out the final account and it depends on how all that goes.

The Chairman: Just a couple of follow-up questions: did the Major Project Office ever advise the steering committee of the inherent risk in starting this project with incomplete drawings?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, I do not think that the incomplete drawings came to light until after the project started.

The Chairman: Was reviewing the drawings one of the responsibilities that the Major Project Office was employed to do?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: I cannot say specifically that that was one of the requirements; the high level thing was to manage the project, whatever that entails.

The Chairman: Okay.

We talked earlier about the how the contractor submitted their claims for additional things that were not part of the original contract; did the steering committee do its own assessment? I think you said earlier that JEC was still involved in the sign-off of cost or were those prices just sent to JEC with the expectation that they would review the cost in terms of the original contract?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Whenever there was a change, it was managed by both the contractor and JEC. They would come up with a rough order of magnitude for the cost because in many cases, you had to keep the job going, you had to proceed with the work; so we get this order of

magnitude, give the go ahead, and then the final cost would be worked out later between the cost consultant, JEC, and the contractor.

The Chairman: Did that figure require approval by the steering committee?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No; not in all cases. As I said, in many cases, the work would have been done before they got the figure because they just had to keep things going.

The Chairman: My concern is that, having to do it the way you had to leaves room for overcharging. Was it ever discovered that the contractor was in fact, using the opportunity for delays or changes to increase their prices in terms of what it was expected they would earn from the project?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, I cannot say that we ever suspected that. There were committed to providing whatever work they did at the same rates that they bid on and it was the job of the cost consultant to make sure that was what was happening. We never suspected that was happening. The problem we had was with the delays happening in the first place and then a further delay in the cost consultants and whoever else from RS&H agreeing the final price with them.

The Chairman: And the cost consultant you are referring to would have been JEC?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes; but we did not hire JEC directly, they were hired through RS&H. They were part of that consortium.

The Chairman: Ah, okay.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Any communication about cost, consultation was done with RS&H. They were our contractor for that.

The Chairman: So you have no reason to suspect that the contractor did not get any additional billing because of the delays caused by somebody else? They just bore that on their own and only relied on what it would have costed them to do it if there had not been any delay?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, I will not put my head on the shopping block and say that. All that I am saying is that we do not suspect that they got paid any more than they should have.

Mr. Austin O. Harris, Jr.: Just one final question. Again, accepting that like every other major airport in the world, where redevelopment is constant and ongoing, the airport terminal has been expanded, but as you have identified, we are 45 per cent capacity, when we were expected to be at 10 per cent capacity; so clearly the timelines are expedited.

We have runway expansions, taxiway expansions, ongoing considerations for footprint expansions, both horizontally and vertically, and because we accept that many lessons were learned as a result of this exercise, has there been or will there be a post construction evaluation that the Authority or the Ministry will complete that will guide the Ministry in future redevelopment projects? Can you say if it has been done or if there are plans for this post-construction evaluation to be done?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: It has not been done but I think it would be a good process for us to go through; I have no problem moving that forward.

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

I think it would be a value not only to this Committee but because, as stated before, the ongoing projects are just that, ongoing, so thank you.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Okay.

The Chairman: Earlier, the CEO suggested—in fact he guaranteed—that the final cost is going to be $74,030,000…
[Inaudible interjection]

The Chairman: Was it $30,000 or $300,000? Which one is it?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: It is $74.03 million, whatever that is.

[Laughter]

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: It is $74,030,000.

The Chairman: It is $74,030,000, that's what I thought.

Maybe I misunderstood what he was saying. He said there is a meeting in a couple of weeks to finalise the allocation of that $74 million—we just round it off to $74 million. If you do not have agreement on the cost centres, how can you have a final figure?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: There is a figure that the contractor has put forward and we are pretty sure that the cost consultants are in agreement with that. What we need is the final document that says that and lays out all the reasons why that is the right amount; that is what has been missing for some time that we have been trying to get, and the meeting next week is all about getting that right.

The Chairman: But if you do not get that agreement next week it will go further off into the future, because we are what—about two years looking for a final figure?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yeah. I mean, it has been a struggle. Lots of communications and not much action on their part for reasons that only they know, but our intention next week is to have this meeting and take a good record of all the reasons why they are saying they cannot do it; and if that proves to be the best we can get, then we will have to just close it out there.

The Chairman: Because my understanding is that the final figure would be a totality of expenses that have already been agreed and paid for various entities; or is it the expectation that once you come to this final figure, there are additional payments to be made to make up that figure?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No; once we come to that final figure, there is one more payment we have to make; this is just money we are holding that would take us to that figure and then we are done.

The Chairman: Okay.

Are there any other questions?

Thank you very much Mr. Anderson. I appreciate you coming down and explaining this complicated process to us.

Thank you.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Thanks for having me, sir.

The Chairman: The Committee is suspended until 2 pm.

Proceedings suspended at 12:18 pm

Proceedings resumed at 2:08pm

MAJOR PROJECT OFFICE (MPO)

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Roy Williams, Senior Project Manager, Major Project Office: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good afternoon, Mr. Williams.

On behalf of the Committee I would like to thank you for taking the opportunity to come and talk with us. The only rule is that when you are asked the first question, you state your full name and title and what you represent, so that it will be correctly recorded in the Hansard.

Mr. Austin, are you going first?

Mr. Austin O. Harris, Jr.: Yes, sir.

The Chairman: Okay.

Mr. Austin O. Harris, Jr.: Thank you, Mr. Chairman; through you, good afternoon to the witness.

We have heard testimony throughout the day that the cost overruns experienced by this project certainly does not make it unique, in terms of government projects, there are always cost overruns, but the Auditor General's report placed the responsibility for much of these overruns squarely on the lead consultant that was selected for this project and I do not think there is much disagreement where that is concerned.

The project, estimated to cost $55.1 million at the start of the OBC, ultimately ended at $74 million at the end of the day with some 90 variations requested by the contractors, which include Arch & Godfrey and McAlpine; 60 of those 92 were blamed on the design work and recommendations of the lead consultant, requiring the project manager, which I assume is you, to play a more hands-on and direct role.

I have a few questions. We see that the overall oversight was the responsibility of the Project Steering Group and the Cayman Islands Airports Authority. It was a project that was delivered not through the Major Project Office, although there were members of the Major Project Office on the Steering Group, but instead, delivered by the Authority.

We also heard evidence that few of the members of that Steering Group had any real world knowledge in engineering or major construction design to manage the scope that was this contract, so my first question is: what is your background? What qualifications do you bring to the table as the Project Manager for the Owen Roberts International Airport Terminal project?

Mr. Roy Williams, Senior Project Manager, Major Project Office-Public Works Department: Good afternoon and I thank everyone for allowing me to speak.

My name is Roy Williams. I am the Senior Project Manager and I work for the Major Project Office, seconded to the Airports Authority.

To answer that question on my background: I am a licensed professional engineer in the state of Maine, USA. I have been in airports for over 15 years—actually 20 now; I have to think of the five years that I am here.

My role in my last airport was deputy director of engineering and facilities, so I am very familiar with the way airports 'breathe' is a better word—how the flow through airport security help passengers move around. I think I was more than qualified to take on phase 2 of the project. I was not here for phase 1 of the project.

Mr. Austin O. Harris, Jr.: In terms of the errors identified, it was stated that it appeared at first glance that RS&H seemed qualified on paper but in terms of their actual performance, it left something to be desired.

There were—I am trying to find it and forgive me for hopping around but the Chairman elected me to go first, so I have to make sure I am on point.

There were issues with the design and managing the costs associated with the contracts; there were issues with the tendering for contracts and contract administration, and there were challenges with the various designs which had to be amended.

Why did we allow RS&H to continue as lead consultant on this project, given the number of issues that were seemingly identified perhaps from very early on? I note that to date, whilst litigation has perhaps been discussed, there has been no decision to challenge RS&H on the works delivered. The outstanding question I have is: how was it allowed to continue for so long?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: I can only speak from July 2016 when I arrived. I spent maybe two weeks with my predecessor but in 2016, when I identified what was going on in the project, it probably took two to three months before I realised that the design team was very fragmented. There was not a lot of synergy between them and I was playing a major role in trying to get all those to work together.

To answer your question: when a major project starts and you have a design entity, you try to work with them to try and see if you can help them up and get them to do what they need to do, so that was my primary role at the beginning. I think it was five or six months in, that I got a phone call on Monday morning from the RS&H project manager saying that he was let go, so obviously there was a lot of dissatisfaction behind the scenes there at the consultant level.

Coming back to your question; to release the design entity at that stage where we had an active contractor constantly hounding for requests for information, submittals and answers to anything would have stopped the project; it may have taken a week or a month, but it would have stopped the project and by stopping the project you would have then gone into a contractual delay and the meter would have then started to tick. There is always optimism that you can work through the problems with the design team, unfortunately.

I believe that the third RS&H project manager was actually quite good; he was basically digging out of a hole at that point, but he brought it to the end. Those are the reasons why you would not get rid—they would have to be so bad, that then all hope is lost but that was not the case with RS&H.

Mr. Austin O. Harris, Jr.: The project from a cost management perspective had an OBC that was prepared in 2014, approved by the Cabinet on the 5th August 2014, and then by the FCO on the 15th August 2014; but the actual start of phase 1 of the project did not occur until a year later in September 2015, with phase 2 beginning in May 2016.

Again, from a cost management perspective, there was no Final Business Case offered up on this project as well to give the assessment steering committee or even the board of directors of the Cayman Islands Airports Authority anything more than estimated costs.

This Final Business Case and the absence thereof may have happened before your arrival but from your experience in previous capital projects, how important in the overall cost management process, do you believe a Final Business Case is necessary as part of the procurement rules to ensure effective value for money is achieved in capital projects of this size?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: To answer your question, it is very, very important.

A Final Business Case is taking the tendered prices and applying them to get an approval to move forward, but it also gives a chance to add the things that you need to add, which would not necessarily be shown in the OBC.

For instance with the airside project, which we have just finished, the Final Business Case showed two contingencies: risk and the want of additional things because Cayman is limestone, with the airside project there was the risk when you dig a hole, you know, you could hit caverns. I think the FBC for the airport, if it had shown the risk outlined in the OBC, which was put together by PWC, which is very normal, 25 per cent—I would have gone a little bit higher if it

was me—again, I think it would have looked a lot better.

Mr. Austin O. Harris, Jr.: This is my final question on this point: I asked this question of the CEO when he gave testimony earlier and he indicated he thought it was a good idea and he would move it forward.

To your point, given that the airport, in particular, is presently engaged in other project works: the air side, the terminal which is what the report is based on was the first project but the second project now is the airside. We also heard that there are other expansion projects, either planned or expected in the not too distant future; the most immediate, I think, will be the terminal again, in terms of space, because of the expansion and growth of the attractiveness, if you will, as a jurisdiction, and therefore the ability to move passengers both tourist and domestic.

It was recommended that a post-project evaluation be conducted on the lessons learned, both from a governance framework, as well as perhaps the Strategic Outline Case, the OBC and then a Final Business Case on costing and all of that. Would you agree that a post-project evaluation would be useful, particularly in terms of future projects that the Airports Authority may see itself engaged in?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Absolutely. This is very normal; to have a close-out of the project is to look at lessons learned. I believe the MPO is starting to look at that.

Now that I have finished the airside projects the only active project we have in construction at the moment is the school. Nonetheless, the MPO is growing and we are trying to put some standards together and one of those would be a post-project look as to how we can support our clients, in this case the Airport Authority, and do better.

The Chairman: Can you explain to the Committee what your engagement terms of reference were to the Airports Authority?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: I was the Senior Project Manager for the terminal expansion and the airfield projects. I was directly responsible for the steering committee meetings, to present to the steering committee on the progress of the project, and also to present to the board.

At the beginning when I first arrived, the board was once every couple of months, but as the project evolved, that escalated into once a month and it has been like that ever since for the last three and a half years. My role as the senior project manager is to look after the interests of the Authority during the project.

The Chairman: Would that have included a review of the drawings to make sure that they were complete prior to signing contracts and whatnot?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Again, that was before I arrived—the contract was signed in May.

To give you an example, this is very standard practice, during the airfield project I get the final tender drawings and I do a page turner with the client; so I would literally go through every page to see if that is something they want.

Now the technicalities: there are certain things I can look at, but there are some things that I am not qualified to do, for instance, the electrical piece; you can only do so much because you are actually employing the design entity for their expertise to put these drawings together.

The Chairman: It seems that nobody had any responsibility to make sure that the design drawings were anywhere close to reality, because the CEO gave evidence this morning that his best guess was that they were only 75 per cent complete.

We had several witnesses talk about this "complicated project", but it is not really a complicated project. It is mostly a single story building; it has mostly open areas and two belts, one that takes baggage out and one that brings baggage in. I mean it is not that complicated. It is not a ten-story building that we are doing.

Why was it possible for the consultant people, RS&H, to deliver drawings that were accepted that were only 75 per cent complete?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Let me go back to your point about a complicated building: Yes, from a physical standpoint, it does not look complicated but the complications in this project was or is, in any airport that is operational, this terminal was ripped apart, meanwhile allowing passengers to leave the parking lot and get on and get off a plane, and get back to the parking lot. That is the complication, with the security access line constantly moving, channelling people through from a security standpoint and checking them in much smaller footprints while we are building. That was the complication.

Now, I cannot speak for the drawings. I am surprised that there was not some sort of oversight or certainly a conversation with RS&H, such that they would do a page turner with the client, with individual departments—for instance, the security department—to understand if what they have designed actually works for them. I think that there was a miss there early on before contract signing.

The Chairman: I understand that the former senior project manager was asked to do a cost review in 2018. Did you ever have sight of that cost review?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: I did.

The Chairman: How much did that cost review differ from the original contract and was the cost review before or after the contract was signed? I would think it would be after, if it was in February.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: That is correct, yes. Denise Stabler was the previous. "*The Stabler Report*" as I refer to it was pretty much a report on what happened prior to July 2016 and the cost piece of that is how it grew from $51.9 million to $56.2 million.

A lot of the content of that report was about how RS&H failed to deliver certain things that were needed—one of those being the baggage handling system—which was a huge impact on phase 2. The report was not just costs but about the state of the project leading up to July 2016.

The Chairman: Given the final figure that we were given this morning of $74 million, the review does not seem to have had a very controlling effect on the over spend.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Well the review was done in 2018, it would not have any effect on the…

The Chairman: Okay.

I understand that the original contract included a Bill of Quantities. When there were changes to the design, whether as a result of decisions made by the board or by the steering committee, how was the pricing of those changes calculated?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: If there is a change, it could be the contractor, the designer or the client that instigates a change. If it was, say, the contractor, they would put in a variation instruction request, and they would add a ROM (Rough Order of Magnitude). That ROM would then be logged in the Quantity Surveyor's spreadsheet and then once the job had been done or…Sometimes we did not know what the cost of that variation would be until it was completed. As the project evolved, RS&H and the cost consultant were very slow in responding, probably because there was no money in the project for them; for the last year of the project they were not getting paid but they had the contractual obligation to finish, so it was very difficult sometimes to get information out of the RS&H team.

The Chairman: When the contractor did a ROM, was it signed-off on site by you, by some member of the steering committee or by CIAA staff to ensure that what was sent for the cost consultants JEC to pay was close to accurate or were they allowed to go directly to the cost consultant to get paid, once you approved a ROM?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: The cost consultant would sign-off on the change and there was never any signage from me or Mr. Albert. We looked at the monthly requisition, at the changes, based on what the cost consultant came up with and that is when we would agree.

The Chairman: So you all did not certify the need for a change before they were allowed to… You relied on a monthly report from the cost consultants.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: That is correct.

The Chairman: But what was your role as project manager if it was not to ensure that something that was being asked for was justified and cost properly, and that if they said they would use 20 blocks they actually used 20 blocks and not 10?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: But that is what the cost consultants for. That is what we are employing them for; to be our gatekeeper on these costs. I am not qualified to count the blocks, as it were.

Mr. Austin O. Harris, Jr.: If I may just pick up on the point of cost and time delays, as it relates to the project completion.

I think the Auditor General's report indicated that the project was estimated to be largely completed by the end of 2018, but not fully completed until the end of February 2019. The changes relating to the delays and the completion date were many:

- Phase 1: The project was supposed to start April 2015, but it did not start until two months later and this was largely because of the delay in establishing or developing the OBC.
- The consultancy services, cost and contracts were due to start in October 2014 but because RS&H lacked the necessary company registrations it did not start until three months after the fact.

- Obtaining Building Control Unit's approval for the electrical works were delayed some 36 weeks because of deficiencies in the drawings provided by RS&H, and then of course the big one as you just pointed out;
- The awarding of the contract for the baggage handling system was delayed a further 10 months because of poor tender materials, again prepared by RS&H.

In these circumstances, and if I may be so bold, particularly in this time of year, which is an election year, persons like to have someone to blame, and usually that person to blame is the government. In this case, a project that was estimated to cost $51.9 million, but when it was all said and done, as we heard today, was $74.03 million, an increase of some 35 per cent in cost overruns. It is easy to point your finger and blame the government and say, "*Well, here is another example of government contracting*."

However, page 18 of the Auditor General's report, seeks to draw out the culprit in this blame game question. Paragraph 54, which is found on page 18, states that in February 2018 the former Senior Project Manager was re-appointed to review the estimated cost of the project submitted by the consultants with a view of identifying the reason for variations from the original estimate and identifying whether they were a result of:

1. A change in scope requested by the clients—and we know there were many.

Certainly the Airports Authority, according to the report was responsible for six major changes, but likewise, RS&H we understood from testimony, were responsible for 412; or,

2. Was it the result of errors or mistakes in the original plans, many of which may be attributed to RS&H

I made a number of statements based on the report that seems to point a finger at RS&H, but presumably you were reappointed in February 2018, to answer this question. What was your determination?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: No, that was not me.

Mr. Austin O. Harris, Jr.: It was not?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: That was the Denise Stabler report.

Mr. Austin O. Harris, Jr.: Oh I see; I apologise, I apologise. Well, maybe I will get the opportunity to ask that question to someone else. Forgive me.

The Chairman: As Senior Project Manager, did your Office give any consideration or make any recommendation to the Cayman Islands Airports Authority that they should retain their own cost consultant?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Yes. It is very normal to have the cost consultant working for the owner because that is basically the senior project manager's wingman or wing-woman, to work through the lead consultant; you have no control over the cost consultant; everything has to go through the lead so yes, absolutely, that would be a recommendation from the MPO from future projects to have…

The Chairman: My question is: did you recommend it for this project and the steering committee said, *no, they would prefer to have it working for the lead consultant?*

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Again, I was here in 2016. Those decisions would have been made much prior to that.

The Chairman: Yes, but it is never too late to correct a decision when you are having this kind of inflation.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: I do not recall ever saying that. Again, to switch cost consultants midstream… Again there is a huge learning curve to understand what is going on.

I do know that the cost consultant was hired late in the early stages, and that makes it very vulnerable to mistakes because the cost consultant does not grow with the design. So no, I would not recommend releasing the QS and getting somebody else midstream, for the same reason I would not release the design team.

Mr. Austin O. Harris, Jr.: Mr. Chairman.
The Chairman: Yes, go ahead.

Mr. Austin O. Harris, Jr.: I just want to go back to the question that was put to the former Senior Project Manager—and I thank you for the correction that it was not you.

As I understand it, the former Senior Project Manager, I think you stated her name is Denise Stabler?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Correct.

Mr. Austin O. Harris, Jr.: She would have been preparing this answer for the project manager so, whilst you did not answer whether or not the reasons

for variations and cost overruns were a result of a change of scope by the client or mistakes made in the original plans, you are familiar with the answer she provided.

Could you inform this Committee what her conclusion was to that specific question?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: The Denise Stabler report, the cost evaluation was only from the $51.9 million to the $56.2 million, which is shown in the audit report. She had no idea what was going on once she left, so the report which was drawn up in 2018 was for us, the MPO, to get a full understanding of what was going on at that time, to try and identify what happened.

The Chairman: But why was she asked to evaluate that when it was driven by a board decision? We were given evidence this morning that that $5 million plus was a board decision based on wanting to re-insert things they had taken out for budget constraints.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Again, I was not here; I do not know.

The Chairman: Okay.

Mr. Austin O. Harris, Jr.: To your point, Mr. Chairman: paragraph 18 on page 10 of the report stated that the board requested a number of changes, including upgrading the hurricane glass and canopies for the passengers, but these were requested for upgrades not accounting for the significant increases in cost. I just wanted to provide that clarification—that it is clearly stated in the report.

The Chairman: Can you explain why it has taken this long to come to a final account for a project that was basically operational two years ago?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: The project ended on July 31st 2019. The cost consultant, RS&H, was to supply us with the final account within three to six months; six months went by and we were no further forward.

It was revealed at that point that RS&H wanted more money before they released the final account; it was their leverage, as it were. It turned out that the cost consultant needed more money from RS&H, and RS&H wanted to pass that cost on to the Authority. Of course we denied this; there was a lot of back and forth, and that was the beginning of legal advice.

I should also add that, probably in May 2020, we received a final account that was very, very poorly written—there were many errors, many still provisional sums and repeat numbers. We just literally threw it back, and there was a back and forth with RS&H to come up with a final account that actually made sense and we are still not there yet. We are close, but not there yet. We are meeting in early to mid-February to discuss this.

The Chairman: I get the sense that there is no urgency to complete this thing; "*We will ask for this and if we do not get it, we will wait a couple of months".*

You need to have a meeting now but it is a month from now before you have the meeting. We were given evidence this morning that could assure us that it would not exceed $74,030,000, but you are now saying that you do not really have a final agreement.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: We do not have a final account.

The Chairman: What is the difference?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: So we have a draft final account with a number, which is the $61.9 million. If anything, it will get lower, it will not get any higher.

The Chairman: Well, in 2018 the project was said to have overrun to cost $64 million. How come the project has not been completed, there is no work being done, but we are looking for another $10 million in cost?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: You are referring to the 2018 audit report.

The Chairman: Right.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: That was produced in 2018, we still had a year's worth of construction to go at that point. Like I said, the project finished, construction-wise, in July 2019—a full year later.

The Chairman: But the majority of the construction had been completed, it was mostly interior work, et cetera, that had to be done.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: No, that is not true. We still had the second floor administration level and the south arch to do; what I call phases 4 south and 5 were still ongoing; the hurricane glass on the south side was still being installed right through to

past his Royal Highness' visit, so there was still active work going on the south side.

The Chairman: But…

[Inaudible interjections]

The Chairman: Yes, please.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you Mr. Chairman.

To sort of pursue this line: when we did the report, we were working to try and work out the revised final cost, which is where we got to the $64 million in Exhibit 2.

The Chairman: Right.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: I suppose it would be helpful, if we are potentially going up to $74 million, to understand which of the areas. Is it all on phases 2 and 3 construction?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Well, in 2018 it will be in all areas basically; phases 4, 5 and 2 south. Phase 2 south was broken into five sub-phases. It gets very complicated.

The Chairman: Stick a pin. Those were all under contract of a price for the contractor. These were not new contracts that were being signed that were not part of the original contract.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: This is correct, yes, however…

The Chairman: Okay. So the question is: having agreed on whatever the cost was and awarded a contract, why did those areas cost $10 million more than it costed originally?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: So contractual claims for delay; again, phase 2 south—I cannot remember when that came online, I would have to look in there—because we did not have a baggage handling system, phase 2 which was all supposed to be completed together, was actually broken into phase 2 north and south. So, the $10 million was a myriad of variations relating to many things; it could be design changes, unforeseen changes, client changes…

To give you an example, when we got into a demolition of the departure hall, the bag search area had to be demolished, while the operations needed a bag search area, so we actually built a temporary bag search room. This was never on the tender drawings.

The Chairman: But all of that should have been anticipated in the design and the planning of the project. Everyone knew that this was going to be a project that had to be done while it was operational. The decision that it would continue to operate was not a decision after the design and the costing were done.

Are you telling me that none of that was taken into account when they did the original costing and planning for the rollout and development of the project?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: That is correct. RS&H did not allow for things like this; but I come back to the risk allowance: there are certain things in an operational airport, a very, very complicated facility where you need a risk allowance to combat these things. An architect cannot think of everything and sometimes things…

For instance, if you have a head of a department of say, Immigration, if that leader changes or maybe a regulation changes during construction... This construction went on for three years; sometimes regulations can change the way you do things.

For instance, the in-transit lounge; there was not a need for an in-transit lounge so all of that was changed. All of this is risk that you take on but you cannot plan on it.

The Chairman: While I agree with you, here is the problem that I have with that statement: how is it possible then that the Civil Aviation Authority—the steering committee—reduced the risk from 20 plus per cent to six per cent?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Oh, now that I do not know. I cannot answer that. I was not here.

The Chairman: It seems to me that this project was just started wrong.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Correct. In my experience, a project will end the way it starts, and I believe that this project was poorly set up by the design team.

The Chairman: No, sorry, they cannot blame the design team for that, because the design team only did what the Civil Aviation Authority Board asked them to do. It was the Civil Aviation Board who should have been instructing the design team what they needed and they certainly should have been aware of all the

things that you just mentioned; all these difficulties that were going to crop up.

Evidence before us is that the reason RS&H was selected was because they were so good and they had done it in so many other places, but I guess they are not here today so they are taking the blame for everything. We will see what happens if we decide to call them.

I do not know if there is very much more that we can ask because we are basically not getting anywhere. No one is taking responsibility for anything; it is just, *well you know, it was this, it was that*.

As Project Manager, did you have any reason to suspect that the contractors used the delays to inflate their price; were they rewarded for delays that were not their fault and allowing prices to increase?

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: No, I have no inclination of that.

The Chairman: Are there any other questions?

Okay sir, I thank you very much for your time and I wish you well.

Mr. Roy Williams, Senior Project Manager, Airport Development, Public Works Department: Thank you very much.

[Pause]

The Chairman: Tomorrow morning we have the contractor, McAlpine, and the Chief Officer for the Minister coming in.

The meeting is adjourned until 10 am tomorrow morning.

At 2:52 pm the Public Accounts Committee adjourned until Thursday, 28 January 2021.

Parliament of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

ADOPTED MINUTES of Meeting with Witnesses

Thursday, 28th January 2021 at 11:00 am

Morning hearing: OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA) TERMINAL REDEVELOPMENT PROJECT - PROGRESS UPDATE AS AT AUGUST 2018 (JANUARY 2019)

Afternoon hearing: IMPROVING FINANCIAL ACCOUNTABILITY AND TRANSPARENCY: BUDGETING (December 2020)

PAC Members Present:

Mr. D. Ezzard Miller, MP - Chairman
Hon. Barbara E. Conolly, MP – Member
Mr. David C. Wight, MP – Member
Mr. Austin O. Harris, Jr., MP – Member

PAC Members Absent:

Mr. Christopher S. Saunders, MP - Member
Mr. Bernie Bush, MP - Member

PAC Clerk: Mrs. Patricia Priestley

Attendees: Mrs. Sue Winspear - Auditor General
Ms. Angela Cullen - Deputy Auditor General (Performance Audit)
Ms. Brittany Clarke – Audit Trainee, Office of the Auditor General – morning only
Mr. Julius Aurelio - Audit Manager, Office of the Auditor General – afternoon only
Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
Mr. Matthew Tibbetts - Accountant General, Ministry of Finance and Economic Development

Witnesses: Mr. Richard Noel - Managing Director, McAlpine, Ltd.
Mr. Steve Gaffing - Project Manager, McAlpine, Ltd.
Mr. Stran Bodden - Chief Officer, Ministry of District Administration, Tourism and Transport
Mr. Kenneth Jefferson - Financial Secretary / Chief Officer, Ministry of Finance & Economic Development
Mr. Matthew Tibbetts - Accountant General, Ministry of Finance & Economic Development

1. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the Public Accounts Committee Meeting to order at 11:00 am.

2. Welcome

The Chairman gave a brief welcome to Members of the Committee, together with Attendees and thanked them for attending the second day of the Public Accounts Committee (PAC) Hearing dealing with the Office of the Auditor General's report, Owen Roberts International Airport (ORIA) Terminal Redevelopment Project - Progress Update as at August 2018 (January 2019).

The Chairman invited the witnesses, Mr. Richard Noel, supported by Mr. Steve Gaffing, to the Chamber. Administration of oath was administered, and thereafter, the witnesses were welcomed and thanked by the Chair for attending the meeting.

The Chairman invited the Members to question the witnesses and reminded the witnesses to state their name and title for the record before answering the first question addressed to them.

Discussion ensued.

Before departing the Chamber Mr. Noel and Mr. Gaffing were again thanked by the Chairman for attending the hearing.

The Chairman invited the witness, Mr. Stran Bodden, to the Chamber. Administration of oath was administered, and thereafter, the witness was welcomed and thanked by the Chair for attending the meeting and told to state his name and title for the record. The Chairman invited the Members to question the witness.

Mr. Bodden gave an undertaking to the Committee to provide an explanation as to what the additional $10 million over the estimated final cost of the project calculated at the time the OAG report was prepared, accounted for.

Mr. Bodden gave a further undertaking that he would ensure that a post project evaluation report was prepared.

Before departing the Chamber, Mr. Bodden was again thanked by the Chairman.

Following lunch, the Chairman gave a brief welcome back to Members of the Committee, together with Attendees. The Chairman invited the Auditor General, Mrs. Sue Winspear, to present the Office of the Auditor General's report, Improving Financial Accountability and Transparency: Budgeting (December 2020).

The Chairman welcomed the witnesses, Mr. Kenneth Jefferson, supported by Mr. Matthew Tibbetts. Administration of oath was administered, and thereafter, the Chairman invited the Members to question the witnesses and reminded the witnesses to state their name and title for the record before answering the first question addressed to them.

Discussion ensued.

Mr. Jefferson and Mr. Tibbetts reaffirmed their commitment to work on the implementation of the OAG's recommendations for simplifying the budget process, enhancing transparency and assessing the accountability and long-term financial sustainability of the Cayman Islands Government.

The Chairman thanked the witnesses for their attendance and informative dialogue with the Committee.

3. Any Other Business

There was none.

4. Adjournment

There being no further business, the meeting was adjourned at 3:45 pm.

PARLIAMENT OF THE CAYMAN ISLANDS
COMMITTEE OF PUBLIC ACCOUNTS

OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA)
TERMINAL REDEVELOPMENT PROJECT

Official transcript relating to the Official Report of the Standing Public Accounts Committee Meeting—28 January 2021

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PAC Members Present:

Mr. D. Ezzard Miller, MP, Chairman
Mr. Austin O. Harris, Jr., MP, Member
Ms. Barbara E. Conolly, MP, Member
Mr. David C. Wight, MP, Member

Apologies: Mr. Bernie A. Bush, MP, Member
Mr. Christopher S. Saunders, MP, Member

In attendance: Ms. Patricia Priestley, PAC Clerk

Audit Office: Mrs. Sue Winspear, Auditor General, Office of the Auditor General

Ms. Angela Cullen, Deputy Auditor General, Office of the Auditor General

Mrs. Brittany Clarke, Professional Audit Trainee, Office of the Auditor General

Witnesses: Mr. Richard Noel, Managing Director, McAlpine, Ltd.

Mr. Steve Gaffing, Project Manager, McAlpine, Ltd.

Mr. Stran Bodden, Chief Officer
Ministry of District Administration, Tourism and Transport

Mr. Matthew Tibbetts, Accountant General
Ministry of Finance and Economic Development

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

OFFICIAL VERBATIM TRANSCRIPT
STANDING PUBLIC ACCOUNTS COMMITTEE
THURSDAY
28 JANUARY 2021
11:02 AM

Meeting with Witnesses

"OWEN ROBERTS INTERNATIONAL AIRPORT (ORIA) TERMINAL REDEVELOPMENT PROJECT"

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Thursday, 28 January 2021, at 11:02am, in the Chamber of the House of Parliament, George Town, Grand Cayman.

[Mr. D. Ezzard Miller, Chairman, Presiding]

The Chairman: Good morning, everyone.

Let the record show that we have a quorum present.

I need to apologise to the listening public, and those hoping to watch it on TV, we have had a slight delay because some of the members had to get their second COVID shot and that had to be done this morning; they could not put it off for three or four days. We apologise for the delay but we will get started now.

[Pause]

McALPINE, LTD.

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth.

Mr. Steve Gaffing, Project Manager, McAlpine, Ltd.: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good morning, Messrs. Noel and Gaffing. If I mispronounce your name, I speak 'Northsidese'.

We apologise for the delay. I think you were told that the reason was that certain members had to get their COVID vaccination, so we apologise for the delay but we will get started now and should not keep you for too long.

The rule is that when you answer the first question, you identify yourself by your name and title, so that it appears correctly in the Hansards.

I will start off. You know that you are here because we are holding hearings into the Owen Roberts International Airport Terminal re-development project, and you were the lead contractors for the construction.

My first question is: how did you bid this job as a contractor? Did you bill it on a certified bill of quantities or were you required to use the drawings and produce your own bills on which to bid?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Good morning.

Richard Noel, Managing Director for McAlpine; we were provided with a bill of quantities and a set of drawings and the pricing was on the bill of quantities provided by the client.

The Chairman: Okay.

We were given evidence yesterday by your clients that the major problem with the project seemed to be that the drawings were only 75 per cent complete. Did you discover anything incomplete in the drawings when you were pricing the document?

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes, there were some discrepancies which we did point out, but we were instructed to price the bill as the other contractors were.

The Chairman: The evidence before the Committee is that your contract bid was roughly $42 million. Can you confirm this?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes; $ 42.5 million.

The Chairman: Yes, okay.

The evidence that we received yesterday suggested that your final—or what is hoped will be your final cost—is somewhere in the region of $61 million. Can you confirm this?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Correct.

The Chairman: Okay.

That is approximately a 50 per cent increase between the bid contract price on which you won the bid, and the actual cost—is a 50 per cent increase in cost common? I think your company also did the Government Administration Building.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No, very uncommon.

The Chairman: Okay.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I think the problem is that it is a different type of project. New builds are much easier to draw, and do a Bill of quantities from and to price; whereas, you are working in an existing building which is 30 years old, and has been modified and various things done to it.

You have to keep all of the current departments and the airport operational. It is a totally different job.

The Chairman: Granted, but the continued functionality of the building was a complication that was known at the time of the bid. You did not bid expecting it to be a new building and when you got on the job you found out that you had to deal with the operational circumstances.

The building itself is basically a very simple building except maybe for the arch, but it is largely just a one story building. It is nowhere near the type of complications in electrical, plumbing, elevators, et cetera, that you would have encountered in the Government Administration Building.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I would actually differ.

I would say that the Monitoring and Evaluation (M and E), Mechanical, Electrical, Plumbing and Firefighting (MEPF) works in an existing building that you are trying to bring up to code is far more complicated because no one actually knows what is in there are the time, compared with a new build.

The Chairman: But again, I would suspect that those were largely replacement, because you coul not use the same septic tank. I would assume that you went to a treatment plant and the bathrooms are in different places.

Basically, you were digging out what was there and getting rid of it and putting in new ones where they had to go. There was no requirement for connection purposes to existing facilities because you were simply adding on a room. As I recall, the bathrooms in this new building are in entirely different positions from where they were.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: The drainage did not change—that was reconnecting to existing drainage—although, as you say, the toilets were in different places. There were new electrical rooms and new services, but it is one thing drawing what has to be built on a drawing, and another to actually be able to convert all of the existing facilities.

The Chairman: But, having a copy of the drawings, all of that would have been anticipated in your pricing structure. Granted, you may miss one or two, but you were not going in blindfolded and then ran into all of these MEP complications.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: We had details of what was one the drawings and that is what we priced against, yeah.

The Chairman: Well no, sir. You said you were instructed not to price what you think the drawings should provide and not to give cognisance to the inaccuracies in the drawings, but to price the bill of quantities that you were given; and I think that is the correct answer, based on other evidence that we have.

How would you describe the performance of the design team versus the performance of the lead consultant when they became the consulting managers of the project? When they moved on from the design phase to managing the project?

You would have been involved in the design phase, so how would you rate RS&H in terms of managing the project?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I think one of the problems with RS&H throughout the job was that they did not have a permanent person on island. They were managing it for afar and, being a refurbishment job, lots of things crop up.

It is very difficult to do all that over the phone; it is much better if you have feet on the ground.

The Chairman: Did you report that concern to your client?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes.

What happened was that we actually worked with the client's project manager to sort out all of those issues that you would normally run though the architect's team.

The Chairman: So the client's project manager basically became the manager of the project, instead of

the person who was protecting the client from who they had contracted to manage the project and make sure everything was going correctly, within budget, and on time.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I think he ended up with a dual role, if you like.

The Chairman: My position would be that that is a conflict; you cannot serve two masters.

We were given some numbers yesterday as justification for the additional cost. From your general contractor point of view, how much of the additional cost was due to changed orders related to additional work—for example things that were not in the bill of quantities that you priced?

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: All the additional works, whether it was additional scope that the client wanted or variations due to inaccuracies in the drawings, were all issued by (Project Managers' Instructions) PMIs. I can give you a rough idea of—

The Chairman: I will not hold you to the third decimal point.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Alright.

[Laughter]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: We did an evaluation but it is difficult to say whether some works are actually changed—

The Chairman: Obviously there will be some crossover, because if you are adding things it is going to affect what is already in the drawings.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Exactly.

The Chairman: But just ball park numbers.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: It came out to about 50/50; 50 per cent.

The Chairman: So roughly around $10 million was for additional things and $10 million would have been for corrections.

Now, that differs substantially from evidence that we were given yesterday when the client said that the things that they added, nothing to do with the design problems and deficiencies therefore, but the things that they put back into the drawing were priced between $4 and $5 million.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes, I think that is sort of what I was saying, that it is difficult to tell. We had something like 600 instructions. It is difficult to say.

The Chairman: I am not expecting you to bring the filing cabinet here but—

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Exactly—

The Chairman: For instance, one of the things they said they changed was an in-transit lounge that was included in the original drawings but they had taken it out; and when they put it back in, that was part of the…

When you priced corrections to the design work, how was it done?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: We have a price bill that we started with, so we had pricing for all of the elements within that price bill. Where possible, any additional work that was similar to any existing work that we priced, we used the rates that were in the bill.

Obviously, some items were totally different to what is in the bill; so you have to come up with fair rights that are then agreed with the Professional Quantity Surveyor (PQS). Then there are the more minor items that you might have to do on day work.

The Chairman: Okay.

Were there onsite inspections on changed orders by your client or somebody contracted by them, to make sure it was done and the rates were applied? Who inspected and signed off on the work?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: The costs were submitted to the PQS.

The Chairman: Which was JEC Consultants?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes.

They then reviewed those costs and if they had any concerns or queries, they would come back to our commercial manager to discuss them. Once they were happy with them, they would not sign them off, but give their review that these were a reasonable assessment. They would then pass that on to RS&H, who would sign them off.

The Chairman: At what point did the major project manager get involved in certifications of those prices, or he was not [involved]?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No, I do not believe that he did.

The Chairman: Okay.

Did the client have someone onsite monitoring the construction, that when you went to JEC and said "*this wall is completed and this is the price"*, they knew that the wall had been completed and priced; or was that all left to RS&H? Also, did they have someone there doing that kind of work?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: All the works would be recorded on revised drawings.

RS&H did not have someone there full time but they did have a representative at Chalmers Gibbs who would come to site and inspect the work as we were going along. I think RS&H only really came for monthly meetings throughout the project; JEC would have been onsite to see that the works were done and would liaise with Chalmers Gibbs.

The Chairman: When we asked the Project Manager for the terms of reference and what he was required to do, he could not say. He just said he was the Project Manager. He did not tell us that he wound up basically doing the work of RS&H as you suggested.

Something that seems to be missing is any consistent checks and balances on what happened, that was being reported that was going to the client. It seems that they relied on RS&H to do all of these things. What I cannot put my arms and head around is where was the checks and balances in this project, which might have led to better control of the additional expenditure?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: All I can say from our side is that we used to do weekly reports for the Project Manager, which would give him an update on where we were with requests for information and awaiting instructions. Throughout the job there were around 800 Requests for Information (RFIs) issued, normally they should be answered within a week, a lot of them were not.

We used to give a weekly update of where we were with those things and a general report on items that were urgent. We also used to do a complete monthly report that went to the team which detailed all of the PMIs, pricing, and the RFIs progress to date.

The Chairman: There seem to be long delays; some of it was related to baggage handling, et cetera. Did you make any additional claims of cost based on being delayed?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: There were several extensions of time granted.

I think it was discussed yesterday that initially the works were delayed for 8 weeks because of the issue with the electrical drawings; that was one extension of time that was granted.

Beyond that, further extensions of time were granted for 38 weeks to cover all of the additional works and the variations—which come with associated prelims and costs.

The Chairman: Right, but my question is related to cost. Did those delays and extensions allow you to re-cost beyond the quantities that you submitted in the original contract because you were delayed that period of time and prices of materials and labour may have gone up?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No, we used the existing rates. There was a prelim cost that came with the extension, but the actual pricing of variations was still done from the bill rates, as I mentioned earlier.

The Chairman: So McAlpine was not responsible for any additional costs that were directly related to delays? All additional costs were because the client issued change orders, either to correct inadequacies in the design, or to add additional things that were not in the original design?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes, correct.

The Chairman: Okay. What was the completion date in the original contract?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: The original contract completion date was the 6th November, 2018.

The Chairman: And the actual completion date?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: 31st July, 2019.

The Chairman: And all of that substantial delay was caused by the client? For example, inadequacies in the drawings which led to delays, or delays by RS&H in responding to you, et cetera?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I do not think you can look at it as delays. How do you do 50 per cent extra work in the time period? You cannot do it.

The Chairman: I am not convinced it was 50 per cent extra work.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No.

The Chairman: It is 50 per cent extra cost.

There is a big difference between 50 per cent extra cost and 50 per cent extra work because the square footage is still the same.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Right.

I would argue but a substantial amount of additional work had to be done. You still had the same constraints; in fact, you had more onerous constraints when we actually got started for keeping the existing airport operational. It was not physically possible to do it within the same time frames.

The Chairman: Okay.

The airport basically has two peak periods, 6 o'clock in the morning until 9 o'clock, and 11:30am to 3:30pm; was there any consideration given to increasing the work outside of these periods, for example at night, when there was no one there to deal with?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes. A lot of work was done out of hours, particularly to suit the existing users within the building.

The Chairman: The changes that would have to be made to security and all of that could not be made nightly; you would have had to wait.

When did you advise the Senior Project Manager, the Major Project Office and/or the steering committee of the extension of the new completion date?

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: The 38 weeks that were granted were done incrementally throughout the project. When we could see that there would likely be a delay, an extension of time was granted, which totals 38 weeks.

The Chairman: Okay.

I think in October 2018 when this report was done, the final figure was to be $61 million. Evidence that we were given yesterday [has] it going from $61 to $74 million after the work was completed. Do you have any explanation for that?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Sorry; the $61 and $74 do not relate to us because a lot of that work was not ours. I think if you stick with the $52 and $61…

The Chairman: Yes, yours was $10 million. I am not suggesting that... We were told that your final contract price was $61 million. Is that not so?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Which it is, $61.9 million.

The Chairman: Okay; versus the $42 million.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes.

The Chairman: Okay.

So you are suggestion that the change from $64 million, which have included your $61 million, and other cost to get it to—I think—$64 million in 2018… Going from $64 to $74 million is not related to any additional cost that you submitted.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: The revised estimated cost in August 2018, according to the report was $52.4 million.

The Chairman: For your section?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes.

The Chairman: Okay.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: At the time we had done our reporting.

When we do monthly valuations, we only evaluate against the work done, but we used to give an indication of out-turn cost. I think we were somewhere in the region of $58 million at the end of August 2018.

The Chairman: Okay, you were at $58 million then.

That delay from the 6 November 2018, the contract completion date, to the 31st July 2019, roughly 8 months—any work that was done during that extended period, would that have been largely accounted for in your $58 million?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Not necessarily, because there were works still being instructed way beyond August, 2018. I mean, we were receiving instructions for additional items.

The Chairman: What kind of items?

Obviously in August, September 2018 the building was substantially completed. Was it not? Large sections of it would have been complete.

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: There were a couple of significant items of work that were going on through that period.

The second floor offices, virtually all of that work happened in the period after August or in the last 6 months of the job. Also, there was a major problem with the airside arch with the existing building not tying in with the drawings which required a significant amount of extra work to make it all work.

The Chairman: You are suggesting that items such as the offices upstairs were not included in the original design?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No, it was totally additional work.

The Chairman: Okay.

During that period of time were there any instructions given to you that led to the demolition of new work to reconfigure for something like offices or extra bathrooms downstairs or something like that, where you actually had to go in and demolish work that had just been paid for in this contract, in order to fit in the new changes?

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: There was no significant demolition of new works. If something new was instructed that you had to tie into a new wall, you might have to modify it slightly to get the tie in.

There were user changes that happened throughout the job, where things did not work for them such as Immigration—they had some changes to make their life easier, I guess.

The Chairman: How much of the additional cost would you attribute to simple bad design and bad planning for the project originally?

[Pause]

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I think it is very difficult to put money to that.

The Chairman: I will give you one example.

I do not understand how the Airport Authority board of directors—being advised by Major Project Office and other consultants within the Government circles—could accept drawings from a client that they now admit were only 75 per cent complete.

I mean, the example that the CEO gave was that a sewer pipe did not go outside on the drawing, it stopped halfway. I mean, I struggle to understand that level of incompetence at all levels, because you do not have to be an engineer or an architect to look at a set of plans and how they got it through BCU— I do not know how BCU handles Government plans but I know how badly they treat me and how detailed analysis they need from me—how did they actually get plans passed that are in that kind of a state.

I know that you do not have a crystal ball to look in but I think it is fair to say, from the Committee's point of view and I also believe from the findings of the Auditor General, that the major problem with this project was at the start and that proper planning was not put in place. My grandmother told me that if you start wrong you finish wrong.

Let me ask the question a different way—

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Let me just say that we started the job with 470 drawings. Whether they were up to standard or 75 per cent, different people will have different opinions. They probably were not great, but by the end of the job we have 1,558 revisions of drawings, which probably indicate that there were substantial changes.

The Chairman: Yes. Also you would have to question why you would need that many, if your original design was actually up to code and based on proper instructions from the architects in terms of functionality, use of the building, et cetera.

Let me address the white elephant in the room. Did McAlpine, seeing the design flaws see it as an opportunity to increase their contract price, because knowing that there would have to be change orders, which would increase their revenue from the project as opposed to telling the client, *these drawings are so bad that I cannot price them—I do not believe your bill of quantities is correct?*

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No.

I mean, you are pricing the job competitively, you are instructed to price against the bill. If we thought that there was going to be 50 per cent more work, and then bumped the prices up because we thought that, we would then become uncompetitive.

The Chairman: Except your original price would be very competitive because you could low ball the original price knowing well that you would have change orders on which you could update it and make any loss back.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No. If you low balled the original bid you are using those rates to price any variations—you would lose money.

The Chairman: No.

Not if you knew that the bill of quantities was 50 per cent short and you were betting to get those prices at the top. It is a very troubling exercise in project management for the Public Accounts Committee.

It has to be difficult to explain the kind of increases and over runs that occurred on this project, particularly, when we were all promised that we were going to have a terminal that would last us 25 years and it is already beyond capacity at certain times of the week and certain times of the year.

Are there any questions?

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr Chairman.

Through you: could I just ask the witness to clarify one thing? I think he said earlier that the second floor offices were never included in the original drawings or work. Can you just clarify if that was the case please?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Yes. They were issued as a project manager's instruction, apparently number 295.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you.

The Chairman: I guess that just speaks very clearly to the poor planning because the Airports Authority must have known that they were going to need offices from which to operate.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Mr. Chairman, the reason I asked is that when we did the reports we were under the impression from the client that the second floor offices were included in the original scope of the work.

We may have misunderstood, of course.

The Chairman: Okay. Mr. Austin?

Mr. Austin O. Harris, Jr: Thank you, Mr Chairman and thank you to the witnesses for attending this morning.

I think the Chairman did a very comprehensive job of asking a number of questions, and perhaps we may be going over old territory, but I want to reference specifically the Auditor General's report, particularly, **'The Owens Roberts International Airport (ORIA) Terminal Redevelopment Project-Progress Update as at August 2018',** which was published January 2019. I will be referencing from that report, specifically page 15, paragraphs 38 and 39.

Over the course of the past day and again this morning, a lot of attention, blame or responsibility has been levelled at the lead consultant and contract administrator, RS&H. The Auditor General defined what the expectations or obligations of RS&H were according to the contract.

Paragraph 38 states:

> **"As contract administrator, RS&H was expected to:**
>
> - **Oversee and coordinate the work of the sub-consultants (such as architects and cost management).**
> - **Be the main link between the CIAA and the contractors (for the construction of Phases 1 and 2)."**

Phase 1 we understand was managed by Arch and Godfrey; Phase 2 was managed by McAlpine. This means that RS&H should have been onsite regularly to have discussions with the contractor and reporting back on progress and issues identified.

My first question to the witness is: can you outline from your relationship as contractor, as project manager for McAlpine on a day-to-day basis—were the representatives from RS&H regularly and routinely on site and were there interactions on a daily or weekly basis between RS&H and McAlpine?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: RS&H had a local representative and there was dialogue because there were weekly meetings, but their senior staff from the United States generally visited monthly, so we did not have a full-time presence on site for a period of the job.

Mr. Austin O. Harris, Jr.: So no full-time representation or presence. Thank you very much.

Paragraph 39 states:

> **"Since September 2016, the Project Steering Group has had an agenda item to discuss concerns about the quality of RS&H's work. Concerns about RS&H's performance continue. For example, in April 2017 the Project Steering Group was informed that of the 92 variations made by the contractors over 60 of these related to design errors and omissions made by the consultant."**

Now, we have talked about the delays in commencing various aspects of the contract because of design errors. You gave evidence that the electrical drawings, for example, were incorrect and delayed for some 36 weeks and had to be submitted 14 times before they were correct.

You mentioned there were delays in the procurement and appointment of a contractor for the baggage handling system. Those delays I think, accounted for some 10 months in the contract being finalised. There were also a significant number of contract variations arising from poor quality of work.

Outside of delays in the contract, what impact did these design errors have on the overall project? Were there monetary impacts? Your design called for a four foot wall and in reality you needed a 10 foot wall, and obviously there is more square footage, so there is a cost element.

Can we talk about what were the impacts of these delays on the part of RS&H outside of time delays, in terms of when these contracts could start which were identified earlier, that the contract was expected to be completed in 2018, but in fact it was not finished until way over schedule in July 2019—what were the impacts from McAlpine's perspective?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I think going back to the baggage handling equipment, although that work was outside because that was part of Phase 1 of the works; the delay in completing that impacted some of the phasing we had to do. There was a sort of knock-on effect that makes the phasing more difficult.

In the end we had 890 project manager instructions and all of those covered variations to the work. It is very difficult to access from those which were additional works and which where variations due to a short fall on the existing drawings, without going through them all individually.

Mr. Austin O. Harris, Jr: Two questions in that regard.

The closing sentences in paragraph 39 state, **"We noted that RS&H have been asked to provide explanations and solutions in relation to these concerns."** Obviously the 92 variations, 60 of which related to design errors, **"But we were told that the explanations were not wholly satisfactory."**

I am assuming this is the Auditor General asking the contractors to explain to them what these design errors were—

[Inaudible interjection]

Mr. Austin O. Harris, Jr.: Pardon me?

[Inaudible interjection]

Mr. Austin O. Harris, Jr.: Okay, the client; alright.

The client is the Cayman Islands Airports Authority, the contractor is McAlpine. Let me ask the question this way then: was McAlpine made aware of the explanations to these design errors and did those make sense to McAlpine?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: No, we were not involved in the explanation.

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

Final question: You mentioned moments ago that there were 890 project manager instructions which, I assume, is the same as variations. We heard in witness testimony yesterday that of those 890 variations, RS&H were responsible for 412. We were also told that the client—specifically the Cayman Islands Airport Authority—also made changes to the original scope, but by my estimation they were certainly nowhere near 412.

The changes specifically requested by the client, the Cayman Islands Airport Authority, took place between October 2016 and June 2018 and included the upgrading of Hurricane-impact windows and doors from 9 to 15 pounds; adding canopies to protect passengers and baggage from the weather; upgrading banners on the roof, landscaping around the airport and other design upgrades including the duty free mall and the Cayman Islands Airport Authority offices. The Government funded some 5 million dollars to support these variations.

By my count in total, there were about six specific variations made between 2016 and 2018 by the Cayman Islands Airports Authority; 6 changes in scope versus 412 changes and variations from the lead consultant and of course, the balance made up in that 890 project manager instructions. Who was guiding McAlpine in these instructions?

Furthermore, can you state in your opinion, and certainly your experience, if the client—the Cayman Islands Airport Authority—was the majority mover of these changes? Or did it come as a result, as has been stated and aired out considerably, of the design flaws, tendering documents not being corrected; poor drawings, poor specifications, poor bill of quantities, all of which fell under the umbrella of RS&H.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Sorry.

Going back to the receipt of instructions, all the instructions we received came from RS&H; we did not receive anything directly from the Cayman Islands Airport Authority, so I cannot really comment on where you get six from. I think what happens is that everything generates drawings and information and therefore it is all funnelled back through RS&H.

Mr. Austin O. Harris Jr.: I understand and I thank you for that.

You answered this question to the Chairman, but I think it deserves emphasis.

We talked about the original contracted sum, which McAlpine won in the tender for phase 2 which was originally $42.5 million dollars. When all was said and done, the final cost for phase 2 accounted for $61 million, an increase on the McAlpine-awarded contract of some 43 per cent. The overall cost of the project increased by some $74 million or some 37.5 per cent over budget.

Is it safe to say that these cost overruns were directly attributed to the change of scope, or these 890 project manager instructions that McAlpine received?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Well, all the additional costs relate to PMIs because we have to have something to price against.

As I said earlier, it is difficult to assess what is additional work from 890 PMIs; it is difficult to assess what is extra work and what was badly designed in the first place. I still think a rough 50/50 split is about right for additional errors and omissions that had to be rectified as we went along.

Mr. Austin O. Harris, Jr.: No more questions, Mr Chairman.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman.

To follow up on Mr. Harris's line of questioning: we are slightly confused and trying to reconcile numbers. If I understand the testimony correctly, there were 890 project manager instructions, you just said?

When Mr. Guyton, the board chairman, gave his evidence yesterday said that 412 were due to errors and omissions, 79 were due to unforeseen, 72 were due to tenant variations, and 236 were due to the board, which I do not think totals 890.

[Inaudible interjection]

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: My colleague tells me it is 799.

We are sort of wondering what the rest were down to and also wanting to clarify that the office refurbishments and the offices were part of that 890 change orders.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Sorry.

The 890 is total, including revisions, which may have caused the confusion. I think the PMIs went from 1 to 805 and there were 12 gaps in the numbering so if you knock 12 off 805, you are down to 793.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Okay.

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Is that about right?

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Okay, that is clear, thank you.

The Chairman: Is this normal on a $42 million contract that you would have 890—I assume PMI means Project Manager Instructions—on a contract this size? How many did you have on the Government Building which is what, 20 times this size?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: Well, both Steve and I have been in the industry for over 40 years each, and this is exceptional.

The Chairman: Okay.

One final question: the contract completion date, 31st of July 2019, the evidence we have suggests that there was an expectation to have a financial close of the contract, within around three months, which has taken us to somewhere around October 2019. Here we are today the 20th January 2021, 18 months later, and there are no final numbers.

How much of this delay, if any, is due to McAlpine making additional claims or disputes on your cost?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: None; as far as we are concerned, the final account was settled six or eight months ago. This is the reason it has not be finalised.

In fact, we have got a final account statement which has been signed by ourselves and JEC, but then that has to go to RS&H for a signature and because of whatever is going on in the background, it has not been signed by RS&H, therefore, the final account has not been paid.

The Chairman: Maybe I misunderstood, but the impression I got from the CEO and the Chairman was that even though they have a final figure of $74 million plus, they do not have final agreement on the allocation of those costs. But it is interesting to hear you say that McAlpine had their final accounts from when, October?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: This was dated August, last year.

The Chairman: August 2020?

Mr. Richard Noel, Managing Director, McAlpine, Ltd.: I do not know how long it has been going on, but it has been around for some time.

The Chairman: Okay.

If there are no more questions, thank you very much sir. It has been a confusing, enlightening experience.

[*Laughter*]

The Chairman: Thank you for your time; we appreciate it.

[Long pause]

MINISTRY OF DISTRICT ADMINISTRATION, TOURISM AND TRANSPORT

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: I do solemnly, sincerely and truly declare and affirm that the evidence I shall give this honourable Parliament shall be the truth, the whole truth and nothing but the truth.

[Pause]

The Chairman: Good afternoon, Mr. Bodden. As usual, we are glad that you found the time in your busy schedule to come here and answer some very simple and easy going questions for us that will clear up many confusing things that seem to be going on.

You know the drill, the first time you are asked a question, give us your full name and your title so it appears properly in the Hansard.

I think Mr. Austin will start us off.

Mr. Austin O. Harris, Jr.: Thank you very much, Mr. Chairman.

Thank you to the witness, Mr. Bodden, for joining us this afternoon; I have just a few questions for the Chief Officer, and what I want to start out with is the governance framework for this project.

Given that the Owen Roberts International Airport Terminal redevelopment project started before

the Procurement Law took effect, the responsibility for delivering the project stood squarely with you, instead of the Major Projects Office as it has for other projects, as outlined in the Procurement and also the Public Authorities Law.

Can you talk to us a little bit about how that governance framework was determined, and how it operated on a day-to-day and month-to-month basis?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Good afternoon, Mr. Chairman and members of the Public Accounts Committee; Stran Bodden; Chief Officer, Ministry of District Administration, Tourism and Transport. Thank you for having me back and thank you to the member for the question.

As the member said Mr. Chairman, the governance did pre-date the Procurement Law; however, there have been two long standing frameworks: the UK Green Book we utilise on procurement, and the Framework for Fiscal Responsibility that is now in the Public Management and Finance Act. We relied on those frameworks at the time.

In terms of un-operational governance, there were the Airport Authority Board, the Steering Group for the project, and the senior management of the Airport Authority, which included the various senior project managers over the time of the project.

There were monthly Project Steering Group meetings and yes, as the report says some were missed—we can talk about that, as well—and there were board meetings where updates were given to the board by me, as the initial Chair of the Project Steering Group, by the CEO and the Senior Project Manager. We worked together, in terms of updating the board on a monthly basis.

I think the report said every two months, but it may have been back when they were in the more strategic phase, where it was more concept and design as opposed to when we got through the various consultancies and got to where we were into design and then construction.

I hope that answers your question but I can refine if needed.

Mr. Austin O. Harris, Jr.: Yes thank you very much.

If I look specifically at the report by the General Auditor, **"Owen Robert's International Airport (ORIA) Terminal Redevelopment Project-Progress Update as at August 2018"** which was published on January 2019, page 9 specifically relates to project governance. Paragraph 14 states that: **"The Senior Responsible Owner (SRO) for the project is the Chief Officer from the Ministry of DATT" (**District Administration, Tourism and Transport); that is you, right?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Yes, sir.

Mr. Austin O. Harris, Jr.: Thank you. It goes on to state that:

- **"The Project Steering Group provides the main governance and oversight for the project. The membership of the group has changed over time."**

By my estimation, it changed rather significantly twice: the first time, the original representatives included the Ministry of DATT, Public Works Department and the Department of Environment; the Cayman Islands Airport Authority, including the CEO and two board members, and the consultants that developed the Airport Master plan and Outline Business Case (OBC); when they say "master plan" I am assuming these are the ones that developed the strategic outline case, namely PricewaterhouseCoopers—that was the original makeup.

After the OBC was approved—I think they received cabinet approval on the 5th August 2014 and FCO approval on the 15th August 2014—the membership changed to you (the Chief Officer from the Ministry of DATT); the Civil Aviation Authority *[sic]* Chief Executive Officer, Mr. [Albert] Anderson, the Senior Project Manager, representatives from the Major Project Office and members of the Cayman Islands Airports Authority management team. What happened specifically after the OBC was approved?

The Auditor General also noted that you, as Chief Officer of the Ministry of DATT, delegated your authority as Chairman for the Project Steering Group—which, by my estimation, has main governance and oversight for this project— you delegated your responsibility as Chairman to the Chief Executive Officer of the Cayman Islands Airports Authority. Throughout this project the Chief Executive Officer and the Chairman of the Board had very clearly defined roles as outlined in the life of this project, and the Project Steering Group had overall oversight.

Why did you, as Chief Officer, delegate your authority as Chairman of the primary oversight body to the CEO, who had very clear day-to-day obligations as CEO and had to wear the dual height as Chairman of the oversight body; notwithstanding the fact that he was dealing with contractors, engineers and drawings. He is not an engineer, so I am curious as to how that decision was arrived at and why?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you Mr. Chairman, to the member: I made that decision.

I took the view that as the project moved from more concept and design to a much more design-and-construction stage, it was best for everyone involved that the CEO actually have and direct the Steering Group.

We did, as I think has been outlined, a Government policy that was a very short document with something like 10 to 12 points on it, which led to a

Strategic Outline Case which led to an Outline Business Case which went through procurement; all of that was done at a very strategic level when I was Chairman of the Steering Group.

When we had gone through all of that and were down to the design and moving to construction, I thought it best it that it transition to the CEO, who in most legislation now is recognised at Chief Officer level; across the SAGC framework, those individuals do the same things as I in terms of responsibility, accountability, and signing off their accounts—typically along with their CFO—as you well know, Mr. Chairman. We were getting to a much more operational phase and moving from the strategic phase—which for myself, I was writing the Cabinet Paper and guiding the process through from the Government policy, to the SOC, to the OBC—so it was time it should transition to the CEO.

Let's just talk practically: I am chairing the meetings with the CEO of a SAGC there; I am directing it and that well-experienced gentleman, that now has the responsibility for the accounts and everything that authority is going to do, is just a committee member. I took the view—and we can talk about whether there is another opinion—that at that time, he should be accountable and responsible for the direction of that committee.

Like I said, I welcome other opinions, critical or otherwise to that decision, and maybe it can guide further projects along, but that was the decision that I took at the time.

Mr. Austin O. Harris, Jr.: Then, if I am to understand you correctly, when the question is asked, *"Who had final oversight authority for the project?"* and we have heard testimony over the course of the last day that places a lot of culpability, in terms of the cost over runs, the delays in the project being started and completed largely, in the lap of the lead consultant RS&H, who were appointed lead consultant, as part of the architect Chalmers and Gibbs who won the tender.

However, the responsibility of providing oversight or managing this lead consultant fell on the over sight group, the Project Steering Group, which originally stated the Chief Officer as the Sole Senior Responsible Owner, I think the auditor general reports calls it—SRO. You took the decision, for the reasons you have outlined, to make that Senior Responsible Owner the CEO of the Airports Authority.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: That is correct, sir.

Mr. Austin O. Harris, Jr.: We note that paragraph 17 of the Auditor General's report states:

"From our review of the Project Steering Group minutes we identified that governance and oversight arrangements were discussed early in the life of the project. In June 2014, the Project Steering agreed that it would make recommendations on priorities and funding to the CIAA Board for approval. However, in January 2015, this changed to the Project Steering Group making project decisions and the CIAA Board ratifying these."

Explain that to me: the Board's responsibility of ratifying decisions that the Project Steering Group makes. What is the exercise involved in that ratification? Surely this is not the Airport's Authority Board rubber stamping decisions that the Project Steering Group makes without questions of otherwise but, for the benefit of this Committee, talk to me about the checks and balances that the board would otherwise provide the Steering Group under this special arrangement.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you Mr. Chairman, I thank the member for the question.

This paragraph needs to be read in its entirety; the three bullet points that come after are crucial to it because bullet point two says: **"Approves project contracts and major changes above $50,000"**—that is the sticking point.

We understand that in practice the CIAA board approves project contracts and major changes about $50,000; there were no changes made by the Steering Group that were above $50,000. So if it was a day-to-day change that had to be made to keep the project going, keep things flowing, yes the Steering Group would look at that, but any change above $50,000 was still taken by the Airport Authority board first before it was done. Small changes, yes sir, done by the Steering Group and taken to the Board after, but any change over $50,000 was done by the board before it was actioned.

Mr. Austin O. Harris, Jr.: Thank you, Mr. Bodden; I appreciate that response.

The Project Steering Group and how it is able to provide oversight for this project is dependent, as you stated, on regular monthly updates presumably from the lead consultant first, who deals directly with the consultants. We saw on page 15 of the report that the contract administrators, RS&H, were expected to oversee and coordinate the work of the sub-consultants, that is the architects and cost management, but were to be the main link between the Cayman Islands Airports Authority and the contractors, either Arch and Godfrey or McAlpine.

The Project Steering Group, by that explanation, then received its updates from the lead consultant on a monthly basis or every two months is how, the contract states, that communication should occur—is that accurate?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Yes, sir.

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

Page 11 of the report, paragraph 21, starts to identify the cracks in this project and how quickly it started to go off the rails. It speaks about the absence of those essential updates that in my mind enables the Project Steering Group to perform its function and obligations as the senior responsible owner. It states:

"The Project Steering Group has met monthly since August 2016 and attended monthly design workshops and project updates in the early design stage of the project. However our review identified a number of gaps in Project Steering Group meetings. There were:

- **No meeting for five months between July and November 2014. During this time, the procurement process for the lead consultant (RS&H) for design, cost and contract administration was carried out.**
- **Only seven meetings in the year from March 2015 to February 2016. During this time the contract for Phase 1 construction was signed and tender documents for Phase 2 construction were issued.**
- **No meetings in the six months between March and August 2016. During this period the contract for construction of Phases 2 and 3 was signed."**

Can you tell this Committee why there were so many missed meetings at key stages of the project by a Project Steering Group that had overall responsibility and oversight for a major capital project?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through the Chairman, thank you for the question.

During certain periods, meetings were not held because there were intense periods of technical work going on and so there is less need for the Project Steering committee to come together physically but, we were always in touch obviously, by e-mail or by phone. For example, during drawing, tender document production, the tender review periods—during times like that there were no meetings.

We put our hand up and acknowledge that that could have been done better; we could have had more meetings, but work was still going on and we were obviously still very much in touch with each other—by email and phone—while the practical work was going on. We were doing the work; we were not updating each other on what was happening, because the work was taking place at that time.

I hope that sheds some light on the member's question.

Mr. Austin O. Harris, Jr.: It certainly does and I thank the Chief Officer for that response.

The Auditor General also identified that in that time frame [when] you say, "we were doing the work", that when the Project Steering Group did meet, it did not necessary meet in a formal meeting structure. They did not gather once a month or every two months; in many cases decisions of the Project Steering Group were conducted over email, so there was a bit of—for lack of a better phrase—a round-robin atmosphere, where persons were not gathering to go over reports and updates from the lead consultant, there were no considerable discussions from person to person but were in fact conducted over time, over weeks, and then that decision was made.

Certainly during the COVID pandemic we accept the difficulties of bringing people together and, of course, the conveniences of technology making all of that happen. This was not in COVID times.

Can you identify to this Committee why a Project Steering Group who had primary oversight for a major capital project, could neither hold regular meetings nor make the time to gather, to meet in person, but instead had to make spending decisions via e-mail correspondence, for which, I might add, the Auditor General also stated that there were no formal minutes maintained; their evidence had to be obtained by printing e-mail correspondence and then making heads or tails of what decisions impacted what questions, clearly suggesting that the Project Steering Group operated—again, my words only—in a somewhat of a hap-hazard way.

Can you talk to us about why it operated that way and what were some of the reasons why we opted for e-mail discussions and decisions versus physical monthly, or every two months, meetings?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through the Chairman.

Once again to the member: it was a busy time. The time should have been made to physically get together to do the meeting. As was said, it was not COVID time, so we could have made it a higher priority. We did take decisions through e-mail, and there was documentation on it; it is something that we acknowledge and put our hand up and say, *yes this could have been done better not only in terms of having the meetings but documenting those meetings.*

So yes sir, I take the point and I take the criticism, that as the Project Steering Group we should have met on a more regular basis according to these gaps over this period of time.

Mr. Austin O. Harris, Jr.: Would you also accept that part of the problem was that members who were appointed to serve on the Project Steering Group failed to attend regularly-scheduled meetings, therefore forcing the Chairman or Secretary to have these conver-

sations over e-mail versus physical meetings because of failure to attend?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through the Chairman.

That is coming up on five years ago. I could not say it was failings but it certainly was not because we were sitting on hands—work was going on, the Ministry still needed to get run, and the airport still needed to be operational—so yes, the mode of doing our work was opted to be done by e-mail.

If someone could not come at times, and we could not make a quorum then yes, committee decisions were taken by e-mail. I guess we got a bit comfortable with e-mail and like I said, I accept that criticism. Once we got really into the project itself there were regular monthly meetings.

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

I appreciate that it was five, six years ago; I barely remember what I did yesterday so it is totally understandable, but if I may put it to you: this information is found in paragraph 24 on page 11.

"In December 2017, the Senior Project Manager highlighted that a number of members were frequently absent from meetings, which created risks for decision making. The Project Steering Group responded quickly to this by removing some members immediately and finding replacements."

It appears from that paragraph, that it was not a matter of people being busy or you may have missed a few meetings but that there were people who were appointed to serve on this oversight group who did not follow through with their commitments forcing the SRO, you, or the CEO to make replacements in these numbers.

Again, I know it has been five or six years hence and I suspect I know the answer, but do you know how many of the original members of that Project Steering Group had to be replaced with alternatives?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through the Chairman.

Unfortunately, sir, that has been a while for me; I do not recall the actual members and how that changed during that time. December 2017 would have been 3 years ago.

Mr. Austin O. Harris, Jr.: Right — no problem.

Sticking with the lead consultant, RS&H: we talked about change orders; changes in the scope of the project after the Outline Business Case had been signed, as well as a number of changes that came about as a direct result of, again what I will define simply as 'derelict work' on the part of the lead consultants, things like poor technical drawing, poor design plans, poorly completed tender documents. We talk about delays in the baggage handling that caused delays of upwards of 10 months. We talked about delays in the electrical drawings that took 36 weeks out of the contract life and had to be submitted 14 times before they were correct.

This clearly suggests, as I think the Chairman of the board of directors stated, that while RS&H were viewed to have more experience in airport redevelopment than Chalmers Gibbs who were chosen and selected by the tenders' committee, RS&H looked really good on paper, but in reality their performance was less than desirable and certainly not what was expected. We understood from the Chairman of the board of directors that 412 change variations were issued by RS&H, presumably to deal with many of these areas that were identified.

At the beginning of the testimony yesterday, our first witness was the Chairman of the board and we asked what parameters could this Committee be guided by; we were concerned that there may be litigation pending or otherwise by the Ministry against RS&H for clearly taking this project way over budget —37.5 per cent over budget from the original figures. McAlpine's contract award increased by 43 per cent from 2016 to 2019 and again, many of these issues were directly laid in the lap of, not the Cayman Islands Airport's Authority, not the Ministry, but the lead consultant.

Interestingly enough, however, we were told that there are only discussions about what to do about RS&H. There have been no lawsuits filed nor legal claims challenging the delivery of the work by RS&H yet, throughout the course of this project, there seemed to have been a number of concerns by the Project Steering Group as it relates to RS&H's ability to do as it was contracted.

My question is: why in your opinion, was RS&H allowed to continue to act as lead consultant for a period of time without being removed, or any action taken, and if, they are the culprit in these costs overruns, why has no action been sought against them after the fact?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you Mr. Chairman, to the member's question.

A number of issues were at play here. Yes, on paper the lead consultant, as identified in the report and I think everyone has said that now, was the firm to go with. They were a larger firm and had some airport experience. When it comes down to it, brass tax, we found it different.

I think one other colleague of mine gave testimony that one of the lead people from RS&H was actually let go from the company within six months. That was signs of what was being delivered.

Once we were in construction, and to keep the project going, if we then parted ways with them at the time, and did not have that lead consultant playing

the role that it played, even to the standard that it did, and we had to go out to tender, procure, we were looking at six month or maybe more to bring in someone new. So right away, that time translates into costs, again. So that is going to be added costs. That is why they were not terminated.

On the legal proceedings, lawyers were involved on both sides, going back and forth. Obviously when you are in discussions legally, the ideal is to come to some middle ground before actually going to the extent of court proceedings. We think that we have got to some extent now, where we will be able to avoid that.

Again, with moving to legal proceedings there is no guarantee that we would be successful. We would have thought so and I am sure our legal advisors would have advised us that we would have, but there was no guarantee. So what we tried to do with the MPO oversight senior project manager is get through the project—yes, there were inadequacies—and get to where we are now, talking about how we could have done some things differently.

What probably should be stated again is that this is the first project to go through the Framework for Fiscal Responsibility. We are trying to bring it to resolution; I think other witnesses have said that we are close, we are having a meeting with RS&H very early next month if not next week, all legal advisors involved, in order to try to get final account and final resolution to this. I know the question was asked whether the meeting means we are not settled on a price. No, we have not signed off on the price; that is where we are at.

In a nutshell sir, that is why: to terminate them would have been more costs and going to court gave no guarantee; therefore, we tried to, and are still trying to work it out, and get it to where we can call it final and done.

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

I just have one final question for the witness, Mr. Chairman. Despite all of the questions, challenges, and complexities the Auditor General's report stated in her first conclusion that:

"The redevelopment of the terminal at Owens Roberts International Airport is essential for the growth of the Cayman Islands economy. Its successful completion will allow an increased number of passengers, both residents and tourists, to flow through the airport and improve their travel experience. It is therefore important that the project is managed well to ensure that it delivers value for money."

Now, while many of us in this room did not have much cause to visit Owens Roberts International Airport in 2020, very recently, as a result of Heroes Day, my colleagues and I—and I believe even your good self—had the opportunity to travel to the Sister Islands. To do so, we had to walk through the terminal, and I will say that the terminal is impressive the terminal is a far cry improvement from what it originally stood at and certainly as it relates to Cayman's booming attractiveness as a jurisdiction, either before or after COVID. I think the airport redevelopment project, in terms of the terminal, achieved success in terms of what it set out to do.

Costs over runs being what they are, certainly it is not a unique occurrence; there are cost overruns in every major capital project that the Government does. I would think that after all of this time, we would have fine-tuned our oversight process, almost to the point where it could operate by itself, but clearly there is still a lot more to be done in that oversight capacity.

As Chief Officer and the Senior Responsible Owner of this project, what lessons have you walked away with from this project, going on five or six years hence? What guidance to support running future projects which, as we understand, the terminal was just phase one; phase two is the airside with the runway extension and the taxi ways; phase three may include expanding the footprint to include more offices. I hear talks about expanding cargo and whatnot.

Certainly the Owen Roberts International Airport is no different than any other major international airport around the world. It will be in a constant state of construction and increasing in size.

Talk to us about the lessons learned from the Owen Roberts Terminal Expansion Project and how they will guide the decision and, in particular, the oversight for future ongoing projects.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you Mr. Chairman, to the member—and I thank him for the question.

There were a number of lessons learned: starting off with the cost consultant or the Quantity Surveyor (QS) being procured directly with the client, as opposed to going through the lead consultant, architect or other firm. Once you have the cost consultant working for you, they are working for you where it matters—on the money—as opposed to working for another entity, a third party, to make their position come across as the best place; when they are working for us, they have our best interests in mind and for me, that is number one. Other people may talk about it differently.

We have not touched on it yet but it is in the report: a final business case. Whether it is accepted or not, I can explain what happened. I can detail it. I do not know if it is going to be the accepted explanation.

So we did the Strategic Outline Case (SOC) and the Outline Business Case (OBCO, and where things went that we did not do the Final Business Case (FBC) is that we had two phases. The FBC has all of the contracted cost versus what the viability of what the project was from the OBC. So we had started phase one, more or less finished with phase two, and contracted to do phase two [three].

At that point, when we started to have all of the information we were already committed to a project. The idea behind a FBC is that, that makes the decision. For instance, with the air side project that will be completed shortly, yes we had different sub-projects of that much larger project, but they were bid all at one time, so that a FBC could be done prior to the contract signing, et cetera. That is a lesson learned as well. It showed us how best to procure projects. It could not be done in that phased approach. It can be done in phases, but they all have to go out at the same time.

That might sound simple but it is something that you learn, especially within the FFR, the Public Management and Finance Act, and now the Procurement Act. That is something that we learned.

Trying to be prudent and conservative, we set the budget before we designed it. That was this $55 million number that you hear. That again, we were trying to be prudent, that was something that we could afford. Not trying to cast any aspersions but other designs and different things for the airport, over many years now there was a $200 million—I think it was—price tag that came about. Obviously that was not going happen. We took the opposite tack and said we want to build something we can afford. We knew that was the only way it was going to get built.

Something else: the independent cost assessment I think would have been crucial. Not only, having the Quantity Surveyor (QS) work for us, but a review of what our cost consultant would have done. That would have reinforced what the numbers were and what things were estimated to be cost; not only an independent assessment of the cost, but an independent assessment of the design as well. We have all heard the various testimonies of the completeness of that. It just shows the checks and balances that can be put in place to make things work.

If I had to be the guinea pig, so be it. I am hopeful that any other projects benefited from our review; the audit that the Audit Office has done. I welcome it because I think it is something that other people should look at when embarking on projects. There is a structure that can take you successfully through a well-managed project and a lot of it is detailed in this report. Yes, we fell down on somethings but we learned from them. That is the critical part. To me that that is the purpose the Audit Office, under the Auditor General serves, in terms of doing these audits on projects.

It was in the OBC and it was recognised, but it was not built right into the project. That is not the contingency, the contingency is 6 per cent but the risk identified in the OBC is 20-30 per cent. Obviously, that is something you do not want to happen' you want to manage your risk but it has to be recognised that that is a potential.

When you think about it, the airport that we redeveloped, in its entirety was built—Mr. Chairman I am sure you remember quite well—in 1984, so 30 years prior. So, when you are essentially re-developing—to call it remodelling, I think is an understatement—a 30 year old building and you are taking down a wall or something like that, what you are going to find is anybody's guess. So building in a factor of adequate risk is what projects need to have because, yes, you have your budget, but Mr. Chairman, when you go into a project where you…

Back then AutoCAD and these kinds of design software, everything was done on paper and we know what happened with Hurricane Ivan and paper, so there are lots of things that you have to be mindful of when you are entering these things. If you are building a green field, terminal, or project you have a clear piece of land that you are building on other than what is under the earth, yes, you have to take that in as a certain amount of risk as well, but that risk factor is crucial.

That was put out there, but not as well recognised as it should have been. So, that is something else that we should have done a better job with, in terms of managing the project; realising that this is what we are doing and this is an adequate percentage of risk.

Mr. Chairman, those were the lessons learned from my perspective.

Mr. Austin O. Harris, Jr.: I would just like to thank the Chief Officer for that comprehensive answer.

Obviously you have thought about this. I think that bodes well for the listening audience who may be asking the question, *after all of these capital projects that the Government regularly engages in, various Governments, what do we take away from our short comings?* Very clearly, the Chief Officer for Ministry of District Administration, Tourism and Transport, certainly has taken away a great deal and I think that is a good thing.

I recommended this to your CEO, who acknowledged it had not yet begun and I will recommend it to you based on the response you just provided, and that is that the Ministry consider preparing a post-project evaluation report that will highlight those lessons learned but also highlight other value add on that perhaps may have been obtained from the project that were not necessarily outlined.

I think that document, specifically given the fact that the Airports Authority will be engaging in present and future re-developments, I think it would serve you, the Ministry, and of course the tax payers of this country well.

I thank you very much.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you, Mr. Chairman.

I thank the member for the comment and I will give an undertaking that we do a post project evaluation report, sir.

The Chairman: Okay.

The Chairman: I have a question. The scope of works that was given to RS&H, to do the design—was that approved by the CIAA board?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: From my recollections Mr. Chairman it was approved, and I think other witnesses said it, from a functionality and aesthetics perspective.

There were concept design options given of what the building would look like; the size of the building. There was a discussion over how many floors; the current concept which was called 'a turtle back' or more of a 'wave' roof and all of these kinds of things. So from a high level, Mr. Chairman, in terms of concept design, number of floors, things like that, yes sir.

The Chairman: So the Airport Authority was not deeply involved in the scope of works as related to functionality and how the design would work. They were only asked to approve the concept designs and the number of floors.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: For functionality, Mr. Chairman. Yes sir.

The Chairman: Okay.

Now, the big issue so far has not been explained adequately to me: the final account was supposed to be in the region of $64 million in October last year. We were told yesterday, that it is now going to be $74 million. Has anyone given you an explanation of that $10 million increase?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Mr. Chairman from my understanding, where the line was drawn on the account at the time that the Auditor General drew the report was not the end of the project. There was monthly work ongoing.

The Chairman: But the final account should have accounted for—and you can confirm this Auditor General.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman.

At the point we did the report, we worked with the project manager and the client to try and get an estimate of the final cost of the total project, which at that time the best estimate was at $64.37 million. Obviously recognising there were works outstanding, it was supposed to try and bring those into account, but we are $10 million still adrift that we just want to understand.

The Chairman: Because that $64 million should have accounted for any incomplete work on an estimated basis. The difficultly that we are having is how did we get from $64 million, which would have included the incomplete works.

One of the outstanding things that popped up today, based on the contractor's evidence was that the contract did not appear to include offices for the CIAA staff. It is inconceivable that you could design an building, and not have offices included for the staff because they have to work somewhere.

So you do not have any explanation of going from $64 million to $74 million other than there were costs that were unaccounted for?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: That is correct, Mr. Chairman. I am not read into the numbers in that detail.

The Chairman: Okay.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: I can give you an undertaking that I can get that explanation provided someone else has it, and get back to you.

The Chairman: Well I wish you luck because so far no one has been able to give us an explanation. McAlpine, the contractor, confirmed that their final cost is only going to be in the region of $61 million. That is substantially short of $74 million?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: I can shed some light on that.

The $61 million is their portion—yes, sir, of the $74—but then you had the design consultant; you had Phase one that was Arch and Godfrey, so it was build-up of those different projects.

The Chairman: But this has nothing to do with phase 1 cost.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Right: like I said, the $61 million that are going to be paid to McAlpine are a sub of the $74 million as I understand it and the $10 million difference is the various other sub-projects. I will leave it to the Auditor General.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Mr. Miller, that does start to account for the difference; but I suppose what we were trying to get to the bottom of, is what has caused the difference between the $61 and the $52 million that we had in the report, as per exhibit 2?

What is about change orders and what is about increased scope, because we believed and we may have been wrong, that the offices were in the

original plans whereas, the evidence from McAlpine this morning would suggest that they were change orders so, we are just trying to clarify the extra $10 million and so, $9 million compared to $10 million is pretty close and it could be on baggage handling, and other things around the edges, but it is trying to understand what the difference is down to.

At the point we did this estimate, we were working with the client, with the project manager, to try and establish, as the Chairman quite rightly said, the total final estimated cost, which we now find is considerably awry from what the actual is.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Yes, Mr. Chairman, I do not have that cost but I will give an undertaking. The Auditor General is quite right, on page 19 phase 2 and 3 contract is stated as $52.4 million and we now know it is $61.9 million, I believe.

The Chairman: No, no, no. It is 74—

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: No. That is McAlpine's number.

The Chairman: Okay. Alright, yes, but McAlpine's contracted price was only $42 million.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Correct.

The Chairman: They went from $42 to $61.9 million and they are saying that it is the change orders.

Now, the other components would have been what you had to pay your cost consultant and what you had to pay RS&H. There should not be any large variation; I do not think that can make up the $13 million that seems to be added here, from $69.1 million to $74 million. So, if you can get us something, we would appreciate it.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: We are getting close.

Again, the increase is from the $52.4 million to the $61.9 million, right?

The Chairman: Yeah.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: The $61.9 million, how that gets to $74 million, is the other costs as I understand it, so the difference is $52.4 million to the $61.9 million.

The Chairman: Okay.

Now everybody is blaming RS&H's incomplete drawings. How is it possible that having produced the scope of work for design, the Steering Committee accepted design drawings that were only 75 per cent complete?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Mr. Chairman, the only explanation I can offer is that we relied on RS&H.

The Chairman: So there were no checks on whether they were performing their job? It was just accepted that that they would give you 100 per cent drawings?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Mr. Chairman, they were the qualified architects, lead consultant on the project so yes, sir, they were expected to perform. I think we have had the details of the variation orders, we know the numbers, the total number, and the subset numbers of what was attributed to RS&H. We know that the electrical took 14 attempts with BCU—so things like that.

I think I heard the managing director speaking to it earlier; that initially it was 470 drawings, so we would not have gone through them.

The Chairman: But BCU consideration of the electrical drawings would not be that you needed ten outlets instead of five. I would suspect that it would have been on the electrical load calculation and how we were expecting to carry the peak load and the calculations in you main breakers and stuff like that; as opposed to things that would affect the actual construction element of putting these things in place, but I could be wrong.

The bigger question from the Committee is: what instructions has the Ministry issued to the Cayman Islands Airports Authority to prevent this from happening to the airside. We faced it in Finance Committee here a couple of weeks ago where we had to give them additional funds and that was being justified similarly to the justification now, in that they were increasing the scope of works and that increased the costs so have you issued any instructions from the Ministry, to prevent this from happening on the airside?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: I thank the Chairman for the question.

So what was done on the airside was a simpler project. It was a lot of earth works. What we did not do with that project—we had a design engineer—but we did not do a separate cost consultant because again, once we had the amount of cubic yards, the cost per cubic yard, that kind of stuff, that was set.
We did take into account the risk of finding holes, caverns, sinkholes, et cetera.

When we were doing the additional work up to the east side we found cars and all kinds of things

buried. So we did say that this time, we would take into account the risk factors—again, as I outlined earlier—in terms of overall budget. Again, we did not set the budget before we got the design, we had it designed and then we set the budget, and we put in an adequate risk factor to take into account these things so things like that were done differently on the airside project, sir.

The Chairman: Are there any other questions?

Ms. Barbara E. Conolly: Thank you, Mr. Chairman.

After hearing all of the short comings on the Owen Roberts International Redevelopment Project and the questioning of the witnesses over the last day, and I am mindful that this is the role of the Public Accounts Committee—to ensure that the people of this country receive value for money and there is, in essence, accountability.

However, can the Chief Officer state some of the reasons the Cayman Islands Government received value for money on this project?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Through you, Mr. Chairman, I thank the member for her question.

This project was very timely, it needed to happen, I think, a long time ago. The former facility was bursting at the seams. In terms of Saturdays and Sundays, if you remember that, the departure lounge was standing room only, so it addressed the congestion issue.

There was a sustainable, efficient and environmentally-friendly terminal—which was a variation—the 15-pound glass is now hurricane safe. It was a new baggage handling facility that had not been put into the older terminal and it creates efficiencies that we would not have dreamed of before. There is a new generator—seamless 100 per cent transition of power; a completely new upgraded IT back-bone, increased parking spaces, curb side for departing passengers, taxi parking and added security systems.

Mr. Chairman, it is just a more highly efficient building with a geothermal system for cooling it. High efficiency LED light fixtures, reflective roofing, departure hall, food court and shopping mall. If you plan to keep me until about 3 o'clock, I maybe can just keep on going.

In terms of improvements, it is almost impossible to quantify, in my opinion, the amount of value that airport is now going to be able to provide us. We got accolades from various travel and tourism magazines about one of the best new airports in the Caribbean. However, just the safety and security that it addressed from comfort of passengers; it is our first port of arrival for our stay-over guests, it is the last thing they see and you want people in comfort.

As Chief Officer for the Ministry of Tourism with responsibility for the Airport Authority, I would say, *yes, ma'am, value for money was received with this project.*

Ms. Barbara E. Conolly: Thank you, Chief Officer.

With you highlighting all of those enhancements and improvements to our airport, I for one, am very happy and proud for us to have a new airport. When I went through there on my way to the Brac, just over the weekend, it is just a wonderful feeling that we do have a new facility in place now, so—thank you very much.

The Chairman: Something that the Chairman and the CEO gave notice of yesterday was that on certain peak days the airport is already over capacity just as the old terminal was, and that they are looking to do what most airports do, which is to go to slots and tell the airlines saying when they come, as opposed to them telling us when they are coming.

How much of that is now built in to trying to extend life of the terminal, as it is?

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Thank you Mr. Chairman for that. That is a critical part of how we are going to manage the flow of the airport sir.

You build airports for peaks, Saturdays and Sundays. We have all been through Miami International Airport at peak times. We know that immigration line can seem like forever; I have been in that line for hours. The slot system will better manage that; the thing with the slot system is that it is not just for the commercial airlines, but also any air service into that airport, because a private plane might only be bringing five or six people, but it is taking up the one runway we have; things like that; working with them so they come early or late, so that the peak time of day—probably between 10 o'clock to 2 or 3 o'clock on most days—is more commercial airlines. There is quite a complexity with it.

When you get into discussions with the airlines, which we have started to have, it is whether they fly direct or they are hubbing. Obviously, the slot you need for your hubbing-in traffic is tailor made for when your guests arrive at your hub, and then come to Cayman as opposed to, for instance, a direct flight.

An example of that would be Cayman Airways Denver. That is largely going to be from B to B or A to B, in terms of that area. However, Miami or New York could be different. You could be flying in from various other destinations and coming out of Miami. That is being worked on sir, and is absolutely a part of the solution of managing the passenger flow through the airport going forward.

Obviously, in the world we now live in, we are going to have to build back up that passenger flow. When airlines start to come back, that is going to be very phased, on a tier-basis, I would think. It is almost like we have a bit of a reset. We were very proud in

2019, when we broke that 500,000 stay-over visitor mark, but now we need to build back up to that, but to your point, a part of that is going to be a well-run slot system.

The Chairman: But slot systems are not new; they could have been used in the past to improve the usage of the old terminal as well—that is not a 2019/2020 concept.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: No.

The Chairman: Okay.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: No sir. It has been around, yes sir, but it has not been in Cayman.

The Chairman: Oh, no.

I am just saying that we could have applied it to the other one. I hope it works. As you say, it is not going to be an easy concept for you to implement.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Yes sir, because again it is—

The Chairman: We have to be careful now that we do not let the desire to build back to that 500,000 overweigh the utilisation of the terminal by introducing slots, because some airlines might tell you, *if that is the slot you have, it does not fit me, I am not coming.*

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Quite right Mr. Chairman; that is why I described it. We are working with them depending on the route and the flight. Yes sir.

The Chairman: Are there any other questions?

Okay Mr. Bodden; thank you very much for coming, sir.

Mr. Stran Bodden, Chief Officer, Ministry of District Administration, Tourism and Transport: Thank you very much, Mr. Chairman.

The Chairman: The meeting is suspended until 2 o'clock.

Proceedings suspended at 1:13 pm

Proceedings resumed at 2:27pm

The Chairman: Good afternoon everyone, the Committee is called back to order and we have a quorum present.

We now have before us, Mr. Kenneth Jefferson, Chief Officer of the Ministry of Finance and Development and Financial Secretary. We will be looking at improving financial accountability and transparency in the budgeting process.

Mr. Jefferson, thank you very much for coming, sir.

[Pause]

IMPROVING FINANCIAL ACCOUNTABILITY AND TRANSPARENCY IN BUDGETING

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

ADMINISTRATION OF OATHS OR AFFIRMATIONS

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

I swear by Almighty God that the evidence I shall give to this honourable Parliament, shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Thank you, sir.

[Pause]

The Chairman: Good afternoon, Mr. Jefferson and thank you for coming here sir; we always appreciate your contribution to our debate and we know that you are going to give us the hard cold facts.

We are looking at improving financial accountability and transparency in budgeting; for the listening public, could you briefly outline what is the current budgeting process in Government?

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

Good afternoon to you and the committee members. As the previous witnesses have been asked to do, my name is Kenneth Jefferson, Financial Secretary and Chief Officer in the Ministry of Finance and Economic Development.

Mr. Chairman, the current budgeting process in Government is quite complicated and involved. It consists of five phases and the Public Management and Finance Act (as it is called now) details those five phases; if I find it, I will occasionally glance at it. I will try to brief, but at the same time give fairly comprehensive answers.

I think section 17 of the Act deals with the budget process and starts with a timeline which has to

be gazetted so that Parliament and the public can know and understand the dates as to what elements of the budget happen when. That is gazetted and there are two aspects to that, quickly sir.

In a normal year, the timeline would be gazetted by the 1st April, but in an election year, there is a different date to that and the period of time then is two months. The budget timeline has to be no later than two months, so by the 26th July, after the election, the Government of the day would have to outline the budget process in terms of different phases and the dates that go with it.

Phase 1 consists of the strategic phase of the budget, and for the listening public, that is probably one of the key phases of it. That phase establishes and states what the main priorities of the Government of the day will be, in a document called *The Strategic Policy Statement (SPS).*

The law speaks to broad outcomes. An outcome, for example, Mr. Chairman and for the public's benefit, would be a well-protected, well-educated community, a thriving economy—so outcomes, really, because I know the Auditor General's report speaks to "moving towards an outcome-based budget." The SPS talks about the priorities of the Government—what it wishes to achieve—and those are broad outcomes, as it is called in the Act. We have specific outcomes as well.

The Strategic Phase involves the Ministry of Finance coordinating, going out to Ministries and Portfolios seeking their expenditure levels and their revenue estimates and coming back to the Ministry of Finance to sit down and coordinate those responses to determine whether the expenses that have been submitted are affordable. If they are not, then obviously there is an issue. We have the Act that says, for example, *the Government is required to have a surplus,* so if the expenses are too high and we would otherwise end up in a deficit position, then corrective action has to be taken and there is normally a back and forth.

I know the Auditor General's report contains quite a bit of commentary on course of revenues and whether they have been under-stated and so forth, so we may get into that, but before it actually gets to the Parliament as a Strategic Policy Statement, there is this back and forth, normally between the Ministry of Finance and individual Ministries to set the broad parameters—essentially the totals—to establish for the Government of the day what expenditure totals it has available to it, not just for the immediate first year but for the second and third year ahead, so the Strategic Policy Statement and the strategic process look at a three year horizon.

Once Caucus and Cabinet are satisfied with the revenues and the expenditure totals coming out of that strategic phase, it produces a Strategic Policy Statement that gets tabled in Parliament as the basis for preparing a detailed budget. Normally, Mr. Chair, that has to be done by the 1st May, but again in an election year, it is three months post the election, so by August 26th is the latest they can do it. The Government of the day has to prepare a Strategic Policy Statement for the financial years 2022, 2023 and 2024 and table it in Parliament. At that point, the Parliament is asked to approve that document as the basis for preparing the full two-year budget ahead—in our case, 2022 and 2023.

The next phase of the budget is the Detailed Budget Preparation and Planning Phase in which, having agreed those SPS allocations to each individual Ministry and Portfolio, they have the task of taking those expenditure totals and assigning them or using them to produce individual outputs and so forth. To be honest, quite often the individual Ministries and Portfolios submit expenditure requests that exceed those allocations which the Parliament has approved as the basis for preparing the budgets; and so there is a further period of negotiation to get the Ministries, Portfolios and Offices back to the totals that have been agreed and set in the Parliament. That is the Detailed Planning phase.

Out of that, we get four budget documents which the Minister for Finance tables on budget day, the principal one being the Plan and Estimates document, which contains details of revenues and expenditures for Central Government, as well as the expected revenues and expenditures for the entire public sector. Those four documents are produced and debated in Parliament on budget day. This phase is the Parliament Review Phase; it includes not just the debate—with two hours' debate per Member—but the Finance Committee process as well.

The detailed scrutiny of the budget occurs in this phase and it can take weeks. Arising from that process, the Finance Committee can actually increase or reduce expenditure requests in an Appropriation Bill. We often find mistakes in the budget documents that need to be corrected, and at the end of that process the Appropriation Bill becomes an Appropriation Act and the Governor is asked to "assent" to it. That Act gets gazetted and we have that in a form for, essentially, a two year budget.

The next phase is the Documentation Phase; the four budget documents that came to the Parliament on budget day get scrutinised and any changes to them are documented to be re-tabled to the Parliament sometime later. I know from the Auditor General's report that there are concerns about the timeliness of those documents being tabled.

The budget process is five phases. I think the most critical and important phase would be the strategic phase and the most critical within that would be your estimates of your expenditures and your revenues. I said I would be brief but I do not think I was brief.

The Chairman: Why are Ministries allowed to prepare or submit budgets that exceed the strategic numbers that they have agreed to?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, when Government asks individual Ministries and Portfolios to prepare their detailed submissions, they do get issued with their expenditure allocations coming out of the Strategic Policy Statement process which the Parliament would sanction as the basis for preparing the budget.

So, they do get those totals and are essentially asked to tell us in very simple layman's terms how they are going to utilise the totals they have been given. Mr. Chairman, I guess it is a situation where a Ministry or a Portfolio believes that, that allocation is never enough, so they will always find projects, et cetera, that they wish to pursue which take them over that limit.

I believe that we do have built-in parts of the documentation that we send to them that actually alert them to an error so if they submit an expenditure request for $110 and their allocation was $100, they do get essentially an error message, an alert saying, *you have gone over your allocation*. I know that that much happens.

Nonetheless, we obviously specify a time by which those returns are needed in order for the Ministry of Finance to compile those individual budgets into one overall budget so there is a time limit. The submissions are made, albeit with an error in them, with the error alert that you have exceeded and then we enter into a process of trying to get back to the allocations that were issued in the first place.

That is the honest answer, Mr. Chairman.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, Matthew Tibbetts Accountant General.

Just to add that the allocations that are sent out are not exact measurements because we operate in a decentralised environment. When the Ministries go to do any of the fine details of the budget, the line item details, the actual costs may be a little higher; then the knock-on effect would be a prioritisation exercise to decide what is the priority and also potentially reducing cost where possible.

The Chairman: That kind of negates the whole first step of the strategic thing.

Is it because they are not doing the kind of proper budgeting that goes into the Strategic Policy Statement, because you do not make that up insolation; that is a totality of the representation that comes from them in terms of their policy requirements.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chair, the process which we follow is not a zero-based budgeting. We take the previous budget as a baseline, consider additional economic factors and then provide that to the Ministries as a baseline. However, because we are not doing it from a zero-base to start an entire build up, there is some movement possible in there, as it is a rough estimate when it is given to each Ministry.

The Chairman: So the Ministries are not involved or do not agree to the numbers that you bring here to form the Strategic Policy Statement that is approved by Parliament?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, I would say that they are definitely involved in that process. In a normal year—so let's ignore the current situation, we are in an election year—at the start of the strategic phase, a Ministry or a Portfolio would get guidance templates as to how to prepare their submissions.

In really simplified terms, what that says is *your prior year's totals*. So as the Accountant General has said, it is incremental budgeting as opposed to starting from scratch. So your prior year's actual expenditures were a certain amount and the instructions then are, *for this particular expenditure category we would like you to add an x per cent factor to it because we believe that the inflation rate is going to be so and so.*

They get those instructions, in terms of what their totals are so they are involved in the process. I cannot say they are completely shut out of the process; they make their re-submissions. If they do result in a deficit for example, that is a situation the Government should not find itself in legally, and so corrective actions need to be taken.

I think, Mr. Chairman, that back and forth that we are speaking of now still exists, but it has improved over the years.

The Chairman: Because recurrent expenditure should be simple. If you say, *well, the cost of living index is x, et cetera*, they should be able to calculate that.

My concern is that when they get into introducing new programmes, whether that is capital based or service driven, there does not seem to be a need for them to be as accurate as they possibly can in that original submission, because they know that this what you have decided you want in strategic management but if they exceed that, you will find a way to accommodate them so to speak, or there is a negotiation as opposed to a definite no, you cannot go beyond this figure.

My concern with that—as you know, I have raised this in Finance Committee many times—is [that] it seems that the Government concentrates only on expenditure for the budget and it decides it does not want to increase revenue in order to meet the increased expenditure. They then get back into cutting expenditure which in many instances, unfortunately, means cutting services and, instead of the Government supplying the needs to the people and increas-

ing their revenue estimates in order to not get a deficit, it seems to be that it is done on the expenditure side.

What that leads to, is what we know happens with healthcare expenditure: they put in less than 50 per cent of what they spent the year before, because they put the money in some other entity with the clear expectation and knowledge that if they come back here three months later, we will give them a…

It is rather similar to what we experienced a couple of weeks ago with the Turtle Farm—they put all the expenses on producing turtle because the Parliamentarians are going to vote for turtle meat.

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Going back to what you said earlier, Mr. Chairman.

I think you might have used the words "getting away with it" but I think the norm is that a request that the Ministry of Finance and the Government as a whole feel is unsustainable because it is too high, gets reduced so, I would not say they get away with it. It does get reduced; that is the normal expectation and normal finding.

The Chairman: What I am trying to get at is: when you get to a situation where you need to reduce an expenditure, it seems that the concentration is reducing expenditure regardless of the effect on the service, rather than saying, *their expenditure is justified because this service is important to the people; we have to find a way to bring revenue up in order to supply the service that the people need.*

What kind of evaluation is done when you ask for cutting expenditure? Can the entity increase its revenue sources to offset the balance?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: I think, Mr. Chairman, your observation about the lack of concentration on the revenue side is correct.

Perhaps in the last two administrations, the Government has stated publicly that they do not want to introduce any new revenue measures on the public. The rationale for that was that at that time we were going through a fairly tough time, economy-wise, and therefore the Government did not feel it made good economic sense to add the burden to the economy by introducing new sources of revenue.

Mr. Chairman, what tends to happen when we get into expenditure changes is that there is obviously an impact on the Government's cash balances as a result of expenditures and revenues—that is clear and obvious. Oftentimes, one of the first areas to get looked at is on the capital expenditure side, distinct projects; *can we get rid of this project because it is not critical, and that is going to save us, increase our bank balances by x dollars. Do you have the timing right for a capital project? Is it really going to commence the 1st of January and you have a full year of cost in it?*

So you are right, that the expenditure problem is often solved by looking at capital expenditures first and the revenue side last—that has not happened in recent years. It would then be the Government's day-to-day operating expenditures that get looked at last, as a way of solving the surplus deficit situation.

The Chairman: In the budgeting process, how much economic analysis is required by the Ministries to justify their expenditure? Because oftentimes, if we take out a capital project and put it off for two years, it costs 30 per cent more plus the people who need that service may be suffering for those two years.

Is there any kind of social-economic analysis done for capital projects and the need that they are going to address before they are simply eliminated on a cost basis?

[Inaudible interjection]

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Are we allowed to go back and forth?

The Chairman: Yeah, yeah.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, as it relates to capital projects that is obviously decentralised as well so each Ministry would have their own analysis.

In the Strategic Policy Statement we include the economic factors of how we expect inflation and so on to increase over the next three years so they would have to factor that in, but it is generally done in a decentralised environment.

The Chairman: I understand that.

What I am talking about is… Well, let's give you something real. Edna Moyle Primary School needs two class rooms, which are going to cost half a million dollars. The application is made, but because we are way over there in the country where nobody can see, that is an easy capital project to eliminate. What happens then is that for those two years, there is a whole school of children that gets affected by not getting their educational opportunities enhanced and improved because they cannot get those two class rooms.

What I am looking for is: does Finance encourage the Ministries to do some kind of socio-economic analysis. What is the cost benefit of this to the community in which it is taking place as opposed to, what is simply the dollars and cents value to balancing the budget?

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

I think the honest answer to that is that from the Ministry of Finance, we do not instigate that type of analysis. What I can say to try and mitigate the valid concern that you have, is that in the process of agreeing expenditure totals for the Strategic Policy Statement purposes and for the full detailed budget, a normal part of that process before a particular programme is eliminated, is a fairly robust discussion on the 5th floor of the Administration building.

The discussion involves caucus, to start with, in which caucus members and Ministers and backbenchers will actually call in Chief Officers and Chief Financial Officers into the room and say to them, *here is the issue: our expenditures are too high, show us what your particular Ministry is requesting to be incurred in the next two years*; and so there is quite a detailed process of questioning there. That is what I would say.

The Chairman: I understand that, and I know you would not have the authority to enforce this, this is something I would expect the Ministers and Chief Officers in the Ministry to take upon themselves in the process by which they eliminate things, because largely what happens there is a dollar and cents evaluation; you are $10 million over, in the first round we expect you to cut $5 million, and then you come back and say well, you are still $5 million, so we need to find $4 million and they go back and eliminate a couple other things, but it is a dollar and cents balancing.

Nowhere in there currently, is the cutting or the desire to cut off set by finding an increase in revenue but, at the end of year, what we are winding up with, having gone through that process, is a $100 million dollar surplus and in the meantime these projects were cut back.

My beef is that it is bad budgeting on the revenue side that leads to the excess surplus because I do not believe that an excess surplus is a good indication of a well-managed Government delivering service to its people.

My layman's interpretation is one or two things: if you have a $100 million surplus, you are charging my people too much—and you should not be making a $100 million profit—or you are denying me services in order to get a $100 million surplus. So when you have a year like that, that you get a $100 million surplus, the numbers that you give them, do you grow the figures by that surplus, adjusted by economic indicators, or do you stick to what your expenses were the year before, and grow that by economic indicators?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, I think you asked much earlier on about the socio-economic analysis and the honest answer is that at the moment, the Ministry of Finance does not require Ministries and Portfolios to have on hand, and have prepared beforehand, that type of analysis for each expenditure requests that they have. It is not a formal request that we make and that they have at the ready.

I am saying that, that type of valid consideration that you spoke of, does happen; it happens verbally with the Ministers quizzing Chief Officers and oftentimes the Chief Officers and the CFOs will say to the Ministers, "*yes we can eliminate this particular type of expenditure requests but these are the consequences"*—I have heard that time and time again. So it is two ways: the Ministers questioning Chief Officers and Chief Officers and CFOs saying to the Ministers, "*yes, we can cut this, but here are the consequences and once you are aware that this is the consequence of reducing expenditure, we can do it but we are making you aware of this.'*

The Chairman: I understand; I have been on both sides of the coin.

In development of the Strategic Policy Statement, how much detail do you expect a project to have been developed? Because today and yesterday we went through a project that was funded by their revenue, subsidised by Government central revenue, but it was obvious that in pricing that project something went wrong and that seems to be happening in a lot of Government, particularly capital.

It is more difficult for us, who are not involved in the process to see whether it is happening in programmes, but I suspect the same thing is happening because there is no detailed costing and projections of the volume of the service that you have to give in coming up with a price for a programme.

I do not know if there is anything we can do to improve that.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Sorry Mr. Chairman, I would just like to touch on a point from a second ago where you mentioned the large surpluses, obviously that may have an impact on the actual programmes or capital projects not happening. Something to point out is that one of the priorities of the current Government is that we would have healthy surpluses. So, while it may appear that programmes are suffering, I am not sure if that is or is not the case, it is a priority that we do have the surpluses.

The Chairman: I know the Government's policy is that we believe a large surplus is good governance, but I can give you evidence, after evidence, after evidence, of my constituency suffering because the Government will not find expenditure to provide the programmes.

What I am saying is that, my concern for the country is, it seems to be that we have a feeling that we are going to get a $100 million more than we spent last year, but we are not going to venture into that be-

cause that is a sign of good governance and therefore we can brag that we have a $100 million surplus; but in the meantime, there are seamen who cannot be added to the insurance because the money is not there. There are education needs that are not being addressed because the money is not there, when in fact, the money is there but their policy infers that they would prefer to see it in a surplus at the end of the year.

[Inaudible interjections]

The Chairman: That is beyond your pay scale, I know that. Okay.

Mr. Austin O. Harris Jr. Mr. Chairman?

The Chairman: Yes, sir.

Mr. Austin O. Harris, Jr.: If I may interject.

Certainly, as a freshman Member to this Parliament, the whole budgeting process and its various moving parts is certainly quite the experience and I thank the Chairman for his keen knowledge and insight into what I think has been largely a discussion on the contents of a budget, whether one constituency gets X versus a capital project being Y moving forward and so on and so forth but, with the greatest respect, I believe that we might be straying a little bit away from what the Auditor General's report specifically seeks to discuss are major problems with the budgeting process itself.

Fundamentally the Auditor General's Office is stating in her report that, well, there are concerns that the reports issued in 2013 and 2017, in 2013 the Auditor General's report **'Restoring Financial Accountability: A Time for Change?'** and the follow up 2017 report, **'Major Capital Projects Follow Up'**. It asserts that:

a) There has been limited progress in addressing the recommendations made in both the 2013 and 2017 reports; but goes on to state, rather categorically, that the overall budget process is not effective or transparent, and that there is scope for significantly more change to further simplify and improve transparency and accountability.

Now, one of the ways the Office asserts that it is not transparent or accountable is in the budget documents themselves. The Office states that the budget documents are too long and not user friendly, which limits their transparency. Certainly, I would have to agree with the too long part, as a new Member; the 2018-2019 budget was 2,700 pages and the 2020-2021 is even longer at 3,000 pages.

While members watching these proceeding see only the top of the desks, I assure them that the desks are being held aloft by the budget documents themselves that sit around, really used one time and done in this building, but never taken out.

Again the Auditor General's Office goes on to state, which I think is a rather accurate statement, it says: **"providing more information does not necessarily improve transparency"**. To the layman, not involved in the legislative business or practice, certainly to the civil servants who are bound by the decisions made in this House, the budget documents would seem like a lot of gobbley-goop but to practitioners, things like the Strategic Policy Statement, which seeks to summarise the highlights making it more palatable, particularly for those listening in, that is the purpose of the Strategic Policy Statement.

Then, we have the actual budget documents, the Plan and Estimates, the how, the what, the where, how each dollar is going to be spent. We have the purchase agreements which are fundamentally terms and conditions of the services which the various Government departments intend to buy throughout the course of that budget year. You have the ownership agreements which fundamentally seek to keep—in my assertion—the Ministers who are responsible politically and the Chief Officers who are responsible for their respective departments on the same page, as to what that plan for that period of time is. Then, you have your Appropriation Bill which actually authorises the expenditure of that money.

In my mind, on the one hand, we say the documentation is too much and is daunting. The average person is not going to read 3,000 pages of documents; they are going to stop at 3. Most of the information that retained by legislators are the Plan and Estimates because they provides us with that 100,000 foot view of what the big picture is; but, to the Chief Officer, or the Minister, the Purchase Agreements or Ownership Agreement may become more important.

Certainly to the auditors, the Appropriation Bill, what was actually authorised, versus the supplementary expenditure that often times comes, and not to mention the powers that the Cabinet has to authorise additional expenditure within limits, in order to adjust that budget. So there is a lot of activity going on, but I would argue that this is important information for the various moving parts of Government and without that information, I suspect we would get penalised by the Auditors for a lack thereof, of this explanation.

I think the Auditor General makes a valid point. Is there a way of simplifying the length of the documents that are presented as part of that budget process? We are slaughtering—if I were an environmentalist—far too many trees for documents that, again, are used once in that marathon session that is the budget, but then the majority of the documents—the Appropriation Bill, the Purchase Agreements, the Ownership Agreements are never used again. Perhaps the SPS, the Budget Agreement, the Plan and Estimates and the Appropriation Bill are all that the legislators need, but then the Chief Officers responsible for the individual running needs the Purchase Agreements and the Ownership Agreements and that might help the process along.

However I wonder, because the Office makes a very bold statement. The budgeting process is not transparent because there is too much information provided and we could make it a lot less. How do you respond to that, obviously being seasoned veterans of the financial world, as far as public services are concerned?

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

I think our response would have to be largely that we find a lot of agreement with the documents being cumbersome and lengthy—almost 3,000 pages. I think in the Audit Report there is a comparison between the volume of documentation in the Cayman Islands budget versus, for example, the volume of budget documentation in New Zealand. I do not remember the particular paragraph, but ours was in excess of even New Zealand's.

There are a couple of points that I would like to make, in respect to Member Harris' point and a lot of it is historical. I do have—not on the desk in front of me, but where I was sitting previously—a summarised history of how we got to where we are. I am not going to attempt to detail that, I can let it be available to the Clerk and the Committee can decide whether it is useful or not. Just to say that, where we are now, was started as far back as the late 1990s.

The Financial Secretary, the Leader of the Opposition, and the Budget Director at the time took a trip to New Zealand and got a presentation, as to what New Zealand was doing. Back in the 80s and 90s New Zealand went through a long period of tremendous budget difficulties and they merged much better off so there was interest to go and see what New Zealand was going.

We actually had—I forget her precise title but I think we had a Minster in New Zealand, it might have actually been the Minister of Finance who actually came to Grand Cayman and spoke to us and told us about the difficulties and the reform that they went though, so I do have a history of where we were and how we got here, speaking to the interviewing of 50-plus civil servants and politicians at the time.

A detailed process of all of the changes that we went through to get to where we are; there were teams of civil servants working on different aspects of the change from a cash basis of accounting—which is where we were—to accrual basis which is where we are now. I have that history and I can make that available. It has been a long period of time in which this present system was established and that is where we are now.

Mr. Chairman, another point I would make is that the contents of the budget documents are legally based as well. When we look at the budget statements for example, it will say, *the budget statements shall consist of,* and then list what the contents are. Part of that content is our financial statements; so if we have 17 Ministries, Portfolios and Offices that makeup central Government, as we all know, each of those 17 or so agencies produce their own set of financial statement and so the budget statement document itself is that much bigger, because of the legal requirement for what has to be contained within them.

Certainly the volume can be reduced, but that would involve changing legislation. I would make that point; but the sentiment that the budget documentation is quite voluminous is taken and there is no doubt about it.

I think the bigger point that the Audit Office makes in its report is that the critical connection of what are the Government priorities, what is it trying to achieve and what does the budget reflect, in terms of trying to achieve those priorities; that connection is weak. The Auditor General's Report recommends that we move to an outcome-based budget; not immediately, because it will take some time, just as it took many years to get to where we are it will take some time to get to an outcomes-based budget.

When we look at the present documentation that the Government presents, it speaks to broad outcomes; we want a safe, educated and healthy community and a thriving economy. Those are outcomes that the Government is trying to achieve.

When we look at the actual budget documentation, particularly in the Plan and Estimates document and we see how funds are being spent in the form of appropriations—Policy Advice to the Minister, $1.5 million, and at the bottom of that page there is a reference to what is the broad outcome that that policy advice for X million dollars is meant to be linking to. We see that on every page, the link, but it is words and in the body of the page there are certain measures that are specified. You do X number of Cabinet papers in providing that policy advice and the quality is going to be reviewed 100 per cent of the time by the Chief Officer and the CFO and so forth.

So, the big improvement area for Government, I would say, is the performance measures that are specified in the budget document. Those measures do not take the Government, as a means of assessing *'have we achieved outcomes we would like to achieve?'* So, you have done 10 Cabinet papers in the course of a month and 120 in the course of a year. That is the measure that we have there; that is the quantity measures et cetera, we have now, but that is not going to get us to the outcome that we want. The linkage is not there, so it definitely is the case that we need to specify new performance measures for the Government.

Mr. Chairman, I would also say that the initial Auditor General's report on **'Restoring Financial Accountability: A Time for Change?'**, that the Member referenced—back in June 2013, the Minister for Finance at the time actually initiated a review committee, I think I will wrap it up on this point Mr. Chairman, he formed a Public Management and Finance Law

Review Committee at the time and one of the key reference documents that were made in that committee's work was the June 2013 report by the Auditor General.

The Chairman then is now the current Minister for Finance; I was on it and there was an Accountant General and so forth and I think a past Auditor General was on it as well. It made 40 recommendations—and again, I have that available, I can just hand it out, I will not go through that—that committee's report made 40 recommended changes, not all of them required legislative changes, probably about half or 20. The recommendations from that committee that are outstanding and haven't been done are four. The remaining four are some of the recommendations that the Auditor General contains in her report, such as, removing the distinction between entity and executive transactions.

Some attempt has been made to implement suggestions but, yes, we do have a long way to go; we can reduce the volume of the budget documentation, but that requires legal change to take place.

We agree with the sentiment that changes to the budget process can take place. Think the critical part is choosing good performance measures that are actually going to say something about the outcome that the Government is trying to achieve.

Mr. Austin O. Harris, Jr.: Thank you to the honourable Financial Secretary for that comprehensive response.

I particularly thank you for highlighting to me as a legislator as well as the listening audience, that when we see the size of those documents, in producing them, their size is outlined by law. You are guided under instruction of the law, so some of those documents, whether used one time and done or otherwise, are required by law and therefore will require a debate in this House should we wish to change it and that would require obviously a majority agreement. So, it is not entirely on the shoulders of the Ministry of Finance and Economic Development, in terms on how short or long the budget documents may be.

I also thank you for providing the background, where we are, where we came from and how we got here. I think that would be useful information to the Committee. I would just simply note that we—I guess—re-energised that process in 2001 when the Public Finance Management Law was introduced and then again in 2004 when we broke away from central Government and then moved into entity Government, if you will, whereas we broke out the various statutory authorities, Government owned companies and each having their own budget and financial statements and the whatnot. All of that was intended to make this process easier but again, as you stated, it is a work in progress.

I will note that the final observation on the Auditor General's executive summary was to the point that I think you just made**: 'We note that in October 2020, the Ministry of Finance and Economic Development (MFED) published its strategic plan for 2021 to 2025. This plan includes four strategic objectives for MFED over the five-year period. One of the strategic objectives is to 'strengthen Government's managing for results environment and culture', which has a specific action to modernise the budget system for 2022-2023 budget.'**

It suggests and acknowledges that improvements are and have been forthcoming.

As a Committee member, my understanding of my role is to accept the Auditor General's reports, accept the recommendations as being useful and then hold the various Government entities to account for making those recommendations a reality. I think while the changes for 2013 and 2017 recommendations reports by the Auditor General may be lacking in terms of follow-ups on those recommendations, hopefully this strategic plan for the Ministry of Finance and Economic Development will seek to incorporate both the 2013 and 2017 recommendations, as well as the acknowledgments outlined in this report.

I also think it is encouraging that the Financial Secretary generally accepts the recommendations. I think the Auditor General has gone a step further—as usual—to make, I think five, specific recommendations to improve both the transparency and the scope for significant change, and I think the Financial Secretary had just stated that he accepts those as well.

The question is simply timeline. How soon can these recommendations—which you as Financial Secretary, accept as being valid—be implemented, so the Auditor General's Office may somehow be satisfied that their recommendations are not languishing on some shelf?

Thank you, Mr. Chairman.

The Chairman: Mr. Jefferson, I noticed that some of the recommendations are put off for two years.

Is part of the rationale there, because this is a unique year, in that we have an election, and you will have a shortened time frame by which to pre-load this information, so to speak? I think normally you would have from January to April but you are going to be confined to two months after the election.

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

Mr. Chairman, before I attempt to answer your question, I think Member Harris asked about the timeline and so forth.

The Chairman: Oh, okay.

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: I do not think we have answered it.

Mr. Austin O. Harris, Jr.: Thank you, Financial Secretary.

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: I want to say sorry for the comment in the Ministry of Finance Strategic Plan to modernise the budget system for the 2022-2023 years which is the next two years. I think we regret putting that in, that the modernisation would take place for those two years, because I really do not think that it is going to happen. I think the best chance of modernising would be the 2024-2025 financial years.

I think somewhere in the Auditor General's report she uses those two financial years as being more realistic. I think it is not going to be a modern budget for 2022 and 2023 because that budget has to be brought to the Parliament this calendar year and a modern budget would involve some legislative changes specifying better performance measures and so forth, that might not happen for 2022 and 2023 years.

Mr. Chairman, there is one big issue that we need to decide as a Government and as a Parliament as well. I have just said that each of those 16/17 agencies within central Government have to produce financial statements and get audited by the Auditor General. We have about 25 Statutory Authorities and Government companies that have their own financial statements and the Treasury has to put those parts together to get a whole of Government and the entire public sectors set of financial statements as well, and that has to get audited too.

You have 17 individual Ministries and Portfolio and 25 or so Statutory Authorises and then the whole of Government. I think something that the Government of the day—the civil service—has to decide upon, just as we did with the financial management initiative process is, from the Government to the public, is there great value in knowing and having a set of financial statements for the Ministry of Community Services all on its own, because the process of actually putting them all together takes time. If we want to efficient and modern you have to answer that question: is this adding value, or do we simply want to go for a set of financial statements for central Government as a whole?

That is a big question to answer and it is an important one; and if the answer is *'yes', we do want to continue with 17 individual sets of financial statements*, then the answer is yes, but it is something that should be questioned. If we are talking about the length of time, the process is complicated and the volume of budget documentation is too great, it is questions like that we should be answering.

The Chairman: I agree with you, I would expect it would be your Ministry that should lead that kind of discussion and determine for this Parliament to then make the decision because you know that I am not a fan of the PMFL. That is a well recorded and documented fact; I have always said that the only thing that accrual accounting goes over cash accounting is that it gives politicians more opportunity to lie.

However, we have been talking about a comprehensive review of that PMF Law for the last 10 years and I agree with you that in order to change and make your life easier, in terms of looking at outcomes, as opposed of outputs because we can audit an outcome—you either got an airport terminal or you did not get one. An output that says*, we spend some money to get an Airport Terminal* is very difficult to audit but are there any plans to have that exercise of a comprehensive review of the PMF Law?

What has happened over that 10 year period is that successive Ministers of Finance and Governments have amended sections for their own convenience, not necessarily for the overall effect of the Law, because I believe New Zealand abandoned it a couple years after we went down and adopted it because it was not working well for them either.

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

I cannot say for sure whether they abandoned it or not, maybe the Audit Office could help me but they made a substantial move away from what we have.

Although it was said that we want a 'Cayman Model', the consultant that was hired to bring about the change came from New Zealand and he was here for years, but I do believe that they have made a substantial change and New Zealand for sure is doing outcome based budgeting now.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, yes, I understand that New Zealand has also moved somewhat away from the current model towards outcome budgeting and that is exactly where we want to go.

To Member Harris' point: we want to make it more concise, so perhaps we could submit one document but also moving towards outcomes so we can actually see where the dollar is benefiting the people; because right now we are spending them on outputs, which realistically, when you look at it, some aren't outputs but are actually inputs. We are saying, '*producing hours of policy advice'*; that tells no benefit to the average person on the street of what the actual benefit that you are getting from these dollars is.

So we have not even done a good job of even outputs; first of all, if we were to refine and make this thing perfect we would improve our outputs but since we want to move to the next step of outcomes, it does not make too much sense to put too much effort into refining the outputs at this stage. It is almost like getting a perfect bicycle instead of moving to car. We do not want to spend too much time on refining the current process; we want to move towards outcomes.

Since 2016, we have been talking to various consultants about the outcome reporting model and they have actually helped some of the Government statutory authorities and Government companies already, with moving towards outcome reporting. We have seen a few really good models and we think it would be much more beneficial to the average member of the public to have that kind of model where you are seeing the outcomes.

Generally what they did, is to take the outputs that they produced but broke them into short-term, medium-term and long-term, and actually showing the real output and the relevant outcomes over the long-term. It was a very easy process to follow and it would allow the average member of the public to see how the funds were actually benefiting them.

The Chairman: Is there any consideration, I do not know what you would call it now but when I went to school it was called 'programme budgeting', particularly for capital projects, where you know that a capital project is going to be multi-year and that the funds are put in at the very beginning it is costed. You allow for all of the economic adjustment factors, but that is the money that you know is there for the budget, so you do not get into a situation where we are half way down a year and it has not been budgeted for because we did not spend some the money last year. We know going in, what that capital project is likely to cost, as opposed to only knowing what the annual cost of that project is going to be.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, we have come a long way on this, as it relates to Outline Business Cases and so on, however, the part of actually getting the information that is relevant from the Outline Business Case into the budget document and into reporting regularly on it, is still lacking.

In the review, we formed a budget and reporting working group committee that. We formed it in 2018 initially and then we put in on hold, partly to wait on this audit to be finalised. Now that the audit is finalised, we can move forward with it. We have had a meeting this month already and we are looking to have another one next week.

A part of that committee's remit is to put together the capital budgeting. When we consolidate some of the documents into—if we just produce one document that is—the Plan and Estimates document, a part of that would also expand, in regards to capital budgeting because we want to make it very clear that these are the Government's capital projects and we want to detail things such as the project name, the total cost of the project, and would like to talk about the percentage complete, because obviously the first year it might not be completed or maybe at 0 per cent.

Next, we would also want to include the cost to complete the project so, if the total cost is $50 million for example, we would want to say how much is completed and how much it costs to complete it, so we can continue to put those funds in the relevant budget years; the time frame to complete, how many years will these funds need to be spread across, and what is the allocation for each year as well as the responsible Ministry.

I do not know if we can have it down to a person, but for sure down to the relevant Ministry or SAGC, whatever the case is, so we can have full information available as well as a party accountable for it.

The Chairman: Right now, Ministries are allowed to budget for an item before an Outline Business Case is done, and the number is just a 'pick-up number'—the most recent one is the Turtle Farm in Cayman Brac.

I support what you said but think that you might want to put the caveat there that the Outline Business Case has to be done before anything is allowed to be budgeted by a Ministry. For example, the project is well defined, well determined, estimate costs are realistic for what is going into the budget; and also the timeline for implementation of the capital budget, so that you know how to allocate the cost.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: That sounds like a logical approach, Mr. Chairman.

Something that we also want to look at is refining the Strategic Policy Statement process because right now we basically do the budget process twice; we put together the Strategic Policy Statement using rough numbers, have a prioritisation exercise, then go through the detailed budget phase and do a re-prioritisation again.

There are efficiencies that we can gain, but also improving the strategic approach by doing things as you suggested, in that we do the Online Business Case in advance of it going into the Strategic Policy Statement.

The Chairman: Are there any other questions?

If not, Mr. Jefferson, we thank you and we look forward to these anticipated—by the way, all the documents, I know there is a lot of them, but I also know that when I want to find something there is a way for me to find the detailed costing that might not be available to people who are not part of the Government or caucus, for example, how you got that figure and what the detailed break-down is.

It was a little voluminous at the time but maybe we can put that in a place where it can be accessed without having to print it so that when I am doing an analysis for Finance Committee, I can access that information, whether online or in a document, but you do not have to print so many but I would be hesitant to agree upfront that, that information should not be available, because now that it is available, I think it is part of what forces the party that is

producing the cost, to have that kind of detail instead of just arbitrarily saying it is $100,000.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, we fully support that, and in discussions with Audit we agreed that these would be documents that we could never fully do away with; we can refine them, but we would need to keep them available.

We need to determine what that looks like exactly so they can be available to members of the public and Members of this House.

The Chairman: Okay.

Thank you very much, Mr. Jefferson. Now you can switch places.

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

[Pause]

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

ADMINISTRATION OF OATHS OR AFFIRMATIONS

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: I swear by Almighty God that the evidence that I shall give to this honourable Parliament, shall be the truth, the whole truth and nothing but the truth.

[Pause]

The Chairman: Hello, Mr. Tibbetts.

We are here to talk about improving financial accountability and transparency in budgeting. I do not think we will have many questions for you because I think we kind of got both answers before.

[Pause]

The Chairman: Okay, Mr. Tibbetts, we managed to get input from you when Mr. Jefferson was in the chair, so unless there is something that you want to tell us, that you do not want Mr. Jefferson to hear, about how we can improve this…

[Laughter]

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr Chairman, just to say that we appreciate the guidance from the Audit Office and look forward to actually making these changes in the coming years, as we think it will be hugely beneficial for Government in terms of efficiency and improved transparency as the Audit Office has said; and for the public in terms of getting information that actually helps them.

The Chairman: As the Accountant General, are you the person responsible for the budget now, because in turbulent years, some time ago, that had been handed over to the Deputy Governor; are we now out of that phase all together?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, the budget is still under the Treasury Department as it relates to the actual financial matters.

The Deputy Governor may focus on the personnel cost and so on, but generally we lead the budget process for the Government in the Treasury Department.

The Chairman: Okay.

Is there anything this Committee can do to assist the input that you get from the various entities in Government, and to make recommendations for them to improve the submissions that they give to you, so we do not get into that back and forth adjustment too often?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, we can always find areas of improvement for sure.

A concern arising from a point you made earlier is that we have a district—North-Side in the example you made—which is lacking a classroom or two. Obviously if there is a need going unaddressed, it is something we want to ensure we address or at least a decision is made that *it will not be addressed until this time, and here is what we are going to do to mitigate issues surrounding it.*

I think we just need to ensure that everyone is represented fully in the budget process; that is something we can work to improve.

The Chairman: Right now you do not require them to give you underlying documentation as to how they got to figure A or figure B or how they select the capital projects that they want, right? They do that and send it to you and then you do the numbers on it.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman that is correct, because of the decentralised environment, each Minister will have input into what capital projects will be done going forward; then obviously Cabinet would prioritise those capital projects over the budget period.

The Chairman: Okay. Are there any questions?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, it is more of a comment than anything else.

You spoke about the Honourable Deputy Governor. Just for the Committee's knowledge, the Deputy Governor formed an Audit and Risk Assurance Committee, the Chair of which is someone external to the Government. That committee reports to the Deputy Governor and its chief function is to improve internal controls to improve financial functioning within Government. In terms of finances that you questioned and what was his role, he does have that committee reporting to him.

Just as a reminder to the Committee that: each of the Ministries', Portfolios', Offices' Chief Financial Officers report to their Chief Officer, not to the Financial Secretary; I am not going to say that if they reported to the Financial Secretary it would be a world of a difference and huge improvements would happen. I am not going to necessarily say that.

I am not going to say we should all be on the same floor; I am not necessarily going to say that. I am just factually saying that Chief Financial Officers report to Chief Officers in their individual Ministries and Portfolios.

The Chairman: As the overall Minister of Finance, do you have any reporting mechanism from them, even if it goes through the Chief Officer on a regular basis, that allows you to monitor the implementation of their budget and being able to pick up on any departures from that early, or do you have to wait for an annual thing?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, generally we have monthly CFO meetings; that would not be at the detailed level of looking at their budget, however, we do have them reporting monthly in regards to the financial statements for the entire public sector so we pull together monthly financial statements that go to Cabinet.

Additionally, we have the quarterly reports that get gazetted every quarter; in those we have some measurement of how they are doing compared to budget, but we do not have a detailed review each month or each quarter.

The Chairman: And you are satisfied that that is sufficient in terms of keeping you informed, so you can pull things together at the end of the year?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, I believe—as the Audit Office has pointed out—there are improvements that can be made, particularly with regards to capital projects. It is something we want to improve on, in regards to them reporting to us and the public on capital projects.

Right now we are not doing a great job of keeping… Well the CFO is not giving us a lot of information with regards to the capital projects, as well as we are not able to then pass that on to give Cabinet a full appraisal of: what is going on with every capital project, how far along it is, how much more we expect to spend things year, any recent evaluations and how it is going compared to the evaluation. There is a lot more information that could be useful to Cabinet and decision makers.

I am sure that the Ministries have that information but having that flow into us and us reporting it out to the public and to this honourable House would be very beneficial, I think.

The Chairman: I am not so sure that the Ministers have it, otherwise they would be giving it to you, but anyway.

I support that.

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman—one last interjection from me. Just to say that in the Public Management and Finance Act there is a distinct section, section 56, that gives the Chief Officer of Finance the power to require information.

It has six subsections but it does actually say that the Chief Officer of Finance can, not only go to core Government, Ministries and Portfolios and offices, but to the entire public sector and require information.

The Chairman: Unfortunately that section is more relied on when you have a problem. I think that is the section that gives you or, your designee, the authority to go in and review something after the fact.

What I am looking for is a mechanism through which you would get the kind of information you need to determine if a problem is being created. What we would like to see is more 'proactive information', if that is the right terminology.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr Chairman, just to clarify: we get information on the dollars spent on capital projects, but as to how that actually looks in regards to the actual project and how far along did that push the project, is what we are lacking. That is something we really want to improve on in the coming years and the next budget cycle.

The Chairman: If there are no other questions the Committee is adjourned until 10a.m. tomorrow morning.

At 3:48pm the Public Accounts Committee stood adjourned until Friday, January 29th.

Parliament of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

ADOPTED MINUTES of Meeting with Witnesses

Friday, 29th January 2021 at 10:30 am

FINANCIAL REPORTING OF THE CAYMAN ISLANDS GOVERNMENT: GENERAL REPORT 31 DECEMBER 2019 (DECEMBER 2020)

PAC Members Present:

Mr. D. Ezzard Miller, MP - Chairman
Hon. Barbara E. Conolly, MP – Member
Mr. David C. Wight, MP – Member
Mr. Austin O. Harris, Jr., MP – Member

PAC Members Absent:

Mr. Christopher S. Saunders, MP - Member
Mr. Bernie Bush, MP - Member

PAC Clerk: Mrs. Patricia Priestley

Attendees: Mrs. Sue Winspear - Auditor General
Mr. Patrick Smith - Deputy Auditor General (Financial Audit)
Mr. Winston Sobers – Audit Manager, Office of the Auditor General
Mr. Gabriel Ncube - Audit Project Leader, Office of the Auditor General
Mr. Kenneth Jefferson - Financial Secretary & Chief Officer, Ministry of Finance and Economic Development
Mr. Matthew Tibbetts - Accountant General, Ministry of Finance and Economic Development

Witnesses: Mr. Kenneth Jefferson - Financial Secretary / Chief Officer, Ministry of Finance & Economic Development
Mr. Matthew Tibbetts - Accountant General, Ministry of Finance & Economic Development
Ms. Nellie Pouchie - Chief Officer, Ministry of Health, Environment, Culture & Housing
Mr. Troy Claxton - Chief Financial Officer, Ministry of Health, Environment, Culture & Housing
Mr. Albert Anderson - Chief Executive Officer, Cayman Islands Airports Authority
Ms. Sheila Thomas - Chief Financial Officer, Cayman Islands Airports Authority

1. Meeting to Order

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

2. Welcome

The Chairman gave a brief welcome to Members of the Committee, together with Attendees and thanked them for attending the Public Accounts Committee (PAC) Hearing dealing with the Office of the Auditor General's report, Financial Reporting of the Cayman Islands Government: General Report 31 December 2019 (December 2020).

The Chairman invited the Auditor General, Mrs. Sue Winspear, to introduce her staff and to present the Office of the Auditor General's report, Financial Reporting of the Cayman Islands Government: General Report 31 December 2019 (December 2020).

Mrs. Winspear drew the Committee's attention to an error in the conclusion of the report (page 21, paragraph 71) which reads "qualified", should instead read unqualified. The following additional corrections should also be made: on page 53, the surplus of "$99.5M" for the Cayman Islands Airports Authority (CIAA) as at 31 December 2018 should read as $9.95m and the movement in net surplus for the CIAA between 31 December 2019 and 31 December 2018 should read as $8.8m and not "$88M". Finally, on page 74, the surplus for the CIAA for 2017 of "$161.3M" and for 2018 of "$99.5M" should read $16.9m and $9.95m respectively.

The Chairman welcomed the witnesses, Mr. Kenneth Jefferson, supported by Mr. Matthew Tibbetts. Administration of oath was administered, and thereafter, the Chairman invited the Members to question the witnesses and reminded the witnesses to state their name and title for the record before answering the first question addressed to them.

Discussion ensued.

Before departing, Mr. Jefferson and Mr. Tibbetts were again thanked by the Chairman for attending the hearing.

The Chairman welcomed the witnesses, Ms. Nellie Pouchie, supported by Mr. Troy Claxton. Administration of oath was administered, and thereafter, the Chairman invited the Members to question the witnesses and reminded the witnesses to state their name and title for the record before answering the first question addressed to them.

Discussion ensued.

Ms. Pouchie informed the Committee that the Ministry of Health, Environment, Culture & Housing (MHEC&H) was committed to working with the Office of the Auditor General (OAG) on the completion and submission of the outstanding 2016-2017, 2018 and 2019 audits.

Ms. Pouchie gave an undertaking to the Committee to complete and submit the MHEC&H's outstanding 2016-2017, 2018 and 2019 audits within the timeframe agreed upon with the OAG with a deadline of the end of June 2021. Ms. Pouchie further agreed to take measures to ensure that the completion of the MHEC&H's 2020 financial audit and future audits do not fall behind.

Before departing, Ms. Pouchie and Mr. Claxton were again thanked by the Chairman for attending the hearing, and in turn, Ms. Pouchie thanked the Auditor General and her team.

The Chairman welcomed the witnesses, Mr. Albert Anderson, supported by Ms. Sheila Thomas. Administration of oath was administered, and thereafter, the Chairman invited the Members to question the witnesses and reminded the witnesses to state their name and title for the record before answering the first question addressed to them.

Discussion ensued.

Mr. Anderson gave an undertaking to the PAC Committee to reach an agreement with the OAG to complete the 2016-2017, 2018 and 2019 audits within an agreed timeframe, with deadlines. The Chairman requested that a copy of this written agreement be delivered to the Committee Clerk.

Before departing, Mr. Anderson and Ms. Thomas were again thanked by the Chairman for attending the hearing.

3. Any Other Business

There was none.

4. Adjournment

There being no further business, the meeting was adjourned at 2:38 pm sine die.



PARLIAMENT OF THE CAYMAN ISLANDS
COMMITTEE OF PUBLIC ACCOUNTS

FINANCIAL REPORTING OF THE CAYMAN ISLANDS GOVERNMENT GENERAL REPORT 31st DECEMBER, 2019

Official transcript relating to the Official Report of the Standing Public Accounts Committee Meeting—29 January 2021

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PAC Members Present:

Mr. D. Ezzard Miller, MP, Chairman

Mr. Austin O. Harris, Jr., MP, Member

Ms. Barbara E. Conolly, MP, Member

Mr. David C. Wight, MP, Member

Apologies: Mr. Christopher S. Saunders, MP, Member

Mr. Bernie A. Bush, MP, Member

In attendance: Ms. Patricia Priestley, PAC Clerk

Audit Office: Mrs. Sue Winspear, Auditor General, Office of the Auditor General

Patrick Smith, Deputy Auditor General (Financial Audit), Office of the Auditor General

Winston Sobers, Audit Manager, Office of the Auditor General

Gabriel Ncube, Audit Project Leader, Office of the Auditor General

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

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing

Mr. Troy Claxton, Chief Financial Officer, Ministry of Health, Environment, Culture and Housing

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority

OFFICIAL VERBATIM TRANSCRIPT
STANDING PUBLIC ACCOUNTS COMMITTEE
FRIDAY
29 JANUARY 2021
10:30AM

Meeting with Witnesses

FINANCIAL REPORTING OF THE CAYMAN ISLANDS GOVERNMENT - GENERAL REPORT 31st DECEMBER 2019

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Friday, 29 January 2021, at 10:30am, in the Chamber of the House of Parliament, George Town, Grand Cayman.

[Mr. D. Ezzard Miller, Chairman, Presiding]

The Chairman: Good morning, everyone.

First of all, I need to apologise for the late start. Members of Parliament do have constituency matters that sometimes have to take precedence over Committee matters in Parliament, but let the record show that we have a quorum present and the meeting is called to order at 10:30am.

[Inaudible interjection]

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: I swear by Almighty God that the evidence I shall give to this honourable Parliament shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good morning, Mr. Jefferson and thank you for returning to the Public Accounts Committee (PAC) to help us along.

At this time we will ask the Auditor General to give us her usual overview of the Financial Reporting of the Cayman Islands Government - General Report 31st December, 2019.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman and good morning to you, members of the Committee, colleagues and anybody listening.

Thank you for the opportunity to make some opening remarks about our Financial Audit General Report for the year 2019. This was published in December and encapsulates the main work of the Office and all of the financial audits that were done at entity level during 2019, of which there are 41 entities—PAC already having called one of the entities, The Turtle Centre, off the back of their 2019 audit.

At the time of the report, 36 out of 41 entities that make up the Cayman Islands public services were complete. That remains the position today and none had received an audit qualification and so progress continues to be made and this is very positive. I did issue an emphasis of matter for nine bodies, mostly regarding non-compliance with section 47 of the Public Authorities Law.

COVID-19 did have an impact on some bodies because obviously it came to light in March. We undertook the main audit season in March and April, during which we had the lockdown.

I would first of all like to pay credit to all of our clients, and particularly the staff in my Office—because all staff was involved in financial audits—for achieving such a good outcome in really difficult circumstances.

We also lost the Deputy Auditor General that leads the Financial Audit Practice to do emergency response work with the National Emergency Operations Centre (NEOC); so it was a really challenging time and I think it is a credit to everybody involved, as I said, particularly clients, as well as my own staff, that we did such a good completion.

We completed 27 by the end of April which is the statutory audit deadline, a further three by the end of June, and another six by December. So if you look at Exhibit 1 on page 4, we now only have five outstanding audits for 2019 and of those five entities, two of them—the Ministry of Health and the Airports Authority—have three years of audits outstanding and I believe you have called them as witnesses this afternoon.

In terms of financial performance, all but one of core government entities made a surplus during 2019. The Ministry of Commerce, Planning and Infrastructure recorded a deficit for the second year.

The Statutory Authorities and Government Companies (SAGC) financial performance in 2019 was a little more mixed, with 15 of the 22 entities recording surpluses and seven having deficits. One of those seven, the Turtle Centre, has made a continued deficit and you've obviously had a hearing regarding them. Cayman Airways is the other that we are concerned about but that audit is not complete yet and in 2019 the Health Services Authority (HSA) also made a deficit but generally, the SAGC performance has varied over the years.

All public bodies are now preparing annual reports, which is another continued improvement but we would recommend that even more attention is given to the timely tabling of those in Parliament. If you look at Exhibit 9, page 14 of the report, it shows an upward trend in the tabling of annual reports, which is positive, but there are still very many that are not tabled in a timely way and not in accordance with the Public Management Finance Act. At the moment, we have 51 annual reports that have not been tabled, and 48 of those are beyond the six months of completion of audit, which is the requirement.

With me today, as I said, it involves the whole of our Office but I have Patrick Smith who leads the Financial Audit Practice; Winston Sobers, the Audit Manager on that side of the practice and who really stepped up during the 2019 cycle as I said, because Patrick was saving the country with other people and Gabriel Ncube, who is one of the audit project leaders but also supported and drafted this report.

Before finishing Chairman, I am embarrassed to say that thanks to the Financial Secretary, I have one correction to make to my report—and I do thank the Financial Secretary for picking it up. On page 21, paragraph 71 of the conclusion, says **"culminating in all public bodies being issued with a *qualified* audit opinion…",** that, of course, should say "*unqualified*".

I am terribly sorry, but I think the quality assurance is us reading what we think it should say rather than what it actually does say; so, profound apologies for that. We are here and happy to support the Committee with any areas of questioning.

Thank you.

The Chairman: Thank you, Auditor General. On behalf of the Committee and I, let me add our thanks and appreciation to you and your audit staff and the government entities that got this work done under the COVID restrictions.

Also, I want to add our disappointment and to encourage the entities to table their reports. The fact that there are 51 reports outstanding is troubling because they need to be tabled so that the public can have access to the reports, and the audited accounts are only a part of the report. It is very important for the public to get an overall view of what the Ministries and other entities are trying to do and to make judgments on how they are functioning. The absence of those reports makes that difficult.

Mr. Jefferson you know the routine. Yesterday, we were talking a little bit about the budgeting side of it and I know that your Ministry has just drawn a strategic plan. Is there anything that you think that these five [Agencies] that are behind for a couple of years—are they having any issues with the Law itself, or is it just resources? Why are they not getting their accounts up to date? Have you had any response from them?

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

Good morning to you all, honourable Committee members, Audit Office staff and the Clerk; my name is Kenneth Jefferson and I am the Financial Secretary and Chief Officer in the Ministry of Finance and Economic Development.

Mr. Chairman to start, I would like to say that we welcome the improvement that this report speaks to but at the same time, as you and the Auditor General have said, the fact that we have 51 annual reports outstanding is something that definitely needs to be improved.

I can say, Mr. Chairman and Committee members, that frequently at the Deputy Governor's meetings with his Chief Officers—they are normally held every two weeks but it gets a bit chaotic at times—we generally bring up and discuss the need to get the annual reports tabled here in Parliament and there is a great plea from him to get them in. I have seen emails from him to all Agencies encouraging that. The Ministry of Finance as well—I have written saying, *you need to get your accounts in and your annual reports tabled.*

Mr. Chairman, specifically to your question about the five Agencies that are outstanding, in terms of their audits: the one that I can speak to best would be the Ministry of Health. The others are all statutory authorities—the Airports Authority, Housing Trust, et cetera.

At the Ministry of Health I do believe the principal reason is staffing changes over a number of years, Mr. Chairman. The current Chief Officer was the Chief Financial Officer (CFO) a number of years ago, but there have been lots of movements in that Ministry and I think that is the principal reason why it now finds itself with three years of audits outstanding. Apart from that, I do not know of any technical reason why the audits remain incomplete. I just believe it is down to personnel and staffing changes within the Ministry.

The Chairman: Do you have any weapons that you could employ to encourage them, i.e. you do not get the next draw down unless—

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chair, just to quickly add that, while the Ministry of Health is behind right now, they do have a plan agreed with Audit Office to get it rectified up to 2020 by June of this year. So we have confidence that they will be improving in the near future.

The Chairman: Okay; and I can hold you to that?

[Laughter]

The Chairman: Getting back to the reports.

[Inaudible interjections]

The Chairman: No, that is in no way intended to belittle the effort that I know the Ministry of Finance has had to make. I remember where it was in 2009, when I took over Public Accounts Committee.

The civil servants, both the audit side and the working side, need to be complimented and appreciated for the massive task of getting those accounts all up to date to where we are now getting the great majority of them coming in within the statutory requirements. That is not a minor achievement.

However, Mr. Jefferson—because I have seen your Ministry's reports and they are very good—I wondered if you can get the Ministries to adopt that kind of a standard format to encourage them, because you know some of them might say, *well, we do not know how to write a report*. I want to try to reduce the excuses so we can get it done.

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

I see the Accountant General grabbing at the mic, so I know he has something to say as well. What I would say Mr. Chairman is that—not necessarily professing to be the perfect agency—but the Ministry of Finance has written to Ministries in the past setting out what we believe is a reasonable pro-forma type document for the contents of an annual report. Although I do not have it physically here with me now, we have done that.

It almost goes without saying that the Public Management and Finance Act itself, although it is very brief, actually specifies what the contents of an annual report should be. As we all know, it includes the financial statements, but in terms of beyond that—the contents—section 44 of the Act says that it shall state the details of the entity's activities during the year. That is very wide and you can pretty much do whatever an entity wishes to do with that type of description.

We have suggested in our pro-forma—and this is from memory so I am not going to remember all of it—that Ministries and Portfolios detail in their annual reports [any] legislation that they would have passed in the course of the year, the amount of Freedom of Information (FOI) requests that they would have dealt with, any contact with the Ombudsman's Office in terms of complaints, et cetera; and of course, they have to describe what were the major accomplishments during the course of the year for the Ministry or Portfolio.

We have shown things like the make-up of the staff—male, female, Caymanians, Non-Caymanians, et cetera—just some general information. Like I said, I do not have the actual pro-forma that we issued in the past, but it was issued and it represents what we thought would be useful commentary in the annual reports. It definitely will need updating from time to time, but we have issued that.

The Chairman: For those that have been tabled, there is a huge variation in quality—one is done with many pictures on very expensive paper and hard covers, and others are just clipped together. I think if we got to some kind of standardised format we would maintain quality across the service, which I think would be good.

What kind of involvement does your Ministry have and what tools do you have at hand to try and get these people to move it along, because you would not have been able to do your consolidated accounts if these reports were not in.

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

It is a fact that in order to consolidate what could be 16 or 17 entities from central government with the 25 or 26 statutory government companies, you need each of those individual parts to exist. Obviously, if they do not exist, the consolidation process to produce a set of financial statements [for the] whole of government will not be possible.

Mr. Chairman, again, what we have done to date in terms of encouragement is at the Deputy Governor's meetings with Chief Officers we have told those present that the deadlines are such and such; and I think that by this point in time Chief Officers and CFOs are aware of the deadlines—I mean, the deadline does not change. The Law has been there for quite some time so they certainly should be aware of what the deadlines are, but we have let them know.

The Law speaks to annual reports; I think what tends to happen though is that we—including the Ministry of Finance—submit the financial statements first. We have done that for the 2020 financial year as

an example, but the annual report has to be sent to the Audit Office by the 28th of February.

That is the deadline for the annual report and that is what the Act speaks to, submission of annual reports; however, a big element of that are the financial statements. At the Deputy Governor's meeting we have encouraged and made known and have written emails about the annual reports, the contents, the suggestions, et cetera. I think by this point there should not be an issue of lack of knowledge of when deadlines are. As you know sir, there are no known sanctions.

The Chairman: Yeah, that is part of the problem.

Could one of the reasons be that there may be a conflict between the CFO and the Chief Officer as to who does the annual report? Because I would think that the CFO would clearly be responsible for the accounts.

Certainly, I would think that the Chief Officer could in fact be working on drafting the annual report while the CFO is dealing with the Audit Office on the audit process so that at very minimum, when the audit process is complete, the report should be ready to go.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chair if I could speak to this really quickly, because we have a background in regards to the annual reports.

In 2016, the Ministry of Finance worked with the Audit Office and identified a standard approach to annual reporting. That guidance was sent out to all CFOs and I will read directly from it. The wording is: *"Whilst the CFO may assist the Chief Officer by providing financial data and analysis, the annual report should be the product of the Chief Officer responsible for the Ministry." [Unverified quote]*

We made it clear that there is a distinction between the financial statements and the actual ownership of the annual report, which is actually the Chief Officer's responsibility, but obviously the CFOs are going to play a big part in providing information that feeds into that annual report.

The Chairman: What I believe is troubling to the Committee is that unfortunately these Ministries and Authorities that are in a backlog have major capital projects ongoing and if they cannot get their current stuff prepared and audited, one has to wonder what is the status of the funding of their capital. We talked about that yesterday, about how we can tighten-up some of that.

Mr. Austin…

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

I want to say good morning and thank you for the attendance of the Financial Secretary and the—

[Inaudible interjections]

Mr. Austin O. Harris, Jr.:—Accountant General. Forgive me, I have difficulty sometimes remembering all of the titles, but certainly I want to thank you both for being here.

I want to touch on the importance of not only presenting the financial statements, which certainly inform Ministers, Chief Officers and Members of the Legislature, but the presentation of annual reports, particularly from the standpoint of how this benefits the layman—the tax payer of this country.

Annual reports and financial statements of the government are key documents that enable the House of Parliament and residents of the Cayman Islands to hold the government and individual public bodies accountable for their use of public money. As we discussed yesterday, in terms of the budget documents, the sheer size of the budget documents and simply providing more information does not necessarily mean you are being transparent in the process.

The annual report is meant to be a summary of what is contained in the financial statements guiding the reader to better understand where tax payer dollars have been spent and where deficiencies remain.

We went through a time where financial statements were behind but we simply seem to have turned that corner but since 2016/2017—in the report that preceded this—the Auditor General's Office gave the entire public sector an adverse opinion and one of the reasons was the absence of those annual reports which caused reason for concern.

I wonder if the Honourable Financial Secretary can tell us, have there been any discussions about the difficulties or challenges experienced by the five Ministries that are outstanding, as to why their annual reports continue to lag so significantly behind the presentation of the financial statements?

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

To the member's question, the one that I can speak to most confidently would be the Ministry of Health and the honest answer is that we have not had extensive discussions, although the Accountant General has just said that there is now an agreed timetable for that Ministry to complete its audit by June of this year.

As I said Mr. Chairman, I believe that in that particular instance, the reasons for the delay are staffing and personnel changes within that Ministry; I do not believe that it is technical or accounting difficulties. I do not recall receiving any specific requests from the Ministry of Health as to having accounting issues that hindered the audit. I do not

recall that, so I believe it is more to do with the staffing changes that happened in that Ministry over a period of time.

I cannot speak confidently to the Airports Authority, the National Housing Development Trust, the Utility Regulation and Competition Office and to Cayman Airways Limited. I think for the latter, Cayman Airways, only 2019 is outstanding but I believe that might be completed shortly—I certainly hope so. I think that is the best stance I can give at the moment.

[Inaudible interjections]

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: We have not had extensive discussions with them, so I am not aware of any particular reasons why it is outstanding; maybe the Audit Office could elaborate briefly.

Mr. Austin O. Harris, Jr.: Well, if I may expand the question and share some of the Audit Office's thoughts which were outlined in their executive summary of the report. Again, I appreciate that the witness really only has familiarity with the Ministry of Health and not any of the others, however, from the report, I think the Audit Office fears [that] perhaps it is more than just staffing changes behind these delays.

The executive summary, if I may quote just a few brief sentences, says: **"The financial results reported by SAGCs present a mixed and varied picture; 15 out of the 22 audited SAGCs recorded surpluses while the remaining seven have made deficits. The Public Service Pension Board, Water Authority of the Cayman Islands, Segregated Insurance Fund and the Cayman Islands Monetary Authority are among the entities that recorded the largest surpluses, while the Health Services Authority, Cayman Turtle Conservation & Education Centre Limited, Port Authority of the Cayman Islands and the National Housing Development Trust recorded the largest deficits."**

Of those, the accounts demonstrate that a considerable proportion of them continue to be under financial strain. The Auditor General goes on to state that in their opinion, these challenges **"will likely continue to be the case in most instances without any changes in operations, business restructuring or ongoing and further government support or changes in government policy."**

I use OfReg as an example. OfReg has gone through major staffing changes, leadership changes, and putting key personnel in necessary positions but it has not changed the way it reports to the legislature and certainly in terms of government policy, there is not that feeling that the government policy and OfReg are on the same page.

However, specifically to the Auditor General's Office comments that their concern is that it is going to get worse before it gets better and in particular, it is more than just staffing matters that are affecting or impacting these departments.

I wonder if there has been any indication by you and your Office, if there are other overarching issues and concern outside of staffing that may be troubling to you, as Financial Secretary.

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

Mr. Chairman I thank member Harris for his observations and certainly would say that his comments are understood. Just as a tangent to say that he mentioned from the executive summary some of those entities that had large deficits and one that I recall best would be the Health Services Authority.

Thanks to the Audit Office's staff, we do get copies of the audited financial statements sent to us for all entities really, and I remember specifically the Health Services Authority. What they have done recently is recognise their health care liability directly in their financial statements, which led to the HSA having essentially negative net assets because the amount was so large and as a follow on to that, there was an impact on their income statement which was a principal reason why they had a deficit.

Mr. Chairman, to try to answer the member's question directly, that was just a tangent to say that it is possible that as more and more entities recognise health care liabilities and the genuine cost of health care, that in itself might result in future deficits occurring more and more frequently.

Obviously, the point that the member makes is important because if statutory and government companies are incurring deficits, that obviously puts pressure on government to actually support them if they do believe that that particular entity is worthwhile continuing, which in turn puts pressure on the government's own operations to support the previous level of expenditures that the government itself has been incurring which then leads to the Chairman's question yesterday: *Are we going to focus on revenues then, because if your expenditures are going up, is that then going to lead to revenue increases, which would impact the public?*

We obviously cannot attribute these deficits to COVID, because we are dealing with the 2019 financial year end. We cannot say that these deficits arose because of COVID, so the point is understood—it does have an impact on government.

Mr. Chairman, the conclusion I would reach is that the individual Ministries and Portfolios that are responsible need to have a discussion with the SAGCs to understand and to arrive at a conclusion—are these going to be ongoing deficits in the future? What is their magnitude?

[Inaudible interjections]

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: We in the Ministry of Finance have not had those individual discussions at all with those entities, but it does actually need to happen. Our view point would be that the best-placed agencies to do that would be their parent agencies.

The Chairman: I just want to ask a follow up with that.

Mr. Austin O. Harris, Jr.: Yeah, I was going to stick with the surplus and deficit because he made a very good lead.

The Chairman: Is there any particular reason why Ministries are not insisting that the board of these companies, the Turtle Farm for instance—we know the mess it is in because they were before the Committee—develop a multi-year plan to reduce the deficit to zero. I mean, in the case of the Turtle Centre, the government has been giving them $10 million for as long as I can remember.

It is one thing to get these agencies to do capital development, but that capital development should have a component in the planning stages of how the unit is going to pay for it. It is even worse—like at the Turtle Centre—where we are subsidising recurrent expenditure; staff are being paid bonuses and hardworking civil servants are not getting any.

Is there anything your Ministry can do to try to get other Ministries to at least request from these entities and these boards, some plan to reduce that deficit to zero over a period of time? I mean, whether that is enhancement or collectability of their current revenue measures or the expansion of their clientele, but they should be made to do something to address the deficit.

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

I think certainly the Ministry of Finance can assist in that process. I thank you and the members for the observation and obviously, the Auditor General for bringing it in the report.

As we discussed yesterday, the Financial Secretary actually does have the legal ability to request information, not only from central government agencies, but from the SAGCs as well. I think it is section 46; I will not bore us with the actual details, but the legal ability to request the information does exist.

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

I would like to go back to the surplus and deficits question and I want to thank the Honorable Financial Secretary for mentioning the importance of ensuring that public bodies, statutory authorities and government owned companies maintain surplus budgeting as opposed to deficit budgeting because of the challenge it places on the core government to achieve its Strategic Policy Statements and outcomes.

As the saying goes, "Any chain is only as strong as its weakest link" and certainly having departments and ministries struggling to produce surplus budgeting presents a challenge to any government administration, as the one that presently exists or the one prior to this term pledged to produce surplus budgets.

I think we can all appreciate the importance of those surpluses and if you do not appreciate it, certainly 2020 was a reminder that those years of surpluses do in fact have a purpose. It is that saving for a rainy day, and certainly in 2020 it rained cats and dogs and that surplus was extremely useful whilst at the time many persons found all sorts of creative ways in which we could spend that surplus, but that is the point behind the rainy day fund.

When we talk about surplus and deficits it is not simply a matter to brag; *"look how much money we saved"*, or *"look where we did not spend the money",* but more importantly, providing that contingency fund for when the bottom does drop out and again, I use 2020 COVID-19 scenario as a living, breathing example.

I am also grateful to the Financial Secretary for being able to identify some of the factors that are leading to the deficits, particularly in the Health Services Ministry, where you talk about health care liabilities. We see these challenges in both the provision of health care and health insurance, and how these liabilities and the costs associated with them have a much broader impact.

This is useful information that would guide the public, the residents of the Cayman Islands, to not only understand how their money is being spent but also the challenges associated with providing better value for money on things like health insurance and the cost of health care.

I want to touch, though, on the surpluses, in particular the 15 out of 22 entities that recorded surpluses, according to the Auditor General's recent report.

Can you state whether the requirement for public bodies to pay back their annual surpluses to Treasury is in fact happening and if not, what are the challenges and reasons associated with those entities not paying those surpluses back to Treasury?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Yes; thank you, member Harris for that question.

There is definitely a requirement for Central Government Agencies to repay surpluses that arise at the end of the financial year to the Treasury. I paused

there for a bit because I was considering that if you are a member of the public hearing it, it sounds a bit weird to say that a Ministry or Portfolio makes a surplus and it has to pay it back. That just sounds kind of confusing.

Mr. Chairman, if I can try to make it more understandable: this was one of the things the Financial Management (FMI) Initiative dealt with when it was established. If a Ministry, Portfolio or Office was able to manage its expenses and its revenues such that it made a surplus, there was a possibility that because of that good management the Agency or Ministry got rewarded by being able to keep some of those surpluses, and keeping surpluses really means keeping cash at the end of the year. The Ministry, Portfolio or Office that made the surplus could then spend that cash on areas that perhaps were not in the next year's budget. So it was a reward; I think that was the concept of surpluses and so forth.

The Public Management and Finance Law (PMFL) talks about those surpluses which really mean cash returned to the Treasury. So we have this complicated system where each individual Ministry and Portfolio has, in many cases, several bank accounts for the entity itself. In addition to that, the Cabinet and Treasury also have the parent bank account.

What member Harris is speaking to is a situation in which, at the end of a financial year, a Ministry or Portfolio that has a surplus has to write to the Financial Secretary to request that they be able to retain that surplus, which means that they would be able to retain that cash that corresponds to the surplus in their own entity bank account. So they have to write to me and to say, "Can I keep it?" The vast majority of entities do not do that. They do not write to say, "Can I keep my surplus cash?" They do not do that.

The Chief Financial Officers in each Ministry or Portfolio would write in to the Treasury to say, "My Ministry experienced a surplus of "X" dollars for the 2019 or the 2020 financial year. You can therefore move that same "X" dollars surplus in the form of cash from my entity bank account back into the Treasury's main bank account. That is the situation within Central Government.

It is usually one or two of the entities that write and say, "Can I keep my surplus cash?" When you extend that to the SAGCs, the Public Authorities Law (PAL) also speaks to statutory authorities, government companies that have cash balances that exceed a level of bank account balances sufficient to cover 90 days of expenditure.

By the Public Authority's Law, those excess cash balances should also be paid into government at the moment, but that has not gone down well, to put it in blunt terms. The situation for the last couple of years—and Cabinet has the legal ability to do so—the Cabinet has consistently issued an exemption to the statutory authorities to say you do not actually have to pay over your excess cash to us beyond this 90 days level. You do not have to do it.

For example, in practical terms, an authority would pay it over and something comes up in the course of the following year and there would be a need for that cash to be returned so, in lieu of that happening, there is a separate situation where there is a dividend formula that is being established for SAGCs to abide by. There was never the intention that SAGCs would have to pay over a dividend as well as excess cash beyond the 90 day expenditure level. It was never the intention that they pay both; only one.

To take care of one of those strains, there is the exemption that Cabinet has issued year after year. A paper went to Cabinet that attempted to change the PAL to eliminate that particular section that said that the statutory authorities had to pay over excess cash following the end of a financial year. That paper did not succeed; it may be brought back later on, but certainly the intention is that when SAGCs make surpluses, they be asked to pay a dividend as opposed to a dividend plus excess cash.

To complete the answer Mr. Chairman, I have just described the situation with SAGCs and Central Government; at the end of a financial year, surpluses made are generally taken back from those Agencies and put back into the Cabinet's main bank account.

[Inaudible interjection]

Mr. Austin O. Harris, Jr.: Just one other question, Mr. Chairman.

Again, when we talk about the importance of annual reports accompanying Financial Statements and [why] both need to be submitted and tabled in a timely manner because they inform not only the House of Parliament but also the residents of the Cayman Islands; one of the other ongoing observations made by the Auditor General in the course of the last four or five years is not just the submission of these documents in the form of the Annual Reports and Financial Statements on the Table as well as available online but in particular, the amount of updates that Ministries and SAGCs provide to their own individual websites.

We live in a digital age. The average person is not going to come down to the Legislative Assembly to request documents that they would otherwise be able to access from the palm of their hands, and from a stand point of efficiency as well as accountability, a website provides an avenue to satisfy both these needs.

I wonder if you can tell this Committee, in addition to the challenges of presenting Annual Reports to accompany Financial Statements, what are SAGCs doing to improve their website content, which serves as a method of being transparent to the taxpayers of this country?

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

Mr. Chairman, it is obvious that SAGC-owned websites are a logical and sensible place to place those annual reports.

I cannot say that the Ministry of Finance has actually done a survey and gone and surfed each of those locations to see if the Annual Reports are published there, but it is a sensible place to do it and we would certainly encourage the Chief Officers responsible for the SAGCs—if that is not the case now—that it be done or brought up to date.

I can certainly undertake to do an exercise to check what the exact status is as of now.

I do not believe I can say anything other than if it is not up to date—it does not reflect the latest position—then we can make contact with the Chief Officer, the CEO, MD or board chairman of the Authority, et cetera.

The Chairman: Just one caution with putting them on their websites: please ensure that that does not in any way eliminate the requirement to Table them in the House, because if you eliminate that process, you are eliminating an important democratic process because if a report from one of these entities is brought here, it can be rejected by motion so that the whole report is debated or even a motion to accept it.

So, there are instances where Members of Parliament will have a responsibility to get reports debated so that the public understands—for good or bad—what is going on. If they just put them on the website, the average Caymanian will not have access to it or will never know what's going on.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman; following on from Mr. Harris' line of questioning regarding deficits.

What are the Ministry of Finance's concerns with regards to public bodies recording year to year deficits and what measures and/or support is being given to these entities to address their financial state?

I noticed in the Auditor General's report that the Ministry of Commerce, Planning and Infrastructure recorded deficits in both the 2018 and 2019 financial years. Can you speak to what you are doing to address the issue with that Ministry?

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer, Ministry of Finance and Economic Development: Sorry Mr. Chairman, I was checking if the Accountant General knew whether they have made any specific efforts to address that.

The answer is that the Ministry of Finance has not thus far reached out to ascertain if there is an ongoing problem with that Ministry. I really cannot answer the member's question about what efforts we have done to that regard.

It is obvious that we do not want those situations to exist, in fact, the strict legal position is that deficits should not occur. At worst, we should have a break-even situation, so deficits should not occur. We should have break-even or surplus positions within each individual Ministry, Portfolio and Office so that the government as a whole has a surplus, even if its $1. So strictly speaking, even a break-even position is not acceptable; individual Ministries and Portfolios should be making surpluses as well.

The Chairman: Because all of those Ministries have the option to request supplementary expenditure before they do a programme that puts them in deficit.

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

Mr. Chairman, sorry, to answer member Connolly's question fully, I am concluding by saying that we will reach out to the Ministry of Commerce, Planning and Infrastructure to ascertain whether there is a fundamental ongoing issue that has caused the deficit. I want to say no, because in prior years we did not get that Ministry with a deficit situation.

Ms. Barbara E. Conolly: Mr. Chairman, thank you. To the witness, just following on the timeliness of the financial statements—reverting to that.

What are the consequences, if any, faced by the public bodies as a result of the late submissions of General Reports and Annual Statements to the Auditor General's Office? Are there any consequences as a result thereof?

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

Thank you, member Conolly. I will start by saying that to my knowledge there are no legal consequences, so there is no sanction within the Public Management and Finance Act for lateness.

In practical terms I think it probably erodes the confidence of the public in good management being exercised by the government of the day; so good governance issues come in to play. The public wants to know how the dollars it has actually paid to government are being spent, so to me the main consequence of untimely submission of financial statements is a public confidence issue.

There are other practical reasons as well, Mr. Chairman. If you were to extend that, for example to SAGCs, if they are late and they get into a situation where they need financing, then typically a bank would say, *"can you give me your latest financial statements"*—if they are two years behind, that makes it difficult to obtain financing.

For Central Government Agencies themselves there is no legal consequence for their lateness at the moment, apart from the public erosion of good governance being in existence. There is perhaps, the embarrassment of forums like this, where the issue is publically aired.

Those would be my answers as consequences. I think the statutory authorities have a greater practical consequence to lateness if that does arise.

Mr. Austin O. Harris, Jr.: Thank you Mr. Chairman. Again, I want to thank the witness for the testimony being provided and I also want to continue to commend the oversight body; the Financial Secretary and the Accountant General but also the Ministry of Finance and Economic development for what the Auditor General has also indicated was an improvement in the process of the delivery of financial statements and annual reports.

It also noted, I think in paragraph 16 of the Auditor General's report contained on page 7, that 36 audits for the 2019 financial year have been completed and all have received an unqualified audit opinion; however, it made emphasis on "matter" or "other matter" in 9 of the 36 audits. Most significant in these "other matters", is the non-compliance of public bodies with section 47 of the Public Authorities Law. I think this is a key point in the observation of our esteemed Chairman, certainly from the Floor of the Legislative Assembly in recent years.

In March 2017 the Legislative Assembly passed a Public Authorities Law and it commenced on June 1st 2017 with the exception of section 47, which covered salary scales and job evaluations. Section 47, was slated to commence on the June 1st 2018, but was later deferred to June 2019.

In conducting the 2019 audits, the Office of the Auditor General noted a number of key sections of the Public Authorities Law that have directly affected the level of legislative compliance of some of the statutory authorities that were flagged. The most significant of these matters related to section 47 of the Public Authorities Law. For completeness, I think the key issue here—noted as a gap in the documents prepared—is that the Public Authorities Law requires **"all statutory authorities** and government owned companies **shall use the same salary scale as determined by Cabinet and all jobs are to be evaluated by the same job evaluation methodology."**

The Public Authorities Law also requires that **"after the date of the commencement where there is a difference between the terms and conditions of employment at a public authority and the public service the salary grades for remuneration in the public authority shall be adjusted accordingly to reduce such differences."**

We are seeing some of these challenges in salary adjustments as we talked about earlier on in previous hearings that have come before the Public Accounts Committee, the Cayman Turtle Centre as an example. I wonder if the Honourable Financial Secretary can explain to this Committee, what is the status of the compliance of public bodies with PAL 47 as it relates to their financial statements; again, the emphasis on "matter" or "other matter" opinions that the Auditor General has shared in 9 out of 36 audits.

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

Mr. Chairman, to elaborate briefly on what member Harris said, just to ensure that the listening public understands as well: the issue here is that there is a legal requirement for the statutory authorities and government companies to bring the remuneration that they pay their staff to be fairly consistent with an equivalent post within Central Government, if they can find one.

So, if you are an accountant in a statutory authority or government company, what is that salary compared to a Chief Financial Officer within government? That is the exercise that the Public Authorities Law actually requires to be done.

As the member said, that was to be started effective June 2019 and since we are dealing with the December 2019 year end, that has a direct bearing on the 31st December 2019 accounts. hence the Auditor General notes it in their report—although not rising to the level of a qualification—pointing out that it is an important matter and so it is described—as the technical term is—"an emphasis of matter". It is being brought to the reader's attention that there is something important going on with this particular issue.

So Mr. Chairman, at the end of the exercise having been completed to compare the remuneration in statutory authorities with, if possible, their equivalent position in government, the possibilities are that:

- There is no need for change in the remuneration level within the statutory authority;
- The expenditures' level actually needs to increase—I think that is more likely to be the concern there.

I think the wording of the Law is such that—and in all practical terms—the expenditure level within the statutory authority would not actually decrease if it was the case that they were being paid more than the equivalent within government. So those are the possibilities.

The effective date, June 2019, means that the 2019 financials have been impacted by that, or it is an audit issue for the 2019 financial year. We checked

with the Portfolio of the Civil Service on the status of this exercise and got an update just this morning, which I would ask the Accountant General to share.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, we have gotten an update from the Deputy Governor and the Portfolio of the Civil Service who were heading up this exercise as they are responsible for job evaluations.

As at December, with the exception of the National Roads Authority, all SAGCs are either in the process or have completed the process of having their jobs evaluated under the government methodology. Of the 16 smaller entities (less than 100 employees), are all completed; of the 8 large entities (more than 100 employees), seven are in the process of being re-evaluated under the government's methodology.

The Chairman: Is part of the delay here that too much emphasis is being placed on the reduction of salaries? That the statutory authorities' salaries are being reduced to comply with government levels when it may be easier to get it done if the Civil Service looked at it as an opportunity to raise civil servants pay because the statutory bodies are out there competing more closely in the private sector, and sometimes—I am not saying it is all the time—their salary scales may better reflect what the market is demanding.

I think the information that has come to me over a period of time, is that many of the public authorities and statutory bodies feel that the exercise being done by government is to reduce their salary scales, as opposed to looking at a realistic market level and maybe bringing up some of the central civil servants' salaries.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chair, I guess it could be a number of different things at play, because the higher-end salaries—so the CEOs in SAGCs—may be higher paid than the equivalent in the Civil Service (like the Chief Officers).

However, I think there is the other end of the spectrum, where the entry level posts in an SAGC may actually be remunerated lower than those in the Civil Service because obviously, we have a certain base-pay. So it could be a combination of things, but I think the delay is just the massive quantity of public servants. I think it is over 2000 employees that need to be evaluated. I am not sure how many posts that equates to, but it is just a large exercise in general.

The Chairman: Unfortunately, I have been around long enough with this Public Authorities Law, to know that during the genesis of it, it came out as, "This Law has to be put in place to control runaway public authorities and statutory companies". I believe some of that had substance to it but I think over the period of time, we need to find a way to get this done and I think a part of it might be that instead of simply looking to bring the statutory authorities down, where they are above, is to bring the civil servants up or to come to some kind of halfway compromise.

I know of at least one instance where a CEO was handed a contract renewal with a substantial reduction in benefits and he said, *"Look, I am not taking that"*, and walked away.

You probably would not know this, but in the process of evaluating this to comply with this section of the Law, has the government got an actuary to value what the social benefits of a central civil servant are, i.e. pension and health care, versus the statutory authorities and public authorities? Well, you know my position is that there should be no difference—anything owned by government should be in CINICO and Government Pension Plan and it should have been that way 15 years ago, but it is not that way. I think he mentioned the HSA earlier and I believe even today, the HSA is using a private sector provider to provide them with health insurance which seems kind of… but any way.

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

When setting the tone for the Civil Service, the Deputy Governor stated that his goal is to achieve a World-Class Civil Service throughout the various government Ministries, Departments and Statutory Authorities and government owned companies.

A key part of achieving that status is compliance with the Public Management and Finance Law and relates to the provision of tabling Annual Reports at the same time Financial Statements are tabled and having them audited in a timely manner.

Another aspect of achieving this success is also ensuring compliance with the ever-changing accounting standards. A World-Class Civil Service suggests that it is one that complies with global standard, or global best-practice.

In terms of accounting standards in 2019, one financial reporting standard came into effect that had a significant and material implication on a number of statutory authorities and government owned companies and that was specifically the IFRS16, which dealt with lease instruments and certainly the government leases a number of properties; either as the home for Ministries and Departments or the service providers through which government delivers services to the general public.

I wonder if the Financial Secretary can state, in addition to reminding government owned companies, Departments and Ministries of their requirement to be compliant with both the Public Authorities Law and the Public Management and Finance Law, what is your Office doing to ensure that all public entities are also kept abreast of any new accounting standards that would otherwise be applicable to their financial reporting?

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

Mr. Chairman with your permission, I would like to ask the Accountant General to address that because his Department—Treasury—provides such a technical advice.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, through you.

The Treasury Department annually conducts training on the IPSAS standards. We also strongly push the training of the AICPA. They have an annual summit, normally in November/December each year but separate and apart from that, the Treasury Department also provides one or two-day training on the actual standards itself because the CIPA training can be more related generally to accounting and so on. We want to have specific training on IPSAS and that is passed out to all SAGCs and all government Ministries and Portfolios.

In 2020 unfortunately, that training was delayed because of issues coordinating everything, so we only had it this month (2021). We also had training in December, but the actual training on the standards was actually done this month; we try to have annual standards training done for all staff.

Additionally, we issued instructions in regards to COVID expenditure just this morning actually as Ministries and Portfolios are in the process of preparing their accounts for audit and are due to submit them by the end of February. So we issued some general guidance and advised that if they have any specific questions that are not covered in the general guidance to please contact us and we will assist with that.

The Chairman: Can we ask you to make sure that the Audit Office has some record and maybe input into that training?

[Inaudible interjection]

The Chairman: Oh, okay.

Mr. Austin O. Harris, Jr.: Just before we part with the Financial Secretary I think it is important for the public to understand where we have come in this whole process and I just want to note a few key observations made by the Auditor General's Office in this regard.

In the Office's conclusions and recommendations contained on their general report for the 2019 financial audits, it states: **"The quality of financial reporting has improved significantly over recent years culminating into all public bodies being issued with an unqualified audit opinion so far for their financial statements. There's also been a marked increase in the number of entities preparing and tabling annual reports rather than only financial statements, thereby meeting a key requirement of the Public Management and Finance Law and enhancing the level of accountability to key stakeholders.**

This is a story of progress, the Office observes in paragraph 74; it also states: **"I have also observed a reduction in the various controlled efficiencies that existed and although there are still a number of entities with some key areas of controlled weaknesses, there has been a decrease overall in the number of matters my Office has identified that need to be corrected."**

I just want to say congratulations to the Ministry of Finance and Economic Development for the hard work put in to this key issue of financial statements and annual reporting because we have come a long way. I think it is important that obviously we are not all aces yet, but it would be wrong of this Committee not to recognise the significant progress that the Ministry of Finance and Economic Development has made in this matter. I certainly want to encourage the continuation of achieving the desired outcomes as identified by the Auditor General's Office.

Again, just to highlight, the three most significant accountability and efficiency improvements that have been recommended are:

1) The timely laying of annual reports including the financial statements and audit opinions in the House of Parliament
2) The publication on that public body's and Parliament websites to improve accountability
3) Stronger, functional leadership being provided to all public bodies through the Ministry of Finance

Thank you and your staff, Honourable Financial Secretary and Accountant General, for the hard work; I feel it is important that we not lose sight of this progress, in particular the listening public. Do not lose sight.

We have—as the old Virginia Slims commercial said—*"come a long way, baby"*, in this issue. We have a little bit of work yet to do, but the signs and the expectations of success are positive, so I thank you very much.

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

Mr. Chairman, I would like to thank member Harris for his comments and also to say quickly, sir, that the government has done extremely well in improving, as the report acknowledges, the Financial Statements component of the Annual Reports—the dollars and cents document. We have done quite well at that.

I think for example, it may be mentioned in the report, I do not know the specific paragraph, for the financial year that ended June 30th 2010, no entities received a clean opinion—none. I think 83 per cent were qualified, meaning there were issues with them, and around 17 per cent were disclaimed of some sort. That was the position in June 2010. If you fast forward to now, December 31, 2019, there are audits to be done but of the ones completed, all of them are clean.

There are four or five more to go but it is possible to end up in a situation where for 2019, we have 100 per cent of the entities with clean opinions on their financial statements. We are not as good with the Annual Reports and Tabling; that is clear from the report.

The Auditor General said in her opening summary that there are 51 annual reports still un-tabled from a number of years ago. This morning I had a brief discussion with the Minister of Finance and he was a bit taken back by the fact and wants to know which ones are outstanding, so we will request the listing from the Audit Office. As I said, in his frequent meetings with Chief Officers, the Honourable Deputy Governor does encourage very strongly that Annual Reports should be tabled as soon as are available.

Just to round this off, Mr. Chairman, I think there has been a bit of confusion and there should not be. Annual Reports are required to be Tabled here; Ministries and Portfolios have Tabled their Financial Statements in the past, but it is really the Annual Reports that are important—inclusive of Financial Statements.

Thank you, Mr. Chairman.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman.

Going back to yesterday's session on budgeting, there were two recommendations that, although quite rightly made to the Civil Service, actually impacted the way the Parliament operates. One of those was regarding section 11(5) Supplementary Budgets, where often they were not done in a timely way. I think there is a correlation between that and the laying of Annual Reports.

The other was that there should be a regular and routine meeting of the Parliament so that things can be complied within a timely way, because the PMFL requires that these are laid in the House within six months of the audit being completed and often they are not; that is in addition to the ones we have outstanding.

What would really help—and it would require all of the political Members of the House and the House Authorities—is for a more routine and regular meeting of the House.

Thank you.

The Chairman: Yeah, that has been my perennial song from my soapbox, we just cannot meet three days every six months and do 40 laws and forget all the good work that we need to do. In this modern day, this Parliament needs to be meeting at a minimum, one day every two weeks with a rolling agenda so that things can get done in a timely fashion.

As I said earlier, I do not think enough accolades can be given to the Civil Service and the Audit Office for them to come from where we were in 2010, to where we are in 2020. I know COVID is going to get blamed for a lot of things, but the fact is that we could get the audits done during COVID, so now we cannot let some Departments slip by claiming that, *"I didn't have time to do this during COVID"*. I would just like to suggest to the Ministry of Finance to keep the accounts up to date because it is important, having got there, that we stay there.

I can tell you from my involvement in the Commonwealth Public Accounts Association, there are not too many other countries—in fact, I would go out on a limb and say that I believe Cayman is probably the only one that is doing audits and tabling them and the Auditor General's report in the year after. I do not think there is any other country in the Commonwealth that is at that stage and that is no small accomplishment—thank you all very much.

Mr. Tibbetts, since you were under oath from yesterday, I did not swear you in today, but I thank you for your answers and release you from your oath. The meeting is adjourned until 1:30pm.

Committee suspended at 11:57pm

Committee resumed at 2:16pm

MINISTRY OF HEALTH, ENVIRONMENT, CULTURE AND HOUSING

The Chairman: I would like to call the Committee back to order. Let the record show we have a quorum present. I will invite Mr. Chris to bring in Ms. Pouchie and Mr. Claxton.

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: I swear by Almighty God, that the evidence I shall give to this Honourable Parliament will be the truth, the whole truth, and nothing but the truth.

Mr. Troy Claxton, Chief Financial Officer, Ministry of Health, Environment, Culture and Housing: I swear by Almighty God, that the evidence I shall give to this Honourable House will be the truth, the whole truth, and nothing but the truth. Thank you.

The Chairman: Good afternoon Ms. Pouchie and Mr. Claxton, as you would have been informed we are here to talk about the audited accounts of the government. The report that we have before us says

Ministry of Health, Environment, Culture and Housing is behind 2016, 2017, 2018 and 2019. We just need to ask you a couple of questions about how we are going to get those brought up to date.

The rules are, whenever you answer a question, first just give your name and your title for the purposes of the Hansard.

Ms. Pouchie, I guess the first question is: can you give us some rationale as to why the Ministry is a couple years behind in their accounts?

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Nellie Pouchie, Acting Chief Officer in the Ministry of Health, Environment, Culture and Housing.

Mr. Chairman, first I want to thank you for the opportunity to come and speak about the outstanding audits for our Ministry today and to give some insight into what the issues have been in that regard.

So, our Ministry has currently three financial year audits outstanding—2016/17, 2018 and 2019. The main thing that I would say in the earlier years specifically that have hindering us has been some resourcing issues.

I am happy to say that our Ministry has made great strides in terms of identifying what those shortages were and being able to bring up the necessary resources now in the finance team. Specifically, to be able to get those audits on track again and be able to do what Mrs. Sue Winspear, Auditor General, Office of the Auditor General's Office is requiring of us in that regard.

The Chairman: Mostly related to personnel not . . .

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Yes sir.

The Chairman: Can you give us some commitment that you will or you have sat down with the Audit Office and you now have a plan to get these all sorted and also to deal with 2020?

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Yes, so I am happy to report that we have and that we have good collaboration with Mrs. Sue Winspear, Auditor General, Office of the Auditor General's Office currently and we are—both sides committed—to the deadlines that we have set. Currently, for our 2016/2017 audit, we are looking at having that completed—or the deadline we have set for that is—early February; 2018 by the end of February and/or 2019 and 2020 fiscal years, May and June of this year, respectively.

The Chairman: And obviously—just for the listening audience—the gap there would be because the Audit Office is going to get busy dealing with 2020 audits.

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: That is correct Sir.

The Chairman: Okay. What about the 2020? Do you expect to have those as soon as you get signed off, those will be basically ready to. . . so that we get all of this behind us by this year so that when we are ready to do 2021 we are up to date.

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Yes sir. It is imperative that we are up to date by June. So we have set that as our deadline as well and we are happy that the auditors are also agreeing that that will work on their end as well.

In terms of the window in which these audits work—or the reporting works—it does create some struggles on our end in terms of having to keep current with the fiscal year and then also do the audit. So, getting out of that backlog situation is absolutely imperative for us.

The Chairman: Okay, that is good to hear. Thank you very much.

Are there any issues that these backlogs are creating with your… I think you have a major capital project going on with the Mental Health Facility, are you able to manage that okay?

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Yeah, in terms of the Mental Health Facilities Project, that really got going in 2019, towards the end of 2019. In terms of the backlog positions right now, not so much that that would be affected. You'd see more so in 2020, the work that is been ongoing there.

The Chairman: My bad manners. . . I apologise for having you wait a whole half an hour for us to get started but it was because one of our members had a very pressing constituent matter that he had to deal with during lunch time and that took him a little while, so we appreciate you waiting so patiently and actually coming in with a smile. Most people would have come in with a long face and I would expect your man to have his sleeves rolled up.

[Laughter]

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: No problem sir.

The Chairman: As you know, from experience, this Public Accounts Committee tries to work collaboratively with all the Ministries—Finance Ministry and Mrs. Sue Winspear, Auditor General, Office of the Auditor General—to get the problem solved. We are not too heavily in to "Gotcha!" or pointing fingers. Our mission here is, "Let's get it done!" and as quickly as possible and also accurately. That is important.

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Correct.

The Chairman: And I know you will…. I know from your… that you will see to that.

You were also—in 2019 I know—saddled with the advent of the COVID but you still think that you can manage or do you need… Would it help if we could get you some short term additional resources to help clean up the backlog or do you think you can manage that?

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: I think we are in a pretty good position where we are at now in terms of what's outstanding on those audits and to be able to manage that with the time frame that we have established for June.

In terms of our 2020—because what we are doing—as we normally do so, I think it is important to note that we submit our financials within the statutory deadline on an annual basis. So that does happen.

Where the struggles come in is, by starting off in a backlog position, then the time window in which the Audit Office can really give us the timing in terms to do it. For example, if we are completing our accounts at December, Audit will have January and February available to really focus on us. We then have to have that time available to complete the prior year financials, keep up with the day-to-day and do audit in that window and be able to submit at the year-end time line of the two months but we have done that over the years. It is the audit part of it now, when audit is ready for us that we have struggled before and that was in the initial stages, in terms of being able then to focus on the audit and the current day-to-day and completing the year before. That is where we have strengthened our resources, so we feel very confident that we able to meet the June deadlines that we have mutually agreed upon.

The Chairman: Okay; any questions?

Well, thank you very much. We heard what we wanted to hear and we know that your commitment is serious and we look forward to assisting you wherever we can, right? And if you need any help from Mr. Tibbetts and he tells you he needs to go for a drive, you call me.

[Laughter]

The Chairman: Thank you very much though.

Ms. Nellie Pouchie, Acting Chief Officer, Ministry of Health, Environment, Culture and Housing: Okay sir. Thank you and I just wanted to thank Mrs. Sue Winspear, Auditor General, Office of the Auditor General's Office as well and their team for their collaboration with us. Thank you.

CAYMAN ISLANDS AIRPORTS AUTHORITY

The Chairman: Good afternoon Mr. Anderson and Ms. Thomas. As you know, you are here because the report we have before us says that you are a couple of years backlogged in your public accounts. We need to get some assurances and some explanations from you so that we can get a level of comfort that they are going to be done.

The rules are the same; the question will be asked and you just give your name and your title. So can you maybe give us the reasons why you are behind and see if we can sort it out and get you back on track?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Thank you, I will start and the CFO can chip in where necessary.

Albert Anderson, CEO, Cayman Islands, Airports Authority. Just to give some background—I joined the Airports Authority in March of 2014 and the CFO joined shortly after that. At that time, the Airport Authority's audits were at least two years behind.

It took some time for us to get up to speed and to understand what was required to try to improve that situation. I think we are still a couple of years behind and the reasons for that really boils down to a resource issue over the years. We have had a challenge in terms of resources in our finance department. It is been a revolving door kind of situation for us.

We have also had a challenge finding the right resources locally so we started looking overseas as we had a challenge there. One of the reasons is it is very difficult at the airport to get your—and I am not saying this is the only reason but—one of the challenges we have found is its difficult to get an airport ID card because there is a whole process you have to go through. We have found over time that sometimes in waiting for that process to happen, people find another job and they just go.

So what we have done over the last few years; we have tried to fill that gap with temps. That is worked to a degree. It is not our ideal situation but it has helped to a degree to keep us at least treading water. Last year during 2020 we had a person on board just focusing on audit and that person is no

longer available to us, so now we are going through a process of trying to recruit someone to do that full-time.

I believe 2016/2017 is just about done. So it is just a matter of dotting some I's and crossing some T's now and that will be done. Over the past year or two we have been working on the 2018/19… Well, the financials are submitted. We have been working on preparing the schedules—as far as we know—for the 2018 and 2019 audit, so it is just a case now of preparing for when the auditors come in and do the engagement. That is where we are at sir.

[Inaudible interjection]

The Chairman: Does the CIAA not operate the airport? How can you have problems getting an ID for your staff? Is that not something that you issue?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: We do, but there is a lot of regulation around being able to get an ID. There is a very intense background check that has to be done because you are working at an Airport.

The Chairman: So when you get this staff member now, you will have in the house, resources to complete these accounts and audits or are you still short staffed in your finance department?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: So what we are looking at now is contracting someone in or some people in to focus on audit. We still have a resource issue in-house that we need to resolve.

The Chairman: Is the board not approving you getting the resources that you need? My concern with that would be that your short term help can sort this out but in six months you'll be right back to where you were because you do not have the resources in-house to keep up.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yeah.

The Chairman: I do not subscribe to these short term resources. I think you need substantial posts because what you are going to lose now is the learning curve that that person goes through, to go through these audits and then you bring somebody else in new again. So what reason is the board giving you for not having your finance department properly resourced?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: No, the board has absolutely given us the vacancies to fill. What we have had is people come in and leave and it is just been happening over and over for various reasons. Some left of their own accord and some were asked to leave. That is how we have arrived at where we are today. If we were to look back maybe two or three years ago we had a fairly substantial team in the finance department but we have just gone through this period of "discontent"—for lack of a better word. So we are trying to rectify that but at the same time, looking to get resource in to focus on audit.

The Chairman: Mr. Austin.

Mr. Austin O. Harris, Jr.: Thank you Mr. Chairman. On the question of resources and I appreciate how time consuming both are, in terms of cost, as well as time in training individuals who leave for whatever reason.

Since the emergence of COVID-19, entities that rely on tourism or in this case, the movement of passengers through an airport, will be negatively affected in terms of revenue.

When we talk about ensuring that the Cayman Islands Airports Authority has in place the necessary the human capital resources to get caught up on these outstanding audits, does the Airports Authority have the budgetary assets to pay these persons—these qualified persons that they would require—in order to have this matter settled? Is funding an issue and particularly looking at 2020 and beyond, is revenue going to be a problem for the Airports Authority to fund these positions.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Funding was not an issue in the past; 2020 kind of changed that a bit but we are in a position now that we can hire.

As far as the outlook goes, the outlook from our perspective is that things will slowly get back to where they used to be but the timing of that, we do not know. We have had good support from Central Government and if that continues I am sure we'll be able to handle it.

The Chairman: So you do not have a specific timeline to, for instance, get the 2016 done by the end of February—well it is the end of January now—because you will get caught up now in the busy period for the Audit Department of March, April, May and June, and then have a serious commitment and then in June and July to clear up the other three. Is it possible to get an agreement with the Audit Office on that kind of time line and let us know?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yeah, I think we need to sit with them and agree that timeline. As I said, 2016 and 2017 are now pretty much done.

The Chairman: So that should be done by the end of February?

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Absolutely.

The Chairman: Okay

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: We think we are prepared for 2018 but of course we need to have that initial meeting with Audit to understand exactly what they require so they we can kick that one off. By then we hope to have a resource or two in place that can work 100 per cent with Mrs. Sue Winspear, Auditor General, Office of the Auditor General.

The Chairman: Any more questions?

Well, thank you very much Mr. Anderson and Ms. Thomas. We look forward to getting that agreement—well I hope you could get that done next week—and just email a copy of it to Mrs Priestley here, that same person that sent out that wonderful invitation, "Golden Age" and all that kind of stuff with flowers on it, by next Friday.

[*Laughter]*

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: We will.

The Chairman: What we want is a timeframe; for 2016/2017 it is by the end of February and then sometime in—depending on the Audit Office's schedule—to get for 2018, 2019 and 2020. We want to have 2020 done before you get around to when you have to start doing 2021. We do not want to get in towards the end of 2020 and you are still in a backlog where you cannot deal with 2021. You were saying Mr. Tibbetts?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chair, I am just conscious that they have a few years outstanding but I also wanted to get some kind of confirmation that the 2020 accounts would be submitted by the timeline, which is by the end of February, including a quality submission with the schedules and everything.

Mr. Albert Anderson, Chief Executive Officer, Cayman Islands Airports Authority: Yes, we will have 2020 ready by the end of February.

The Chairman: Then we get the time frame to get them audited. Alright sir, thank you very much. Have a good weekend.

The Committee is adjourned sine die.

At 2:41pm the Committee adjourned sine die.

Parliament
of the Cayman Islands

PUBLIC ACCOUNTS COMMITTEE

MINUTES

Meeting held
Wednesday, 19th May 2021 at 10:00 am

PAC Members Present:

Hon. Roy M. McTaggart, MP – Chairman
Ms. Barbara E. Conolly, MP - Member
Mr. Dwayne S. Seymour, MP - Member
Ms. Heather D. Bodden, MP - Member
Hon. Katherine A. Ebanks-Wilks, MP - Member
Mr. Isaac D. Rankine, MP - Member

PAC Clerk: Mrs. Patricia Priestley

Attendees: Mrs. Sue Winspear - Auditor General
Ms. Angela Cullen - Deputy Auditor General (Performance Audit)
Mr. Patrick Smith - Deputy Auditor General (Financial Audit)

1. Meeting to Order

There being a quorum present, the Chair called the meeting to order at 10:07am.

2. Welcome by Chairman

The Chairman gave a brief welcome to Members and introductions were made. The Chairman advised the Committee that they had a full agenda as they were being tasked with dealing with both current business and residual business from the previous PAC.

The Chairman advised the Committee that he anticipated some conflicts of interest would arise which would need to be declared in the early months of this new PAC particularly for both himself as ex-Minister of Finance and Ms. Conolly as a previous Parliamentary Secretary for Finance. In such circumstances the Chairman advised that he would recuse himself from proceedings and asked for members to do the same when relevant and necessary, bearing in mind that a quorum is four members.

3. Presentation on role of the PAC, the Auditor General and their support arrangements

The Auditor General presented a "*PAC Introductory Briefing*" and referred to her printed power point slides distributed to members (copy attached for ease of reference).

Mr. Patrick Smith (Deputy Auditor General (Financial Audit)) spoke about the annual financial audits of the entire public sector made up of 42 entities. For 2020, of these 42 entities, 35 entities' audits had been completed and 7 remained outstanding. The 7 outstanding entities' audits included 2 ministries and 5 statutory authorities, which accounted for 16 outstanding audits.

The Chairman requested that the PAC members continue to be provided with copies of the ISA 260 Reports for all 42 entities. Mr. Smith gave an undertaking to provide these to the Members.

Ms. Angela Cullen (Deputy Auditor General (Performance Audit)) spoke about the performance audits of the public sector which focuses on the performance and value for money. The OAG has undertaken to prepare a trilogy of reports addressing the country's finances, the second of which is on today's agenda; namely, *Improving Financial Accountability & Transparency: Financial Management and Reporting (May 2021)*. The remaining report will speak to financial sustainability. The OAG also has E-government and the HSA Pharmacy as audits in progress, and are due to start work on Cayman Airways and rebuilding the economy.

The Auditor General informed the Committee that the PAC funds the performance audit work and also pays the Auditor General's salary, with fees being charged to clients for financial audit work.

The Auditor General advised, in anticipation of the next public hearing, that she and her team would be pleased to meet with the PAC before the hearing to provide a briefing and discuss lines of questioning of witnesses. The Auditor General asked that she be provided the opportunity to introduce the OAG's report and its findings at the beginning of each public hearing/witness session.

4. Consideration of recent OAG Reports

The Auditor General presented the following reports to the Committee:

i. OAG Quarterly Report for period ended 31 March 2021

The Auditor General gave a brief overview of the report which covers the period 1st January to 31st March 2021 and advised the Committee that she would continue the practice of providing the PAC with regular updates on her offices operations to suit the needs of the PAC.

ii. **OAG Annual Report 2020 (March 2021)**

The Auditor General presented this report to the Committee and advised that the report was submitted to Members of Parliament in May 2021 but had not yet been tabled. The Committee considered the report for tabling.

The Chairman moved a motion to endorse and approve the *OAG Annual Report 2020* for tabling in the House. The motion was seconded by Ms. Conolly. The Committee unanimously agreed to table the *OAG Annual Report 2020* at the next sitting of Parliament.

iii. **Improving Financial Accountability & Transparency: Financial Management and Reporting (May 2021)**

The Auditor General presented this new report to the Committee as being the second of a trilogy of OAG reports and advised that she intended to make the report public following the meeting by posting it on her website.

The Auditor General recommended that the PAC hold a hearing on this report as soon as possible.

The Committee unanimously agreed to support the Auditor General's recommendation to hold a public hearing on this report; however, it was noted that the Chairman as ex-Minister of Finance and Ms. Conolly as a previous Parliamentary Secretary for Finance should declare a conflict of interest. The Chairman proposed that he would still Chair the meeting but would refrain from asking questions of witnesses.

The Committee agreed to hold a public hearing in the Chamber of the House of Parliament on Wednesday, 9th June 2021 (subsequently changed to 16th June 2021 and then postponed indefinitely) and agreed that the following witnesses be requested to attend at the stated times:

Witness	Government Entity	Time
Mr. Kenneth Jefferson	Financial Secretary & Chief Officer, Ministry of Finance and Economic Development	10:00 am
Mr. Matthew Tibbetts	Accountant General, Ministry of Finance and Economic Development	11:30 am

The Committee further agreed that the Auditor General and her team would meet with the Committee at 9:30 am in the Large Committee Room of the House of Parliament for a pre-meeting briefing.

5. Outstanding PAC Business from before the 2021 Election

The Chairman advised the Committee that they cannot be held responsible for the work of the old PAC but he recognized that the early dissolution of Parliament, on 14th February 2021, had resulted in some old PAC business remaining outstanding which had not been anticipated. The Chairman further advised that he believed it necessary for the newly constituted Committee to consider these matters.

i. Approval of Auditor General's Invoices

a. January 2021 – Invoice number 207459 - $75,147.52
b. February 2021 – Invoice number 207462 - $92,115.02
c. March 2021 – Invoice number 207463 - $54,892.52

These invoices were considered, discussed and unanimously approved on a motion moved by Mr. Rankine and seconded by Hon. Ebanks-Wilks. The Chairman acknowledged the Committee's approval by returning signed copies of these invoices to the Auditor General. The Auditor General informed the PAC that the old PAC had pre-authorised monthly payments to help the OAG's cash flow and so she would offset what was received from that against the actual invoices now approved.

ii. Consideration of outstanding OAG Reports not yet tabled in the House

a. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project (January 2019)
b. Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020)
c. Improving Financial Accountability & Transparency: Budgeting (December 2020)

These OAG reports were considered and discussed by the Committee.

The Committee Clerk referenced Standing Order 77(5) "The Public Accounts Committee shall make their report upon the report of the Auditor General on the accounts of Government before the Auditor General's report is laid on the Table of the House and both the Committee's report and the Auditor General's report shall be laid at the same time."

The Committee unanimously approved a motion moved by the Chairman and seconded by Ms. Conolly to endorse the recommendations of the OAG in the above-mentioned reports, noting that management within the Civil Service has agreed with the OAG's recommendations, and table the reports of the OAG at the next sitting of Parliament.

iii. Consideration of outstanding PAC Minutes not yet approved

a. Thursday, 7th January 2021 (Administrative Meeting)
b. Wednesday, 27th January 2021 (Hearing)
c. Thursday, 28th January 2021 (Hearing)
d. Friday, 29th January 2021 (Hearing)

The above-mentioned draft minutes of the old PAC were reviewed and discussed.

With consideration to Standing Order 77(5), on a motion moved by the Chairman and seconded by Ms. Conolly, the Committee unanimously agreed that the Committee Clerk prepare a new PAC report, on the three OAG reports referred to in 5. ii. above, which ***adopts*** the minutes of the old PAC as presently drafted and approve them for tabling, together with the verbatim transcripts, for the purpose of approving and endorsing the OAG reports for tabling in the House at the next sitting of Parliament.

iv. Consideration of outstanding PAC Reports not yet tabled in the House

a. ***DRAFT*** PAC Report on OAG ORIA Report
b. ***DRAFT*** PAC Report on the Annual Reports of CTCEC for the periods ending 31st December 2017, 2018, and 2019 respectively
c. ***DRAFT*** PAC Annual Report September 2020 – February 2021

The draft PAC Reports were reviewed, considered and discussed.

On a motion moved by the Chairman and seconded by Mr. Seymour, the Committee unanimously agreed to ***note*** the above-mentioned three draft PAC reports, but <u>not</u> lay these reports on the table of the House of Parliament, as they remain in draft form.

The PAC determined that they may reconsider their position on CTCEC once the current investigation outcome was known. The Auditor General offered to update the PAC on CTCEC.

6. Any Other Business

Mr. Seymour asked several questions of the Auditor General. Relevant information was provided by the Auditor General and her team to the satisfaction of Mr. Seymour.

7. Scheduling of Next Meeting

The next meetings were confirmed for the following dates:

- **Wednesday, 9th June 2021** (subsequently changed to 16th June 2021 and then postponed indefinitely) *(Hearing)*
  9:30 am pre-meeting briefing in the Large Committee Room
  10:00 am public hearing in the Chamber

- **Wednesday, 16th June 2021** (subsequently changed to 23rd June 2021 and then rescheduled to Tuesday, 29th June 2021) *(Administrative Meeting)*
  10:00 am Large Committee Room

8. **Adjournment**

There being no further business, the Chairman adjourned the meeting at 12:20 pm.