



**PARLIAMENT OF THE CAYMAN ISLANDS  
COMMITTEE OF PUBLIC ACCOUNTS**

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

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*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 Fire-fighting (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 at the time, compared with a new build.

**The Chairman:** But again, I would suspect that those were largely replacement, because you could 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 on 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 from 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 through 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 pre-lim 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 6<sup>th</sup> November, 2018.

**The Chairman:** And the actual completion date?

**Mr. Richard Noel, Managing Director, McAlpine, Ltd.:** 31<sup>st</sup> 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 31<sup>st</sup> 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 were 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, 31<sup>st</sup> 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 20<sup>th</sup> 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 alloca-

tion 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 Boddan, 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. Boddan. 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. Boddan, 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 5<sup>th</sup> August 2014 and FCO approval on the 15<sup>th</sup> 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 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 oversight 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 Boddén, 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 Boddén, 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 de-

sign 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 Boddén, 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 re-developed, 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 difficulty 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 pro-

duced 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 Boddan, Chief Officer, Ministry of District Administration, Tourism and Transport:** No.

**The Chairman:** Okay.

**Mr. Stran Boddan, 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 Boddan, 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 Boddan, 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. Boddan; thank you very much for coming, sir.

**Mr. Stran Boddan, 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 1<sup>st</sup> 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 26<sup>th</sup> 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 1<sup>st</sup> May, but again in an

election year, it is three months post the election, so by August 26<sup>th</sup> 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 in isolation; 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 1<sup>st</sup> 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 5<sup>th</sup> 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 gobbledy-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 Minister 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 through, 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 make up 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 Authorities 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 docu-

mented 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 mil-

lion 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 29<sup>th</sup>.**