

# EXECUTIVE COUNCIL

## PUBLIC

<b>Title:</b>	Response to the Public Accounts Committee Report on Review of Quarry Prices
<b>Paper Number:</b>	07/18
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<b>Responsible Director:</b>	Financial Secretary
<b>Report Author:</b>	Financial Secretary
<b>Portfolio Holder:</b>	MLA Roger Spink and MLA Roger Edwards
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<b>Previous papers:</b>	N/a
<b>List of Documents:</b>	Appendix A – PAC – Review of Quarry prices – Report August 2017 – Ref 1/2017/18

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### 1. Recommendations

Honourable Members are recommended to:

- a) approve submission of the attached response to the Assembly;
- b) that this report be made public after submission to the Legislative Assembly on 22 February 2018.

### 2. Additional Budgetary Implications

None.

### 3. Executive Summary

- 3.1 The Public Accounts Committee submitted a report to Members of the Legislative Assembly on 14 December 2017 following their Review of Quarry Prices (Report of August 2017).
- 3.2 The PAC made four recommendations in the report and requested a response from FIG. A response to the Assembly is provided below.

### 4. FIG Response

#### PAC Recommendation 1

- 4.1 **“Whilst the annual budget setting process does not allow for services to carry forward previous years surplus of deficit balances these should be taken into account when setting the annual prices to ensure the consumer does not pay in excess of the cost of the service”.**
- 4.2 Not accepted. Although FIG does take a long term view of prices it is considered that this recommendation could lead to greater annual fluctuations in the aggregate rates.
- 4.3 Furthermore, the level of profit is not considered to be significant, once reasonable overheads have been considered.
- 4.4 Paragraph 2.9 of the report refers to profits shown in the FIG budget book for the Quarry cost centre (“0353”) that add up to £1.7m over ten years in cash terms.
- 4.5 This profit excludes certain indirect costs that should reasonably be apportioned to the Quarry on a cost recovery basis, to establish what a fair price should be<sup>1</sup> On the basis that the Quarry cost centre represents 5% of the total operating budget of £58m in a typical year then at the very least the Quarry ought to be absorbing 5% of the overheads.
- 4.6 5% of identified overheads amounts to £120k per annum, which reduces the suggested profit of £170k per annum to £50k. Given that the annual sales booked by the Quarry are around £3m per annum, arguably a surplus / profit of £50k is not significant.
- 4.7 As can be seen from the annual returns there have been almost as many deficit/breakeven years as there have been surplus and therefore this would have required an increase in prices for the following year. The current approach of price setting is considered the most appropriate way to provide a degree of consistency in pricing to customers as well as ensuring the on-going availability of supply (through stocks held). The Quarry ensures that a service and production is available, despite uncertainty of future demand.

#### PAC Recommendation 2

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<sup>1</sup> In very general terms, here are some annual costs for services that the Quarry makes use of: PWD Administration & Planning (“0351”) - £600k per annum, Treasury (“0602”) - £800k per annum, ICT (“0607”) - £500k and Human Resources (“0120”) - £500k. These cost centres average costs of £2.4m a year. There are a number of other areas of overheads that could be apportioned to the Quarry, but only some of the more directly related ones have been included.

4.8 **“The government should explore ways of passing surpluses back to the quarry customers, this should include the possibility of rebates for customers in the event that the Quarry (and similar user pays services) makes a surplus in the financial year”**”.

4.9 Not accepted. Paragraph 4.7 above makes clear that the profit is not significant overall, and indeed would have further costs to administer.

4.10 Furthermore, the quarry is a department that has benefitted from and continues to require capital investment in machinery. In the event that there was a surplus, this would be added to over overall FIG Consolidated Fund, which in turn can be used for investment in the Falkland Islands infrastructure and development.

4.11 The quarry holds stocks of certain aggregates at the end of each financial year. The costs are incurred in one financial year and the sales are made in the next year (assuming that there is the demand for the particular stock). The Quarry provides an ongoing supply of aggregates to the Falkland Islands, and to undergo a complicated process of adjusting and closing off all activity based costings within a year and then providing a refund would be complex and with little gain.

#### PAC Recommendation 3

4.12 **“A list of services provided by the government on a user pays basis should be publicised to allow the public to understand which services are provided on this basis”**”.

4.13 Agreed.

4.14 As part of the annual budget planning exercise, Treasury collate budget returns from departments. Departmental returns include estimates of any relevant income.

4.15 Some income that FIG receives is based upon unit prices charged for services used by individuals and businesses – for example: electricity, water, vet fees, leisure centre admission prices and so on. This is on contrast to other income streams that FIG receives such as Corporation tax income, Investment Income, personal tax income and fishing licence income.

4.16 The steps that Treasury intend to take as part of the 2018/19 budget setting process is to capture all the unit prices by departmental in one document.

4.17 After the 2018/19 budget process is complete and the Finance Ordinance agreed then steps can be taken to publicise and overall list of fees and charges as appropriate.

#### PAC Recommendation 4

4.18 **“The government should ensure that for each service provided on a user pays basis:**

- **an annual review of income/ expenditure should be performed to ensure that the prices proposed in the annual budget process are appropriate; and**
- **budget proposals submitted to Treasury for user pays services should be supported by the above annual review to support the budget setting**

**process”.**

- 4.19 Agreed in principle as part of the existing budget process for FIG.
- 4.20 PWD services do go through an annual review which forms part of the budget process. Electricity, housing rents and communal heating are review quarterly.
- 4.21 By having a clear and simple overall summary of fees and charges in a tabular format (to be prepared as part of Recommendation 3 above), then it will be possible to highlight what the price changes are.
- 4.22 As part of the annual budget setting process there is the opportunity for scrutiny of prices and to question whether different services should be on a full user pays basis (including a share of overheads), the level of subsidy / cross-subsidy, and the pace at which any agreed price changes take effect. Having an overall summary of fees and charges, and the availability of the FIG annual budget will assist in terms of openness to external scrutiny of any future reviews of pricing.

## **5. Options and Reasons for Recommending Relevant Option**

- 5.1 None

## **6. Resource Implications**

### 6.1 Financial Implications

- 6.2 None – the recommendations agreed already form part of the staff time allocation (across FIG directorates) to prepare the 2018/19 budget.

### 6.3 Human Resource Implications

- 6.4 None

### 6.5 Other Resource Implications

- 6.6 None

## **7. Legal Implications**

- 7.1 The Public Accounts Committee Ordinance 2009 section 14(1) states:

“If the Committee, in reporting to the Legislative Assembly, recommends that the Government should or should not take a course of action, the Governor is to submit within six months a written response to the Assembly”.

## **8. Environmental & Sustainability Implications**

- 8.1 None

**9. Significant Risks**

9.1 None

**10. Consultation**

10.1 The PAC report has been shared and agreed with the Director of Public Works and the Financial Secretary

**11. Communication**

11.1 N/A