



General Audit Chamber
Algemene Rekenkamer



Mini Audit:

effectiveness of government
office housing policy

MARCH 2021



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General Audit Chamber, Juancho Yrausquin Blvd #10, Unit 4 & 5.

This document is an English translation of the original Dutch language report entitled: "*Mini-audit doelmatigheid van huisvestingsbeleid*". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

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INTRODUCTION

After a severe 2017 hurricane season and the COVID-19 pandemic of 2020, the economy of Sint Maarten and the government's financial position is (again) under pressure. Support (read: loans) from the Netherlands is linked to structural reform. The government must become more efficient. Personnel costs have to be reduced, and operational costs must be cut. The housing of government departments, which is material budget item, will undoubtedly be subject of this debate.

For 2010, steps were taken to systematically improve government's operation by, as much as possible, centralizing office space for the civil service at a single location. Instead of dispersing organizational units across several buildings, a single location was expected to produce a reduction in costs for among others, communication (ICT), transportation, water, electricity and, notably, rent. The main location, the *New Government Building*, was commissioned in 2016. The Government's spending on rental fees in 2016 was just over ANG 1 million a month.¹

Last year, the General Audit Chamber carried out a number of targeted investigations into possible government savings. With this audit, we review government's office housing policy: specifically, what are the rental expenses and are the funds used efficiently. We also review if there is vacancy and if so, why?

Reading guide

Chapter 1 explains the state of affairs of the approach towards government office accommodation including a comparison of owned and rented buildings. Chapter 2 discusses the rent. Chapter 3 provides a financial review of the annual costs. Areas of consideration based on our findings are provided in Chapter 4. We conclude this mini audit with our epilogue.

¹ The 2016 financial statements are the last approved financial statements of the government.

1. OVERVIEW

1.1 Office space policy

Office space is needed to house the government departments. Employees must be provided with an adequate workplace to serve the citizens of Sint Maarten. Office space is a critical facilitative business process but is not an end in itself. Ideally, the organization should arrange its office space in such a way that it contributes to achieving the objectives of the government. Also, the cost of office space must fit within the budget.

According to the [National ordinance structure and organization of national government](#) (hereafter: *Liol Landsverordening inrichting en organisatie landsoverheid*), the Ministry of General Affairs (hereafter: AZ) is responsible for the supporting tasks for all ministries including a department of facilitative services.² The department responsible for the management of office space under the national ordinance is the Department of Facility Affairs (hereafter: FZ) and forms part of the Resources and Support Service (hereafter: DMO) of the Ministry of General Affairs.

An office space or office housing policy was not provided to us because work is still underway on such a policy. The Ministry of AZ recognizes the need for such policy.³ The department of FZ did present us with an listing of properties (rental and owned property).⁴ The listing is identical to the form used in the National Budget of 2020.⁵ Due to the lack of an office policy, we were unable to establish whether the information presented is sufficiently detailed to allow effective choices to be made regarding housing of government departments. For example, it is not clear why the government chooses to rent in certain instances and whether leasing or rental is more beneficial than owning or building.

1.2 Ownership versus rental

The Ministry of General Affairs was asked to provide us with an inventory of office space/locations.⁶ That listing shows that the government owns 51 buildings. There is a possibility that the information provided to us is incomplete. For example, the so-called Bureau Telecommunications and Post (hereinafter referred to as the BTP) building does not appear on the inventory of owned properties, despite FZ stating that the building is owned by government.

We note that the overview corresponds to the form entitled listing of leases and government buildings contained in the [2020 National Budget](#). We attempted to verify whether the listing was complete and accurate by means of sampling. We requested confirmation of the monthly rental amount from various departments/entities. Most amounts listed correspond to the information on the inventory. For most government departments we were referred back to the FZ department.

The annual rent of the General Audit Chamber is not correctly included in the inventory listing; the monthly rent is ANG 9,000. The list shows an amount of ANG 16,524 per year. On February 4th, 2021, we asked the FZ department to verify the amount. FZ indicated that it does not possess the rental contract but that the amount refers to yearly rent.⁷ FZ did not provide a source for their information.

Every year, the Ministry of Finance is provided by with information about our long-term contracts, including the rental agreement. We believe that FZ, which manages a lease/rent administration, should ensure the accuracy of the information they provide. The Secretary General of the Ministry of AZ states that FZ has done the work needed to retrieve the information. In his opinion, there will be a request to the Ministry of Finance in the future to ensure an accurate and standardized database. A Service Level Agreement (SLA) between the two ministries is also being developed.⁸

² Article 13 National ordinance on structure and organization of national government, AB 2010, GT no. 6.

³ A policy for office space is being worked out and will be promptly presented to the Minister of General Affairs. Memo from SG AZ dated March 24 in response to our draft report.

⁴ Email message from the Head of Facility Affairs, d.d. February 3rd, 2021.

⁵ It reads: overview of leases and government-owned buildings.

⁶ Letter of January 21st, 2021. to the Minister of General Affairs, reference number AR210121/001.

⁷ Email from FZ to the General Audit Chamber February 19th, 2021. For both the SER and the General Audit Chamber, the department claims not to be involved in the rental arrangement.

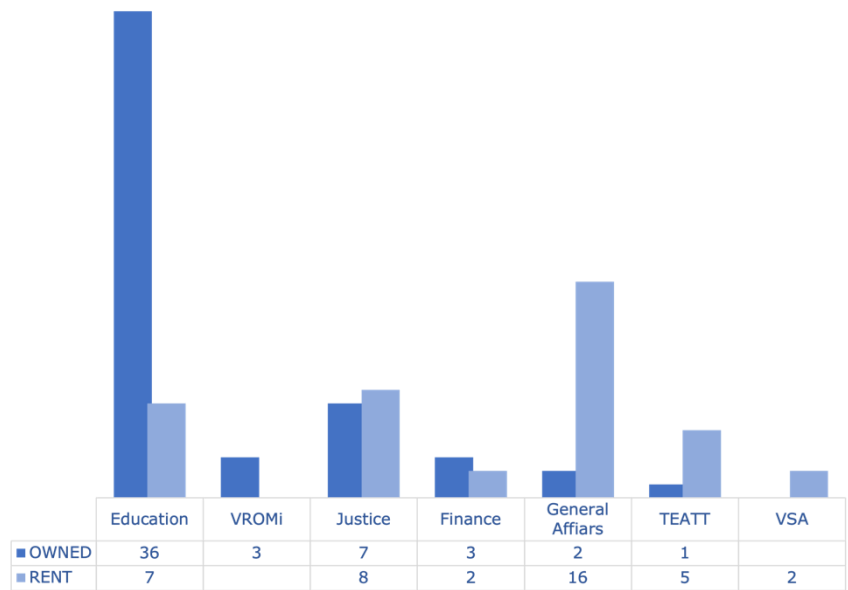
⁸ Memo from the SG of AZ dated March 24, 2021.

Inventory of buildings

A majority of the civil service is not housed in buildings owned by government.⁹ Most of government's properties are school buildings.¹⁰ For the housing of the civil service, rental properties are more often used. Figure 1 shows the breakdown of office space/buildings by ministry.¹¹

The reason for choosing to rent/lease in order to house a large part of the government organization was not explained.

We have not been able to analyze whether the current use of office space is effective. We have not been presented with a policy; a framework of standards has not been established.



In order to determine whether use of office space is efficient, it should be possible to compare the rental costs and the expenditure incurred by the government for use of its own properties (e.g., mortgage costs, investments, etc.).

We were unable to carry out this comparative analysis. The information required for such a calculation is not available or is not adequately maintained. This presents an obstacle for the ability to evaluate the effectiveness of strategic choices related to an office usage/housing policy.

As an example, we refer to the building in which BTP is located. In the past, BTP was authorized by the Minister of Tourism, Economic Affairs, Transport and Telecommunications (hereafter: TEATT) to acquire several floors in the building, with the exception of the ground floor. The government would supposedly rent office space from BTP. The 2020 National Budget states that it is the intention of the government to buy the building.¹² An amount of ANG 8 million was allocated for this purpose.¹³ The government's intention to acquire the building and pay off the mortgage. According to the government, three vacant floors could be used by government entities instead of these entities having to pay rent to third parties.

The FZ department states that various leases were terminated as a cost-saving measure. Staff were moved to the BTP-building.¹⁴ The entities involved are the Wage & Salary department of the Ministry of Finance and the Statistical Office of the Ministry of Health, Social Affairs and Labor. Although FZ indicates that the department keeps records of lease agreements, we have been referred to the Ministry of finance for further financial information about the mortgage.¹⁵ The SG AZ endorses the importance of centralized information for the functions to be delivered by FZ. Discussions with the responsible Minister concerning the required investment will take place soon.¹⁶

⁹ Overview from the FZ department of the Ministry of AZ, dated February 3rd, 2021.

¹⁰ According to the overview of the FZ department: 27 school buildings.

¹¹ Information on housing of ministries/departments is incomplete.

¹² National Budget 2020, page 70, Capital Budget Ministry TEATT.

¹³ Idem.

¹⁴ E-mail from the FZ department dated February 19th, 2021.

¹⁵ Email messages from FZ dated February 3rd, and 19th, 2021.

¹⁶ Memo from the SG of AZ dated March 24, 2021.

2. RENT

2.1 Introduction

In this chapter we will discuss the location of the rental properties in more detail. We show the number of rental buildings, the rental price, and vacancy levels.

2.2. Inventory: by the numbers

In order to gain insight into the rental costs and to determine the efficiency of the expenditure, we require information. We asked the Ministry General Affairs whether they maintained an administration. The data we requested are:

- ADDRESS /LOCATION OF RENTAL PROPERTIES
- OWNER OF THE PROPERTY
- DURATION OF THE CONTRACT
- AGREED RENTAL PRICE (PER MONTH/PER YEAR)
- DEPARTMENT/ UNIT HOUSED PER RENTED LOCATION
- THE NUMBER OF STAFF HOUSED PER LOCATION
- OCCUPANCY BY LOCATION
- VACANCY PER LOCATION

The listing (an Excel sheet) from the FZ department contains a part of the requested information: name and address of the property, ownership, rental costs (per month or per year), and occupancy of departments per location. The number of staff per department or location is missing. There was no information about vacancy.

In order to determine the efficiency of rental expenditure, the occupancy per location could have been related to rental costs. For example: the New Government Building (NGB) houses a majority of ministries and departments, together with the cabinets of all ministers. Monthly rental costs amount to ANG 461,935.00. For the Vineyard Building, where the Tax Inspectorate and several departments of VSA are located, ANG 154,504.89 is paid in monthly rent, or about a third of the rent for NGB. The Tax Inspectorate is said to struggle with under capacity for some time. The location is smaller than the NGB. The question whether the government gets value for money for the rental of the buildings remains unanswered for the time being.

The Ministry of AZ recognizes that the cost and therefore the efficiency of office accommodations cannot be determined. Future policy will include, among other things, a guideline for comparing costs. With the proposed office space policy, the Ministry of AZ hopes that (uniform) information will become available.¹⁷

2.3 Vacancy

According to the Ministry of AZ, the following properties are vacant:

- FORMER POLICE ACADEMY A.T. ILLIDGE ROAD
- SOREMAR BUILDING COLEBAY
- OLD GOVERNMENT BUILDING CLEM LABEGA SQUARE
- PHILIPSBURG JUBILEE LIBRARY

The overview from FZ (Excel sheet) provides an indication of damaged buildings and the rental properties where the rent has been (partly) terminated or is scheduled for termination. It is not clear whether rent is being paid for damaged buildings. The reason for the lack of complete information about the vacancy was not communicated to us. We believe that this information should be readily available at FZ and should therefore have been available to us so that we could analyze potential cost savings for government. The Ministry indicates in its response that "no (adequate) central records are (or can be) currently maintained by FZ, for a variety of reasons.¹⁸ The aforementioned reasons were not clarified. In the next chapter we elaborate on the financial costs.

¹⁷ "The number of staff per department or location, will be included as part of the future office accommodation policy, as a guideline for renting or buying a building. This has not been applied in the past, in part due to the lack of an office accommodation policy," Memo from SG AZ, dated March 24, 2021.

¹⁸ Memo from the SG of AZ dated March 24, 2021.

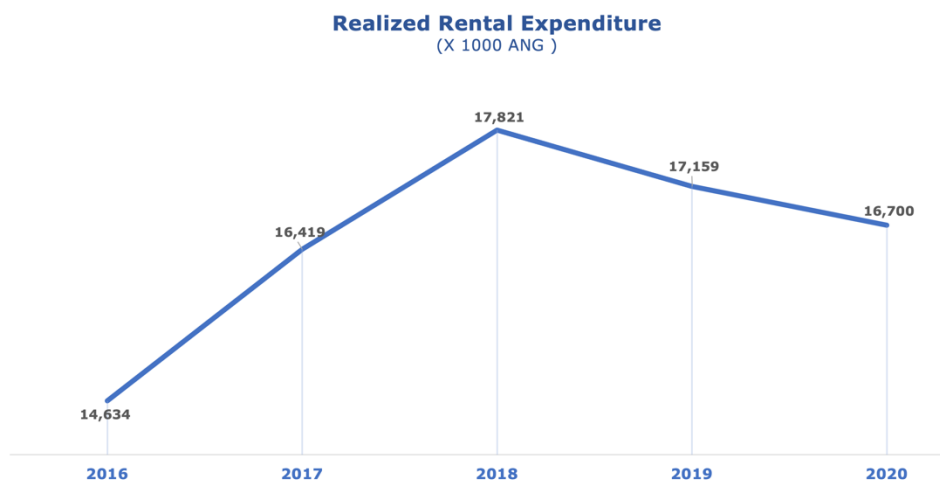
3. FINANCIAL REVIEW

3.1 Budget realization

This section presents the financial aspects. Efficiency is important. Specifically, is the use of office space at rental buildings optimized? After all, rents are high, and the government needs to economize.

As mentioned in Chapter 2, we were unable to establish efficiency.

Our financial analysis is limited to a comparison of the realized expenditure for the rental of buildings during the period 2016 to 2020.¹⁹ Figure 2 shows the country's realized annual rental expenditure for the period 2016 to 2020.



3.2. Expenditure

According to the explanatory notes to the budget, the increase for rent since 2016, is the result of Hurricane Irma. Several buildings were destroyed, and alternative accommodation had to be sought for various departments. Some government departments were able to be housed in the New Government Building. For others, alternative locations had to be sought, which inevitably resulted in additional costs.

3.3. Analysis

There are no clear figures on the number of square meters rented by the government. We do not have information from the Ministry of General Affairs to indicate the price levels used by the government. The costs of outfitting the rental locations are not specified and cannot be easily extracted from the budget documents.

In the future, the Ministry of AZ will endeavor, by means of an established (office space) policy, to negotiate leases in which guidelines are established with respect to government-accepted square meter prices, per district. The Audit Chamber will continue to monitor this process.

¹⁹ The realization data for 2017 to 2020 are not available. The source of the information includes the budgets and the 2020 Q4 quarterly report.

4. CONSIDERATIONS

The government continues to struggle to make structural cuts to multiple budget line items. Office space or housing of departments is a material expenditure and therefore one of the first budget items to be considered. We would have liked to have made specific recommendations based on analyses. The lack of suitable data has been explained in previous chapters. The research has provided enough insight in order to identify the following points of interest:

1. NEED FOR AN OFFICE SPACE/HOUSING POLICY OR PLAN

Having a policy or plan is essential for the review of buildings and office space from different perspectives. A building is a facility, but not an end in itself. A policy containing scenarios (e.g., rent versus property) can be compared to determine (retrospectively) whether scarce public funds are being used efficiently.

2. IMPORTANCE OF DATA

"Knowledge is power" is a well-known but valuable expression. In order to specify where savings are possible, a reliable and detailed administration is needed including knowing how many square meters of office space is needed and the current occupancy of locations. Efficiency can be increased by comparing data and possibly identifying inefficiencies.

3. CLEAR RESPONSIBILITY

According to the LioL, the FZ department is responsible for the management of the government's facilities. This responsibility may require further specification. The department's activities should in any case include the following:

- ACTING AS A POINT OF CONTACT FOR FACILITY MATTERS
- ADVISING ON FACILITY MANAGEMENT
- MANAGING SERVICE LEVEL AGREEMENTS (SLAS) AND LEASES
- MAINTAINING CONTACTS WITH EXTERNAL PARTIES
- ANALYZING POLICY ISSUES AND LEGAL AND FINANCIAL ASPECTS
- DEVELOPING A POSITION ABOUT DEVELOPMENTS AND TRENDS

The FZ department must be sufficiently equipped to adequately carry out all tasks.

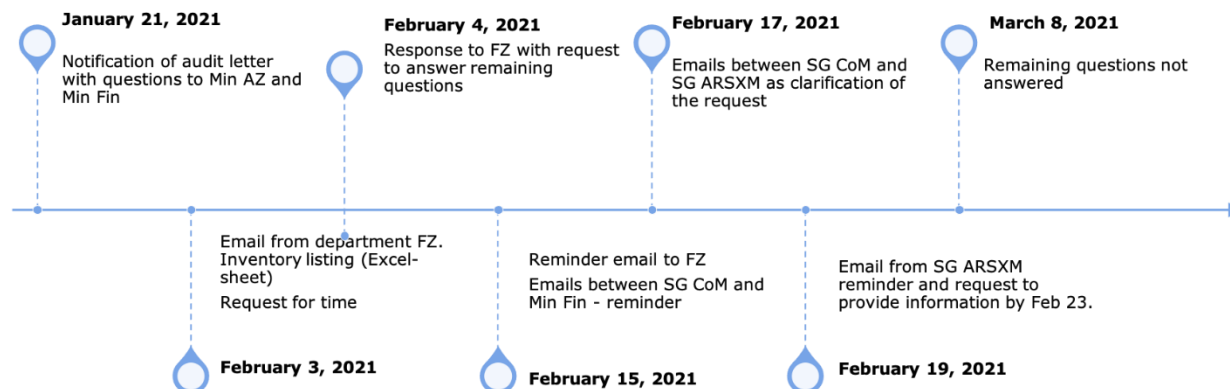
4. BENCHMARKING

For the management of buildings/office space, and the development of policies, it is important to make the costs transparent and conduct comparative analyses. This requires benchmarking. By means of benchmarking, the costs and their constituent components can be assessed against certain objective measures. Benchmark research uses a reference framework and key figures. For example, the government could compare the rental costs with the leasing costs on the local real estate market.

5. REACTION AND EPILOGUE

The lack of information from the Ministries of General Affairs and Finance greatly influenced our audit. We believe that the requested information should be available at ministries and in particular at the FZ department. We received some of the requested data, however, we cannot determine the completeness and accuracy of the data received. Although the remaining information was promised, the information was never sent, despite this being a legal requirement.²⁰

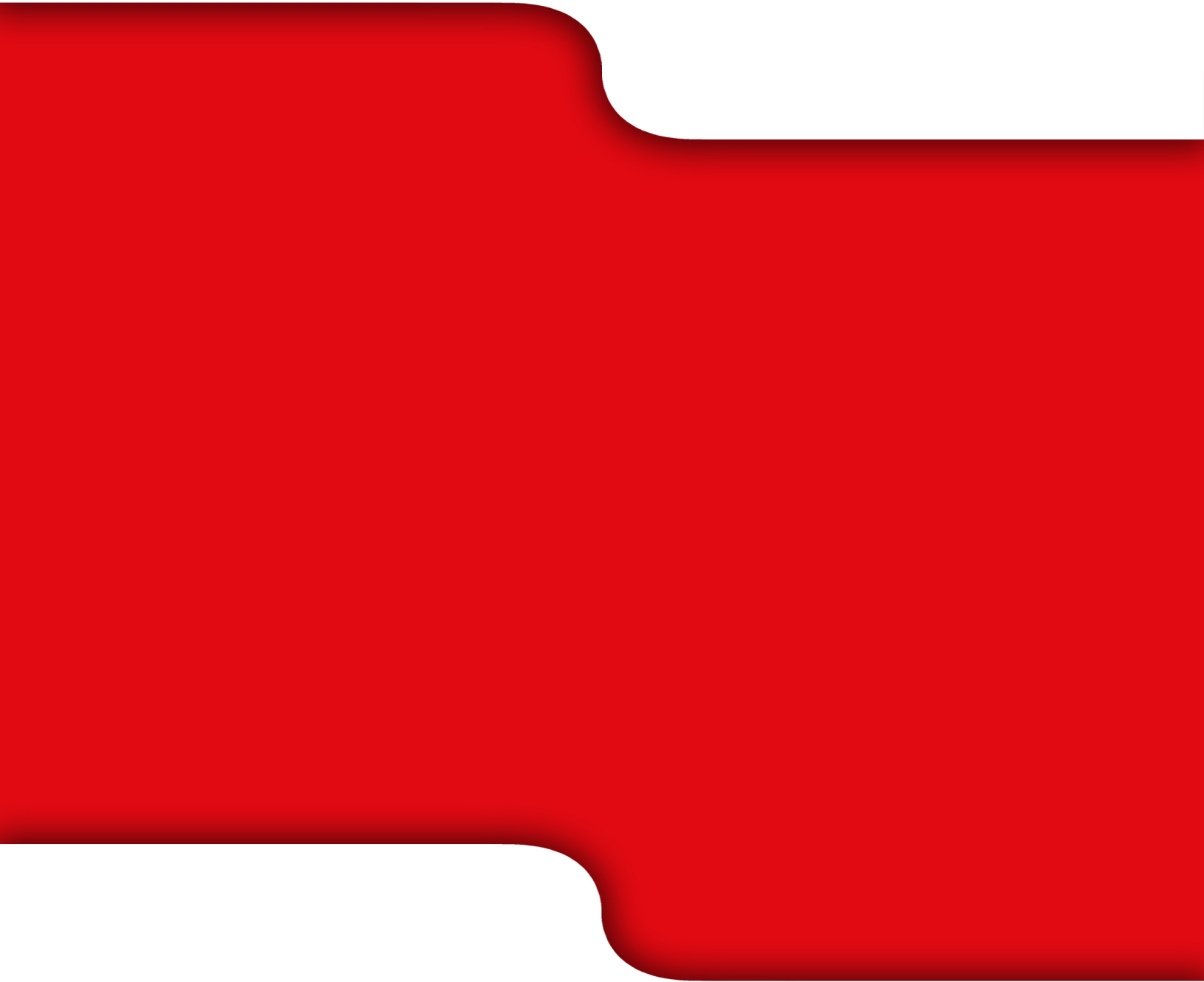
Figure 3 displays the timeline of the audit, specifically the flow of information.



Not until the final stage of the audit, during the rebuttal process, did it become clear that the requested information was not available. We received a response from the Secretary General of the Ministry of AZ, by way of the Ministry of Finance. In his response, the SG acknowledges the shortcomings identified in the report. Also mentioned is the fact that no (adequate) records are kept by the FZ department. An office space policy is being finalized, according to the SG. The reaction mentions that the points for consideration included in the report will be adopted by the Ministry of AZ. We view this as a positive development and will continue to monitor their progress.

Finally, we express the hope that the proposed improvements will become evident in the near future and thank the Ministries of General Affairs and Finance for their cooperation during this audit.

²⁰ Article 26 of the National Ordinance on the General Audit Chamber states that the ministries must provide us with all the information we deem necessary for the conduct of our audits.



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