



## 20<sup>th</sup> GOVERNING BOARD MEETING

28 February – 1 March, 2019

Grand Mercure Hotel, Auckland, New Zealand.

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### **Agenda item no.:** 16

**Title of paper:** PASAI Secretariat location

**Purpose of the paper:** To present and discuss the PASAI Secretariat location

**Strategic Plan reference:** All SPs.

### **Background:**

The 2018 Congress in Australia agreed that the process to review the future location of PASAI's Secretariat given the pending right of renewal of the lease on the Auckland office in January 2020 should be, as proposed by the Governing Board, for a business case to be prepared by the Chief Executive to inform the Board at their next meeting, followed by the next Congress in 2019.

The Congress decides the location of the Secretariat, on the recommendation of the Governing Board. The initial 2008 decision in Rarotonga to locate the Secretariat in Fiji was replaced in 2009 by a decision to locate in Auckland, New Zealand on an interim basis. The Rarotonga principles guiding Secretariat location remain extant, supplemented by the principle adopted in 2013 of the need for effective oversight and support of the Secretariat's operations by the Secretary-General. The Congress has made successive decisions to confirm the location of the Secretariat in New Zealand, but subject on each occasion to the position being kept under review. The next renewal of the Auckland office lease is due on 1 January 2020. This would involve a two-year renewal. Under the lease, PASAI must give notice of any intention to renew by 31 July 2019.

PASAI is the only regional organisation that has its Secretariat operating from Auckland, New Zealand. Most of the Pacific regional organisations are located in Suva, Fiji, but some are also in other places like New Caledonia (SPC though they also operate a division in Suva), Samoa (SPREP), Vanuatu (PASO), etc.

### **Key issues:**

There are important factors to consider in discussing the location of the Secretariat. These factors include the designation of the Secretary-General, operating environment, costs and benefits, capability, health and safety, and impact on staff. The development partners also shared their views on important matters to consider such as service delivery, costs, and collaboration with development and regional partners. A comparative assessment of certain costs presented in the paper shows that the cost of office rental in the current location of the Secretariat is much higher than compared to other countries in the Pacific, namely Fiji and Tonga. The cost of utilities however seems to be lower in the current location than in the other places considering also capacity and reliability. The information obtained from the PASAI mid-term review shows that views of members varied on whether the Secretariat should change its location. It also suggests that an assessment by an independent person on the cost and benefits of a change in the location should be carried out and give opportunities for each PASAI members to decide through a vote.

In the past nine years, PASAI has been able to deliver its mandate to SAIs in building their capacity in various areas from the current location. The objectives of the PASAI Strategic Plan 2014-2024 are and continue to be met from operating at the current location.

There are various options to consider regarding the location of the Secretariat, taking into account various factors such as strategic position, costs, capacity, and sustainability.

### **Recommendations**

In view of the above, the Governing Board is invited to:

1. **note** the issues raised by SAIs, development partners and stakeholders regarding the location of the PASAI Secretariat.
2. **consider, discuss and agree** on the most appropriate option to take regarding the location of the PASAI Secretariat.
3. **provide** guidance on the way forward and to **inform** the Congress.
4. **note** that notice of renewal must be given by 31 July 2019, and authorise the Secretary-General to seek an extension of this timeframe until after the Congress.

**Submitted by:** Tiofilusi Tiueti/Robert Buchanan

**Date submitted:** 26 February 2019



# PASAI Secretariat location

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## Introduction

The 2018 Congress in Australia agreed that the process to review the future location of PASAI's Secretariat given the end of the lease on the Auckland office in January 2020 should be, as proposed by the Governing Board, for a business case to be prepared by the Chief Executive to inform the Board at the next meeting, followed by the next Congress in 2019.

This paper presents the case to the Board for discussions and further direction.

## History of the PASAI location

### *Who decides what?*

Under PASAI's Charter, the location of the Secretariat is one of the powers reserved to the Congress. Article 10, section 1 of the Charter says:

The Secretariat is PASAI's operational and administrative organ, and is located in a place determined by the Congress on the Governing Board's recommendation. The Governing Board must review the Secretariat's location at least once every four years.

The location of the Secretariat is a different decision from the designation of the Secretary-General. Under article 9, section 1, that is a decision for the Governing Board subject to the endorsement of the Congress.

Operational decisions (such as office leasing) are matters for the Governing Board, consequential on Congress's location decisions.

### *Original arrangements*

Since its inception in 1987, the Secretariat of SPASAI (as it was then known) was based in the office of the SAI who was appointed Secretary-General. This was SAI Tonga from 1988 to 1994, and then SAI New Zealand since then. The head of the SAI was historically also the Secretary-General.

### *The PRAI design, and the 2008 principles*

One of the main objectives of the Pacific Regional Audit Initiative (PRAI), adopted by the 11th Congress in Rarotonga, Cook Islands in 2008 was to establish an enhanced secretariat.

The *PRAI Summary Design Document* prepared for that Congress envisaged that the Secretariat would be located in a Pacific Island country, which would not necessarily be the same location as the Secretary-General. This approach had the strong support of development partners at the time. Fiji was seen as the logical host country. It was envisaged that the Secretariat could initially be co-located in Suva either with PFTAC or at the PIFS Secretariat, although neither approach was seen as optimal.<sup>1</sup>

The Rarotonga Congress adopted the following principles to guide its decision on the location of the enhanced secretariat:

- a. The location decision is for PASAI to make.
- b. Developing country locations should be considered.
- c. The benefits of hosting meetings and workshops should be shared around the region.
- d. PASAI must be accountable to its contributors, and funds must be used with due regard to economy and efficiency. Longer travel times have cost and time implications.

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<sup>1</sup> *Pacific Regional Audit Initiative: Summary Design Document*, draft for consideration by the 11<sup>th</sup> SPASAI Congress, 2008, at paras 180-189.

- e. Decisions on secretariat location should be made in a timely manner, so as to avoid the issue becoming political and to enhance the timeliness of implementation of the PRAI. The location question has implications for:
  - i. design of the secretariat and its legal structure; and
  - ii. the financing approval process, due to the need for accurate cost estimates.

Applying these principles, the Congress decided that Fiji should be the initial location. This was to be “reviewed after a period of time on terms and conditions as specified in the PASAI Charter”.<sup>2</sup>

Applying the approach of the *PRAI Summary Design Document*, the Congress agreed that the head of SAI New Zealand should continue as the Secretary-General. The incoming Executive Director was tasked with finding suitable premises in Suva, and to explore options for achieving legal recognition of PASAI so that it could operate effectively in Fiji.

#### *The Palau decision: interim location in New Zealand*

In early 2009, the interim government of Fiji abrogated the Constitution, and as a consequence the SAI ceased to exist. This action caused the governments of Australia and New Zealand to reconsider their funding commitments to PASAI should it be based in Fiji. The Chairperson and Secretary-General of PASAI invited the 12th Congress, held in Palau in July 2009, to review the location decision and consider alternative options. Three options were raised for consideration<sup>3</sup>:

Reaffirm the decision to locate in Fiji, on the basis that the Governing Board will decide whether to establish the secretariat with full legal capacity immediately or (as an interim measure) using [a] “hybrid approach” involving another organisation.

Decide to relocate the secretariat on an interim basis in another Pacific Island country (to be identified).

Retain the secretariat in New Zealand as an interim solution, perhaps with a direction that maximum use be made of Pacific Island venues in the meantime, for the hosting of meetings and workshops.

The Congress adopted the third option, on the recommendation of the Governing Board after it had met for the first time during the Congress.<sup>4</sup> This led to the establishment of the Auckland office by the Governing Board, and the Board’s formation of PASAI Incorporated as a legal vehicle for PASAI to operate in New Zealand.

#### *The 2013 review: Guam*

The Governing Board asked the Congress to revisit the location issue again in 2013, when the first right of renewal of the Auckland office lease was imminent. A paper prepared for the 9<sup>th</sup> Governing Board meeting in Guam noted that the political situation in Fiji was still uncertain and a cause for particular care in decision-making. The paper also commented as follows:

The Rarotonga principles [see above] remain extant. However, they pre-date both the decision to locate the Secretariat in New Zealand and the subsequent development of the respective roles of the Secretariat and the Office of the Secretary-General (“OSG”), the latter having been based in the New Zealand SAI.

The Board may consider that the need for a strong OSG, with ready access by the Secretariat to the support and oversight it provides, is a further success factor for PASAI and its programs. If so, the Board should consider recommending the addition of a further principle to those adopted in Rarotonga, based on the need for effective oversight and support of the Secretariat’s operations by the Secretary-General (whichever SAI is designated to have that role).

Applying that principle would suggest that a relocation away from Auckland might be premature. The two reviews of the PRAI both indicate that the Secretariat is a “work in progress”, and that there is a need over time to reduce the Secretariat’s dependence on the OSG for its effective functioning. The draft strategic plan, accordingly, commits PASAI to a process of developing the Secretariat’s capacity to better support PASAI’s operations and ensure the success of any PRAI 2 program.

The Board might consider this factor points to the wisdom of retaining the Secretariat in New Zealand for a further two years (subject to the ongoing commitment of the New Zealand SAI to serve as Secretary-General). This would involve exercising the first of the two rights of renewal under the existing lease, perhaps also with a commitment by the Congress to consider a relocation in 2016.

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<sup>2</sup> *Minutes of the 11<sup>th</sup> Congress of SPASAI*.

<sup>3</sup> Location of the Secretariat: paper for 12<sup>th</sup> Congress, 14 July 2009, para 14.

<sup>4</sup> *Minutes of the Business Session meeting of the 12<sup>th</sup> PASAI Congress, 20-24 July 2009*, item 13(1).

The paper also reviewed the costs involved in moving the Secretariat, and the impact on staff. It included a comparative analysis of rental costs in three other jurisdictions.<sup>5</sup>

The Board's recommendation to Congress, which Congress accepted, was that the Secretariat "remain in New Zealand for the foreseeable future, to enable the proposed strengthening of the Secretariat under the strategic plan to be successfully completed".<sup>6</sup> On this basis, the lease was renewed for a further two years.

### *The 2015 premises move*

In mid-2015, with a further renewal of the Auckland lease imminent, the Secretariat reviewed its space requirements and concluded that the then-existing premises were too big for its future needs. A property consultant was engaged to examine other options. This led to the existing office in the Heards building being identified as an opportunity, with a considerable space and cost saving.

On 27 August 2015, the Secretary-General and Chief Executive recommended to the Governing Board (in an out-of-session paper) that a proposal to lease the new premises be accepted.

The paper for the Board noted that, in return for rental concessions, the landlord had insisted on an initial term of four years (i.e., to 1 January 2020, with one right of renewal thereafter). This raised a question about the need for Congress to reaffirm that the Secretariat should remain in New Zealand for that period. But the deferral of the 2015 Congress (to be held in Port Vila, Vanuatu) until October of that year had made it impracticable to seek the Congress's approval in advance.

The Board decided (by out-of-session resolution) to accept the lease terms, subject to Congress's formal endorsement at the forthcoming Congress.

The Congress duly endorsed the Secretariat remaining in Auckland in the new premises, but in recognition that the position would be reviewed before the first right of renewal due on 1 January 2020.

### **Current situation under lease**

The current lease is for an initial term of four years, which commenced on 1 January 2016, with two rights of renewal on 1 January 2020 and (if renewed) 1 January 2022. The final expiry date is 31 December 2023.

The initial rental was NZD47,279.00 per annum (plus goods and services tax). The lease provides for market-based rent increases of 3.0 per cent annually, to be instituted every two years.

Notification of any exercise of any right of renewal of the lease must be given at least 5 calendar months before the renewal date, i.e., in the present circumstances by 31 July 2019.

If that date is too soon in relation to the date of the Congress, PASAI should notify the landlord at the earliest opportunity and seek consent to the notification date being extended. In any event, time is of the essence in making a decision on whether to exercise the renewal option.

Given the significant logistical issues involved in winding up and moving the Secretariat, were Congress were to be of that mind, the options might include exercising the right of renewal for a further two years to enable the transition to be made comfortably, or perhaps seeking to negotiate a one-year extension until the end of 2020.

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<sup>5</sup> *Location of the PASAI Secretariat*: paper for 9<sup>th</sup> Governing Board meeting, Guam, July 2013.

<sup>6</sup> *Minutes of the 9<sup>th</sup> Governing Board meeting*, item 9; *Minutes of the 16<sup>th</sup> PASAI Congress*, item 12.

In summary:

1. The Congress decides the location of the Secretariat, on the recommendation of the Governing Board.
2. The initial 2008 decision to locate the Secretariat in Fiji was replaced in 2009 by a decision to locate in Auckland, New Zealand on an interim basis.
3. The Rarotonga principles (see above) remain extant, supplemented by the principle adopted in 2013 of the need for effective oversight and support of the Secretariat's operations by the Secretary-General.
4. Nevertheless, the designation of Secretary-General is a separate decision made by the Governing Board subject to Congress's endorsement.
5. The Congress has made successive decisions to confirm the location of the Secretariat in New Zealand, but subject on each occasion to the position being kept under review.
6. The next renewal of the Auckland office lease is due on 1 January 2020. This would involve a two-year renewal. Under the lease, PASAI must give notice of any intention to renew by 31 July 2019.

### **Appetite to relocate - Issues to consider**

There are some important factors to consider relating to the location of the Secretariat. These issues are discussed below.

#### **a. *Secretary-General designation***

It is judicious that the Secretariat is located in the same country as the SAI designated as Secretary-General (SG), although they are two separate decision processes as mentioned above. This is due to the SG's secondary oversight role of PASAI management, which is exercised between meetings of the Governing Board, and as outlined in the PASAI Charter article 9 and in the PASAI Governance Code.

The SG continues to perform an essential function in ensuring that PASAI's operations are carried out on effectively, efficiently, and in accordance with the Board's directions and strategies. The Board's expectation is that the SG will undertake the majority of the Board's governance responsibilities between meetings, including oversight of the Chief Executive's performance and the approval of financial expenditure that exceeds the Chief Executive's level of delegated authority.

Such an important role is in addition to the existing greater role of the SG as a SAI Head. That implies that the SG has to also use her or his own office resources, both physical and financial, to support him in the role and to support the Secretariat in real time. This puts pressure on SAI's already limited resources.

Therefore the designation of SG is critical in considering the Secretariat location. To separate the two in different countries is not likely to be effective and efficient for both the Secretariat and the SG.

#### **b. *Operating Environment***

In the past nine years, PASAI has been able to deliver its mandate to SAIs in building their capacity in various places from the current location, and continue progressively achieving the objectives of the PASAI Strategic Plan 2014-2024.

The Secretariat is effectively functioning from a very safe area, well-secured premises, and a soundly maintained office located at the periphery of Auckland CBD. The office is enabled by reliable and stable utility

services that support the day-to-day operation of the Secretariat. The location is convenient with easy access and independent from any SAI.

It is paramount that the Secretariat is able to function from, and in, a stable and safe operating environment. This is not only important to ensure the Secretariat is able to deliver on its mandate and assure a degree of sustainability, but also for the health and safety of its staff.

Such environment includes the political, economic, social, and environmental situation and status in which the Secretariat should operate. An unstable political environment would pose risk not only to the office but also to a certain extent staff. It was in part a political uncertainty situation that led to the Secretariat being established in Auckland from its initially intended location in Suva. Another aspect of the need for stability is that the Secretariat should be in a place that reflects good governance leadership in country.

Similarly, it is vital for the Secretariat to be in a location with sound economic status. This is important for the office to be able to project and manage its financial and costs position effectively. It is also to the benefit of staff that financial security is more less assured to a certain degree. Further, it is crucial to consider the risks of disruption through natural disaster. This would lessen the risk of a close down in the office and also reduce the degree of vulnerability of staff if such event were to occur.

### **c. Costs and benefits**

One of the critical elements in considering the location of the Secretariat is the related costs and benefits. These are discussed below in terms of financial, capability, and opportunity costs.

#### **i. Financial**

In considering the cost issue, it is important to look at the context of PASAI's expenses incurred in the past four years to provide a scope of the cost structure in operating the Secretariat.

The six main expense types of PASAI are consultancy, program, governance, personnel, secretariat travel, and secretariat operational. It is important to consider each of these cost types to determine which costs are most likely to correlate with the location.

##### *Consultancy Expenses*

The consultancy expenses are costs of consultants that are engaged by PASAI to assist in delivering most of its programs and activities. The costs are made up of fees and travel costs. The consultants usually travel direct from their home place to the venue of the PASAI program. Some consultants are also invited to also attend the February Governing Board meeting which is held in Auckland every year. All these consultants are located outside of the Secretariat's location. These costs usually have a mix of funding from core funding and other development partners' funds, depending on the programs.

In view of the information above, it is considered that the correlation of consultancy expenses to the secretariat location is very low. That means that a variation of costs if the Secretariat was located in another country/place is very minimal. Therefore, consultancy expense is not a major determinant of the location.

##### *Program Expenses*

The program expenses are costs incurred in coordinating and delivering PASAI's capacity development programs. These programs include SAI level support, regional workshops, cooperative audits, etc. The costs are made up of travel costs for participants, facilitators-other, and facilitators-secretariat. Facilitator-other refers to those whom PASAI has engaged to facilitate a program but not from the Secretariat staff and consultants (for example, SAI staff, other experts). Programs are held at different locations in the region, with significant numbers held outside the Secretariat location. Similar to

consultancy costs, these costs usually have a mix of funding from core funds and other development partners' funds, depending on the programs.

Given the above information, both participants and facilitator-other costs have very low correlation to the location of the Secretariat. However, the facilitator-secretariat has a correlation with the location of the Secretariat due to the fact that all travels to program venues are made from the Secretariat location. However, Secretariat travel costs made up only around 10% of the total program costs, on average.

The *Table 1* below shows that the facilitator-secretariat costs had an average of around 7% as a component of the program costs in the past two years (2016/17 & 2017/18). For the two financial years 2018/19 & 2019/20, facilitator-secretariat costs are estimated to average around 12% as a component of the program costs. As mentioned above, the cost of travel depends on the venue of the program and the travel route to such venue from the Secretariat location. As mentioned above these events were held at different locations in the region, including some in Auckland during the past four years.

**Table 1 – Component of Secretariat travel costs on Program costs**

Expense Type	2016-17 NZD	2017-18 NZD	2018-19 (Est. outturn) (NZD)	2019-20 (Estimate) (NZD)
<b>Program costs</b>	<b>1,227,311</b>	<b>335,258</b>	<b>447,312</b>	<b>558,880</b>
- Participants travel costs	869,994 (71%)	145,874 (44%)	216,717 (48%)	265,800 (48%)
- Facilitator – Other	146,177 (12%)	86,262 (25%)	83,150 (19%)	151,880 (27%)
- Facilitator - Secretariat	58,779 (5%)	46,417 (14%)	77,167 (16%)	41,600 (7%)
- Other program costs	152,361 (12%)	56,706 (17%)	70,278* (16%)	98,600* (18%)

\* comprised of venue hire, program catering, and other logistical expenses.

### *Personnel Expenses*

The Personnel expenses relate to the remuneration of the Secretariat's staff. Salaries are based on the salary scales of similar level in the New Zealand labour force. On average, personnel costs made up about 30% of total expenditure in a given financial period. Up to now, all these costs have been funded from the core fund. It is expected that from April 2019 when the funds from EU/UNDP are received, the EU funded programs will also fund part of the staff costs together with the core fund.

Given the above, personnel costs have a high correlation with the location due to the fact that the remuneration of staff will depend on the location of the Secretariat. The factors to consider in determining such remuneration are country-specific but should consider salary range, equivalent post level, entitlements (both for staff and as a regional organisation), etc. Further work will be needed to determine the impacts of these factors and the relative costs depending on a country selection for comparative assessment.

### *Governance Expenses*

Governance expenses relate to costs involved in conducting the Governing Board meetings and the Annual Congress. These costs also include the travel costs of Board members and PASAI consultants (if they attend) to the February meeting; and the PASAI consultants (if they attend) and Secretariat staff travel costs to the Congress. These travel costs have varied depending on timing of making the travel arrangement (especially for the February Board meeting), the airline and the location of the Congress. These expenses are fully funded from the core fund.

In view of the above, these costs seem to be neutral in the sense that travel costs may be higher in one year but lower in another year due to the different location. Therefore, governance expenses are considered to have a low correlation to the location of the Secretariat.

### *Secretariat Travel Expenses*

These expenses relate to all the travel costs of Secretariat staff to attend on behalf of and represent PASAI to regional or international meetings but which are not directly related to particular programs<sup>7</sup>. Most of these meetings relate to attending INTOSAI committees and working group meetings, IDI program development etc. which are usually held outside the region. It also includes attending meetings in the region such as the PFTAC Steering Committee meeting, FEMM, and other similar meetings. Once again, these travel costs have varied depending on the location of the meeting, timing of making the travel arrangement, the airline used, etc. All the secretariat travel expenses are funded from the core fund.

Similar to the governance expenses, these costs seem to be neutral in the sense that travel costs may be higher in one year but lower in another year due to the different location. Therefore, secretariat travel expenses are considered to have a low correlation to the location of the Secretariat.

### *Secretariat Operational Expenses*

These are the estimated costs of operating the PASAI Secretariat's office. These costs cover the usual costs for accounting services, audit, utilities, repair and maintenance, insurance, lease rental, office expenses, and other related operational costs. These expenses are all funded from the core fund.

Of all the five expense types mentioned above the Secretariat Operational cost is the main type that depends on the location of the Secretariat.

The financial costs of operating the Secretariat from the current location have increased by 13% in the past four years. They are projected to increase by 5% in the next two years. The increase in some professional services fees and also printing costs, due to one-off printing of some advocacy materials, were the main reasons for the increase in the past years. Incremental increases in are also contributing factors especially for the outer years.

As shown in the table below, the Secretariat office rent costs comprised the largest component of the Secretariat Operational expenses, being 34% on average in the past four years. They are projected to comprise about 32% in the two next years to 2019-2020. Rent costs have been decreasing by 21% from \$92,525 in 2014-15 to \$72,792 in 2017-18. However, they are projected to increase by about 4% by 2019-20 (in accordance with the annual escalation provision referred to earlier).

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<sup>7</sup> As mentioned above, Secretariat staff travel that relates to facilitating a program are included as Program expenses. Similarly, secretariat staff travel to attend Governing Board meeting and Congress are included in the Governance expenses.

Expense Type	2014-15 NZD	2015-16 NZD	2016-17 NZD	2017-18 NZD	2018-19 (Est. outturn) (NZD)	2019-20 (Est.) (NZD)
Secretariat Operational ( <i>excl. depreciation</i> )	209,531	249,755	294,098	236,422	227,771	247,430
- Office rent+	92,525 (44%*)	84,918 (34%*)	82,446 (28%*)	72,792 (31%*)	75,147 (32%*)	75,680 (31%*)
- Professional fees	38,013	69,524	76,060	75,370	70,297	66,000
- Computer services	9,509	10,486	20,054	20,575	13,962	19,500
- Postage, Printing & Stationery	11,070	11,708	43,038	9,866	6,417	9,600
- Electricity	3,447	3,713	4,293	3,504	3,623	4,080
- Telephone ( <i>incl. internet</i> )	9,688	8,328	6,458	6,891	6,900	6,000

+ comprised of about 78% office, car park & storage rent, and about 22% for office operating expenses - water, security, etc

\* percentage of the total Secretariat Operational expenses (excluding depreciation)

Other main components of the Secretariat Operational expenses are the fees for professional accounting services and computer services. Both these support services are being outsourced and although fixed fees are set and agreed, the fees charged still vary due to necessary out of scope works requested of them by the Secretariat during the year. These are important support services to the Secretariat and have been satisfactorily delivered by both service providers.

Utility costs for electricity averaged around \$3,700 in the past four years and are expected to have a slightly higher average \$3,800 in the next two years. Telephone expenses have shown a decreasing trend since 2014-15 and are projected to continue along that trajectory to 2019-20.

The costs shown for Secretariat Operational may be expected to reduce if the Secretariat was operated outside of Auckland. A preliminary cost comparison of five selected places is presented later in the paper. However, the costs incurred in the past four years and projected for the outer years have and will maintain the Secretariat well, not only in effectively supporting the delivery of programs but also in ensuring the good health and utmost safety of staff at the workplace.

Therefore, it is critical that the Secretariat is located at a safe and secure location not only to support the delivery of programs but more importantly to ensure the health and safety of staff.

## ii. Capability

Capability is a critical factor in assessing the location of the Secretariat. As mentioned above, it is vital the Secretariat is functioning from a stable and safe environment. That includes high capability in terms of operational, system, and infrastructure support.

In terms of operation, the impact of the support provided by the OSG is vast. Such support not only adds great value to the standard of work of the Secretariat but also adds a critical quality assurance element in dealing and providing documents and reports to the SAIs, Congress, Governing Board, development partners, regional organisations, international forums, citizens and other stakeholders. This support is being provided through dedicated staff of the OSG acting as Deputy Secretary-General and also the human resources function of the Secretariat. OSG is providing these services at no cost to PASAI, but through funding support by the NZ MFAT. Such resources and support would not be available if not for the SAI NZ being the SG. The impact therefore of the OSG support should be measured both in terms

of the combined financial costs of the Secretariat and the OSG, and in value for money terms, i.e. the impact of the combined operations on PASAI delivery.

System support and infrastructure reliability are also key to the function of the Secretariat. Operating in an environment with reliable power supply, fast and low-cost internet services, access to technological advancement, instant access to professional support services, etc. establish strong capabilities for the Secretariat to effectively operate on.

### **iii. Opportunity cost**

Financial cost is not the only cost factor. There is also an opportunity cost. The opportunity for PASAI to locate in a country with a developed SAI, and the benefits that flow to the Secretariat by accessing their expert staff and learning from their vast experience in governance, management and operations, should be appreciated and complimented. The issues discussed above in terms of operating environment, capability, and the support by the OSG will be an opportunity loss to PASAI if it operates in a less developed environment.

### **d. Health & Safety (Security)**

As mentioned above, health and safety is paramount for the Secretariat. The Secretariat office is located in a very safe area just outside downtown Auckland with the premises well secured and soundly maintained. The Health and Safety at Work Act 2015 in New Zealand provides a robust legal framework and the Secretariat operates under the requirements of this Act. The Secretariat reports to the Board on the development and implementation of health and safety systems within the Secretariat, and on all health and safety issues that have come to attention since the previous meeting, and in accordance with the Health and Safety policy. Health and safety of staff and the office of the Secretariat is a key determining factor for the location of the Secretariat.

### **e. Impact on existing staff**

Secretariat staff have over the years built a strong base for delivering of PASAI programs. This was not only through their dedication to their work but has also established strong institutional knowledge in engaging with SAIs, participating in regional and international forums, meeting with development and regional partners, and collaborating with the OSG.

There would also be some personnel-related costs in a relocation and closure of the Auckland office. All PASAI's personnel have employment agreements that can be terminated on relocation, except for the Chief Executive whose contract will end in May 2020 unless it is approved for extension. Staff are New Zealand citizens and Auckland-based with one staff temporarily based on her home in Brisbane. Only the Chief Executive is on a work visa. The location of the Secretariat plays a big part on these staff's job security and employment future. Although most of the staff indicate they are willing to stay with the Secretariat even if the location changes within or outside New Zealand, the reality of such preference will only surface once staff are at a different environment. But this is important to note. PASAI could not afford to lose the experience and institutional knowledge of these staff given its negative impact on the Secretariat. Rather it is preferred to have a succession plan to bridge any gaps that may cause as a result. That would incur costs as well.

As alluded to above, personnel cost has a link with the location in the sense that the salary levels of staff may be reviewed to align to the salary levels of the new location. This may be a favourable or unfavourable change, taking into account the cost of living of a new location. However, further work should be done to determine the actual impact on staff and their remuneration.

PASAI also needs to be mindful of its obligations as an employer in relation to all its existing staff. It is essential under New Zealand labour laws that any decision to close the Auckland office is made at a reasonable time, and that the communication and implementation of the decision are handled professionally and in good faith applying the principle of a good employer.

## Development partners' perspective

The views of development partners were sought. The summary below is the views expressed by those development partners<sup>8</sup> who shared them. Development partners who will be attending the Board meeting will also share the views.

- The need for an assessment/comparative analysis of costs and benefits, advantages and disadvantages of the current location against viable alternatives with options based on factors and criteria such as the following:
  - Strategic position for service delivery to serve its mandate, purpose, and client – an important aspect is to consider the strategic position of PASAI and whether PASAI is best located to service its clients and other stakeholders, carry out its functions and achieve its objectives.
  - Costs/Financials – a major issue to consider is the costs. Costs of the office/rental, operation, travel (not just travel of PASAI to clients, but also clients to PASAI) staff costs, etc.
  - With the current location, do the benefits outweigh costs in terms of meeting overall PASAI objectives? Has the current location achieved PASAI objectives which includes progression to a developing country location?
  - Ease of access by PASAI Secretariat staff, and other external stakeholders (including meeting participants from overseas).
  - Health and safety.
  - Prospects for quality of the Secretariat's operability and efficiency (for an example, the backstopping from the NZ OAG). Continuity of the current support by SAI New Zealand and maintaining the SG role.
  - Potential for partnerships with development partners and stakeholders and efficiency gains with such collaborations at program level and to ensure financial sustainability.
  - Prospects to explore other possible opportunities with due consideration to technological advancement.
  - How would the location influence the independence of the organization, including capacity and degree of involvement and support of the SAI in country or what host government can offer to the Secretariat.
  - Initial intent of the Secretariat location, and initial principles consistent with current developments.
  - Consider possible options outside the current location (Auckland) or moving to one of the Pacific Islands countries.
  - Implications and initial risks including relocation of staff, expanding the pool of existing experts (including long term and short term)?
  - Opportunities for expression of interest so that countries intending to host can make submission.
- Generally agreed with the view outlined in the PASAI mid-term review that more detailed analysis is required.
- In principle, a move should be justified only if there is a clear case for it, assuming that moving countries would cause turbulence in PASAI's operation in times when substantive delivery will be expected, particularly in the view of the upcoming EU project.

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<sup>8</sup> DFAT, EU, MFAT, PIFS, UNDP, WB.

Noting the issues identified above, in order to make an informed decision, the Governing Board and stakeholders really need from the Secretariat information/assessment on the costs and benefits of operating from Auckland compared to other developing country locations.

## **Relocation costs and benefits – comparative survey and assessment**

### ***Relocation costs and benefits***

As mentioned above, the next renewal of the Auckland office lease is due on 1 January 2020 for a two-year renewal. Under the lease, PASAI must give notice of any intention to renew by 31 July 2019.

So if the Secretariat is to relocate it must do so around December 2019 prior to the end of the office lease.

The relocation costs would include the following:

- Packing and removing of chattels
- Reinstating the premises and making good of any damage
- Transporting and renting of temporary space for storage of chattels before transporting to new location
- Searching for a new location including professional fees of any expert contracted to find a new place
- Travelling of staff and transporting of chattels from Auckland to the new place
- Setting up and establishing of the new office
- If staff opt to terminate employment due to the transfer, staff redundancy costs (3 months current base salary), salary and leave accrued, and home transfer (if applicable) costs of staff who opt not to join the Secretariat in the new location.

Other costs of the relocation include the impact of the disruption of moving on the operation, and also the impact on staff as discussed below.

### ***Comparative information.***

Three alternative locations were selected to provide a picture of the costs in places outside Auckland. These are Fiji, Samoa, and Tonga. They were selected to provide a picture of the cost structure in a Pacific Islands country other than New Zealand, and to compare to the costs in Auckland. The costs compared were the office rental rate, electricity, telecommunication, and water. The selection of these locations also takes into consideration balancing of the following matters:

- The ability of the host country SAI to take the role of SG and also provide resources to carry out the SG role.
- The potential to host PASAI events such as the Governing Board meetings etc. All these SAIs had hosted PASAI events before.
- The location of, and access to, other member SAIs and stakeholders.
- Hosting other regional organisations in country.
- Adequate infrastructure to support the Secretariat.
- Reasonable health and safety level.

The comparison is shown in the table below.

With regard to office rental, it shows that rent cost per square meter per month is cheaper in Fiji and Tonga than in Auckland (information from Samoa was not available). Using the current office space of the Secretariat of 178 square meters, the rent cost in Auckland is 45% higher than Fiji and 36% higher than Tonga. Such comparison is only on the rate per unit without regard to other factors such as the quality of the premises, accessibility, security, other facilities available etc.

In comparing the cost of utilities, overall the costs in Auckland seem to be lower than the other three locations. This is not only on the rate per unit but also on the capacity offered. A more detailed and reasonable assessment

of these utilities cost can only be done if comparing similar packages as offered by these utility companies. That assessment cannot be done at this time, but it will be a matter to consider in the future if a detailed assessment is needed.

**Table 2 : Comparative costs of selected expenses**

Cost drivers	Auckland, New Zealand NZN	Suva, Fiji* (Est.) NZD	Samoa* (Est.) NZD	Tonga* (Est.) NZD
Office rental	\$21.74 per square meter per month  (Current lease : 178 square meter)	\$9 - \$15 per square meter per month  (FJD 15 – 25 per square feet per annum ~ FJD \$161 - \$269 per sq meter per annum)		\$16 per square meter per month  (TOP\$25)
Electricity	Fixed : \$1.691 per unit Var.: \$0.2250 cents per kWh	\$0.27 /unit plus VAT  (F\$0.40)	\$0.48 per unit for induction meters and \$0.45 per unit  (SAT 0.85 and 0.81)	\$0.52 per unit  (T\$0.81)
Telephone	Plan: ISDN Premium \$132.70 per month DDI Block of 10 lines \$39.94 per month (excl)	Telecom line Rental - \$27.42 VIP  (F\$40.33)	Business landline installation fee is \$45 (GST exclusive) Monthly rental fees \$17 (GST Exclusive)  (SAT 80 and 30)	Pre-paid (no fee); Post-paid \$44 + usage  (TOP\$69)
Internet	Plan: Office Net Unlimited VDSL bundle \$172.70 per month (excl)	\$23 per month (5GB) to \$70 per months (10GB)  (Average F\$34 (5G) to \$103 (10GB) per month))	\$2,100 per month (excluding Installation cost and GST) for an Unlimited package – based on peak speeds of up to 5Mbps.  (SAT\$3750)	Monthly plan: \$36 (25G); \$134 (110G)  (T\$57 (25G); T\$210 (110G))
Water	Include in the OPEX for the house	\$0.08 first 50 units; \$0.30 next 50 units; \$0.57cents above 100 units )  (SAT15 cents first 50 units; 44 cents next 50 units; 84 cents above 100 units )	\$0.99 \$1.27 / m3  (SAT\$1.77;\$2.27 WST / m3)	\$0.0016 per unit  (T\$0.0025)

\*Exchange rate used: FJD/NZD = 1:0.68; TOP/NZD = 1:0.64; SAT/NZD = 1:0.56

### PASAI mid-term review perspective

During the 2018 PASAI Congress, the independent reviewer was asked to do a preliminary consultation with members about the location of the Secretariat. Fourteen members were asked whether the Secretariat should remain where it is at present or move to another country. The results were as follows:

- 43% expressed that the Secretariat should move only if there is an added value to moving;
- 36% said the Secretariat should remain in New Zealand; and
- 21% indicated that the Secretariat should move to a more central location.

Members observed that, if the majority of the members want to consider relocating the Secretariat, then better information should be sought and provided to inform their decision. In this regard, they would like a business case for relocation to be prepared by an independent party, as follows:

- All member SAIs should be asked whether they want to express interest in hosting the Secretariat.
- If any SAI shows interest, an independent assessment of relocation should be made, including each city from the SAIs that expressed interest. SAIs would need to inform what the hosting would entail, what they see as added value to move the Secretariat from Auckland to their SAI's city and what they could offer to support the Secretariat and to reduce current costs.
- Members vote with better information to decide.

## Risks

There are notable risks that should be considered if a relocation is to take place. These risks are identified below.

- Secretariat temporarily cease operation*  
The Secretariat will temporarily cease operations for a period of time until premises are confirmed and ready at the new location. This lapse period will affect operations as there will be limited connections and access to staff.
- Loss of staff capacity and institutional knowledge*  
As alluded to above, all but one of the Secretariat staff are Auckland-based. A move to a location outside New Zealand will most likely result in them choosing redundancy. That will be a high risk to PASAI as staff capacity and institutional knowledge on PASAI and other programs will be lost.
- Secretary-General support loss*  
The current support of the OSG may not be available if the SG designation is changed to another SAI. Regional and global reputation may suffer, as well as having SAI New Zealand to be a strong force behind PASAI adds value to the status of PASAI and provides assurance to these bodies that PASAI has good governance in place.
- Unstable operating environment*  
There could be some adverse event (political, economic, social, and environmental) that may cause instability and insecurity in the operation of the Secretariat in a new location. This could be due to political reasons, social matters, the economic situation, or environmental issues such as a natural disaster.

## Analysis and options

The above discussions have identified factors that should be considered in discussing the location of the Secretariat. There are issues relating to the designation of the SG, operating environment, costs and benefits, capability, health and safety, and impact on staff. The development partners have also shared their views on important matters to consider such as service delivery, costs, and collaboration with development and regional partners.

A comparative assessment of certain costs presented above shows that the cost of office rental in the current location of the Secretariat is much higher than compared to other countries in the Pacific namely Fiji and Tonga. The cost of utilities however seems to be lower in the current location than in the other places considering also capacity and reliability.

The information obtained from the PASAI mid-term review shows that views of members varied on whether the Secretariat should change its location. It also suggests that an assessment by an independent person on the cost and benefits of a change in the location should be carried out and give opportunities for each PASAI member to decide through a vote.

PASAI is the only regional organisation that has its Secretariat operating from Auckland, New Zealand. Most of the Pacific regional organisations are located in Suva, Fiji, but some are also in other places like New Caledonia (SPC though there is a branch also in Suva), Samoa (SPREP), Vanuatu (PASO), etc.

In the past nine years, PASAI has been able to deliver its mandate to SAIs in building their capacity in various areas from the current location. The objectives of the PASAI Strategic Plan 2014-2024 are and continue to be met from operating at the current location.

The support of the SAI NZ to the Secretariat should be valued. It is not only SAI NZ that provided the support but also the Government of New Zealand through resources provided to SAI NZ to function its role as SG. A change in location to outside New Zealand is likely to necessitate a change of the SG designation to the host SAI, and such valuable support may no longer be available.

The Secretariat is greatly privileged to be operating in a developed but stable and safe country which guarantees the ability to provide reliable and effective services to member SAIs without the potential for disruptions through political upheaval, infrastructure failure or interruption, natural disaster, environmental hazard, etc. Even if these disruptions occur, the response is swift and operative, and the lapse time is minimal, thus avoiding the risk of not operating and temporary shut-down.

Operating in a country that tops the worldwide governance<sup>9</sup> indicators in terms of Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption, is a huge advantage. Furthermore, the country is also ranked highly in other global development issues such as safest and most peaceful place<sup>10</sup>, human development<sup>11</sup>, gender development<sup>12</sup>, etc. There is great value in operating in a well governed and safe environment as justified by these global indicators in which the standard and quality of work and services can also be shared by the Secretariat and also with the SAIs in the region. It is also a main contributing factor in maintaining a high profile for PASAI at national, regional and global fronts.

Being less prone to natural disaster is an advantage from the Secretariat operating in its current location. It means that it is unlikely that there will be any significant disruption to the operation of the Secretariat as the likelihood of a natural disaster happening is much lower. As alluded to above, even if it occurs the speed of recovery is much quicker.

In considering the location of the Secretariat it is not only a matter of looking into the past and the present but most importantly looking ahead to the future. The advancement in technology is swift and elusive. The current location of the Secretariat is ideal to learn and experience any new innovative ways of operation with a reliable infrastructure to support in adopting and applying those new ideas to our systems, processes, and programs delivery, which then flows to the SAIs.

There are costs in ensuring good governance is maintained, safety and peace are kept, reliable infrastructure and quality services are assured. However, the value gained from operating such a secure and supporting environment far exceeds the relative costs of operating.

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<sup>9</sup> 2018 Worldwide Governance Indicators, World Bank

<sup>10</sup> 2017 Global Peaceful Index, Institute of Economics and Peace (IEP)

<sup>11</sup> 2018 Human Development Report, UNDP

<sup>12</sup> 2018 Human Development Report, UNDP

It is obvious that at the current location the cost of living in Auckland is higher than any of the other locations mentioned above. It is supported by the much higher rental cost. The cost of utilities are relatively cheaper in Auckland than in Fiji, Samoa, and Tonga. The capacity and reliability of providing these services is higher in the current location than in the other locations.

## Consider the options

In view of the above there are options that should be considered regarding the location of the Secretariat. These options are provided below.

1. Maintain the current location for another two years and renew the office lease from 1 January 2020.

This option will have the advantage of no disruption to the Secretariat and the delivery of its programs. It would also provide some stability to the Secretariat and assurance to the support of the OSG. It is a possible option to consider.

2. Change the location of the Secretariat to another location in Auckland or within New Zealand.

There will still be cost in this option not only of the move but also of disruption to the current work program. However, the cost of rent may not be much different considering other costs too. It is a viable option but may not be recommended.

3. Change the location of the Secretariat to a location outside New Zealand effective from 1 January 2020.

Similar to the above, there will still be more cost in this option not only of the move to another country and a different location but also of disruption to the current work program. Very little time would be available to make the change. The Secretariat would have to close down for a period of time not only to allow the move but also to find a place at the new location and set up the office. It is not a recommended option at this time.

4. Renew the current lease for another two years from 1 January 2020 (or seek to negotiate a one-year renewal with the landlord's agreement) while PASAI engages an independent party in 2020-2021 year to conduct a business case assessment of the location for the Secretariat.

Similar to option 1 above this option would give stability to the operation of PASAI in the delivery of its program and also the assurance that the support of the OSG will remain available. This is also supported by the mid-term review given that the majority of those members being interviewed expressed their views that a move should only be done if there is a need for it.

## Timing of Congress

Finally, it must be noted that the requirement for five months' notice of an intention to exercise the right of renewal creates a logistical problem in relation to the timing of the Congress. It is to be hoped that giving an early indication to the landlord of the timing difference may elicit an agreement to reduce the notice period. The Board's authority is sought to proceed with this.

## Recommendations

In view of the above, the Governing Board is invited to:

1. **note** the issues raised by SAIs, development partners and stakeholders regarding the location of the PASAI Secretariat.

2. **consider, discuss** and **agree** on the most appropriate option to take regarding the location of the PASAI Secretariat.
3. **provide** guidance to the Secretariat on the way forward and to **inform** the Congress.
4. **note** that notice of renewal must be given by 31 July 2019, and authorise the Secretary-General to seek an extension of this timeframe until after the Congress.