



**TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
QUAIYL TINVAAL**

PROCEEDINGS

DAALTYN

(HANSARD)

**STANDING COMMITTEE OF TYNWALD
ON PUBLIC ACCOUNTS**

FORWARD PURCHASE OF EUROS

**BING VEAYN TINVAAL MYCHIONE COONTYSSYN THEAYAGH
KIONNAGHEY OARAGHYN RO-LAUE**

Douglas, Wednesday, 1st April 2009

Members Present:

Chairman: Mrs C M Christian, MLC
 Vice-Chairman: Mr Q B Gill, MHK
 Mr D M W Butt, MLC
 Mr G D Cregeen, MHK
 Mr R W Henderson, MHK
 Mr J P Watterson, MHK

Clerks:

Mr J King, Deputy Clerk of Tynwald
 and Mrs M Cullen

Business transacted

	<i>Page</i>
Procedural	3
Evidence of Mr M S Shimmin, Chief Financial Officer, Treasury and Mr C McGreal, Financial Controller, Treasury	3
<i>Mr Bell was called at 4.10 p.m.</i>	
Evidence of Hon. A R Bell, MHK, Treasury Minister	19

The Committee sat in private at 4.38 p.m.

Standing Committee of Tynwald on Public Accounts

Forward Purchase of Euros

*The Committee sat in public at 2.31 p.m.
in the Millennium Room,
Legislative Buildings, Douglas*

[MRS CHRISTIAN *in the Chair*]

Procedural

The Chairman (Mrs Christian): Good afternoon. This is a formal meeting of the Public Accounts Committee, so first of all I want to welcome you to the meeting, which is a sitting of the Standing Committee of Tynwald on Public Accounts to hear evidence in public session.

The Committee was established by Tynwald on 22nd March 1983 and its remit has been amended several times over the years. It is rather too lengthy to read out today, but in brief it is:

‘To examine the expenditure of public funds and to scrutinise the efficiency and effectiveness of the implementation of Government policy.’

First, I would like to introduce my colleagues on the Committee: Mr Gill MHK, the Vice-Chairman; Mr Butt MLC; Mr Cregeen MHK; Mr Henderson MHK; and Mr Watterson MHK. Our Clerks, Mr King and Mrs Cullen, and the *Hansard* Editor today is Clive Alford, who is responsible for recording the proceedings. Can I ask everyone, please, to ensure that their mobile phones are switched off so as to avoid any interference with the recording, and that means switched off, not just put onto mute, please.

The issue we are discussing today is the Runway Extension Scheme and the procedure for the purchase of euros for that Scheme. This was referred to the Committee by the Treasury Minister, who submitted a copy of Treasury’s internal review to the Committee for further investigation. We have therefore invited Treasury officers and the Treasury Minister to give evidence to us today.

EVIDENCE OF MR M S SHIMMIN AND MR C MCGREAL

The Chairman: Our first witnesses are Mr Shimmin and Mr McGreal. Welcome this afternoon. Thank you for attending. Could you please commence by stating your names and your roles and responsibilities in the Treasury.

Mr Shimmin: My name is Mark Shimmin. I am the Chief Financial Officer in the Treasury.

The Chairman: Thank you.

Mr McGreal: Good afternoon. My name is Clive

McGreal and I am the Financial Controller within the Treasury.

The Chairman: Thank you.

At this point, I would like to give you an opportunity to make an opening statement before the Committee puts questions to you. Would you like to make statements at this point?

Mr Shimmin: Please, Chairman, yes.

The Chairman: Are you both intending to make a statement?

Mr McGreal: Please, very briefly.

The Chairman: Mr Shimmin, would you like to make your statement first?

Mr Shimmin: Thank you. Chairman, I am grateful for the opportunity to make this statement to the Committee.

I am the Chief Financial Officer in the Treasury and, as such, the Accounting Officer for the Treasury.

You have received a copy of the initial report undertaken by the Financial Controller, Mr McGreal. The report was requested by me as a result of being informed that there was a problem regarding the purchase of euros in respect of the Department of Transport’s Runway Extension Scheme. I received that report on Friday, 16th January 2009, and the Financial Controller and I presented it to the Treasury Minister that same day, briefing him on its contents. The Treasury Minister expressed his deep concern as to the situation and its financial consequences. I shared his concerns and, in conversation between the two of us, I indicated that I would need to consider my position over the weekend.

At this point, for the sake of clarity, I wish to set out my reasons for this course of action. I had no direct involvement in the decisions relating to the purchase of euros for the RESA Scheme; that was the responsibility of professional officers in the Finance Division of the Treasury. However, as Accounting Officer, I am responsible for the whole of my Department, a responsibility I accept.

I took the view that, given the materiality of the financial impact on and political sensitivity of the Scheme, the appropriate course of action for me to take was to offer my resignation to the Treasury Minister. At approximately 12.30 on Monday, 19th January, I offered my resignation in writing to the Treasury Minister in the presence of the Chief Secretary, to whom I copied my letter of resignation. I then left work for the rest of the day.

At approximately 6.00 p.m., I met the Treasury Minister at his request. The Minister asked me to stay on in post, setting out his reasons for that decision. On the morning of Wednesday, 21st January, I contacted the Minister and informed him that I was willing to remain in post.

Since that date, I have initiated a further internal review to determine what further action, if any, I need to take as Accounting Officer. I expect to receive the findings of that review shortly. It will allow me to consider whether, and if so what, further actions are required, including whether competency or disciplinary measures should be considered.

In summary, Chairman, this is a matter that the Treasury Minister, myself and all Treasury officers take very seriously.

Procedural

We have acknowledged that errors of judgement took place and have apologised for those. Whilst the decisions in question were not taken by me, upon the situation being made known to me, I immediately took responsibility for them and offered my resignation. The Treasury Minister did not wish to accept that resignation and asked me to stay in post, which I have done for the time being. We will look to learn from the lessons made and seek to avoid any such repetition, and I welcome the Committee's involvement in helping us to do that. If I lose the confidence of the Treasury Minister or he believes that I do not have the confidence of the generality of Tynwald Members, then I expect that he will act accordingly and look for me to implement my offer of resignation.

That concludes my statement, Chairman.

The Chairman: Thank you, Mr Shimmin.
Mr McGreal.

Mr McGreal: Thank you, Chairman.

I would just like to add some comments to those of my colleague, in order to clarify my role and responsibilities within the Treasury and outline the background to the production of the report, which deals with the matter of the foreign exchange purchase of euros for the Airport Runway Extension Scheme.

I currently hold the position of Financial Controller at the Treasury. I am a Chartered Public Finance Accountant of some 28 years' standing. I have professional line management responsibilities directly accountable to the Chief Financial Officer. As Financial Controller at the Treasury, I head up the Corporate Strategy Division, which is responsible, in the main, for the development of central fiscal and economic policy and strategy, including the delivery of the annual budget. The Division also includes the work of the Capital Projects Unit and the provision of financial management advice to Treasury, Council of Ministers and Tynwald, as required.

In respect of the matter before the Committee, I can confirm, at the request of the Chief Financial Officer, that I prepared the report for the Treasury Minister which is dated 20th January 2009, which outlined the background to the procurement of the euros for this project, together with a brief outline of the train of events and relevant factors surrounding this matter. Plus, and the Committee have had sight of, the report which includes an indication of the relevant timeline of events leading up to the eventual transaction to purchase the euros. I would like to record the fact that the Treasury Minister was not aware of the financial impact of this transaction on the project until mid January. I personally briefed the Minister and the Chief Financial Officer on 16th January and subsequently prepared the final draft report on 20th January.

I would echo the comments of Mr Shimmin earlier, in that the Treasury officers had viewed this matter more seriously. The initial report has since been followed up with a subsequent paper to Treasury which was considered on 24th March, and confirmed in Treasury minutes earlier today, outlining improvements to the processes within Treasury and suggesting amendments to financial regulations and capital procedures which will safeguard against any repeat of this type of shortcoming. It is clear that failings in both process and communication within the Treasury Department surrounding the mechanics of operational execution on this

single transaction lay as the root cause of this matter. The improvements and changes to those procedures I alluded to earlier will be made available for the Committee for inclusion along with any further recommendations that may be forthcoming.

Thank you, Chairman.

The Chairman: Thank you both for those statements.

Perhaps I can start the discussion by... Mr McGreal, you have referred to process, and Mr Shimmin, you have alluded to your responsibilities as the Accounting Officer for the Treasury and the steps that you took in recognition of that, notwithstanding that you had not been advised until 16th January this year about the issue.

Mr Shimmin: Yes.

The Chairman: Thank you.

If we could consider the paper which you have circulated to us, the paper that you prepared for the Minister and Members of the Treasury, outlining the background and the stages in this issue, can I take us back to the time when we had a vote in Tynwald on the RESA project, at which time there had already been an increase in the charges due to the changes in the value of the pound against the euro, which was alluded to in the debate, when the Minister said:

'Additional costs have been incurred due to the change in the euro/pound exchange rate with the devaluation of the pound against the euro dropping in value, some 14 per cent, over the last six months.'

That is the six months prior to April 2008. So already at that point there had been increased costs because of the euro. The document we have before us states that the contract was signed in April 2008 for this particular project and the exchange rate at that point was 1.2422 to the pound. Given that there had been a decline in the value of the pound against the euro in the previous six months, and given also that the officer from the CPU had alluded to the issue of the change of the pound against the euro in his report to Treasury on 14th March that year, why was no action taken at the time that the contract was entered into? Perhaps, Mr McGreal, I could ask you if you could answer that, please.

Mr McGreal: Indeed. If we look at the timeline of events and the contract cashflow requirements for this particular contract, it was clearly evident that the first opportunity which the euros would be required to make any payments was likely to be in April 2009, so just about this time of the calendar. So there was a window of about a year in order to make such forward purchase of those euros, or make such arrangements that would put that into operation. It is quite clear, in hindsight, that the operational issues that led up to that transaction have been far from ideal in terms of timeline.

I think if we look at the sentiment that was in the marketplace at April 2008, it was expected to be fairly flat in terms of the euro/pound exchange rate. I suspect if we look, again in hindsight, between April and October, that indeed turned out to be the case. There were some discussions and dialogue between DoT officials and Treasury officials during that period which tried to get some clarity over the exact cashflow requirements and the timing of such. There was an understanding and general awareness amongst those officers that something was happening in terms of readiness

to make that cash transaction and the purchase of the euros put into place. It was not until September 2008 that that direct instruction was actually placed with Finance Division to execute that contract, and all we can say, in hindsight, with the benefit of that, is that the execution of the contract was not concluded until right at the end of December.

So to come back to the question, Chairman, yes, it should have been done far earlier in the cycle of events, and given the previous *Hansard* Report, every effort should have been made to actually execute the contract much earlier than it was done.

The Chairman: Can you say, at the time when the matter was voted on in Tynwald, was there a process in the Treasury to deal with matters of the purchase... Was there a positive decision not to purchase at that time, given that there was not a cashflow requirement until April 2009, or is that just something which evolved?

Mr McGreal: I think it is probably true to say it evolved. There was not any particular strategy available in December 2008, or even perhaps prior to the Tynwald vote. There was a tacit acceptance that Treasury would be responsible for that transaction, and not the Department of Transport – I would like to make that clear. Whilst there was no formal instruction given from the Department of Transport, all the Treasury required was a formal cashflow analysis and requirement of the euro purchase.

The Chairman: Thank you.
Mr Gill, any questions on that?

Mr Gill: Just going back, if I may, Mr Shimmin, you mentioned in your statement that you presented the report to the Treasury Minister on Friday, 16th, and that was in relation to a problem that you were aware of. When had you become aware of the problem, as you describe it?

Mr Shimmin: The latter part of the previous week, at which point I asked the Financial Controller to produce a report to identify what the situation was.

Mr Gill: So that report took how long to... It is dated the 20th.

Mr McGreal: It is. The Friday was the 16th, and it was finalised on the 20th, so perhaps two days maximum.

Mr Gill: So something like the 17th, 18th, through –

Mr Shimmin: No, sorry, there was a draft considered by the Treasury Minister and myself on the 16th, and that report was produced after having asked the Financial Controller the previous week – I suspect the Thursday or the Friday of that previous week – to produce a report.

Mr Gill: So what date would that be?

Mr McGreal: I suspect it would have been Monday, 12th when I would have become aware and commenced upon that in draft by the Friday, which would have been the 16th, and then finalised by the 20th.

Mr Gill: The report that was given on the 16th to the

Treasury Minister: was that the very first he knew of this issue?

Mr McGreal: From my briefings, yes. I do not know whether the Minister may have picked up any indications from his colleagues earlier than that, but that was the first briefing that I presented to the Minister.

Mr Gill: Colleagues in Treasury, or political colleagues?

Mr McGreal: Political colleagues particularly. Colleagues, politically. I am not aware of –

Mr Gill: Can I put that to you, Mr Shimmin?

Mr Shimmin: Yes, I understand the Treasury Minister was made aware through political colleagues that there might be a problem and he asked me whether I knew what the problem was. I said I did not and we asked for that report to be produced so that we would understand what the problem, that was being referred to by his political colleagues, actually was.

Mr Gill: So when, in your statement, it says you were aware of a problem, you had the report drawn up, you presented the report to the Treasury Minister, that gives the impression that that was the first the Treasury Minister –

Mr Shimmin: If that is the impression it gives... It is not supposed to give that impression. It is to say that the Treasury Minister was presented with the findings. What, up until that point, we knew was that people were saying there was a problem in relation to the Scheme and the purchase of euros. In order to find out if there was a problem and the nature of that problem the Financial Controller investigated that matter and reported thereon.

The Chairman: Can I ask you then, following that, where the political knowledge would come from? Would it be the DoT who were involved in the Scheme?

Mr Shimmin: I think you are asking me to speculate.

The Chairman: Mr Butt.

Mr Butt: Thank you.

May I ask some questions on your opening remarks that you both made.

Mr McGreal first: you said there was a report approved by Treasury today which actually indicates some process changes and things that are going to be moved on, is that correct?

Mr McGreal: Yes.

Mr Butt: Will they address your comment that you made just now that matters should have been done earlier than the end of December?

Mr McGreal: They will indeed.

Mr Butt: Does that report address that?

Mr McGreal: Yes.

Mr Butt: Mr Shimmin, you made a statement that you have instigated a review and the findings of the review will be available shortly. Is that a different review, or is that the same review as Mr McGreal's?

Mr Shimmin: It is a different review and it is a different process. The report that Mr McGreal is talking about seeks to identify amendments to capital procedure notes, to the financial regulations, etc. The review I referred to was to identify the actions that were taken and to allow me to assess what further action I need to take as manager within the Treasury. So that is a management review. Mr McGreal was talking about putting in place improvements to systems and procedures.

Mr Butt: When will that be available, that review, your review?

Mr Shimmin: I anticipate some part of next week.

Mr Butt: And will that address the issue of what happened between September and December?

Mr Shimmin: The purpose of that review is it will give me... The intention is to give me sufficient information to assess what action as a manager I need to take, in terms of whether there are disciplinary or capability issues to be considered, so that review is primarily to deal with those management actions, as opposed to an investigation of the nature that you are conducting.

The Chairman: Mr Watterson.

Mr Watterson: Did Treasury take a view that the Department of Transport could go ahead and seek funding, despite the fact that there was no cost certainty at that time, in that they had an amount based on an assumption of a euro exchange rate at that particular date? There was obviously no guarantee that the rate was going to stay at exactly the same amount, but we still went to Tynwald with a request for funding. Do you think that is something that was appropriate? Is that something that was agreed by Treasury?

Mr McGreal: I think it is true to say that there was an indication of the rate prevailing at that time that would then remain stable for a period, so it was a prudent Treasury decision that indicated that it was safe to use those figures as a premise for Tynwald for expenditure.

Mr Watterson: Were there any Treasury officers at the presentation to Members in, I think it was the February, where the question was specifically asked about the forward purchase or hedging of euros?

Mr McGreal: I believe both Mr Blain and myself were at the briefing of Tynwald Members about that, yes.

Mr Watterson: Were notes taken at that meeting?

Mr McGreal: I personally did not take any. I understand that the project manager for the Scheme was clerking that particular session.

Mr Watterson: So there might have been notes within

the Department of Transport on that.

Mr McGreal: Most certainly.

The Chairman: Mr Cregeen.

Mr Cregeen: You were saying in September that the instruction went out. How concise was that instruction to the officer? Was that to actually purchase them or give the instruction?

Mr McGreal: There is an e-mail copy which... I am not sure about that but, in my own opinion, I think it was a valid instruction set out fairly concisely in terms of what was required, when the requirement was due to take place and to prepare a strategy to meet that commitment.

The Chairman: Can you refer us to the section in your report which deals with that issue, please?

Mr McGreal: If you turn to page 5 of the report –

The Chairman: They are not numbered. So is it paragraph –

Mr McGreal: It is paragraph 5 and then (vii).

The Chairman: At (vii), right, thank you.

Mr McGreal: I may have a different version of the report to yourselves.

The Chairman: We have in there an e-mail from CPU to the Investment Manager.

Mr McGreal: If I can... It is (ix), which is the...

The Chairman: Right, so CPU e-mailed yourself with the anticipated call for euros between April 2009 and September 2009. You referred earlier to the fact that there would not be a call for euros until that point, and you state that this was the first occasion when a clear presentation of the forecast euro cashflow requirements had been submitted by the DoT/CPU for action. Presumably, at any time though there is a foreign exchange risk in relation to the euro once the Tynwald vote had gone through.

Mr McGreal: Yes, I accept that.

The Chairman: The wording of item (ix) states:

‘Therefore, we do have a treasury foreign exchange risk to examine and if appropriate forward hedge our Euro currency requirements for this contract.’

Do you regard that as an instruction?

Mr McGreal: What we have here, Chairman, is just an extract from the e-mail. The e-mail went to in excess of one page and I think if we furnish the Committee with the detailed e-mail itself it will clearly set out far more detail of the instruction as submitted.

The Chairman: It goes on to say you would like this

officer to consider the options available and determine the favoured strategy. Again, I think it would be useful for us to see the whole thing because it is a question here of who is to follow up. Is that an instruction? Was the officer to follow up and report back, or simply to determine a strategy and act? What was the anticipation of the officer's action as a result of that e-mail, in your mind?

Mr McGreal: It was quite clearly an instruction to act and enforce that commitment. The strategy and options that I laid out there really were to either buy and hold euros at this stage or make a formal purchase or transaction. I think that is understood amongst the professionals involved, but I think if the Committee can, perhaps, appreciate that the report that was presented for the Treasury Minister was not actually constructed for the purpose of informing this particular Committee of the full details, so my apologies but there are a number of supporting e-mails and other information I think which would make the Committee's job a little easier in understanding some of the paragraphs within the report.

The Chairman: Right. Thank you.

Mr Butt: Chairman, can I just follow upon on that? Was there anything other than the e-mail to give the instruction? Was there any verbal conversation or any other follow-up, apart from the e-mail?

Mr McGreal: I think the one thing in the summer period was there had been quite substantial dialogue between a number of officers within Treasury in terms of what was required, when it was going to be required, how it was going to be required. So there was a general awareness of what was going to be involved. Following the e-mail, there were some short conversations on when it was going to be required again, but yes, I think that is tantamount to a clear instruction to proceed.

Mr Butt: What part did you take in those conversations?

Mr McGreal: Probably bit parts afterwards, I think. Having issued that particular instruction to get on with the job, there is, I suppose, little need for subsequent oversight of any particular...

Mr Butt: Will there be any notes of those meetings or any record of any minutes that might back this e-mail?

Mr McGreal: I am sure there are occasional snippets. What happens within Treasury on a weekly basis is that we have a senior management team meeting at which we discuss salient issues of the day and I am sure that the purchase of the RESA euros would have come up in those conversations in a matter of weeks they would invariably have been made. So whilst they might only have been headings or items, I am sure they have been recurring throughout that period.

Mr Butt: So, apart from having the full e-mail, is it possible for us to be provided with anything extra that might reinforce that?

Mr McGreal: Yes, I am sure we can go through the

notebooks to catch up on any of those issues.

The Chairman: May I give Mr Henderson an opportunity to ask a question?

Mr Henderson: Thank you, Chair.

I just need to clarify, Mr Shimmin, the point of how this initial report arrived to the Treasury Minister, i.e. the one you have given us with his letter of 9th February 2009. You initially set forth in your submission to us that basically you were made aware that there were some problems and that you wanted a report to investigate those problems to see exactly what the situation was. Subsequent to that, answering one of the Committee's questions, you have also said that the Treasury Minister expressed concern to you via other channels, and it was as a result of that that this interim report was conceived. I just want to be clear in my own mind, and for the *Hansard* Report, how this interim document from Mr McGreal was conceived, or was it a conglomeration of both factors – you became aware internally and the Treasury Minister became aware externally?

Mr Shimmin: My recollection is that the Treasury Minister had a conversation with one or more of his political colleagues, who evidently indicated that there was a problem in relation to the purchase of euros in relation to the RESA Scheme. The Minister asked me if I aware of that. I said no, but I would find out what the details were. I then called on Mr McGreal to produce the report accordingly.

Mr Henderson: So would you like to amend the contents of your statement that you furnished the Committee this afternoon to make that a little clearer perhaps? Are you happy that now that you have said that it is on public record as to how this report was conceived?

Mr Shimmin: Absolutely, I do not feel that there is a need to change the statement. I do not think there is anything incorrect. You are clarifying the situation where you asked me how this came to be. It came to be because the Treasury Minister asked me if I knew there was a problem. I said no. I asked for information to be called for, which is this report.

Mr Henderson: Thank you, Mr Shimmin. It is just that your fourth paragraph of your statement says:

'The report was requested by me...'

Which would lead the reader to come to the conclusion – and I am sorry to labour the point, but we need it to be clear – that you yourself were made aware internally of matters, but subsequent to that you are also saying that the Treasury Minister made you aware from his political colleagues.

Mr Shimmin: I am sorry. I will try and clarify this again. The starting point was that the Treasury Minister asked me whether I was aware of a problem. That was, I think, the week preceding the week concluding 16th January. I was not aware of the problem at that point. I then undertook to find out what the facts were by calling for this report. Therefore, the report requested by me, as a result of being informed that there was a problem, means that the Treasury Minister informed me that he thought there was a problem and would I find out whether that was true or not, which I did and have

produced the report.

The Chairman: I think that gives us clarity if we read *Hansard* with this report that you obtained that information from the Treasury Minister. Is that correct?

Mr Shimmin: The first...

The Chairman: The first information, yes.

Mr Shimmin: The first indication that I was aware of personally that there was a problem here was as a result of the Treasury Minister asking me did I know if there was a problem because some of his political colleagues were suggesting that there was a problem.

The Chairman: So the wording in your report says, 'The report was requested by me' – a statement rather – 'as a result of being informed', we now know, by the Treasury Minister that there was a problem.

Mr Shimmin: Correct.

Mr Henderson: Thank you, Mr Shimmin.

The Chairman: Mr Henderson.

Mr Henderson: I have got further questions, Chair. I just do not know how you feel the Committee...

The Chairman: Right. Mr Gill would like to...

Mr Gill: Just on that, you mentioned a senior managers' meeting which is a weekly event. Who attends that?

Mr McGreal: It is just people within the Finance Division, Corporate Strategy and Rating and Valuation. It is just a handful of senior players who keep abreast of significant events that are affecting the Treasury on a day-to-day basis.

Mr Gill: Officers?

Mr McGreal: It is just officers. It excludes Mark and the Minister and any Members.

Mr Gill: How often do the Treasury, as a Department, meet with political representatives?

Mr McGreal: Most Wednesdays.

Mr Gill: Weekly?

Mr McGreal: Weekly.

Mr Gill: Let us go back to the senior management meeting. Do you have minutes or agendas for those?

Mr McGreal: No.

Mr Gill: What records do you keep?

Mr McGreal: Our own... It is nominally 30 minutes on a Monday morning to set out what is abreast of Treasury in

the following week, where people are, what responsibilities we have, etc.

Mr Gill: Is not that contrary to the practice guidelines that were issued saying meetings have to be formally recorded?

Mr Shimmin: No, it is not, because this is purely a meeting of managers to understand what actions or business is coming up in the next week or so. It is managers getting together. It is not a meeting where decisions are taken. It is not a political meeting. It is simply part of the management of the Division to get together to understand who is doing what. It is purely an internal –

Mr McGreal: Communication.

Mr Shimmin: – communication vehicle and, frankly, I would be very surprised for a meeting like that to be formally minuted. It is a discussion between managers.

Mr Gill: Okay. We will put that meeting to one side and focus on the political meeting – the Department meeting – who would attend that?

Mr Shimmin: The Treasury... The situation is that, clearly, the Minister has responsibilities for the Treasury. The convention in the Treasury is that the Treasury Minister meets with his two colleagues on a weekly basis to consider matters of Treasury business. That is the choice that the Minister makes and delegates effectively decision making into that forum.

Mr Gill: That is the Treasury plus the two political Members?

Mr Shimmin: Yes.

Mr Gill: On a weekly basis.

Mr Shimmin: Yes.

Mr Gill: Who else is at that meeting?

Mr Shimmin: Normally myself, Mr McGreal and a note-taker.

Mr Gill: So that is minuted, with an agenda and so on.

Mr Shimmin: Can I make it very clear. That is a formal Treasury meeting which is of a very different nature from the meeting Mr McGreal was talking about which is simply part of the management process within the Department to ensure that there is communication between managers as to who is doing what.

Mr Gill: Okay.

Mr Shimmin: It has a very different purpose.

Mr Gill: Indeed, so the first meeting we will now put to one side about the managers' meeting which is not recorded and there is no agenda. I think you suggested that this would be a matter for consideration – an ongoing consideration

– week by week. It is an important piece of work, buying a substantial amount of euros. Would that be fair?

Mr McGreal: Yes, not necessarily week by week but it certainly would have come up at those meetings.

Mr Gill: From the time it took to make the vote onwards.

Mr McGreal: Not necessarily but over a period of the year, it would have been raised.

Mr Gill: Periodically?

Mr McGreal: Yes.

Mr Gill: And the political meeting, it is no less important at a political level. Was it a regular political agenda item?

Mr Shimmin: No, it was not a regular agenda item and I do not think it needs to be a political item. It is that the Treasury Minister and Members have every right to expect that, once that decision is taken, their officers will act upon it. This is a matter which is to deal with officers – the actions or inactions of officers in the administration. I do not see the role of the Treasury Minister or Members being to act in a managerial role and checking whether they have done the job that they should have done.

Mr Gill: So, just for clarity – sorry, Chairman, the last – there is no minute... Well, can we see the minutes in relation to this that took place at political meetings, if there were any?

Mr Shimmin: I am sorry but what would you...? The Treasury Minister and Members rightly would expect that the decision taken, as taken at Tynwald, would be put into effect by officers. There is no requirement for them to have considered and then minuted that to that effect. That was the decision for officers to pick up and act upon. The decision was taken and the knowledge was taken that there needed to be the appropriate purchasing of these euros. That was an administrative managerial issue, not a political one.

Mr Gill: Let me just be clear then. Are you saying that there is no political meeting when this matter was considered between April when the money was voted in Tynwald to it becoming somehow, by some source or other, to the Minister's attention. It was not on any political weekly meeting of Treasury during that period.

Mr Shimmin: No and nor do I think it should have been because – sorry, to make the point – it was an issue for the officers and administration to put decisions into effect.

Mr Gill: Thank you.

The Chairman: Mr Watterson.

Mr Watterson: Was this the first time a contract has been settled... a major contract has been settled in a foreign currency?

Mr Shimmin: No.

Mr Watterson: Can you give me other examples of major contracts, the sort of size?

Mr McGreal: The Energy from Waste Plant was a significant contract.

Mr Watterson: So, it was settled in euros as well.

Mr McGreal: A combination of euros and sterling, yes.

Mr Watterson: Right, so there was nothing unusual about the Authority to begin negotiations with firms in euros.

Mr McGreal: No, it is uncommon. I think the Energy from Waste Plant was perhaps up to 10 years ago and so they are not a frequent occurrence but it is not unique.

Mr Watterson: But Treasury would be sounded out early on that the Department wished to enter into negotiations in another currency?

Mr Shimmin: Treasury would expect to be notified that, in order to complete a contract, there may be a necessity to procure certain elements of it within a different currency, yes.

Mr Watterson: Okay. Why was it felt that, at that... early on, the price should not be agreed in sterling with the contractor taking a foreign exchange risk?

Mr McGreal: Details of that, I think, are probably more akin to the Department of Transport staff, but from recollection, because of the exchange rate fluctuations in the euro in the latter part of 2007, the contractors were reluctant to engage in any further exchange rate risks and wished to have the euro element of the contract paid in euros.

Mr Watterson: Do you not accept that, with a significant contract of this size, the Government might have had the purchasing power to dictate the currency that it settled its bills in?

Mr McGreal: Again, it is a matter for the Department of Transport actually who were involved in the negotiations and the target cost setting. I believe that the contractors in this particular instance were reluctant to take on that foreign exchange risk.

Mr Watterson: Do you not accept that, perhaps, these sort of decisions were a little bit beyond the standard competence of the Department of Transport, given that they were a little bit outside of their area in terms of the financing issues as opposed to contract management issues?

Mr Shimmin: Could I separate the two elements? You are asking two different questions there. One is whether or not the Department can identify the services or goods that it requires and if it can acquire them in sterling and if not, what currency would it have to acquire them in. That is not an issue which would be a question of their technical competency. It would be a question of what are the appropriate goods or services to acquire.

If, at the later stage, you are saying then do they have the competencies to take on the issues in terms of purchasing in different currencies, etc, well, possibly within the Department, depending on the skills of the staff involved, but as in this instance, straightforwardly, the decision was taken that the Treasury, working with the Department, would take over responsibility for that, to acknowledge the point that you are making which is that the Treasury would have the better resources to undertake that work.

Mr Watterson: The implication was that it was a decision made by the Department of Transport to settle this contract in euros.

Mr Shimmin: No, I think the way you framed the question was to suggest, could it have been purchased in sterling? I think, at one point, it could have been. As Mr McGreal says, our recollection is that, at a later stage, the company decided that it would wish to procure... it would wish to deal in euros. The question as to whether or not the Department of Transport could have used, as you called it, its borrowing power to... sorry, its spending power to refuse that and to insist that it be undertaken in sterling is a question to explore.

My understanding and recollection is that, at the time, there was a limited number of suppliers. The supplier had a relatively strong hand in terms of deciding that it wished to procure it in euros. That, of itself, is not a problem as long as the relevant currency is purchased appropriately. So, the issue here is about the purchase appropriately of the currency, not whether it was a good or a bad thing to purchase the underlying goods in euros or not.

The Chairman: Can I revert to this issue of purchasing the euros appropriately. At the back of the report which you submitted, there is an appendix A, an extract from a paper to Treasury, I think that is from the CPU. Could you identify that that is the case? This is the 'Exchange Rates' paper: 'The Euro has been a historically stable...' Is that from CPU to Treasury?

Mr Shimmin: It is, yes.

The Chairman: Now, in the penultimate paragraph, it says:

'As an alternative to paying direct hedging costs Treasury have advised the Department'

– presumably the DoT –

'to mitigate further slippage in the exchange rate by purchasing sufficient currency to pay the affected sub contractors in Euros immediately after the Tynwald approval.'

Now that appears to imply that Treasury had made a policy determination there, about when these should be purchased. Is that an accurate reflection of what the Treasury advised the DoT and were you aware of it?

Mr McGreal: Yes, I believe it is. I think if we look at the report earlier there, it had an extract from the Treasury minute which was held on 14th March which effectively said the same thing that there should be implemented a mechanism to protect against further exchange rate losses and that that

should be done virtually immediately.

The Chairman: Right, it did go on to say that it would give cost certainty. It would also indicate that, of course, if you could have a reversal of the exchange rate position, which would make it possible that you might have got it cheaper. But was that an instruction then, that the euros should be purchased immediately after the Tynwald vote?

Mr McGreal: I believe it was, yes.

The Chairman: But who does the buying, not the DoT? 'Treasury have advised the DoT to mitigate by purchasing'.

Mr Shimmin: Chairman, there is no question. This is Treasury's responsibility.

The Chairman: Right.

Mr Shimmin: Treasury is not trying to, in any way, suggest that this has any issue to do with the DoT. So the question then is whether that instruction effectively was undertaken within the Treasury by officers.

The Chairman: Okay. So, presumably then there was no instruction to purchase immediately after Tynwald approval.

Mr Shimmin: I think the point that Mr McGreal is seeking to bring out is that, in order to arrive at that decision –

The Chairman: You would need a cashflow.

Mr Shimmin: The cashflow was taken into account.

The Chairman: Right.

Mr Shimmin: Whether that proves to have been an error of judgement or not, that is the point...

The Chairman: The cashflow issues were required in order to determine what purchasing, and how to purchase. Is that right?

Mr McGreal: Indeed, yes.

The Chairman: And then of course, we went on to the time when you actually finally got the cashflow, which was round about... was it August or September?

Mr McGreal: I think the cashflow figures would have been available during the period of the summer, in all fairness, from various sources. I think the report actually –

The Chairman: Yes, the 4th of the 8th, there was one:

'You should note that Euro expenditure is not now predicted before April'.

And then, 'the anticipated call... between April 2009...' was e-mailed on 22nd September. So, was that the point at which you knew what the cashflow issues were going to be...?

Mr McGreal: That was the very first day on which I became aware of...

Mr Watterson: Sorry, could I just follow up with that statement that cashflow figures were available in May – that was in item 7.2. And yet paragraph 5(viii) states that this was the first time that

‘a clear presentation of the forecast Euro cashflow requirements had been submitted by the DOT/CPU for action.’

So, can you tell us how significantly the projections differed to hold up the financing issue for four months?

Mr McGreal: No, the point that I have made there in bullet point (viii) is that –

Mr Watterson: No – (viii) – yes, sorry.

Mr McGreal: Yes, sorry. This was the first time they had been submitted by the DoT/CPU for action that I needed to take action on. This was the action that I made the instruction for the Finance Division to commit the purchase.

Mr Watterson: But they had been available earlier?

Mr McGreal: Various versions of the monthly reports would have had cashflow projections. I think I am just crystallising in this particular paragraph. It was only then that the instruction was actually formalised and given.

Mr Watterson: Who would have prepared those cashflow projections?

Mr McGreal: It would probably have been the consultants to the Department of Transport.

Mr Watterson: Is that based on the contract staging posts or in the contract?

Mr McGreal: I am sure they would have been, yes.

Mr Watterson: Yes, sorry.

The Chairman: Have you got a question, Mr Henderson?

Mr Henderson: I sure have, Chair, yes.

The Chairman: Yes, right.

Mr Henderson: We just need to go back to what Mr McGreal said in his answer to... following the Tynwald motion when you say that there was a clear, sort of... I do not know what you want to call it – a directive or what – but it was a clear understanding that, once that motion, should it become a resolution and be approved, that the forward purchasing notion should be taken on board forthwith or asap in other words, which you have said. But we have clarified that further, where Mr Shimmin said that would be a Treasury issue. So, are you confident when you said that, as far as you were concerned, following the resolution in Tynwald in April, that the people who you would expect to carry out things like that, were fully aware of the instruction that, following the resolution that forward purchasing should

go ahead as soon as possible?

Mr McGreal: I am sure that the general awareness amongst those officers was that that was the intended strategy of Treasury. Treasury, having taken that decision, it was for officers to implement.

Mr Henderson: Was there any particular officer... Following the Tynwald resolution then, did any particular officer have the accountability to take that forward, once they became aware that the Tynwald resolution was followed through?

Mr McGreal: I think what you will find from the report is that is where we have some general breakdown in process and communication amongst Treasury officers, insofar as, perhaps, there was not a single point of responsibility to actually undertake and follow that action through.

There were several officers involved in that process in the general dialogue, in the general awareness and, whilst there was a surety and understanding that progress was being made towards the procurement of the euros, as we now know it did not actually happen until much later.

Mr Henderson: So, what you are saying is, in effect, that nobody took the initiative or ownership of what was happening at that particular point of time?

Mr McGreal: I think that is a fair reflection.

Mr Henderson: Okay. We move down the timeline then. That was April or May time. When did you say that you issued your formal crystallised direction?

Mr McGreal: That was specifically on 22nd September.

Mr Henderson: On 22nd September. So, at that point, the staff in the appropriate places, in your opinion, would have been under no doubt whatsoever when that materialised on their computer screens what their remit and responsibilities were with regard to your direction.

Mr McGreal: I am sure it would have been clearly understood, yes.

Mr Henderson: I have some further supplementaries if I may, Chair.

The Chairman: Yes.

Mr Henderson: Okay. One thing that I would like to establish from yourselves is, taking this right back to the start, ‘why on earth are we here?’ is the question I have been asking myself, inasmuch as the Treasury seem to have cast themselves up as a sacrificial lamb. I have never known a Government Department anywhere to suddenly report themselves to a Public Accounts Committee as in the way this appears to have happened.

What I am trying to ascertain is what was the thinking? You did an interim report and then suddenly it seems to me that, all of a sudden, somebody has thought, ‘Ah, this has got to go the Public Accounts Committee’. What was the thinking in Treasury that determined that the Treasury

Minister ultimately should sign off his letter and send the report here? Why were people anxious that we should review this in an interim format, especially?

Mr Shimmin: I think you have to ask the Treasury Minister that question directly. I will try and answer but you have to accept that it is my understanding and it was not a specific decision. I think that everybody... The situation is that the Treasury accepts that there were errors of judgements, mistakes made. Nobody is trying to hide that fact.

Mr Henderson: Sure, that is why I am a bit mystified.

Mr Shimmin: Sorry, my next stage on from that was that, clearly given the scale of it, any investigation that is undertaken, were Treasury simply to carry out an internal investigation, the equivalent suggestion would be that Treasury was trying to whitewash it. Your body is the body that is in an independent and parliamentary position to assess the extent to which the nature of the problems that caused this situation and to advise as to how that can be improved for the future. It would seem, I would suggest, that it is self-evidently the right place to investigate something...

Mr Henderson: Well, if I might, Mr Shimmin, I do not think it is self-evident because what I am struggling to come to terms with is the fact that, if this Committee of lay persons is to come up with any conclusions or whatever, with regard to the systems of Treasury and so on, surely that is for your expertise to identify internally – if there are failings – to recognise those failings, assess them with your managerial qualifications that you have. You are used to what is going on in there. You know exactly what is what. You can follow the audit trail through. You will know yourself what lessons would need to be learned.

Surely it is the PAC's point of view to take an overview once your line of enquiries is completely finished, if it ends up on our desk to say you have gone far enough or perhaps you should have gone a bit further. Surely it is this Committee's remit to look at it in overview. It is your job to be looking at it in the macro-management or micro-management point of view, even down to capability procedures and so on. Surely that is not our remit.

Mr Shimmin: No, and I do not think anybody is suggesting that that is an area you should be getting involved in, Chairman. This is a situation where a material amount of public money is going to have to be spent unnecessarily. Treasury has not tried to hide that or whatever. It has accepted...

Mr Henderson: No, we respect that particular stance.

Mr Shimmin: And the stage that we are on is, clearly, we will look to identify what improvements can be made but in a wider parliamentary sense, if it is not this body, what body is better able to identify, are those proposals that we may come forward with, adequate and appropriate, or you may wish to express other views as to the actions or inactions taken by the Treasury. So, it will give then, in a parliamentary sense, an opportunity for parliament to be aware and to have a report which is produced independently of the Treasury as to the nature and the reasons behind the situation and proposals that could avoid that happening in the future.

Mr Henderson: Building upon that then, what was the thinking behind initiating this process now with only an interim report? You have already indicated that there are two reviews going on now. There is a follow up to Mr McGreal's initial review and then there is a review of yourself as well.

Mr Shimmin: With respect, I have to say that you have to ask the Treasury Minister. It was the Treasury Minister who decided to refer the matter to the PAC. Anything I say at this point, I will seek to give you my views but please accept that it is not something that has been directly discussed in terms of the Treasury Minister's motivation for that reference.

Mr Henderson: I accept that, Mr Shimmin, but surely something must have determined the Treasury Minister in his strategy, vis-à-vis information must have been given to him by yourselves to make him come to that conclusion.

Mr Shimmin: The reason for providing the information

Mr Henderson: Or are you saying he did it unbriefed?

Mr Shimmin: The Treasury Minister made a decision that, in terms of a political judgement, that the most appropriate way to ensure that this matter could be seen to be being reviewed objectively and independently was to refer it to an independent parliamentary body.

Mr Henderson: I accept that, Mr Shimmin, but I just have a further question, Chair, to follow that.

The Chairman: Yes...

Mr Henderson: If we follow this through to what has been said in public and in other areas, of course, the same could be said of this Committee, which is what ultimately worries me. We follow up on all this, make our final report, and say we are content, or reasonably content with what Treasury has done. We make some recommendations that people may or may not be happy with. Then we can be the scapegoat for the brunt of opinion in that way too, I suppose. We could be seen as the whitewash.

The Chairman: Can I just say that it is for this Committee to determine which matters it considers or not. If we choose not to consider something that is referred to it, that is within our power.

Do you want to respond, Mr Shimmin, to the question or was there a question?

Mr Henderson: There was. I was saying do you think it is offloading your responsibility?

Mr Shimmin: No.

Mr Henderson: Thank you.

The Chairman: Mr Gill.

Mr Gill: Mrs Christian referred to the exchange rates appendix and about Treasury advising the DoT to mitigate further slippage, etc, I think that was accepted that that was a Treasury policy. Who makes policy in Treasury?

Mr McGreal: Treasury Minister and Members based upon advice and recommendations from officers.

Mr Gill: Okay. Who would be the Treasury Minister or Members with specific responsibility for this type of area?

Mr McGreal: I think it would have been the Minister himself in that respect.

Mr Gill: Okay. I am sorry. I am simply finding it difficult that a substantial vote goes through which directly relates to Treasury, goes through Tynwald in April and you are intimating or stating really that no Treasury Member or Minister showed any interest in it again until somebody whispered in their ear a bit later that there was a problem with it not having happened.

Mr McGreal: I think I can only echo Mr Shimmin's remarks of earlier on, that it was a strategy and policy set down by Treasury. It was expected to be administered by officers throughout the year. There is no matter for the Treasury Minister to have any oversight or monitor it, he expects to be done. On this particular occasion and without the benefit of hindsight, it was not done timely enough.

Mr Gill: So, does that happen with every financial motion where it is just off the political radar and it will just sort itself out? It is not the way any other Department works.

Mr Shimmin: If I may, Mr Chairman. I am sorry, I do not believe that this is a political issue. It is a managerial or an administrative issue. The Treasury Minister rightly expected the actions to take place. Officers represented by me have let him down at that point in this issue. I accept that point. I have made that point. I really do not believe that this is a political issue. It is a managerial issue.

The Chairman: Mr Butt.

Mr Butt: Thank you. Going back to the statement on the exchange rate document saying that, after the vote, euros should have been bought immediately. Mr McGreal, you said that there had been a breakdown in communication and that had not happened and then presumably after the e-mail in August or September, again had there been a breakdown in communication between then and September and December?

Mr McGreal: I think, at that point, we had actually clarified where the responsibility lay and gave a clear instruction on what was required and when it was required. I think thereafter we just had a period of passive inaction.

Mr Butt: So, a breakdown in communication there at whatever stage. There is a report Mr Shimmin is preparing which concerns possibly discipline matters perhaps or capability matters which I do not think may be appropriate to reveal here, but can you, either of you, give an indication as to what factors would have caused a breakdown in communication?

Mr McGreal: Prior to 22nd September?

Mr Butt: Prior to and, maybe, afterwards. What sort

of factors were there in the Treasury that would lead to breakdowns in communication without actually blaming anybody?

Mr McGreal: No, certainly prior to that particular period, I think there are a number of officers within the CPU who have a general awareness of what was required for this particular project. We have a split of divisional responsibilities within the Treasury when we will deal with Treasury accounts, banking, the clinical type of transactions and others will deal with policy, strategy and oversight and it was the interaction between those two divisions in terms of having a general awareness, but not getting in place the exact transaction, i.e. buying in currency from the bank to match this commitment. So one was waiting for a definitive instruction, and the others thought they had given enough information to make that happen. I think it was just a combination of those events. They both talked and discussed amongst themselves freely what was going on, but the definitive transaction was not executed.

Mr Butt: So you are, in effect, saying it was a structural breakdown in the structure of the Treasury. The Minister made quite a lot of play, in his debates, that one of the factors was the workload of the Treasury at that particular time. Have you any comment on that all?

Mr McGreal: You talk about the structure; perhaps it is the process and communications, rather than structures.

Mr Butt: So serial structures.

Mr McGreal: Yes, I think you are right, process of...

Yes, I think we make no bones about it: over the last year, we have had unprecedented pressures within Treasury, but I am not going to lay this particular issue on that particular aspect. I think we can overlay this as another item to be executed within Treasury day-to-day management, but I do not think it is the root cause of why it did not get done.

Mr Butt: So when your report, if approved today, becomes available, and Mr Shimmin's report, the workload factor will not be a major part of that?

Mr McGreal: It will not be a major part of the issue. It will always be a contributory element, there is no doubt.

Mr Butt: Thank you.

The Chairman: Can I ask you then, in your e-mail of 5th December, when you asked for confirmation that arrangements were in hand to meet the foreign exchange commitment, was that a routine request or just something that had been prompted by a concern that it might not have been executed? Can you remember?

Mr McGreal: Possibly both. It was, at that stage... I do not monitor euro exchange rates on a day-to-day basis, but I was aware that the time for the execution and payment, in terms of euros for the RESA contract, was getting closer; so again, for my own peace of mind, it would be a reminder and a follow-up.

The Chairman: So then further towards the end of that

month, when the euros had been purchased, it was said that there had been discussion with yourself, who had agreed that it was better to secure certainty of cost on the issue and go for a supplementary vote.

Mr McGreal: Yes.

The Chairman: That is quite a big sum of money involved here because of the change in the value of the euro. Would you not normally perhaps advise the Chief Financial Officer and the Accounting Officer in the Department of something as major as that?

Mr McGreal: I think that was a culmination of an exchange between myself and the Chief Accountant that had looked, at that stage, at the fall in exchange rates, the period of time that the said action and the passive management of the whole affair had taken place. We looked at the markets, in terms of the sentiment for further decline potential in the euro etc, and decided that it was better to close off and gain certainty at that stage. I did not feel it was necessary to actually involve the Chief Financial Officer in that decision at that time.

The Chairman: You did not think it was necessary at that time, so he did not become aware until, via other routes, the Treasury Minister alerted him to the problem.

Mr McGreal: Yes.

The Chairman: So that kind of overspend would not normally be relayed in terms of the capital overspend of Government or the capital spend of Government, would it?

Mr McGreal: At this stage, we were looking at the impact of that, the euro exchange, which we now know to be some £2.2 million. At the outset of the RESA contract, there was a contingency element built into the contract of something similar, of that order. I was not fully aware, at this stage, what the net requirement for a supplementary vote would be, but I think we were just looking at the impact of the euro exchange rate and the necessity to actually close off this transaction and get certainty at that stage.

The Chairman: Can I ask you then, earlier on you talked about processes. The fact that capital projects had not very often involved other currencies, did that mean that there were *not* processes in place in relation to capital projects, or that they were the normal processes but you had this lack of communication for some reason?

Mr McGreal: Certainly the capital procedures do not cover the inclusion of foreign exchange within them and the potential indications of when currency should be bought forward etc. I alluded earlier on to the changes that we are making or proposing within financial regulations and capital procedure notes. Those issues will be addressed.

The Chairman: Thank you.
Mr Gill.

Mr Gill: Mr Shimmin, could you define what passive management is in this context?

Mr Shimmin: Deciding not to buy something at a

particular point.

Mr Gill: So that is an active consideration not to do something.

Mr Shimmin: That is my understanding of the definition you asked me to give you, yes.

Mr Gill: In this context?

Mr Shimmin: Yes.

Mr Gill: So it was periodically decided, do nothing, do nothing, do nothing, for whatever reasons. That was a passive management practice?

Mr McGreal: If I may interject there, I think that was *my* terminology, and the way in which I have alluded to passive management is that it has been left to one side. There was not a conscious decision not to do anything or a conscious decision to do something. It was purely left in abeyance to the extent that... Again, that is *my* description and that is *my* intuition of how this particular matter has been left for so long without being acted upon.

Mr Gill: But in the normal course, even if you do that, for whatever reason, and that is acceptable... You say, 'Right, we're not going to do anything until, let's say, the end of the visitor season, and then we'll paint the boarding house. We will make a definite decision to do that.' If you had made that definite decision, surely that has to be periodically reviewed and reaffirmed as a correct measure. Who does that? Who made those periodic reviews?

Mr McGreal: I think in this particular context, up to the period until 22nd September, it was unclear as to who was responsible or who took ownership. From 22nd September onwards, it is quite clear it is a Finance Division responsibility to execute the transaction, and that is the area in which it remained.

Mr Gill: Again, I appreciate your earlier answer, but there are two sides to this. There are parliamentarians, political Members who know that there has been a substantial vote and nothing has happened. What mechanism is there for those individuals to ask you to query what the situation is with that particular matter, or any other matter indeed, but that particular matter?

Mr McGreal: I would think –

Mr Gill: If I am a Member of the Department and I am conscious that two, four, six months ago a substantial sum was voted, that Treasury had an active involvement in policy, in fact, a position on, and nothing has happened, do I just forget that, or do I say, 'Bring me an update on that every month, every quarter, every six months'? Isn't that what a politician should be doing – the Minister, in this case?

Mr McGreal: Again, I think we have covered that point on a number of occasions. I think the Minister and the Members expected the policy to be carried out. It was a managerial and administrative oversight that it has not been.

The Chairman: Can I ask, just for clarification, when the Treasury is referred to here in these documents, it does not necessarily mean the political Treasury board. For example, the paper from CPU which says:

‘As an alternative to paying direct hedging costs Treasury have advised the Department...’

would that be the political Department or the officers of the Department?

Mr McGreal: I think it is used interchangeably, Chairman, so it is in each of the contexts. I think it is used interchangeably. Sometimes, it will be Treasury, and sometimes –

The Chairman: Yes. In that context, who would it have been?

Mr McGreal: I would imagine it is going to be the officers in that particular request.

The Chairman: Mr Watterson. Sorry, Mr Cregeen, I think, next.

Mr Cregeen: Could you furnish us with the documentation where you were forecasting in December what the euro was forecast for exchange, because it looks very much like a knee-jerk reaction, that you have suddenly realised that you have not purchased the euros, so ‘let’s buy them now’. Can you furnish us with that documentation? You must have had something there to say whether it was the best time to buy it now or January, February.

Mr McGreal: I think what we would have in place at the December time... Obviously, there will be an e-mail chain to indicate what the events were up until then, and what we will have is competing tenders for the euros that we went out for.

Mr Cregeen: But earlier on you were saying about forecasting, for the future purchase from DoT, about how the euro was going. Did you have the same information in December, when you purchased, about what you thought the euro might be doing in January or February?

Mr McGreal: I cannot personally answer that, because it was not my responsibility at that stage to take on board that transaction.

The Chairman: If we could get the information which presumably the Treasury officers who did do the purchasing based their decision upon.

Mr Watterson.

Mr Watterson: Just to perhaps build on that, you talked earlier about the sentiment of the market and it was perceived that the euro was going to remain stable, and that was a decision made back in about March. What sort of sources was Treasury using to inform that?

Mr McGreal: I would say extracts from the main *Financial Times* or economic outlooks at the time.

Mr Watterson: And that was stating that there were no

likely 12-month movements in the...

Mr McGreal: That is right. The main fact, I think, for the foreseeable future, was six months was the...

Mr Watterson: So at what point did Treasury realise that there was a foreign exchange issue? What date do you think really was the turning point to say, ‘We have got a contract here in euros, it is going to be a problem.’ What date would you say that really...?

Mr McGreal: Again, I do not think there was any particular date in mind. The train of events there is quite clear that we have got an instruction late in September when the euro was on a par with the March-April situation. It was fairly flat at that stage, so there was not a particular point at which it was seen –

Mr Watterson: No ‘Aha!’ moment?

Mr McGreal: Not to my recollection, no.

Mr Watterson: With regard to the concurrence of Treasury on 19th March – that is the Treasury board, the Minister and Members – the scheme has come forward, you are looking for approval to go to Tynwald. What issues were raised during this meeting as key questions that needed to be answered and assurances made? Was foreign exchange risk one of those areas that Treasury sought assurance from that... and was that minuted?

Mr McGreal: I would have to look back at the minute to see, but it probably was one of the material issues that was involved.

Mr Watterson: Are you satisfied that the financial procedures and capital procedures, financial regulations and capital procedures, have been adhered to at all times during the course of this issue?

Mr McGreal: Yes. As far as they apply to the contracts, I would say, as I alluded to earlier on, they are specifically void in relation to the foreign exchange element in the currency transactions as involved in this; but otherwise, yes.

Mr Watterson: At a political level, there was approval for the principle of purchasing or managing this contract in euros?

Mr McGreal: Yes.

Mr Watterson: I thought I would do a stint and then I would hand it over.

The Chairman: One more.

Mr Watterson: Well, that has brought me to a natural break.

The Chairman: Mr Henderson.

Mr Henderson: Thank you, Chair.

I just want to build on the earlier questions I was asking, Mr McGreal, where we have established that perhaps in the

relevant section involved, people could not get an ownership of, shall we call it the nebulous instruction that had come down, if we can put it that way, from the Tynwald resolution, and that forward buying would be the preferred way to go forward, because nobody... It was 'put in abeyance', in your own words. I take it we have examined the line-management structure within that relevant Department, whereby it was in abeyance for so long then that, obviously, something started to mushroom at a point whereby somebody said, 'Flipping heck, there's a problem here!' That must have been within that section where they suddenly realised there was something starting to mushroom. At that point, that must be where yourselves, or whoever, became aware, but what worries me further is it did not seem to have mushroomed quickly enough for the communication to the actual Treasury Department meeting, for some reason. Could you give us any comment or clarification on that, because you keep saying it was a management day-to-day decision, but there must come a point where something becomes an exception, in management terms, where it has to be put up the line management command chain, where it has to come out somewhere else for that person to be accountable for what they are doing, basically.

Mr McGreal: If we just look at the chain of events very briefly, up to until September, whatever the reasons for the communication failures within the Department, there was no significant change in the value of the euro from the time that I issued the instructions to quite clearly commit to the commitment and the forward purchase. If you like, that was the ceiling of the mushroom, that, in my belief, it went out...

Mr Henderson: Did a drop in sterling... Was that the principal thing that made you issue your command?

Mr McGreal: No, not at that stage. It was at that stage when I had a definitive cashflow forecast from the head of the CPU presented to myself, and it was then that I understood that there had not been any execution of the contract, and that whilst there had been all this dialogue, there had not been a firm instruction given, so I took on board that decision to issue such an instruction, and there afterwards I expected it to be implemented. It was only late in December, when we had the findings that it still had not been implemented at that stage, and then there was a period of activity that actually crystallised that. It was only into the new year that that would have been communicated to Treasury as an issue, and that was then superseded by the construction of the report that we have here.

Mr Henderson: So what we are talking about, in fact, is a very narrow timeframe when sterling did start to dip against the euro then. It is not the common public perception that has been put out there that sterling dipped somewhere in the summertime and somebody was sitting on this information right up to maybe after you issued your instructions?

Mr McGreal: No, they would not see it. It was into October before there was any movement in sterling.

Mr Henderson: Even so, through the Chair, that still leaves you in a management quandary then, because nothing happened until 29th December.

Mr McGreal: Yes.

Mr Henderson: Thank you. Finally, Chair, you have put, at point 9 of your report, Mr McGreal, 'Active/Passive Management Strategy'. You state:

'It is difficult to determine with any degree of certainty whether Treasury officers had properly and consciously embarked on a course of action to delay the forward purchase of Euros or whether this merely happened by default under a passive management strategy.'

Is that still your view?

Mr McGreal: Yes.

Mr Henderson: Thank you. No further questions, Chair.

The Chairman: Thank you.
Mr Gill.

Mr Gill: Presumably, if you are aware of an issue that you think might have political repercussions, or, just as a matter of good internal communication, that you think that your political Members or Minister should be aware of, you would tell them at the earliest opportunity. Would that be a good practice –

Mr McGreal: Yes.

Mr Gill: – that you would always adhere to? So, when you became aware that, through passive management or whatever, by September nothing had happened to effect this contract – it was not a big deal, because the euro had been static, but it was still six months' delay, or an April to September delay – is it reasonable to say you would tell your political Members that, just so they would hear it from you first and realise that there was not an issue and they would not be caught on the hop or on the back foot with not knowing that?

Mr McGreal: I think, as you said, it was not an issue, so at that stage, when there had not been any financial impact, there was nothing really to report.

Mr Gill: That is interesting. So, when you talk about – sorry, the second question, if I may, Chairman – the internal communication failures, as you have described them, the reports that you are preparing now, in the light of what we have heard, does *that* include the political Members and the requirement to include them in some kind of loop? Seemingly, they just make a decision and then never would trouble themselves with the consequence of a decision, from...

Mr McGreal: Quite clearly, in the amendment of the regulations and procedures that we have concentrated on, these are dealing with the administrative and operational failings, and, indeed, if there was a similar event to this, then yes, I think we may well learn the lessons and perhaps communicate that decision back to the Treasury Minister, Treasury board, but the procedures do not reflect the need to relay that information.

Mr Gill: And record those matters as they are ongoing?

Mr McGreal: No, these are dealing primarily with –

Mr Gill: No, the requirement, if... The recommendations you are suggesting might flow from... you would also record them?

Mr McGreal: Yes.

Mr Gill: Which, at the moment, just for clarity, has not happened. There is no record in your senior management meetings, no record at the Department meeting, that after this substantial figure was voted in Tynwald, it had any other political impact from thereafter until December, when somebody whispered it to the Treasury Minister.

Mr Shimmin: I am sorry. I think we have answered the question a number of times. I have expressed a different view. You are postulating a view that the politician's role there is to effectively undertake a management role and say, 'Has this happened? Has that happened?' when they are managerial functions. The fact that, in this instance, the euros had not been forward purchased is not fundamentally a political issue, in which case it is a management issue, as I have said a number of times, which we have accepted the responsibility for and acted upon. I find it difficult to answer your question because I do not accept the premise on which you are basing it, that there was in some way a fault at a political level. That is why we are having difficulty.

Mr Gill: We will have chance to ask the Treasury Minister shortly, directly, but when he made his prepared statement, accepting full responsibility, is that a document that you were aware of before he read it aloud?

Mr Shimmin: Yes. The Minister is responsible for the actions of the Department, as I am responsible for the actions of my officers. I do not see an inconsistency in that.

The Chairman: Thank you.
Mr Watterson.

Mr Watterson: When large capital projects are determined, how do Capital Projects usually liaise with other Divisions, such as the one with Treasury, mainly, to ensure that there is sufficient cash available to meet payments as they fall due?

Mr McGreal: Again, there are cashflow forecasts made available from the Department to the CPU and these are factored into the Treasury management guidelines.

Mr Watterson: So they are drawn up in conjunction with the contracts for... because this one is staged payments... in part of the contract, and then they are approved?

Mr McGreal: It is on global basis. We do not look individually on individual cashflows for each project and consolidate them, but there is a document which will give a trend of what is required on a month-by-month basis for Treasury cash management purposes.

Mr Watterson: And that process is covered within procedure notes?

Mr McGreal: Not necessarily, no.

Mr Watterson: So, in terms of cash requirements, there is not a requirement for CPU or anyone to notify Treasury, because it has these global, or... Are they monthly, quarterly cashflow availability figures? Monthly?

Mr Shimmin: It is important for Treasury, in managing its cashflow, to understand what the major elements are going to be. So it is important that, from a capital point of view, the expected cashflow for major capital schemes is understood and communicated to those making investment decisions and cashflow decisions.

Mr Watterson: How is that monitored within the Department?

Mr Shimmin: That is monitored by –

Mr Watterson: At what level?

Mr McGreal: It is usually monitored by the Chief Accountant, or myself as Finance Officer for the Department.

Mr Watterson: Thank you, and is that then, presumably, factored into the monthly, quarterly budgets of overall spending by Government? How does Government, or Treasury, monitor its capital spending in an ongoing way?

Mr McGreal: Again, there is a rule of thumb over the period of a year in terms of what the cash requirements are for the capital programme.

Mr Watterson: So does Treasury monitor that?

Mr McGreal: That is based on a monthly basis.

Mr Watterson: Is that something that goes to a political level?

Mr McGreal: Again, no.

Mr Watterson: What sort of level of oversight is there from a political level on the activities of Treasury officers, then?

Mr Shimmin: There is a quarterly report to Treasury and monthly updates of that in terms of the cashflow issues for Government, and we produce a report to Treasury which includes a range of financial information, both in terms of seeking to identify areas where Departments may be potentially overspending or our receipts coming in, in terms of taxation, etc. So there are reports on that; the cashflow, in total, is built into there. That report includes a report on the delivery of the capital programme, the extent to which schemes are on time or behind, or costs that are likely to be in excess of that voted upon. So those are reported to Treasury in a major form in a report quarterly and updated monthly, particularly where there are any issues that need to be flagged up.

Mr Watterson: When was the first time that this particular issue would have appeared on one of those reports?

Mr Shimmin: It would be, effectively, the period coming

to the end of 31st January 2008 at this point.

Mr McGreal: Perhaps if I could just add that, what we will have is a forecast expenditure on a project-by-project basis. The RESA, for instance, was a £40 million project spread over a few years, so it will have a monthly cashflow analysis. We have not, as yet, hit a month when we would need to spend euros on that particular project, so all we would have had, on a micro-level basis so far, is the cashflow forecast and actuals against that particular project in sterling.

Mr Watterson: Knowing you had a euro liability, you must have some formal check of ongoing monitoring to ensure that the exchange rate was not going outside of parameters that you were comfortable with.

Mr McGreal: Again, because of the unusual nature of the project, because of the absence of such a requirement within our financial regulations and processes, we did not have that process in place. We recognise that, and in the improvements and amendments that we are proposing we address that issue.

Mr Watterson: Did the Treasury make a conscious note or realisation that the euros were actually purchased ultimately at a 10-year low price?

Mr Shimmin: Yes, we are aware of the date of the purchase price and where, subsequently, the euro has moved.

Mr Watterson: Presumably then, at the date of purchase, the future horizon scanning that you were doing – and have been doing on and off throughout this process – what was that telling you back in December about what was going to happen? Was it that it had been at a level, it was going to remain stable, but then dropped and was going to remain stable; or was it going down, or going up? What was the information you were getting at that time to inform why you should buy at that particular point? As you say, you still have not had a month yet where you have needed to pay euros, but you have decided to buy them in December. What information was that based on?

Mr McGreal: What we agreed earlier on was that we would present the Committee with that decision rationale based upon what the Chief Accountant had at that stage, but the report is indicating that there was a degree of sentiment in the market that the euro would further decline and that there was a decision made to get cost certainty at that time and close out the deal.

Mr Gill: Who made that decision?

Mr McGreal: I ultimately gave the instruction to close out the deal on that particular euro exchange rate. That was unknown at that time, conducting the transaction, but it was at my instruction that the euro should be closed out at that stage.

Mr Gill: But – not who gave the instruction – who made the decision to purchase?

Mr McGreal: It would have been based on my

instruction at that stage. A few days later, it would have been executed.

Mr Gill: We cannot guess what the future will bring, in terms of currency exchanges, but it was your decision to purchase at that rate?

Mr McGreal: Not at that rate; to close out that particular deal at that stage in the calendar.

The Chairman: Do we have any further questions? We have taken quite a long time on the process.

Mr Watterson: I just ask a general one. Obviously, this is an error of omission rather than an error of commission, and workload has been something that has been cited in here. Are you finding, for any particular reason, that there is an increasing level of mistakes being made in Treasury, and this is just an example of that? Okay, it has actually had big financial ramifications, but perhaps there are an increasing number of small errors happening in Treasury as a result of higher workload.

Mr McGreal: I do not think that is indicative of the error made within Treasury. Certainly there has been much play about the pressure on certain officers, I think that is self-evident, but I do not think it is leading to errors or omissions at this stage.

Mr Gill: Is the workload shared equally between senior Treasury officers?

Mr McGreal: I think at any one point of time it has going to go up and down, depending on –

Mr Gill: Whose responsibility to ensure that it is as far as possible?

Mr Shimmin: Mine.

The Chairman: Presumably there are different tasks for people to do which others are not competent to do, so it is inevitable that pressures change from time to time.

Mr Watterson: As a result of this, have you found the need to clarify things like delegations of authority or job descriptions?

Mr McGreal: I think that is part of the process that we would go through over the next period to see what may be underlying issues or associated with this and other pressures across Treasury will actually bring us.

The Chairman: Right, final questions from Members please. Mr Cregeen.

Mr Cregeen: At what level of risk do you notify the political Members? Do you consider that if it was not euros, if there was another risk on a capital project, would you have notified the political Members then or is it that you just carry on as normal?

Mr Shimmin: The normal expectation would be that political Members are notified at the earliest understanding

that there is a problem or a situation or a risk.

Mr Cregeen: Whatever the... I mean, euros, workwise?

Mr Shimmin: One could drown the political Members in any Department if the officers are taking every potential problem, issue, risk, that might arise to Members. It is always a judgement based on what are the materiality of risks and the political nature of risks as to what needs to be brought to the attention of Ministers and the Members of the Treasury, so I think it would be impossible to define specifically what you are providing to the Treasury. Whenever there are areas which are going to be of concern, risk, problems, I would expect that we would be bringing those to the attention of the Treasury Minister at the earliest opportunity.

Mr Cregeen: Because as you would be aware, when they were doing the resurfacing of the runway, the oil prices were going through the roof and they were having to mitigate against other areas. Was that an area that you had flagged up within Treasury that there could be further liabilities on the project?

Mr Shimmin: I am going from memory at this point and you have to accept that, but I recall that the impact that those oil prices could have on that and other schemes were identified as a risk that we needed to be aware of. What we could do at that time would depend on the particular situation.

The Chairman: Mr Henderson, final question?

Mr Henderson: No, nothing further, thank you, Chair.

The Chairman: Mr Watterson, final question please.

Mr Watterson: Just the one then. Has the report that you wrote, Clive, been agreed as the facts by the Department of Transport and all the officers who were named within it?

Mr McGreal: No, it has not been approved by the Department of Transport. It has got the consensus of the officers within the Treasury who are named within there. Again, it was not presented for the purposes of the Committee so I must emphasise that and certainly the extracts in there are purely the extracts on occasions, so they do not lend themselves to presenting the full story.

The Chairman: But most of the officers are Treasury officers so they accept what –

Mr McGreal: Indeed, yes, it is the general consensus of facts as a trigger of events, absolutely.

The Chairman: Thank you. Mr Gill.

Mr Gill: Just one. Mr Shimmin, as the senior officer in Treasury, if an honest, honourable, hardworking officer came to you and said 'I've made a mistake by not doing something and I want to resign', what would the reaction to that person be?

Mr Shimmin: It would be to try and discuss with them,

identify what the issue was, how it had arisen, the nature of the situation and look for them not to resign, if it was appropriate that it was an honest mistake, and look to how that situation could be avoided in the future and what other assistance, support, development might be needed to help.

The Chairman: Do the Clerks have any questions? Right, well thank you both for coming this afternoon and for answering so many questions. I feel sure the Committee will want to write to the Treasury to get various documentation from you which underlies the presentation made in this report. We will be seeking from you the report that has just gone to the Treasury which you have mentioned.

Thank you. That concludes our questions for you today.

Mr Bell was called at 4.10 p.m.

EVIDENCE OF HON. A R BELL, MHK

The Chairman: We will now call forward our next witness who is the Treasury Minister. Thank you.

Good afternoon, Minister. We want to thank you for attending today, particularly under the circumstances, but we understood that you wished to come and speak with us this afternoon. Do you wish to make an opening statement? We are content for you to do that. The answer to that is no.

Right. First of all, could you indicate to us how you were alerted to this issue of the failure to purchase euros in a timely manner?

Mr Bell: Yes, the first indication I had of this was the first week or 10 days in January when the Minister for Transport, Mr Anderson, raised it with me.

The Chairman: So it was through the Minister for Transport. That has clarified an issue which was raised earlier, that being the Department which required those euros for the capital scheme, the RESA capital scheme. Right, thank you.

What action did you then take, please?

Mr Bell: My first reaction obviously was one of extreme surprise because I had no inkling that there was a problem at all with this contract. I immediately went to my Chief Financial Officer, Mr Shimmin, and raised the issue with him. He equally, I think, was unaware of the problem at that time and he initiated an inquiry to find out first of all, was what I was told accurate and then a subsequent inquiry as to how it happened.

The Chairman: Mr Shimmin has intimated to us in his evidence that he, being the Accounting Officer, tendered his resignation, which you did not accept.

Mr Bell: That is right.

The Chairman: Can you explain your thinking on that particular issue, please?

Mr Bell: Yes, Mr Shimmin was unaware of what had happened. I value Mr Shimmin's contribution as one of the

most effective members of, not only Treasury, but of the senior civil servants in Government. We are going through an exceptionally dangerous time for the Isle of Man at present and although he, as the Chief Financial Officer of the Department, felt he had to take personal responsibility for everything that goes on in the Department, notwithstanding that, I felt it would have been inappropriate to accept his resignation on that basis, serious though the error was, and that it would be a more effective way to first of all find out exactly what had happened and to see if we can ensure that the processes – if indeed there was a failure of process – could be improved to make sure that did not happen again.

I have to say, throughout my political career, accept that personal mistakes do get made from time to time for a number of reasons, none of us are perfect, but I do believe that the overall contribution, the outstanding contribution that Mr Shimmin has made to the Treasury and to Government far outweighed personal liability in this situation.

The Chairman: What was your reaction to his tendering of his resignation?

Mr Bell: Initially I was surprised that he was going to do that, he would go that far, but Mr Shimmin is a very honourable man and he felt very strongly that chief officers should be accountable and therefore he took responsibility, notwithstanding the fact that it was not his personal responsibility. He felt that he had to show integrity in the matter and accept that he was accountable for a failure within the Department.

The Chairman: How did you perceive the failure in the Department? As a personal one of some member of staff or a procedural one or a structural one? A process?

Mr Bell: Well at that point frankly I did not know; that is why the inquiry took place. It could have been either a process or it could have been an individual oversight. At that time, as I say, I was completely unaware of what had happened so I was not *au fait* with any of the background as to the circumstances which actually led to this problem.

The Chairman: Thank you. Mr Gill? No. Mr Watterson.

Mr Watterson: In terms of what your feelings are now, having had interim reports from Treasury, what is your feeling? Is this a personal issue that is a mistake by one officer or is this something procedural within Treasury?

Mr Bell: My initial feeling at this stage – and I think we are still trying to get absolute clarity – is that it was a breakdown of communications between officers in the Department.

Mr Watterson: Since this issue was first raised earlier on this year, you have refused to answer Questions in Tynwald on it. Do you accept that merely by referring an issue to the Public Accounts Committee does not give it the parliamentary privilege of Committee proceedings, in that the Questions can still legitimately be asked by Members and you are still obliged to answer them?

Mr Bell: I have no problem with that.

Mr Watterson: Well, why then has the answer been, every time a Question has been asked in Tynwald on this issue, that ‘this has been referred to the Public Accounts Committee and I have no further comment to make’?

Mr Bell: Because I had hoped that the openness that Treasury approached this issue in would have been recognised by all Members, that we do not want to prejudice the situation. If we had simply taken internal actions and not had an independent assessment of what went on, immediately we would be criticised for whitewashing or trying to brush issues under the carpet.

My whole aim in this was to try and get an open, objective assessment of what went wrong by an independent body and not to prejudice it in any way by making comments prior to that review. That is not a refusal to answer questions, it was an attempt not to contaminate the process to ensure that we get a full and independent assessment of exactly what went wrong to identify if in fact there were failings of the Department and if so any recommended mechanisms for improving it.

The Chairman: Mr Cregeen.

Mr Cregeen: In Mr McGreal’s comments earlier on, he was quite clear that, in his e-mail of September, he thought it was implicit that the euros should be bought. What part of communications do you think broke down with his e-mail which he thought was quite implicit, to purchase?

Mr Bell: The e-mail, I understand – I have not got all the details with me – was between himself and the Chief Accountant and another officer.

The Chairman: Yes, the Investment Officer.

Mr Bell: Yes, the Investment Officer. [*The Clerk showed Mr Bell the relevant e-mail.*] So, your question again was what –

Mr Cregeen: That he considered that he was giving an instruction to purchase. Where do you feel that the breakdown in communication between that communication to the officer was?

Mr Bell: It would seem that the problem lay with the interpretation of the officer at that time to the instruction and that the actions which were expected by Mr McGreal.

Mr Gill: So it is interpretation, not breakdown in communication?

Mr Bell: That could be one way of looking at it.

The Chairman: Mr Henderson.

Mr Henderson: Thank you, Chair. Treasury Minister, I asked this earlier of your Chief Executive Officer and now I ask you because they basically threw it back at us. I would like you to comment on this observation. I am astonished that we have this in front of us today considering that there is only an interim report. Mr Shimmin and Mr McGreal have revealed that there are two further reviews going on in separate directions with regard to this, so what criteria did

you base your decision on to throw it at the Public Accounts Committee?

Mr Bell: A very simple one, as I have just said, that I believe that this was an unfortunate error within Treasury but if we had simply dealt with it internally, we would undoubtedly have been criticised quite strongly for either whitewashing or trying to cover up what we were trying to do. The whole criteria of this was to be absolutely open from day one, to admit that a mistake had been made within Treasury and to look for an independent assessment of what went wrong and the Public Accounts Committee seemed to be the best route to actually do that.

Mr Henderson: With the greatest respect Minister, you have already been transparent in your admissions in Tynwald/Keys with regard to this matter. Why bring it before PAC when there is an ongoing process already that we could be accused of contaminating those reviews?

Mr Bell: Well, the work of the PAC... I suppose you could argue the same basis on any issue that you look at. We felt that the PAC would be an appropriate independent body to give us the confirmation, one way or the other, of whatever errors took place and it was to ensure that it was as open and transparent as we could possibly make it.

Mr Henderson: If I may just progress my enquiries, Chair. Well, again with respect, Treasury Minister, some of the issues seem to be pointing in a managerial direction which is really not our remit. We are charged with looking at policy procedures and the overview of Departments and so on. What would you say if I said you are really just trying to pass the buck here? You are throwing it back in our faces, so if anything comes up in Tynwald again it will be PAC that gets it and not Treasury.

Mr Bell: That is not the case at all.

Mr Henderson: Passing the buck.

Mr Bell: That is not the case at all. We are trying to be open and transparent which is what Government has been seeking for a long time. If the PAC feel it is not appropriate to investigate this any further, then fine, we will take it back and we will continue our internal reviews. I felt at the time, bearing in mind that this was a serious error which I think had taken place, although perhaps understandable, I felt it was more appropriate to get an independent assessment of that and I rest my case.

The Chairman: Mr Gill?

Mr Henderson: Well I have got one further point, Chair, if I may, to build on the Treasury Minister's response there. Far be it from us to consider whether we should pass it back or not, it has been made a public highlight and spectacle of, really, and it is certainly our duty to look at things.

At point 9 of Mr McGreal's report he very clearly states:

'It is difficult to determine with any degree of certainty whether Treasury officers had properly and consciously embarked on a course of action to delay the forward purchase of Euros or whether this merely happened by default under a passive management strategy.'

This is still his considered observation as of three quarters of an hour ago; Treasury Minister, what is your view of that?

Mr Bell: I would agree with him, I do not have clarity on this point.

Mr Henderson: That there could be a deliberate attempt to delay the forward purchase. I am saying there could be, there seems to be information –

Mr Bell: Deliberate is too strong a word. I think there may well have been a decision taken to defer the purchase.

Mr Henderson: Okay, thank you.

Mr Bell: Deliberate sounds a bit wilful. I do not think it is in that context.

The Chairman: Mr Gill.

Mr Gill: Thank you. Treasury Minister, I understand your view, that you said earlier that this is basically a breakdown, and understandable now when you say breakdown of communications within Treasury, between officers. So I do not understand why you have repeatedly said that you take full responsibility for it.

Mr Bell: Every Minister represents a Department and every Minister takes responsibility for what goes on in that Department.

The Chairman: Mr Watterson? Sorry.

Mr Gill: The other points that have come out, there is a lot of uncertainty about what the Minister and Members of Treasury actually do on a regular basis. I do not mean that in terms of –

Mr Bell: Work very hard, I can assure you!

Mr Gill: Well, we do not see any records to reflect that in terms of this matter. Can I just clarify, this matter was not discussed at any time or raised by you or either of your political colleagues at any time between the vote in Tynwald in April 2008 and it coming to your attention by the Transport Minister in January the following year?

Mr Bell: Not formally.

Mr Gill: Informally?

Mr Bell: You need to understand that Treasury, and certainly the political Members of Treasury, do not micro-manage every single capital project that comes along. We have a large amount of projects going at any particular time. Once the political process is finished, the presentations are made and there is a considerable amount of debate about this whole scheme prior to the authority given to the DoT to go ahead with it. I think we had at least two presentations, other written comments. It was exhaustively examined in the early days, including the issue of hedging the euros.

Once the decision was made to go ahead with it ultimately, we were satisfied with the structure, Tynwald was

satisfied with the structure, it went on then to officers, both in my Department and in the DoT to manage the project. It is perfectly normal. That happens on all capital projects, unless there is an identifiable problem and, from time to time, there may be issues which crop up with a capital scheme in which case Treasury will be told about it but we do not micro-manage once that main decision has been made and it is no different now, as I understand it, that has always been the process in Treasury. We do not have the resources quite apart from anything else.

Mr Gill: I do understand that and nobody I think is reasonably saying you should micro-manage anything, but in terms of a politically contentious scheme with a significant figure involved that has been voted in, in April Tynwald, it never gets mentioned by any politician again until it goes horribly wrong. There is never any review of it as an ongoing matter, everything is fine, so one line, everything is fine in that project, move on to the next one.

Mr Bell: There is not a review of the specific project, but I expect – and it has always been the case – that if anything starts to go wrong with any particular project, not just this one, then either I am notified as a Minister or the Treasury Board is notified and we may not necessarily do anything about it but at least it is noted and we know what is going on. Once the decision is made, as long as everything is going fine and there are no problems with the project, then it is left to run its course.

Mr Gill: So in hindsight, when in September it came to the Chief Financial Officer's notice that nothing had happened with the purchasing, and that did not really matter because the exchange rate had fluctuated, but even so there is six months' delay in a contentious issue, would you have expected, or would you now expect in those circumstances, to be advised, just so that you would not be caught on the hop, as indeed you were?

Mr Bell: Hindsight is a wonderful thing. It is easy to sit from this perspective and say this, that or the other should be done. It was not done and we have to accept that.

Mr Gill: But should it be, now?

Mr Bell: If there was a... again from today's perspective with the benefit of hindsight, I could say yes, perhaps they should have told me or at least they should have told Mr Braidwood who had responsibility for capital projects. As far as I know, that was not done. With hindsight, yes, you could say perhaps we should have been notified.

Mr Gill: That would be a lesson to learn. I am trying to be constructive.

Mr Bell: Yes, absolutely.

The Chairman: Mr Watterson.

Mr Watterson: Other than referral to the Public Accounts Committee, what other decisions were made at the same time regarding this issue?

Mr Bell: The inquiry was set up.

Mr Watterson: Internal.

Mr Bell: The internal inquiry, yes.

Mr Watterson: Requesting the subsequent report that was placed before you today at Treasury.

Mr Bell: Yes.

Mr Watterson: Was Council of Ministers informed about this at its next sitting and did they request any further actions?

Mr Bell: The Chief Minister was notified the same day as I found out about it and Council were told.

Mr Watterson: Do you expect as a result of this a greater level of political monitoring is envisioned?

Mr Bell: We will certainly... obviously, we look forward to a constructive report from the PAC, and our own internal reviews and we will be obviously reviewing the wider approach to some of these schemes in the future.

Mr Watterson: Given that you actually know more about this at the moment than we do, but you had an additional report today, do you envision a greater level of political monitoring will come out of this?

Mr Bell: We will certainly have to tighten up on that, yes.

Mr Watterson: Finally, Chair, given that this was a matter of sufficient seriousness for your Chief Financial Officer to tender his resignation, did you at any point tender your resignation to the Chief Minister on this issue?

Mr Bell: I have not, but if the Chief Minister felt that was appropriate, then that would be action I would take.

Mr Watterson: Thank you, Chair.

The Chairman: Mr Butt.

Mr Butt: Thank you. I was going to cover some of Mr Watterson's points. The report today which has been approved by Treasury, I presume you have seen that report, Minister? What is your view of how those recommendations that have been made by Mr McGreal will affect Treasury in the future?

Mr Bell: I hope they will improve our efficiency and improve the systems.

Mr Butt: And my second point: it was put to Mr McGreal and Mr Shimmin about workload and pressure possibly being a factor on their work and they played that down quite a lot, they said it was not a major component of the reason for this happening. I just wonder what your view on that is because you have said in Tynwald that you thought pressure and the workload was a factor.

Mr Bell: Most definitely, there is a massive amount of pressure on my Chief Financial Officer. He has had to deal

with every crisis which has come along, not to do necessarily with the day job at Treasury but the international agenda, the economic issues, the Foot Report, a whole raft of very serious issues which are confronting the Island. As I have said, this is the most dangerous period the Isle of Man has faced in living memory and most of those problems rest with the Chief Financial Officer. It is quite natural that he has not got the time, frankly, to address and micro-manage every aspect of the Department.

Mr Watterson: Thank you.

The Chairman: Is the implication... what you are saying is that whilst he, as the Accounting Officer, has ultimate responsibility, that the actual failures were not directly his. Is that a fair... given that he did not know about the failures until January?

Mr Bell: Yes, it would not be normally the role of the Chief Financial Officer to carry out the detailed implementation of this; other officers would have that responsibility.

The Chairman: We have yet to receive further documentation which will, I think, clarify the issue for us, but the implications of what the Committee has been told today is that there may have been a failure by an officer at a lower level. Does your report, the report you have received, envisage any disciplinary or competency action?

Mr Bell: Yes, we obviously will be looking at that in due course, once we get some comments from yourself. I want to see the whole picture in the round first, before we take any precipitate action.

The Chairman: I think Mr Cregeen caught my eye first.

Mr Cregeen: Earlier on, you said that it was a serious but understandable error. How is it understandable, how do you perceive it as understandable?

Mr Bell: Because the currency markets are in extreme fluctuation at the moment. Only recently Jersey has been caught out in exactly the same way – in fact, in a much more serious way – again because of the sharp fluctuations in currency and they have lost, I think, £3 million or £4 million on a major scheme in Jersey. If we could foretell exactly how the currency markets were going to go at any particular time, we probably would not be working as politicians. It is a very volatile period that we are living through at the moment.

Mr Cregeen: My other point is has any other Treasury member of staff tendered their resignation?

Mr Bell: No.

The Chairman: Mr Henderson.

Mr Henderson: Thank you, Chair. We get back to the point that I was concerned with Treasury Minister with regards to pushing the responsibility on us. Now you have made a statement there which gives me great cause for concern when you were asked about disciplinary issues, whereby you said that may be looked at after we have given

some thought and observations back from our deliberations on this matter.

Surely disciplinary issues are something from your own staff, your senior management who would assess that and implement whatever they thought fit. It is not for us to micro-manage your staff, would you accept? It is not for us to instruct you to discipline your staff through your chief officer, that would be totally unfair.

Mr Bell: I am not asking for you to identify staff to be disciplined. What we are trying to do is find out independently where the systems broke down and whether it was personal failure or systemic failure. That is what we are asking for. We are not asking for recommendations for disciplinary action, but obviously, we will read the report which I am sure we will receive in due course, put that alongside our own internal reviews and then, at that point, we will decide what needs to be done.

Mr Henderson: Would you accept it is not our remit to find out if there was a personal failure many levels below the level of Mark Shimmin, buried away down the line management chain of command; it is not our remit to dig down to that point into your senior management team's management remit to assess whether somebody should be disciplined or not; that is not our job?

Mr Bell: I have just said that I am not looking for recommendations from the PAC to discipline one person or another. What I am hoping you will be able to help us with is by giving an independent oversight, your interpretation of how you see the failure, and to identify where that failure might be. It will be for my Department and my chief officer, at that point, to take whatever action is deemed necessary.

Mr Henderson: With respect, Treasury Minister, would you not accept that your Department already may well have done that, in point 9 again:

'It is difficult to determine with any degree of certainty whether Treasury officers had properly and consciously embarked on a course of action to delay the forward purchase of Euros or whether this merely happened by default under a passive management strategy.'

Do you not accept that that is something that you yourself should be examining in more detail?

Mr Bell: We are examining it, but I repeat again we will be looking for any recommendations that come from the PAC. If you do not have any recommendations, then we will still be looking at the – *[Interruption by mobile telephone]* Excuse me. Sorry about this. We will be looking at a combination of our own internal reviews and any comments you might have, and at that point, we will decide whether any disciplinary action is taken.

Mr Henderson: Would you be asking –

The Chairman: Can I just hold you –

Mr Henderson: Sorry, Chairman. Would you be asking if internal audit –

The Chairman: Can I just hold you a moment, please? Is there a matter there that you need to deal with, Mr Bell?

Mr Bell: No, I will deal with it in a second. I am sorry, it is just a difficult day today.

The Chairman: Yes, I understand that.
Mr Henderson.

Mr Henderson: Thank you, Chair.

Would you be asking an HR section from another Department, for instance, to examine the line management structure and what went on here to ascertain if your management structures are working correctly? It is outside of our remit.

Mr Bell: Yes. We will have to judge that at the time.

The Chairman: Can we come to the final questions, please?

Mr Watterson.

Mr Watterson: I have two, if that is alright. Hopefully, the first one is a one-word answer; the second one might be a bit longer.

Are you assured that now, two months later, there are proper procedures and practices in place in your Department to ensure no repetition along a similar line?

Mr Bell: I have been assured by my officers that that position has been reviewed and I am confident at the moment in the information I have been given.

Mr Watterson: And you also accept, in taking your responsibility, that actually the Division under which this particular issue falls is one that you are directly responsible for, as opposed to one that is under delegated authority?

Mr Bell: Mr Braidwood has delegated responsibility for the Capital Projects Unit, but obviously I am the Minister for the Department and I have overall responsibility for everything that goes on.

Mr Watterson: I was possibly referring more to... Are you saying then it is a mixture of breakdown in communications between the Capital Projects Unit and your Finance Division, which you are directly responsible for, which is headed up by Mr McGreal?

Mr Bell: There would appear to be a breakdown of communications between Mr McGreal and the Chief Accountant's section.

Mr Watterson: But isn't Mr McGreal and the Chief Accountant's section the same section?

Mr Bell: Yes, but we are talking about individuals in that general Division.

Mr Watterson: But it is separate and distinct from the Capital Projects Unit, or is it all part of the same Division?

Mr Bell: No, it is separate from the Capital Projects Unit.

Mr Watterson: So the communication failures are more within the Financial Controller's Division as opposed to between that Division and the Capital Projects Unit.

Mr Bell: It would appear to be the case.

The Chairman: Mr Gill.

Mr Gill: Leading on from this, but looking to the future, Minister, do you think this is more political... When was Treasury last reviewed to see if its establishment and structure is fit for the modern-day purposes that it increasingly faces?

Mr Bell: Probably a number of years. I cannot just remember now.

Mr Gill: Would you think that this is an indicator that possibly that review is necessary just to –

Mr Bell: I think there is a review required, not, though, driven by this specific issue. It is because of the major new responsibilities which Treasury have to take with the international agenda with protecting the economy, and I think we are in need of a review there, most definitely.

Mr Gill: From your perspective, do you see that the demands and the variety of demands is not going to abate, it is going to continue to be high pressure for the foreseeable future?

Mr Bell: Yes, there is no question about it. It is going to get very much more difficult because we will not have the funds available in the next few years that we have done over the last 10 or 15 years, and therefore the need to more closely manage projects is going to be more important than ever before, frankly.

Mr Gill: Thank you.
Thank you, Chair.

The Chairman: Mr Butt?

Mr Butt: No, no further questions.

The Chairman: Mr Cregeen, a final question?

Mr Butt: No, he is fine.

The Chairman: Oh, I thought he said that he wanted one.
Does the Clerk want to ask anything?

The Clerk: No.

The Chairman: That concludes our questioning, Mr Bell. Thank you very much. That concludes the public session of the Committee. The Committee will conclude its business in private.

The Committee sat in private at 4.38 p.m.