



**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, Tuesday, 21st July 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

Clerk:
 Mrs M Cullen

Business transacted

| | <i>Page</i> |
|--|-------------|
| Procedural | 27 |
| Evidence of Mr R P Braidwood, MHK, Member of the Treasury | 27 |
| <i>Mr Clague was called at 11.05 a.m.</i> | |
| Evidence of Mr S Clague, Chief Accountant, Treasury | 33 |
| <i>Mr Thompson was called at 11.43 a.m.</i> | |
| Evidence of Mr I Thompson, Chief Executive, Department of Transport | 39 |
| <i>Mr Blain was called at 12.11 p.m.</i> | |
| Evidence of Mr A Blain, Capital Projects Co-ordinator, Treasury | 43 |

The Committee sat in private at 12.32 p.m.

Tynwald Public Accounts Committee

Forward Purchase of Euros

*The Committee sat in public at 10.32 a.m.
in the Millennium Room,
Legislative Buildings, Douglas*

[MRS CHRISTIAN *in the Chair*]

Procedural

The Chairman (Mrs Christian): Welcome to this meeting of the Public Accounts Committee. I think you know all my colleagues but, for the record, I will introduce them: Mr Watterson MHK; Mr Cregeen MHK; Mr Gill MHK, Vice-Chairman; Mr Butt MLC; and Mr Henderson MHK. Mrs Cullen is our Clerk and our *Hansard* Editor for the day is Mr Clive Alford.

Can I ask you all to ensure that your mobile phones are actually switched off and not just on silent, please, because if they are left on silent, they could interfere with the recording.

The issue we are discussing today, as I think you are all aware, is the Runway Extension Scheme and the procedure for the purchase of euros for that Scheme. This matter has been referred to the Committee by the Treasury Minister, who has submitted a copy of Treasury's internal review to the Committee for further investigation.

We have therefore invited Mr Braidwood MHK, Member of the Treasury; Mr Clague, Senior Accountant in Treasury; Mr Thompson, Chief Executive of the Department of Transport; and Mr Blain, the Capital Projects Co-ordinator from Treasury to give evidence to us today.

EVIDENCE OF MR R P BRAIDWOOD

The Chairman: Mr Braidwood, can I invite you first to give your evidence and answer questions. Can I ask you to start by stating your name and your role and responsibilities in Treasury, please.

Mr Braidwood: Yes, I am Phil Braidwood. I have delegated responsibilities in Treasury for the Capital Projects Unit, Investment Management, a member of the Business Change Dealing Group, Accountancy and Audit, regulatory oversight of the Financial Supervision Commission, Insurance and Pensions Authority, Gambling Supervision Commission and Information Services Division.

The Chairman: Thank you.

Do you want to make an opening statement on this issue, or would you like us to move straight to questions?

Mr Braidwood: I think we can move straight to questions, please, Chairman.

The Chairman: Can I ask you then, in respect of the capital projects element of your responsibilities in Treasury, how you interact with the Capital Projects Unit, what your programme is? Do you have meetings about the capital projects on a regular basis?

Mr Braidwood: What generally happens is that when capital projects are coming through, at stage 1 there is normally a project team which has been forwarded by the opposing Department, and I will sign off that design team. The next time I will be involved with the Capital Projects Unit, unless there is a problem, is when it is stage 6, when it is forwarded to Treasury for Treasury approval and then the motion to go to Tynwald.

The Chairman: Thank you.

When were you first aware that euros were required for this project?

Mr Braidwood: It became apparent when the first motion was going to be forwarded by the DoT in February 2008. Because of the decrease of sterling against the euro, the contracts... I think it was Stemma, with the rock armour, had requested that the project, instead of being in sterling, changed to euros, and of course there was a problem in the February as well, because the barges which were going to be employed were still being used at Great Yarmouth and would not be available for the project until June 2008.

So in actual fact, the project had changed from sterling to euros, as far as I was concerned, then, in the February of 2008.

The Chairman: Did that information come to you through the Capital Projects Unit in your meetings with them, or through...?

Mr Braidwood: No, that just came through with Treasury, when the Department of Transport in actual fact withdrew their motion for the February Tynwald.

The Chairman: So it was the DoT who alerted you to that.

Mr Braidwood: Yes.

The Chairman: Mr Butt.

Mr Butt: Could I just follow that up, please.

The decision to buy in euros, rather than sterling: were Treasury or you involved in that decision in any way at all?

Mr Braidwood: I was not involved with the change by the company who wanted paying in euros from sterling for the rock armour. That had come through to the project team, I think, of the DoT.

Mr Butt: So were Treasury consulted about that, and were they asked to approve that, or did it go ahead with that?

Mr Braidwood: I do not think actually Treasury had much choice, because the contract had not been signed, so therefore the contract had not been signed because Tynwald

approval had not been given that it be in sterling and not in euros.

The Chairman: Mr Watterson.

Mr Watterson: Early in 2008, you will recall there was a presentation to Members. Do you recall a question being asked about the euros in that – how it was going to be managed – and what the response was?

Mr Braidwood: Yes. I was at the presentation to Members and I think that was the one question you asked, Mr Watterson: were the euros going to be hedged? I remember turning round and saying to you yes, they would be hedged, as far as I was concerned.

Mr Watterson: That is right.

The Chairman: Thank you.

Mr Gill, any questions?

Any further questions on that issue?

Given that Treasury were aware that euros would be required for this, and that a condition was mentioned before the matter went to Tynwald, saying that the DoT would be required to sort out the euro issues, how alert were you to the concerns about euros and the purchase of euros?

Mr Braidwood: I had been away on holiday in the September of 2007 at €1.42 and there had been a decline of sterling against the euro for the next few months. I believe in the February – and this is why the concern was expressed by the contractor – it had gone down to about €1.24 to the pound. I think at that time 1 per cent decrease in sterling against the euro amounted to about £60,000 and that is why the contracts, particularly in the February of 2008... the rock armour price had increased by about £840,000-odd, because the depreciation was about 14 per cent.

The Chairman: We understand all that. I am asking what concerns you had, as a Treasury Member and the Capital Projects Unit Member, about ensuring that the euros were purchased.

Mr Braidwood: As far as I was concerned, as soon as the motion went through Tynwald, which was the April of 2008, I was under the impression that the euros either would be purchased or hedged.

Mr Watterson: By whom?

Mr Braidwood: It would have to be Treasury.

Mr Watterson: Who did you, in your mind, believe was going to be undertaking those transactions at that time?

Mr Braidwood: The transactions would be carried out by Treasury. The information which would be relayed would be down to the Chief Accountant and then the Investment Manager, who is Carol Davies.

The Chairman: Mr Gill.

Mr Gill: Could I just ask... As a working practice, you are clearly very knowledgeable and involved and aware of

the detail of this project, and presumably any other projects that fall within your responsibility. Would that be a fair comment?

Mr Braidwood: I am involved at the initial stages of the capital project when the design team, as I expressed previously... to sign off the design team, because the design team comes together by the Department and the Capital Projects Unit Co-ordinator is involved with that.

Mr Gill: You mentioned about being knowledgeable about the location of the barges, the currency fluctuation, the rock armour prices. So that would be the level of involvement that at that stage you would have.

Mr Braidwood: That was information which came through afterwards, particularly in the February of 2008 when the motion had been deferred. That is when Treasury became involved again because of the increase in costs because of the rock armour.

The Chairman: Mr Butt.

Mr Butt: Thank you.

You said earlier that you were under the impression that the euros were being purchased.

Mr Braidwood: Yes.

Mr Butt: What information did you give, or who said anything to you to give you that impression? Why did you have that impression?

Mr Braidwood: That came about, again, from the presentation that we had to Members when questions were asked about the euros, because of the decline of sterling against the euro, that the euros would be hedged.

Mr Butt: So your impression was based on the briefing given to Tynwald on this.

Mr Braidwood: That is right.

The Chairman: But were you not... Who was giving the briefing?

Mr Braidwood: The briefing was given by the DoT.

The Chairman: But somebody in Treasury gave you the impression that they would be.

Mr Braidwood: As far as I was concerned –

The Chairman: That was a Treasury function.

Mr Braidwood: It was a Treasury function. It was not a DoT function to hedge or purchase the euros.

The Chairman: Thank you.

Mr Butt: Could I just follow that up? As a Member of Treasury then, with responsibilities in this general area, do you think it was wise to rely on a briefing given to Members of Tynwald to give you your impression of what was happening?

Mr Braidwood: What it was... and that was after the Tynwald motion was approved. As far as we, Treasury Members, were concerned, the euros would be purchased for the scheme.

Mr Cregeen: Did you consider after the vote that the euros would have been purchased at that time, that month?

Mr Braidwood: I was under the impression that the euros either would be hedged or purchased after the motion was approved by Tynwald in the April of 2008.

Mr Watterson: Would you consider it part of your role, as head of Capital Projects Unit or as part of the Capital Projects Unit, to follow up and make sure that that was happening as part of the progression of the capital scheme?

Mr Braidwood: No.

Mr Watterson: What monitoring therefore would be done of the ongoing progress of the capital scheme to ensure that such large items were followed through?

Mr Braidwood: Once Tynwald had given the approval for the capital scheme of the runway end safety area and also the works on the runway, that would then be left to the officers to manage.

Mr Watterson: When would your next political involvement be?

Mr Braidwood: The next political involvement would not be with that capital project.

Mr Watterson: So you would never have any more dealings with that capital project after it had been approved?

Mr Braidwood: No.

The Chairman: Mr Henderson.

Mr Henderson: I just need to clarify, Mr Braidwood, when you say from the briefing you had the impression that the euros had been bought more or less straightaway – either bought or hedged – following the Tynwald motion, who did you believe would be tasked, or did you know somebody would be tasked, or did you check, following the Tynwald debate on that matter? Did you ever check your impression, or were you assuming that DoT might be doing some buying, or would it –

Mr Braidwood: No, it would not... In answer to your question, Mr Henderson, I knew that the DoT would not be purchasing the euros. That would be the responsibility of Treasury officers. So after the motion had been passed by Tynwald, the involvement of Members of Treasury is taken away and it is given then to the officers to expedite.

Mr Henderson: And you were under the impression then that somebody from your team would be getting on with that job.

Mr Braidwood: It would be the Capital Projects Co-

ordinator who would then be involved in making sure that the project... and which I believe Mr Blain did, in contacting the Treasury officials to the purchase of the euros.

Mr Henderson: So you were happy. You just thought, 'Right, they're getting on with it,' basically, and they would report back to you at some point on progress at your regular meetings.

Mr Braidwood: That is right, and the first time I knew in actual fact there had been a problem on the purchase of the euros was when the Capital Projects Unit Co-ordinator, Mr Blain, told me in the January of 2009.

The Chairman: From a political perspective, given that the projects had already increased on the estimated costs because of the exchange rate fluctuations, was this not a matter that was politically in your thinking in relation to your role with CPU in terms of following it up to ensure that it did not deteriorate further?

Mr Braidwood: No, because once the project is out, then you have got the next capital projects coming along, so your involvement is again with that design team before it comes to Treasury.

The Chairman: So you have little involvement with capital projects, apart from in the stage 1 instance?

Mr Braidwood: That is right, because they go on to Treasury.

The Chairman: Mr Watterson.

Mr Watterson: You are also, as part of your role, involved in the Investments Committee.

Mr Braidwood: Yes.

Mr Watterson: I am just wondering whether, from that point of view, you would have expected to have been aware of the need of £13-million-worth of euros, because obviously, managing the cash flow requirements from the cash and investments of Government... I was just wondering whether that was something that you would have expected to have crossed that particular desk.

Mr Braidwood: That did not cross the desk at that time on the – (*Interjection by Mr Watterson*) No, it did not.

Mr Watterson: I was just wondering whether you felt you perhaps, in hindsight, would have expected to have seen it when it had come through.

Mr Braidwood: No, the only time that we have experienced, particularly in the Investment Committee now, is basically on the KSF. It was not with the cash flow projections for the RESA project.

Mr Watterson: In terms of any significant drawdown of funds – I think we are talking here of over €13 million – whether that sort of cash flow requirement is something that would need to be managed through the Investments Committee.

Mr Braidwood: No, that was not managed through the Investment Committee. That would be through the cash which was held in deposit.

The Chairman: Mr Gill.

Mr Gill: Could I just come back to this interesting process. The Minister delegates you authorities for capital projects.

Mr Braidwood: That is right.

Mr Gill: You get to stage 1 and then basically it has nothing more to do with you.

Mr Braidwood: Stage 1 is to sign the design team off and then the next stage is when it comes through to Treasury for approval from the Department to put to Tynwald for the motion.

Mr Gill: So, just reflecting on what has flowed from this –

Mr Braidwood: I do not go through the stages. After the initial stage, I am not involved.

Mr Gill: Post Tynwald vote, that is it. As far as you are concerned, it is somebody else's problem. Your interest –

Mr Braidwood: Post Tynwald, the motion for the capital project has been approved by Tynwald. Then it is left to the officers to proceed with the project and manage the project.

Mr Gill: Has it never interested you, this significant project, how it was developing, any issues, any schedule it was on?

Mr Braidwood: Again, there are other capital projects which come along and apart from... That is only one of the functions. I have been quite involved with legislation. I think I have put 10 Bills through in this last legislative... since November 2006, so of course that occupies a lot of the time, and the Investment Committee. I would not say that the capital projects, as the involvement with investment management, is as involved for myself.

The Chairman: Mr Cregeen.

Mr Cregeen: Is there any further political oversight on any ongoing capital projects in Treasury? Does it pass on to another Member? Is it just –

Mr Braidwood: No, once it has gone through and it has gone through Tynwald, then it is left to the design team, project team with the DoT and the Capital Projects Co-ordinator.

Mr Cregeen: But your Capital Projects Co-ordinator does not report to you afterwards.

Mr Braidwood: No, it does not involve me, no.

The Chairman: Mr Butt.

Mr Butt: Thank you.

Following on from the last two questions you have had from Mr Gill and Mr Cregeen, you are responsible for capital projects in Treasury.

Mr Braidwood: Yes.

Mr Butt: Is there ever a meeting where you sit down once a month, once a quarter, with the team and say, 'Of all the capital projects, where are we up to with them all?' Is there any sort of formalised meeting?

Mr Braidwood: There are no formalised meetings, no.

Mr Butt: There are no records of any... You do not get any records of what has been going on?

Mr Braidwood: No.

Mr Butt: Do you think there should be a structure where you, with political responsibility, are given an update about how the capital projects are progressing?

Mr Braidwood: I suppose you can look in hindsight now, particularly on this project, because of the problems associated with the euros. I do not think we would be sitting here now if the euro and the pound had gone the other way, but I suppose what you do not want to do is have too much interference with the officers and with the... You do not involve yourself with the project team. There is the project team, there is the co-ordinator. In this instance it would be the DoT as well, with the Chief Executive, where they would have probably monthly meetings to see how the project is commencing after the approval of Tynwald.

The Chairman: Mr Henderson.

Mr Henderson: I just need to go a bit further on this, Mr Braidwood, because I am confused now with the line management structure that you are involved with within Treasury. You are the political Member with responsibility for the Capital Projects Unit and, if I am not mistaken – I just want to clarify – you have just said that once something goes through Tynwald, voted on, the team get on with it basically, but there is no regular report back on any particular capital project to you, as Mr Butt says, monthly, two-monthly.

Mr Braidwood: No. There would only be a... If there was a significant problem, that would probably be reported to Treasury, if it came back from the DoT –

Mr Henderson: When you say –

Mr Braidwood: – if there was going to be a –

Mr Henderson: – Treasury, who would it be reported to when you say 'reported to Treasury'?

Mr Braidwood: The Capital Projects Unit Co-ordinator would report to Treasury.

Mr Henderson: Would he/she then report to you? You would be made aware of it?

Mr Braidwood: That would be reported to Treasury, and

as a Member of Treasury...

Mr Henderson: Would it come to you first, and then to the Treasury Department meeting?

Mr Braidwood: It might. It probably would be mentioned to me by the Capital Projects Co-ordinator, but then on to Treasury at the meeting.

Mr Henderson: When you say 'on to Treasury', could you define for the Committee what you mean by 'the Treasury'?

Mr Braidwood: Treasury meet every Wednesday morning.

Mr Henderson: That is you, Mr Downie and the Minister.

Mr Braidwood: And generally the Chief Financial Officer.

Mr Henderson: So it would be put formally at that meeting if there was any problem.

Mr Braidwood: Yes.

Mr Henderson: Chair, if I could just clarify something else, Mr Braidwood said that it was known that the pound-euro relationship was becoming critical – that is why we had the initial debate postponed.

Mr Braidwood: And also because of the barges. The project for the promontory would not have been able to commence until after June.

Mr Henderson: Part of the problem there, though... It was clearly identified. It was on your radar as a flashing light that the pound-euro relationship was becoming critical at this part.

Mr Braidwood: It was a flashing light with the DoT because the project which –

Mr Henderson: It was becoming more expensive.

Mr Braidwood: It had become more expensive because, as I have said previously, the rock armour contractors wanted to change from sterling because of the decline in the pound-euro, to be paid into euros.

Mr Henderson: And were Treasury aware of what DoT were thinking at that time?

Mr Braidwood: Again, what had happened then, after it was postponed... The motion was going to be coming before Tynwald in the April and it came in front of Treasury – and I think I was the only person there who actually signed it off to allow the motion to go forward to the April Tynwald.

Mr Henderson: With the additional expense?

Mr Braidwood: With the additional expense, because of the change of the £840 in the euro exchange, and also

in that the contract, in not starting, which it wanted to start after the spring equinox.

Mr Henderson: So Treasury were clearly aware, obviously, that there was a problem with the pound-euro –

Mr Braidwood: Yes.

Mr Henderson: – and following the successful vote etc, would you expect, given that environment that the project was being launched in, was it your thought that the staff probably would be more vigilant or super-quick in buying the euros or hedging them, because of the prior knowledge of the market?

Mr Braidwood: Considering the pound-euro decline over the last six months, I would have... and I know, only from reading, that the Treasury expected the pound-euro to be flat. However, in my own expectations, I would have thought they would have either been purchased or hedged after the Tynwald motion.

Mr Henderson: Just a last question. Given the environment that we have just explored, everyone would have been aware that the euro was declining. Did that give you reason to think that they would have done it as quickly as possible? That was your thought on the...

Mr Braidwood: It was my thought that they were going to be purchased after the motion had gone through Tynwald.

Mr Henderson: Thank you, Chair.

The Chairman: Mr Watterson.

Mr Watterson: Thank you.

Two questions. Once you have signed a project off, your presumption is that the ongoing monitoring is done by the Department, not the Capital Projects Unit, and that is where the ball was picked up politically.

Mr Braidwood: The Capital Projects Unit Co-ordinator is involved in the process with the Department and the project team.

Mr Watterson: So, politically, ownership moves then back to the Department to monitor.

Mr Braidwood: And the project team and the officers, yes.

Mr Watterson: Yes, but it lies with the Department rather than with Treasury to monitor a project once it has been signed off and approved by Tynwald. That is your understanding?

Mr Braidwood: Yes, it is the project team where I believe there are monthly meetings, to see how the project is going, with the sponsoring Department, the project team and the Capital Projects Co-ordinator.

Mr Watterson: The only other question I have is, looking back on this in hindsight, is there anything that you would

expect that Capital Projects or you personally would have done differently?

Mr Braidwood: As you probably realise now, I think it was 25th March this year I signed out that the project should be in sterling if possible, if not hedged, and capital procedures have been altered to allow for that situation.

Mr Cregeen: You stated earlier that you did not think we would be here if the pound-euro had gone the other way, but do you not consider that if it had gone the other way you would not be concerned that an officer had failed to carry out an instruction to hedge the euros and put the Treasury at risk?

Mr Braidwood: My concern is that the euros were not hedged or purchased and I think it is... with the information that has come through... and I have actually looked at e-mails between Mr Blain, the Capital Projects Unit Co-ordinator, and Treasury officials. I have looked at the e-mails which the Financial Controller actually sent, as well, to other Treasury officers, on how the purchase of euros was going to proceed. I have looked at where the difference is in the euros, particularly where it was quite flat from April through to October. Even in December, it was €1.12 on 5th December, and they were not purchased until 29th December, over three weeks later, when the euro-pound exchange had gone to €1.02. In the January, it had gone up again and it probably would have saved money and would have been... It was at the lowest level you can imagine when the euros were actually purchased.

Mr Cregeen: My point is that, as you said earlier, it was supposed to be hedged. If it had become cheaper because the pound had gone up, would you not be concerned that the officers had failed to carry out an instruction, even though it saved you money, because you had given that undertaking that they would be hedged, but the officer had failed to carry out that?

Mr Braidwood: I would be very concerned that an officer had not carried out instructions.

The Chairman: Which political Member is responsible for that part of Treasury which should have purchased the euros?

Mr Braidwood: Well, the Chief is the... Although it says on my delegated functions 'Accountancy and Audit', that is only on the regulatory oversight if there is legislation coming through. The Financial Controller and the senior accountant, or the Chief Accountant, would have that responsibility.

The Chairman: So politically, nobody takes responsibility for the actions.

Mr Braidwood: No.

The Chairman: Can I ask you, we note that Treasury do not seem to put on their minutes any action points to be followed up at further meetings. Do you not think that might help, to follow up issues?

Mr Braidwood: I know in other Departments I have been

in... with the DoT, there are, down the right-hand column, action points where it will be a particular officer who takes that action. That might be a worthwhile recommendation, yes.

The Chairman: Any final questions, please, for Mr Braidwood?
Mr Henderson.

Mr Henderson: Yes, thank you, Chair.

I just need to get it straight in my head how, once the Tynwald vote has gone through, the money is approved, the particular Department's project... They take that on with the project team and that is basically the last that –

Mr Braidwood: My involvement.

Mr Henderson: – of your involvement and of your Capital Projects Unit.

Mr Braidwood: No. The Capital Projects Unit Co-ordinator, Mr Blain, will be involved in meetings with the project team and officers of the –

Mr Henderson: Any project?

Mr Braidwood: Any project, that is how it works.

Mr Henderson: So he has regular meetings with all the different people who are involved in different projects.

Mr Braidwood: Such as with the RESA project, you would have the... I think it was Burroughs Stewart. There were other members of that project team. You would have the DoT and also the CPU Co-ordinator.

Mr Henderson: And you would only get to know anything if there was a problem, so by exception.

Mr Braidwood: If any really exceptional problem came along.

Mr Henderson: You said you –

The Chairman: Could you stop there, please. We need to conclude, so have you just one more question, please?

Mr Henderson: I think we need to know –

The Chairman: On something we have not already covered.

Mr Henderson: Chair, Mr Braidwood said he was made aware of things, that there was a serious problem, in January 2009. That is the first time you knew that things had gone pear-shaped?

Mr Braidwood: Correct.

Mr Henderson: How did the Minister become informed? Could you...?

Mr Braidwood: From what I can gather, the Minister was informed by the Minister for the Department of Transport.

Mr Henderson: Why did you not tell the Minister, if you were told that?

Mr Braidwood: I was told in the January. In actual fact, I then went... I think it was the next Treasury meeting, or I went to see the Minister, if he was there, and I cannot recollect if he was there or not, but I raised it with him, but he already knew about it.

The Chairman: Mr Gill.

Mr Gill: The system you have described: is that still the system which you operate now, where it is nothing to do with you once it has gone through Tynwald?

Mr Braidwood: Yes, it is still the same situation.

Mr Gill: Even with this experience?

Mr Braidwood: Even with this experience, that is the case on the last financial year.

Mr Gill: And you would not think it is reasonable to expect that the Member with responsibility for capital projects would have periodic briefings from Mr Blain, or whoever, just to say, 'The RESA's on schedule, it's sorted, we're doing what we need to do,' or Bemahague School, or whatever project? You wouldn't think that that would be a reasonable expectation for you, with your responsibility, to have that comfort?

Mr Braidwood: We might have an informal discussion where I might, if I pop into the Capital Projects Unit... There was one with the rock armour, when the barges were out – 'How's everything progressing?' – but I do not become involved in the micromanagement of that project.

Mr Gill: I accept that, but equally you do not get periodic briefings about very expensive, in some cases, capital projects?

Mr Braidwood: No.

The Chairman: Can I just ask you, you said that you signed off new regulations with regard to these issues in, I think, March 2009. Given that your own Capital Projects Unit director has said that this is not user friendly, do you consider that you should have consulted with other Departments and users before finalising those regulations?

Mr Braidwood: This came to me on the currency hedging actions, and also the changes in capital procedures. I think we wanted to put something in place to initiate if another capital project had come through where one of the contractors insisted that the euro should be used to purchase materials.

The Chairman: Has there been any further discussion with other parties on the nature of those regulations?

Mr Braidwood: No.

Mr Gill: Mrs Christian asked a question which I did not hear an answer to. You said it was not you, to the question of

who has political responsibility for the part of Treasury, who should have been progressing this purchase. If it is not you, who is the political Member with that responsibility?

Mr Braidwood: Even on the other side of the coin, with Mr Downie, Mr Downie does not have responsibility, so in actual fact it would probably, in all respects, come down to the Minister.

The Chairman: Thank you. I think that concludes all our questions, Mr Braidwood. Is there anything else that you want to add?

Mr Braidwood: I think we have covered all points, thank you, Chairman.

The Chairman: Thank you very much.

Mr Clague was called at 11.05 a.m.

EVIDENCE OF MR S CLAGUE

The Chairman: Can I invite Mr Clague to come forward, please. Mr Clague, can I invite you, first of all, to say what your role is in Treasury and your involvement with this, and make the statement which I think you have just circulated.

Mr Clague: I am the Chief Accountant in Treasury. I head up the Finance Division.

If I just run through my opening statement, the Finance Division provides accounting, payroll, banking and investment services to Government and also has the Government Valuation Office within it. Included within Finance Division activities is the operational day-to-day contact with Government's bankers.

My involvement with the purchase of the euros in respect of the Runway End Safety Areas capital scheme substantively commenced on receipt of an e-mail from the Financial Controller dated 22nd September 2008, which I understand has already been provided to the Committee. This e-mail requested that the Finance Division consider the options which were available to Government in respect of making euro payments to the supplier and respond with a recommended course of action. The response was not provided until the start of December 2008, due to a high volume of other issues being experienced within the Division. Once the response was issued, further discussion and communication took place between the various individuals involved within the Treasury to confirm the details of the requirement, and the purchase was concluded on 29th December.

Whilst sterling strengthened against the euro following the purchase, the decision to purchase was made to provide certainty of the amount – that is to remove the foreign exchange uncertainty. The decision was not made to speculate as to whether the exchange would improve or worsen further. Since the purchase of the euros, I have been working with the Financial Controller and other officers within Treasury to improve the processes within the Department to prevent a recurrence of the circumstances which led to this issue arising.

Thank you, Chairman.

The Chairman: Thank you for that. So your first advice on this was, as you say, the e-mail from Mr McGreal?

Mr Clague: Yes.

The Chairman: You do not have any direct involvement in the capital projects... or presumably you have some involvement in the provision of funds. Were you aware of the euro issues relating to this particular capital project?

Mr Clague: I was aware of the capital scheme because I see Treasury papers and I obviously am aware of motions going through Tynwald in respect of new capital schemes. I was not aware of the detail in terms of a euro exposure or the extent of our euro exposure, or the timing as to when it might be required.

The Chairman: Did you know that the cost of the scheme had gone up prior to the signing of the contract because of the euro-sterling exchange-rate fluctuations and the requirement of the contractor that some of the contract be in euros?

Mr Clague: Not prior to that e-mail of September. I might have had an awareness that there was a euro element, but I certainly have no recollection as to whether that was, say, tens of thousands of euros or the level which it was at.

The Chairman: We have heard from Mr Braidwood that it was assumed in Treasury that the euro requirement on this contract would be... either they would be purchased or hedged at the time of the approval and the contract being signed. You have no knowledge of that?

Mr Clague: I certainly have no conscious knowledge of it. I understand it was within Treasury papers and within minutes of Treasury meetings, so I probably had sight of those documents, but I cannot recall at the time whether I noticed it and picked it up or whether I never noticed it in the first place.

The Chairman: Do you receive all Treasury minutes?

Mr Clague: I do.

The Chairman: Mr McGreal's e-mail to you requested that you:

'... consider the options available and determine the favoured strategy to match the commitment we have on this contract.'

What action did you take after you received that e-mail?

Mr Clague: I did not take any action in a timely manner, due to other things which were going on at the time.

The Chairman: What was going on at the time?

Mr Clague: In terms of what was going on at the time, there was a lot of, you might say, financial turmoil going on. A particular issue we had to face was... We manage the Government's cash deposits and we have about £400 million – or I think at the time we had about £400 million – sitting in banks, and there was significant concern about

how safe that money was. Then, leading straight into the beginning of October, we obviously had the issue with the winding-up petition being presented for Kaupthing Singer and Friedlander, which then gave us two issues, one being we had £10.7 million deposited with that bank at that time. The other issue we had was we had about £350 million of reserve funds invested with an associated company, Singer and Friedlander Investment Managers (Isle of Man) Ltd, which was obviously a concern as to how that may be affected.

The Chairman: How did you interpret that e-mail? What action did you think was required from you?

Mr Clague: I think I needed to understand the context of the request, and then I needed to instruct other officers within the Finance Division to prepare the options and respond to the Finance Controller.

The Chairman: So you did not see it as an instruction to purchase euros?

Mr Clague: No. I saw it as to identify what the appropriate options were and to provide that response, which is effectively the response we provided at the beginning of December.

The Chairman: So it was to determine the options; simply that. Thank you.
Mr Watterson.

Mr Watterson: Just looking at the job descriptions between you and your staff within the Division, I notice what it says, in terms of yours, is overall responsibility for cash management generally, but there is another officer below who actually, as part of their main activities under (2):

'The provision of a foreign currency advice service.'

Did you feel at the time that it was you who needed to respond to this e-mail from Mr McGreal, or this other officer?

Mr Clague: I felt at the time, because of the size and the nature of the transaction, I needed to understand what any issues around it were, but once I had done that, other officers within the Division would actually do the legwork of assessing the options and coming up with a recommendation, but as head of the Division and, as I say, given the size and the nature of the transaction, I felt I needed to understand what was being asked for and why and what some of the variables may have been.

Mr Watterson: Can I take this back a step, then? If your responsibility concerns the general management of the Government's cash requirements on a day-to-day, week-by-week basis, how are you normally advised when there is, say, a significant transaction going through that would be abnormal and you need to make the funds ready for that? Whether it is through capital projects or otherwise, how would that process normally work? Could you just talk to us a bit about that, the general way of it being informed?

Mr Clague: As a general approach, most Departments are kind enough to contact officers within my Division and say, 'We've got a large transaction coming up. Can you

make sure we have things in place to actually meet it? Then, obviously, through things, like looking at the motions going through Tynwald for capital schemes and looking through Treasury minutes, we can identify other unusual transactions. But, in general, transactions have to be very large – and when I say very large, probably more than £50 million – in order for them to give us a cash flow problem. Recent examples would be the KSF Early Payment Scheme and the Depositors' Compensation Schemes as things we have to manage, but generally things below £50 million we can effectively meet as they fall due, just because we have this £400 million to pool at present.

Mr Watterson: At what level would you expect a Department to give you that heads-up on... Is there a set guidance or best practice, or an expectation that exists?

Mr Clague: As far as I can recall, there is no set guidance and we have generally not needed to put any out there because we generally have been able to make payments as and when they have been requested. We have Departments phone us up and say they need £100,000 in four weeks' time, which is not something that would concern us at all, but obviously may be large to them. I think Departments generally advise us, depending on the size of their Department, as to what an acceptable limit is. The only issues I can recall have always been above the £50 million mark.

Mr Watterson: So there was no phone call, or at least other advice, about the cash flow requirements for this project prior to 22nd September?

Mr Clague: I do not know if there would have been to officers within my Division, but there was nothing which came through to me to say, 'We've got a large amount of money which is required,' and I think if this scheme had been a purely sterling scheme I would not expect any such call to have come through or for it to be notified to me anyway because, in terms of sterling values, the scheme is not large enough.

Mr Watterson: So how would you have expected to have been notified about the euro requirements for this, and when?

Mr Clague: I would have expected to be notified, effectively, in the manner which the Financial Controller notified me, once there was a reasonable idea as to the quantity and the timing.

Mr Watterson: So you felt it would have been within Treasury to advise you. So your Financial Controller, it would be their responsibility to advise you of the requirement for this?

Mr Clague: In terms of a capital scheme, I would have expected it either to come through a Department or from the Capital Project Unit within Treasury. I understand, in respect of this particular scheme, the Treasury officers had already given an undertaking to the Department that they would be responsible, or Treasury as a Department would be responsible, for the foreign currency aspects.

Mr Watterson: And was that notified to you, or would

you expect that to have been notified to you when that commitment was made?

Mr Clague: I think, with the benefit of hindsight, it would have been useful.

Mr Watterson: Thank you.

The Chairman: There was an advice to someone in your office on the timetable for euro expenditure in early August 2008, which was before you received the e-mail asking you to sort out the options on euros. Were you aware of that?

Mr Clague: I probably had a general awareness that there was a scheme and there was a requirement for euros at some point. Within the Division we get a lot of enquiries and we have to try and differentiate between enquiries which are 'Can this be done? Can that be done?' and enquiries which then effect the instructions to look at things. In order to progress looking at the options as to purchasing euros, we would need to know amounts and timings and I do not believe we had that until the e-mail of 22nd September.

The Chairman: Mr Butt.

Mr Butt: Could I just clarify from what you have said, between the Tynwald motion in April 2008 and the e-mail of 22nd September, I think you are saying... Were you ever asked to either purchase euros or consider the purchase of euros in that period?

Mr Clague: No.

Mr Butt: So the first inclination was the e-mail?

Mr Clague: Not necessarily the first inclination, but certainly the first knowledge I had of the quantum – as in, I believe, £13 million euros, so as in something which was not insignificant – was 22nd September.

Mr Butt: Following on from Mr Watterson's question about the legwork, you received the e-mail and you decided you needed to consider it. You are not a one-man band. When did you pass on that e-mail to other people to look at, to do some research or take action?

Mr Clague: That was at the beginning of December.

Mr Butt: So you did not tell anybody until then about that e-mail?

Mr Clague: I did not give anybody, you might say, a clear and direct instruction to progress it until then, and I think I have to accept that is a failing on my part, that with everything else going on – not wanting to use that as an excuse, but to try and put it into context – I think that is a failure on my part.

The Chairman: Can I just go back to this issue of your Division being aware of the situation. On 17th April, 'AB to CD' – Alan Blain to CD in your section – told verbally, shortly after the pre-contract meeting, that euros would be required. Does that officer not have any involvement in discussion with you about the euro issue?

Mr Clague: That officer directly reports in to me and we do have discussions about a lot of operational matters and we have had discussions about the need to purchase euros, but as I said before, we get a lot of enquiries and things which are coming in that we would consider as pure enquiries or pure information without having sufficient detail to actually take any action.

The Chairman: But given that she was advised that euros would be required, and this is not a common occurrence, did she discuss it at all with you about when you should buy those euros? It was clear at that time what the requirement was going to be in overall terms of the contract. It may not have been known what the timing issues were to any great extent, but was there no communication between you between April and September on this issue?

Mr Clague: I have no record of any. I certainly do not recollect any sort of detailed conversation about it and I have no record of conversations about it prior to September. You mentioned purchasing euros is unusual. We purchase foreign currency on a weekly basis. What is unusual is the quantum, and I do not know at what point we were made that it was in the millions-of-euros sort of arena as opposed to, say, €10,000, €50,000, or a similar smaller amount.

The Chairman: Mr Gill.

Mr Gill: Can I ask, during the period September to December that we have touched on, with whom did you periodically discuss and get their agreement about your work priorities and, in all the turmoil you described, what you would be attending to and what you would be unable to attend to? Presumably that would be a regular management relationship you would have with your line manager.

Mr Clague: It would be between my line manager, inasmuch as the Chief Financial Officer. I also work quite closely with the Financial Controller. Although I do not report in to him, we generally work closely together, and I think one of the difficulties in this sort of issue was all three of us were heavily involved in quite a lot of things.

Mr Gill: Yes, largely unprecedented issues. Certainly by the time KSF came up, that would be your priority. I think we understand that, but was it clear that, whilst you were attending to *x*, *y* and *z*, *a*, *b* and *c*, which had come onto your screen, had to be put to one side? Did you have that discussion?

Mr Clague: I do not think that was clear, no. I think what was clear was what we were focusing on at the time, and the things which we were not focusing on, I do not think we were actively communicating, 'We're not doing this, we're not doing that,' or 'It will have to wait until next week.'

The Chairman: Mr Cregeen.

Mr Cregeen: You stated earlier, on 17th April, Alan Blain had a discussion with one of your officers. Did she have the authority to purchase that quantity of euros, if required, or would that need to come to you?

Mr Clague: She would have the authority to purchase

the euros if she had received a direct instruction which was properly authorised from somebody like a Department accounting officer or somebody else within Treasury. She would not have the authority to make a decision to purchase and then do it. If there was a properly documented decision to purchase, she would have the authority to carry that out.

The Chairman: Mr Butt.

Mr Butt: Yes, could I ask about your Department. I suggested you were not a one-man band. Two questions: firstly, in the period between September and December, did you discuss with your staff at all the content of the e-mail?

Mr Clague: Yes, I think we had some informal discussions, but firstly I would say I have no notes of the informal discussions, and secondly, my recollection of them was me wanting to actually understand what the requirement was in the context of the scheme and what the variables were, and I wanted to get that understanding before we proceeded with the purchase.

Mr Butt: Did you ask anybody to undertake that work for you?

Mr Clague: No.

Mr Butt: Who was actually in your team? How many people are in the team?

Mr Clague: In terms of people who deal with the investment banking side, I have a senior officer who is the Investment and Banking manager – Senior Accountant, the job title is – and then three more junior officers below.

Mr Butt: So it was a four-man team that worked directly with you. Thank you.

The Chairman: Mr Watterson.

Mr Watterson: Can I just try and flesh out perhaps some of the context that you put out earlier between the e-mail that you got on 22nd September and the petition for the liquidation of Kaupthing Singer and Friedlander on 8th October, exactly what was going on in that time. I know you mentioned some work about ensuring the security of the deposits. Can you just talk to us a bit about what happened in that timeframe, please.

Mr Clague: Prior to the petition of Kaupthing Singer and Friedlander... I would say that petition did not make us sit up and say, 'We need to worry about whether our banking deposits are safe.' The concern about our bank deposits and our investments started much earlier in the year and I think, as we ran through September into October, generally there was significant concern about quite a number of financial institutions, and whilst the winding-up petition triggered a significant amount of work in respect of that particular institution, we were reviewing numerous institutions – I would say all of our banking institutions – ahead of that winding-up petition going in.

Mr Watterson: What I am trying to find out is what exceptional items were on the desk between 22nd September and 8th October?

Mr Clague: I would say it was reviewing banks and investments and trying to see what action we could take – any further action we could take, if we could identify any – to try and add certainty to make sure we still had that money in, say, 12 months' time.

Mr Watterson: Can I just also ask, between 5th December and 29th December, do you feel that you got all the responses that you needed to questions that you had in an appropriate timeframe? There was a lead of 24 days there between the request and the actual purchase. I am just wondering if there were any unnecessary lags within that time.

Mr Clague: I think, with the benefit of hindsight and seeing how the exchange rate moved between 10th December and 29th December, it would have been better to have done it more quickly than was done.

Mr Watterson: That is still not quite the question I asked in terms of did you get all the responses that you needed to questions that you had in a prompt manner in order to... Were there any unnecessary delays, that you felt were caused by others maybe, that meant that 24 days was the minimum lead time it would have taken to get from the notification of a problem to the solution of that problem?

Mr Clague: Firstly, I would say we got all the responses we were after by the 29th, otherwise we would not have been able to perform a transaction on the 29th. I think we can always look at the e-mail trail or the audit trail as to what went on and look at the time gaps between responses being issued and question whether that time gap was necessary. I guess when I sent the e-mail of 10th December I was thinking these were the options and we would get the instruction to undertake the transaction back promptly, as in within a few days. I believe there was further clarity on some of the amounts and timings which led to the further delay, and obviously if there had not been the need for that then it probably could have been done more quickly.

Mr Watterson: Thank you.

The Chairman: On 24th November, you were sent an e-mail by Alan Blain reminding you that the day was getting closer when euros would be required.

Mr Clague: Yes.

The Chairman: Did that make you think, 'I haven't yet sorted out the options'?

Mr Clague: Yes, it did, and that effectively triggered things in my own mind to work towards getting it sorted out, which then led to the 10th December e-mail.

The Chairman: Before we get to 10th December, on 5th December, Clive McGreal sent you an e-mail asking if the hedge facility had been completed. Were you surprised by that wording? It implies that you had had an instruction to hedge or purchase.

Mr Clague: I was surprised by the e-mail. I probably am more surprised by it now than I was at the time. My

recollection at the time was that we had had an informed discussion about the fact that the euros had not been placed, which then led to that e-mail.

The Chairman: When did you have that discussion?

Mr Clague: On or around 5th December, but I do not have any notes of that discussion and I do not believe the Financial Controller does either.

The Chairman: Did you have any discussion with him after 24th November, when you were effectively reminded that you had not worked up the options?

Mr Clague: Only immediately prior to the 5th December e-mail.

The Chairman: So you did not communicate with him between the 24th and the 5th December e-mail?

Mr Clague: Not on this matter. We communicate almost on a daily basis about a variety of matters, but I do not recall on this specific one.

The Chairman: There is a comment here. There was a report from Treasury on 9th February this year. It says:

'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.'

To what do you attribute the delay?

Mr Clague: I attribute the delay to other work commitments which were felt to be a greater priority at the time. I do not believe there was any conscious decision to say, 'We need to wait four weeks to do this.' I think it was always a case of, 'It needs to be done.' I think there was a general awareness – certainly I had a general awareness – of the direction the exchange rate was heading in, but, alongside the other matters we were dealing with at the time, it felt like one of these things which was always 'we need to do it tomorrow; we need to do it tomorrow' and tomorrow did not come.

The Chairman: It was something you had not done; it was not something you decided – to delay the purchase of euros, because of the market conditions or anything like that?

Mr Clague: No. I do not necessarily believe we would be able to make that decision, because as soon as we make that decision, we are effectively speculating on where the exchange rate is going to be in a set period of time. I think, all we can do, certainly, within Finance Division, is to say we have a commitment to buy another currency and we can remove the uncertainty around that commitment. I do not think we can do anything to speculate as to whether we are going to make money or lose money on the back of it.

The Chairman: That begs the question, then, why nobody bought them in April, when Treasury advised of the need? In your Division – not you, but one of your officers.

Mr Clague: In terms of my Division, I do not believe

we had sufficient information within the Division to effect such a purchase and I think we would always look for an instruction to come from outside the Division, in order that we do not compromise too much on making decisions to purchase things and actually doing it.

The Chairman: Your political Member thought that the Treasury were doing it, but you feel that you were waiting for an instruction from somebody else?

Mr Clague: Sorry, within the Division, we feel we were waiting for an instruction from somebody else. We think that instruction could still be within the Treasury as a Department.

The Chairman: Anything further, Mr Gill.

Mr Gill: Could I just to be clear in this, Mr Clague? There was no 'passive management strategy'?

Mr Clague: I do not quite know what is meant by 'passive management strategy', inasmuch as there may be a book out there which has a definition, which I am not aware of, but there was certainly no conscious decision not to do anything! It was a consequence of other events going on.

Mr Gill: It was not an option; it was progressed. There is no passive management strategy.

The other point I would like to ask you is: this is all developing and dragging and whatever, and for all the reasons you have explained. You, presumably, would share any issues or any progress with your actions with your line managers and your colleagues and, presumably, as a matter of good practice, you would want that to be made aware to your political Members, so they were the first to be aware of issues rather than, as is claimed, the last to be aware of it. Would that be a normal practice within the Division and Treasury generally, to ensure that political Members were in the loop on issues?

Mr Clague: I think it would depend on the nature of the issue. I think, in respect of this matter, in my mind, it would depend on what aspects you were referring to. If you were, say, referring to the fact that the foreign currency position had not been hedged prior to December, I would say in that period, I believe, it is entirely proper for the political Members to make decisions and expect those decisions to be carried out by officers.

I think, if you are talking about the period after December, I was not directly involved in informing the political Members of the Department as to the issue. My feeling is that they were informed relatively promptly, once the issue had been quantified and understood by officers, but I do not have details of the actual phase when that was done.

Mr Gill: In the Wednesday Treasury meeting, which is held weekly, I believe, that would not be a forum to exchange information and review progress on the issues?

Mr Clague: Again, if you are talking about progress as to decisions made by Treasury and whether those decisions have been carried out, the Treasury, from my perspective, seemed to make an awful lot of decisions and I am not sure how practical it would be for every single one of them to

be referred back. I still think it is reasonable for Treasury to make decisions and expect those decisions to be carried out by officers and for officers to ensure that those decisions are actioned as they should have been.

The Chairman: Mr Butt.

Mr Butt: Yes, one final question. This was a very busy period, you say. Would you say it was unprecedented?

Mr Clague: I would. I certainly have not experienced anything like this, either in my career within Government or previously, before I came into Government, and I would like to think I have been involved in some quite unusual things in the past, but nothing like this.

Mr Butt: Were your line manager and the political Members aware of the pressure that you were under in your team?

Mr Clague: I would expect so. I do not know if we ever sat down and said, 'This is all too much,' or had any of those sorts of discussions, because I think we all knew there was an awful lot going on; we were all under a lot of pressure and we were all trying to do what we felt at the time was the best to protect the Government and protect the Treasury in dealing with the matters as they arose.

Mr Butt: Was there any extra resource put in to help you through this period?

Mr Clague: Not in terms of additional bodies or additional expertise, and I think it probably would have helped if we had had it, but I think it would have been very challenging to actually do. It would have been the classic situation where you have so much coming through the door that it is very difficult actually to have the time to consider how you might alleviate that.

Mr Butt: Okay. Thank you.

The Chairman: Mr Henderson? No questions. Right. Thank you.

Thank you very much, Mr Clague, for answering these questions from the Committee. Is there anything that you want to add before we conclude our discussion with you?

Mr Clague: I just want to clarify something I said to Mr Butt before about a number of people, you might say, underneath me. I said there were four people, which was the Senior Accountant and then three more junior officers. The thing I probably wanted to add was that team deal with investment and banking, generally. So, in terms of it was not a case of four people sitting paying some bills with time on their hands. They were as much involved in all of the issues we had with banks and investment managers, as I was. That was all I wanted to add.

The Chairman: Right. Okay. Thank you very much for helping us this morning.

Mr Clague: Thank you.

The Chairman: Right. Just a quick, short break.

Mr Henderson left the meeting.

Mr Thompson was called at 11.43 a.m.

EVIDENCE OF MR I THOMPSON

The Chairman: We are going to invite Mr Thompson to give evidence to the Committee. Good morning, Mr Thompson.

Mr Thompson: Good morning.

The Chairman: Thank you for attending. Could you start, please, by telling us what your role is in the Department of Transport and your responsibilities there. If you want to make a statement, that is fine.

Mr Thompson: I am the Chief Executive Officer of the Department of Transport and the Accounting Officer and I am more than happy to deal with questioning immediately, rather than make a statement.

The Chairman: Thank you. Can we start off, then, by noting that Mr Blain wrote to you on 19th March 2008, advising that Treasury concurrence would be given to the RESA scheme, subject to certain conditions, one of which was the Department – we presume the Department of Transport – take steps in conjunction with Treasury to implement a mechanism to protect against further exchange losses.

Can you outline what happened in respect of that advice to you?

Mr Thompson: Certainly, Chairman. First of all, immediately after that session – and that was a session where Treasury first learned of the proposal to have a dual currency project – we went to Tynwald and then, immediately following Tynwald, I think it was almost the next day, we had what we refer to as a stage 10 review, which is normally done at the end of a project. In fact, it was done while members were fresh, to review the early stages of what had happened with the project and it included a review of why the change came along to include euros in the contract sum, rather than it being all sterling. That had occurred, as you have heard, between the original attempt to take the project to Tynwald in February and, ultimately, when we went again in April. So, we actually discussed the whole principle of the introduction of the euros at that point – if that answers your question.

The Chairman: Were you formally advised that there would be a condition of this nature?

Mr Thompson: Only when it came out in the letter of concurrence, but we would expect to be required to work with Treasury colleagues to deal with a cash flow, for instance, in terms of both sterling and euros. In a project of this size, cash flow is estimated, it is anticipated, but, of course, until the contractor is signed up and on board, you actually do not know, because it is driven by his programme, the specifics of his programme and that includes the programme of his subcontractors.

So, the cash flow would have been available at the time it went to Tynwald, as a tentative estimate of what it would be, and, by then, it was in euros and sterling and it would

continue to be modified throughout the project and, in fact, it is still being modified in terms of if a vessel is late with rocks, that could defer the cash flow by a couple of million pounds in one month, because that is the rate of spend on this project at the moment.

So, it is an ongoing issue. It is a changing picture, but every month we are provided with a report, which you now have electronic copies of, which tells us what is happening with the cash flow and so, for instance, with this, originally, we thought we would be requiring euros as early as August 2008, whereas, in fact, we did not need them until just after Christmas: February or March, I think it was, and that was because we changed the nature of the project, of course, by pushing back promontory works and the like.

The Chairman: But, in terms of that wording, ‘the Department take steps in conjunction with Treasury to implement a mechanism to protect against further exchange losses’...?

Mr Thompson: Yes. So, we had that discussion at the stage 10 review. We then moved on to, immediately after Tynwald, again, we had our initial contract meeting and a review of the job with both the steering group, which is the managing directors of all the companies involved and the design team and we, again, specifically discussed the issue about cash flow for euros and their purchase. It is very clear from that point and every time it was mentioned that it was an issue that Treasury was dealing with. Absolutely crystal clear, that that is the way it would... And quite properly, because we have no ability in the Department to go out and purchase euros. I would not know how to start, but obviously...

I was quite confident in the systems within Treasury, inasmuch as it is not the first time we have had a dual currency project. The Energy from Waste Facility had substantial advanced purchase of euros and, indeed, the regional and NSC pitches were also dual currency projects.

The Chairman: Mr Watterson.

Mr Watterson: Mr Thompson, you were, before your present job, the Head of the Capital Projects Unit within the Treasury.

Mr Thompson: I was.

Mr Watterson: How would you perceive that the system should have worked in this instance?

Mr Thompson: How it should have worked?

Mr Watterson: Yes.

Mr Thompson: Well, I am –

Mr Watterson: Who should have told what to who and when is basically what I am asking, given your experience in that market.

Mr Thompson: Can I just add a little bit more to what was going on at the time? We created a thing called the steering group which, as I say, is myself, I chair it; the Airport Director is there; the Managing Director of Balfours and all the other team members. In that structure, we actually

discuss quite key issues, beyond what is in this report, and in each of those meetings the issue of euros is passed over. It is dealt with, but not, obviously, in any depth, because we are not actually dealing with it. Just, 'are there any issues on it?' Move on.

I am quite clear, by submitting this every month, to Treasury colleagues, which is what happens, to the CPU, as any project does – it just happens this one has got euros in it. But, the cash flow requirements, albeit that they do change, marginally, were deposited with the Treasury. That is not buck passing. That is a matter of fact. That is the way we run the job.

Mr Watterson: The Capital Projects Unit?

Mr Thompson: The Capital Projects Unit. And at that point, going back to even as early as April, Mr Blain confirmed that he had had discussions, that this was coming. No detail, but just a warning, 'heads up, this is going to happen'. I am absolutely clear that he would have done that, as I would have done, going back to my days in there.

Mr Watterson: So, you say he gave a heads up. To whom?

Mr Thompson: I think it was Carol Davies. Just from what I have picked up in e-mails, which I think you have. And it would only be a warning. There was no instruction to do anything, because at that point, we had not got the firm cash flow.

Mr Watterson: And when would you say that you had sufficient certainty of the cash flow in order that you would expect the Treasury to have –

Mr Thompson: Well, we knew what the total amount would be and, I suppose, in the end, as my understanding was, that in terms of the drawdown, the purchase, it was a lump sum anyway. It was not a structured visit to the market place to buy euros; everything was bought at the same time. And I think that is exactly what happened on the Energy from Waste facility. So, it is a long time ago, but it worked.

So that is what I would expect: that this document, which is absolutely clear on what was required on a month-by-month basis, would have been available and it had been modified to require only euro purchase or, at least, availability by the spring, so we had lost that urgency, other than whatever the market place was doing for the purchase of foreign currency at the time.

Mr Watterson: So, you would expect, firstly, that the Capital Projects Unit Co-ordinator would read that report every month.

Mr Thompson: Which he did.

Mr Watterson: Yes. And would pass the relevant information on to other units of the Treasury in order to source funds?

Mr Thompson: As necessary. Yes. And it is the same, just to pick up on an earlier discussion, the involvement of Mr Braidwood, and I can speak with authority, because I used to have the same structure and, yes, it would very much be

– I think, one of you mentioned the principle of exception reporting, I think it was Mr Henderson. There are times, there are up to 60-odd capital projects running and I think that is really what you can deal with, is exception reporting. And I would put papers together, as I know Alan Blain has, when there is an exception of note to the Treasury and they will report. In fact, several times, as Mrs Christian is aware, we would have told them what was going on in the new hospital, because there were exceptional things going on.

But, in terms of the rest of it, probably, without being over graphic about it, the reality is, if there are 60-odd projects every month, by the time you have told them in detail what was going on on each of them, it would be time to start again. So, you end up with exception reporting.

You all get the quarter report on the economy that is produced and, in there, there is a section and very often what you will see in there is the exception of capital projects that have a problem, particularly delays, time-wise. I think Treasury gets advised if something is between a month and three months late. It goes into the quarter report that it is three months plus. So that is the kind of structure behind it.

Does that answer your question?

Mr Watterson: It does. Thank you.

The Chairman: In terms, then, of the meeting held on 19th June, where it says:

'Anticipated cash flow in respect of the procurement by Treasury of euros was noted. ITT referred AB to the monthly progress report with Treasury's forward planning of their purchase of euros.'

That implies you felt that that was happening.

Mr Thompson: Yes. It was really just to strengthen the view. Perhaps that is... The benefit of hindsight has been mentioned a couple of times this morning. That may be through my benefit of hindsight, by being in that job previously and knowing that sometimes you just need to touch base and say, 'is this being done?' And that was in the monthly reports and it was highlighted to the Capital Projects Co-ordinator at the time, which he fully acknowledges.

The Chairman: Did I understand you to say earlier that on the other schemes, the euros were purchased at the beginning or – ?

Mr Thompson: I am not sure precisely when, it is a long time ago, but they were certainly produced –

Mr Watterson: Staged payments.

Mr Thompson: Yes. They were certainly cash flowed. I am not sure if it was a single one-off purchase or there was a staggered... I suspect somebody in the room may have been involved in the purchase.

The Chairman: So, you would be aware that... It would be a Treasury decision, would it?

Mr Thompson: The actual mechanism for it, I mean, I do not have that mechanism within the Department. All I can do is just encourage and remind colleagues what I need from them. I would not know how to start... Well, I do: I could go to Thomas Cook – personally, I mean! But, in terms of a

mechanism for going out – and this is serious, marketplace, professional advice – I do not have that mechanism, but I know a man who does.

Mr Watterson: You are confident that you had sufficient information over the total amount, once the vote had gone to Tynwald? So, there was enough knowledge then?

Mr Thompson: Yes, £14 million or whatever it was and, again, after that meeting – I am sorry, I may be pre-empting what you are going to say, Mrs Christian, but – on the steering group on 12th June, which, again, meets more or less monthly, Alan confirmed that he was doing exactly that: that he was liaising with colleagues at Treasury to expedite the availability of euros, albeit that that requirement was some time off.

So, in terms of the needs of the project: some time off. Perhaps, in terms of needs of economic opportunity or resilience, it may be that that was a now decision, but I was not party to that. Nor would I expect to be.

The Chairman: Have you got any quick questions on that? Can I just ask, again, from your experience in the Capital Projects Unit, you would have left it to them to determine. Were you aware of there being any specific policy in relation to the purchase of other currencies, in relation to a capital project, or have there not been enough of them to have a policy?

Mr Thompson: No. It certainly is not an issue for capital procedures. I think it is to be, because there is a draft policy under consideration. It has been submitted through the clients group, for comment and I would expect that to be part of the financial rates. You very, very rarely end up with a capital project that has got dual currency, but that is the international nature of this particular project.

The Chairman: Mr Watterson.

Mr Watterson: The only question left is you chaired the stage 10 review and you said – and I quote:

‘The team had let themselves down with regard to procurement of elements of the project in euros. The issue had not been spotted and the impact on the job was massive.’

Could you expand on those remarks?

Mr Thompson: Well, when we were ready to go to Tynwald originally, it was a single project currency. In the interim, even going back to when we were just about to go to Tynwald, there were already discussions. There were... I would not say cold feet, but concerns – and it was not just rock armour; it was the dredger, the barge, all those kinds of people saying they have concerns. Of course, if they have an identified lump sum in euros – €x million – that is it. They are not vulnerable: it moves to the client.

My concern was that the team had been going down that route. The first we heard about it was when we were getting the stage 6 report – which was actually quite quickly; it is only a small gap in between – where there was an explanation of the difference between the original vote and the current proposal. ‘What on earth has been going on?’ Then you see there was euro, I think it was €1.2 million; MNH’s additional requirements; there was an issue about fossil fuels, about

£700,000 added in, because we had lost that window.

So, that is why I was criticising them, that is was not there and all of sudden, when we got to stage 6, it was and they just had not given us a head up, if you like – albeit you are only talking about, because of submission periods, about four weeks.

Mr Watterson: And Treasury concurred with that shift in the risk strategy which basically meant that the risk had shifted somewhat from the contractor to, effectively, Isle of Man Government.

Mr Thompson: The first the Treasury knew of it was we were in Treasury on 19th March doing the presentation explaining the stage 6 differences – stage 6 being the tender report – and within it there was an issue about euros, so it was then rehearsed to Treasury as to what the issues were.

Mr Watterson: And they were happy to take that risk?

Mr Thompson: Well, I am sure they were not happy, but the argument was that that is probably the most sensible approach. At least then you knew – well, perhaps, we thought we knew – what the issues were at that time. You have got a degree of surety of cost with the suppliers and subcontractors and that was an important issue.

The Chairman: Mr Butt.

Mr Butt: Thank you. Can I ask you about the structure of your Department and how you organise your meetings and provide information? Presumably, you have several capital projects ongoing all the time? Is that correct?

Mr Thompson: Yes.

Mr Butt: Do you have regular meetings with your political Members and Minister to update them on the progress of those projects?

Mr Thompson: We have divisional meetings where, for instance, there was one in the Airport yesterday which was actually chaired by the Minister, and we have a section where we discuss each of the capital projects and all Divisions are structured like that. So, in Highways, they have got the same discussion: ‘these are the issues with our highways projects at the moment.’

Mr Butt: And in terms of the looming problems with the euros, did you discuss with them, in this period, before they were purchased, any concerns about where that was going?

Mr Thompson: To the point at which we were aware there was a problem with the euros, because, certainly, we had had the assertions that, ‘Don’t worry; it is being dealt with’, and it was only come the end of the year, when the purchase actually took place, that then the alarm bells passed down to us and, in fact, I was there when the Minister mentioned the issue to the Treasury Minister, which you referred to as January. We had just really become aware of what had happened which was the very last day, I think, 30th or 31st December.

Mr Butt: That was my next question, really.

Mr Thompson: Oh, sorry.

Mr Butt: I believe your Minister actually informed the Treasury Minister. How did your Minister find out?

Mr Thompson: I told him.

Mr Butt: How did you find out?

Mr Thompson: I do not recall precisely, but, clearly, it was in the same timeframe, because it was immediately after Christmas, after New Year, and the purchase only took, I think, on New Year's Eve, thereabouts.

But, going back to your issue about the structures, you have divisionals, you have Department, so all the members get to hear about whatever others are doing because they are in the pack of minutes for everybody to read. We have a structure of capital projects monthly reviews, where Treasury and myself and various officers come together and talk about what each Division is doing and then, specifically, for the Airport, we have the steering group on top of everything else, which meets monthly, which is that kind of high level problem solving, problem anticipating, 'your people are being awful with this', whatever it is, and sorting it out.

Mr Butt: But were Treasury Capital Projects involved in that group?

Mr Thompson: Treasury's Alan Blain is a member of that group and he has been since it was instigated, long before we went to Tynwald.

Mr Butt: Thank you.

The Chairman: Mr Cregeen.

Mr Cregeen: So, you said that you became aware, early January. I take it that is after the purchase of the euros? What date did you get confirmation that Treasury would be doing the purchase of the euros and was that minuted down anywhere that they were going to take full control of this?

Mr Thompson: Well, it was repeatedly referred to. In fact, it was referred to in what I refer to as the stage 10, which is a bit premature. It was about two years early, that meeting, but I have explained why we had that. Very clear and it is not minuted and, in fact, the report to me says, 'It is not minuted,' and we could all find plenty of occasions where we wished things like that were. But, again, it was made absolutely crystal clear to us that that was a Treasury issue and I would expect it to be that, from my own experience. The date when, if you like, you can bank on a particular minute, where it spells it out is the steering group meeting, 12th June.

Mr Cregeen: Who made it particularly clear to you, that it was a Treasury issue?

Mr Thompson: Alan, the Capital Projects Co-ordinator.

The Chairman: Mr Watterson.

Mr Watterson: Okay. Let us take a slightly different tack. In the meeting on 19th June, there were notes of

a meeting held at 10.30 to review the approach to the management of financial process on the airport runway project. It was agreed at that meeting, it was suggested, that a trial payment should be made in euros to test the payment system. (**Mr Thompson:** Yes.) That action point was actually left with a member of staff from the contractor, from Balfour Beatty, to action, but who else would have been involved in that process? Would it have been the Department and, presumably, the Treasury as well?

Mr Thompson: Yes. There is a lot of preparation for that. Do not lose sight of how much it was: it was €50 and it was really to make sure that we...

There is a very important issue to me which is that we must make our payments on time. It is the lifeblood of industry. So why do we go through all this? It was not just to see if we were clever; it was to make sure that there were no glitches in that cash flow and that the man got his money on the right day. Fifty euros was really a poultry amount and would not test the availability of euros to meet that. It was more testing the system.

Mr Watterson: That is not quite what I am getting at. It is the test of the system that I am trying to explore, because what we are hearing is that the communication within Treasury was not fantastic, that there was not really a general appreciation that there was going to be a knowledge of the need for euros until, perhaps, late September, certainly from senior officers. Then it was a case of who was responsible, who was involved in that payment, from the Treasury's perspective?

Mr Thompson: Again, the steering group would have instructed the team to make this, I will not say bogus payment, but an unnecessary one –

Mr Watterson: Trial payment.

Mr Thompson: – test, experimental, whatever you want to call it, just to make sure the system worked. All the steering group were aware of it and all the team were aware of it, because it created an interim certificate. That is why the contractor was involved, because he, with the quantity surveyor, agree the amount, fill the paperwork in; it then goes... Every layer in the team touch that payment.

Mr Watterson: Who in Treasury?

Mr Thompson: It would come from my finance officer to Treasury finance officers. I do not know names in frames, but it is just the same process as £25 or £250,000 monthly payment on another job.

Mr Watterson: So, it would be the same officers within the same payments section that would deal with sterling transactions. It is not –

Mr Thompson: I am not sure who does what now in those areas of the Treasury any more. It is not a criticism; it is just not my business.

Mr Watterson: I am not saying it is and I do not mean to criticise –

Mr Thompson: I am concerned that my view could be

viewed as criticism, which it was not.

Mr Watterson: Perhaps it is something for us to chase up another way. Thank you.

Mr Gill: In terms of responsibility for individuals and Departments, is that mirrored in any way by actual financial responsibility for this additional expenditure? Where would the additional expenditure be borne from?

Mr Thompson: I have absolutely no doubt about that. The Minister will be faced with seeking a supplementary vote from Tynwald when we know, at the end of the job, what the financial position is. At the moment, the job is on programme. It is in budget. I have about £950,000 in unspent client contingency which needs concurrence to spend, and it may be that we do not require the full amount of the additional commitment. I am not in a position at the moment, and I think it would be foolhardy to go to Tynwald now, if something goes wrong with the project and we find ourselves going back again for the inevitable battering that we would get for it. But I expect perhaps even in the new session, before Christmas, we will be in a position to go to Tynwald.

Mr Gill: We have a Treasury senior officer accepting responsibility and one of his junior officers doing likewise, and the Treasury Minister saying he takes full responsibility. Why is the motion not brought therefore from Treasury?

Mr Thompson: I just think that is one of life's realities. The vote was to the Department of Transport, the vote will be exceeded, and it is a matter for the Minister, supported by my team, to seek the further funding. I think *Hansard* actually refers to that and that the Treasury Minister, while he would be stood behind him, actually is not part of that process, other than the normal approval process.

Mr Gill: Lastly, on a slightly different tack, could I ask you... The draft policy which Treasury has issued reads to me, from my limited experience, to be, 'We are arm's length from now on; it is all the responsibility of the Department to purchase any foreign currencies.' That is out for a consultation. I was mindful of your comment that... and even with your experience, you say, 'I wouldn't know how to start purchasing euros.' How do we reconcile the two and –

Mr Thompson: Accountancy colleagues do have some skills, and that is an area that I just... It is not what I do. Neither do they do surveying or quantity surveying or architecture, and I honestly would not know how to go about... and I think it would be foolhardy for every Department in Government to become expert in the purchase of euros. Having said that, the duty sits with those respective Departments to fully advise those who have that capability of what is required. I think that is entirely appropriate.

The Chairman: Do you consider that they were not fully advised this time?

Mr Thompson: No, I think they were fully advised of what was required, and there is a clear... We can demonstrate that absolutely clearly.

The Chairman: Mr Cregeen, a final question.

Mr Cregeen: In your letter dated 14th July, you state that the value of the euro element may go down, dependent on the density of the armour stone.

Mr Thompson: Yes, amongst other things, but that is a good example.

Mr Cregeen: Are you being driven to make economies on this project to come within budget? I am just thinking, the project overall, are you not going to have to cut some corners to get within budget so you do not have to come back?

Mr Thompson: I am duty bound to try and deliver this project within budget. That is my intention. I have been a champion of that since I was in my previous job. There are countless references from Members and others that... another white elephant, another job that has gone over budget. The majority of Government projects are delivered on time and in budget, and I intend this one to be the same. That has been thwarted now by this euro issue, but ignoring that, even today we are looking all the time for savings to bring the job in within other routes. We have taken a hit, since we started the scheme, of £700,000 because of fossil fuel increases. I have got no budget for it, other than what I have got, and we will continue to do that.

We are looking again at the issue of aggregates. The UK is on it knees, in terms of the construction industry, and it may be there are other opportunities that come along to help us with the specific quality issues that we need. No, we will not cut quality. I could not live with a step in the runway because the land has settled, of course not. But being serious, if we had to not macadam one of the taxiways and do it later on through other means, through revenue or something else, I would be offering that as an option to the Minister and the Department to try and keep the job in budget, because that is what we have to do.

It is a massive project, and from day one we have had what is called 'value engineering' – which is a bit of a trite title for looking for cost reductions, cost improvements – since the day we started this project, and we are still doing it, even though we are well into it now, and I think that professionally we have no option but to do that, and I hope we achieve it.

The Chairman: Thank you very much, Mr Thompson, for coming in this morning.

Mr Thompson: Thank you, Chair.

The Chairman: You have assisted us.

Mr Blain was called at 12.11 p.m.

EVIDENCE OF MR A BLAIN

The Chairman: Could we invite Mr Blain to come forward, please.

Good morning, Mr Blain. Thank you for coming. Can we invite you, first of all, to describe your function within the Treasury and in relation to this issue, and make any statement that you want to make, please.

Mr Blain: I do have a short statement, to start, Chairman.

My name is Alan Blain. I am an architect with some 30 years' experience. My professional line management responsibility is to the Assistant Financial Controller, Carl Hawker. As Capital Projects Co-ordinator for Government, I head up the Capital Projects Unit, which lies within the Corporate Strategy Division of Treasury. The Capital Projects Unit has a co-ordinating role across Government Departments regarding the various aspects of project procurement, as well as direct involvement, from time to time, in the more challenging projects.

In respect of the matter before the Committee, I have been directly involved in the strategic management of the RESA project since its inception and continue to be involved as a member of the project steering group. I am aware of the issue which the Committee is investigating and recognise the shortcomings already identified. I have been consulted and contributed to the internal Treasury investigation and review. I am supportive of the recommended adjustments to capital procedures and financial regulations.

Otherwise, I believe the documentation you have received from Treasury accurately portrays the events that took place in the connection with the purchase of the foreign currency.

The Chairman: Thank you very much. We have raised the issue with Mr Thompson previously in relation to the stage 10 review meeting in April 2008 when it was recognised, or it was suggested, that the team had let themselves down with regard to the procurement elements of the project in euros. You responded:

'AB suggested that the lesson to be learned was to ask the following question: is anybody in the supply chain using any currency other than pounds sterling?'

Can we ask you if any action has been taken within Treasury to ensure that that question is now asked?

Mr Blain: The review that was done addressed that issue and the revised procedures and regulations are an attempt to address that issue. It is –

The Chairman: Are they draft regulations, or are they actually now –

Mr Blain: I do not think they have actually been implemented yet. They are still in the consultation stage, as I understand it. I have done my consultation with the Departments through the clients' forum, so I have consulted with the main Departments on the building side, not on the finance side. I believe the Finance Division is going to consult with finance officers in the Departments.

The Chairman: We have heard that there are new, or draft, financial regulations. Apart from this issue of asking the question whether or not there are any other currencies to be considered, is there anything actually new in the procedures, in your view, or is it simply that they are now being defined more closely?

Mr Blain: I think it is a more careful definition of what was probably a perceived way of doing things before anyway. I think it is now actually written down. It happened so infrequently in the past, the only real precedent, I think, is the Energy from Waste Plant, that might be taken as a precedent for what to do.

The Chairman: Members of Tynwald were told at a presentation that, after the Tynwald vote and the contract had been signed, steps would be taken either to purchase or hedge euros. Were you aware of that?

Mr Blain: Yes.

The Chairman: How would you interpret that? For it to be straightaway, or...

Mr Blain: I thought it would be pretty much straightaway. That was my perception of the way that it would be mitigated, but this is an area that is outside of my area of expertise. This is what the accountants deal with. I thought they would have dealt with it fairly quickly. I got the message through to the Finance Division within a few days of the Tynwald vote, and I expected it to be done fairly quickly.

The Chairman: Thank you.
Mr Watterson.

Mr Watterson: What was the message that you got through and to whom?

Mr Blain: I passed the message to Carol Davies in Finance Division that there was now a major commitment to the purchase of euros and we talked about the implications of that and the fact that the Department would need to set up a system and be aware of the systems that were in place, and the suggestion that we put a dummy run in place came out of those discussions as well.

Mr Watterson: Those discussions with Carol Davies included the amount that was required?

Mr Blain: Only in terms of ball park – €13 million, €14 million, that kind of number – because on a capital project of this nature it is virtually impossible... I think as you will have seen, it changed from month to month, the exposure, so in terms of the actual number, no; the ball park, most definitely.

Mr Watterson: And as there was greater clarity as to the more exact amounts, were those passed on to the Finance Division within Treasury so that they were being kept abreast of the new ball parks or the more refining element of how much in the way of euros was required?

Mr Blain: I let them know that that information was available and confirmed, I think in August, that the information was available. I was not sure what they needed exactly. I suppose, with hindsight, I am still not exactly sure exactly what they need. That is what the accountants do; it is what the bankers do. I certainly made them aware that we had got this exposure and that it needed to be addressed.

Mr Watterson: So you were sending on the monthly euro amounts or any details like that. Once you had passed that information on, initially in June, and reminded them in August, you felt that that was sufficient information and that they would come back to you if they had any queries?

Mr Blain: I assumed so, yes. That is what I would do.

The Chairman: Mr Butt.

Mr Butt: You said you spoke to Carol Davies in, I think, April – it was just after the Tynwald vote – and discussed what would happen.

Mr Blain: Yes.

Mr Butt: Would it be fair to say that throughout the correspondence we have you have occasionally prodded Treasury from time to time to remind them what they need to do? Is it your view that you did that?

Mr Blain: I have occasionally prodded my colleagues in Treasury, yes, but I have not got a paper trail, I am afraid. With hindsight, I would definitely have a paper trail, but sadly, I thought what was being done was enough to discuss these things and point out issues.

Mr Butt: The fact that you have had to keep putting out these... or nag them, almost, to remind them, did you take any action when you did not get a response?

Mr Blain: I take the view, and I still do, that this is not my area of expertise. If they have not done something, presumably there is a good reason for it. I have heard, asking questions, there are reasons why these things do not take place, but it is speculation on my part as to why they did or they did not do something. I do know that buying €13 million is a bit different to buying €1,000 down at the Post Office, which is what I do when I go on holiday, and I accept that there is a lot more involved in it than that, so I left them to determine when was the best time to do it. During last summer, the euro was actually pretty flat, I knew that, so that was one of the things that was in the back of my mind: they know what the value of the euro is, they know what it might or might not do, they are the ones who are going to decide when to buy.

Mr Butt: During this period, I think one of your e-mails says words to the effect of, 'This is going to be a disaster', or words to that effect.

Mr Blain: I think that was well on, though, wasn't it?

Mr Butt: Yes, it was. Did you pass that view on to either the Department, the DoT, or to your Treasury colleagues? Apart from this e-mail, did you take any action over what you thought was happening?

Mr Blain: The people I was saying that to were the people who were responsible for doing this, so I felt that that was all that needed to be done. They are senior Treasury officers; they knew the position. I expected them to do whatever was necessary.

Mr Butt: Did you raise that at any political level, those questions?

Mr Blain: No.

Mr Butt: Would you not expect to on some occasions?

Mr Blain: No, I do not think so. I would not do that to a Treasury colleague. They have to stand up for themselves.

The Chairman: Mr Gill.

Mr Gill: Thank you. Just on that, there is another phrase which has been introduced, which is 'passive management strategy', and Mr Clague, earlier... I do not know if you were present at the time, but he felt there was no passive management strategy, that that is just a new concept. Would you concur with him?

Mr Blain: I think so. I would find it difficult to define a passive management strategy, to be honest.

Mr Watterson: Inaction.

The Chairman: Clearly, what we want to come out of this is a system that would eliminate, as far as possible, a recurrence. We have heard about the draft foreign currency transactions and the practice notes that have been produced. You are on record as saying that the proposals, whilst clear and concise, may not be perceived as user friendly. Could you expand on that, please, because it is important that we get something that is usable going forward.

Mr Blain: I think if I was in one of the Departments trying to progress one of the projects, I would feel that those were very cold and difficult to deal with, and – my colleagues are going to love me for this in Treasury – I think I would like, if I was a member of a Department, perhaps in Mr Thompson's position, a recommendation from Finance Division as to what is the appropriate course of action. They are not experts in this field. I am not, they are, and at the moment they provide the Department with all the facts and say, 'You decide.' I think it might be a little more user friendly if they said, 'These are the facts and our recommendation is...', because they are the experts. That is really what I was referring to. Whether they are prepared to do that, I do not know, and whether I have got myself in trouble by saying that, I do not know.

The Chairman: Thank you for being honest; it is very forward of you. There is presumably a consultation process going on and one would hope that Departments will feed back on what they feel about the usability of these proposals.

So it is clear that although there does not appear to be a paper trail in relation to the transfer of responsibility for the purchase of euros from the DoT to the Treasury, there is a general acknowledgement that the Treasury was going to make the purchase.

Mr Blain: That is correct.

The Chairman: You provided a number of e-mails about the requirement for euros to the Treasury, but you did not feel it necessary to ask, 'Have you purchased euros?' You were leaving that with them.

Mr Blain: That is the thing I suppose, with hindsight, I wish I had done, but even if I had, thinking back, even in September when I think the written direction was clear, even then it was three months before they were bought, so even if I had said in April or May, 'Have you bought them? Why haven't you?', would it have made any difference? I do not know.

The Chairman: Any further questions for Mr Blain? Mr Watterson.

Mr Watterson: I just wondered what the general level of fluctuation was. I know we have talked in areas about the ball park of €13 million. I am just wondering whether it was a consideration of Treasury that they needed to know an exact amount. How much were the figures changing from month to month? I must admit I have not had the opportunity yet to go through the monthly reports that Mr Thompson has provided us with.

Mr Blain: Of the order of €100,000 or €200,000, perhaps. It was around that order. It might change. If it did, it was not anything very serious. I think the 10 per cent that Mr McGreal mentioned in his note would have covered it comfortably.

Mr Watterson: I just want to do one more. One thing we have discussed in previous evidence is was there a clear instruction. In your own mind, which of the e-mails that you sent through to your colleagues in Treasury would have represented the clear instruction that now was the time to go and buy the euros?

Mr Blain: The clear instruction was my meeting, I felt, with Carol Davies, and thereafter they were reminders.

Mr Watterson: On what date was that?

Mr Blain: That was between the 17th and the 21st. I think I wrote my e-mail the day after, which was about the 21st.

The Chairman: Of April?

Mr Blain: Of April, yes. I think that was when I wrote my e-mail, and it was the day after, I think, or the day after that, but within a couple of days.

The Chairman: Mr Butt.

Mr Butt: Can I ask questions about the structure of meetings and the political involvement. I refer to my own experience in the Department of Local Government, where the Capital Projects Unit come to the Department, I think every two months, and go through piece by piece or project by project where the progress is on those capital projects. You were the officer who attended, and you and myself, as political Member, we questioned the Department about what the progress was and what the finance was. Does that happen with other Departments as well with their capital projects?

Mr Blain: It happens. I meet with most of the Departments on a monthly basis, usually at officer level, in fact almost exclusively at officer level. I also meet on particular projects, very few of them, in fact the RESA one is the only one at the moment that I meet on a monthly basis specifically to deal with that.

Mr Butt: The DoLGE set-up, did that come about because of the Energy from Waste Plant? There is a political Member there involved.

Mr Blain: I do not think so, no. In the days when the Energy from Waste Plant was live and we were meeting with Treasury, it was officer level, not political. It is quite unusual what DoLGE does in terms of involving a politician.

Mr Butt: I was not aware of that. I suppose my question, following on from that, is with the Department of Transport, you are on the steering committee at a higher level dealing with these issues. Say it had been DoLGE, you would have raised with me, or the Department, that the euros had not been purchased yet. You were doing that with the steering group in DoT?

Mr Blain: I was reassuring the steering group that the euro issue was known about in Treasury and was being dealt with because that is what I believed the situation was, yes, that Treasury were aware of what was required and were dealing with it.

Mr Butt: And do you then have meetings with Treasury on a similar basis about capital projects? Do you have a discussion with them every so often, saying, 'Here is where we're up to with capital projects'?

Mr Blain: No.

Mr Butt: Would that, in hindsight, be a beneficial thing to do?

Mr Blain: It would be a difficult one to call. It would be a matter of scale. There are probably a hundred ongoing projects at one stage or another from inception through to completion. Where you would draw the line as to which ones shall we talk about and which ones you would not and how long you would devote to doing it... It could be a whole day's meeting, if they wanted to. To do it in half an hour would be really just scratching the surface. It would be a difficult one to say that should be done.

Mr Butt: But if you had a system like that in a complicated issue like the RESA, and the euro purchase etc was part of that, you would actually highlight that as being a potential problem. At the moment the –

Mr Blain: The problem with this problem is it only became a problem in October/November, didn't it?

Mr Butt: But you were aware for some time. You were reminding people about it.

Mr Blain: But I did not –

Mr Butt: Had there been a structured meeting system, I am asking, would that prodding have been more formalised and better action taken?

Mr Blain: I would not like to... This was not seen to be a problem until it turned to tears. That is the problem with it. We had seen it coming. We thought it was under control until it all... I suppose, arguably, if the euro had gone the other way, we would not be sat here now, would we? We would be sat quietly –

Mr Butt: Would you accept, though, from the evidence trail we have, that a lot of it is *ad hoc* and we need some proper systems to actually record who has done what and when and who is aware of what?

Mr Blain: I think I have got to admit, yes, there are

deficiencies in that regard, and I have got to hold my hands up – perhaps I should have kept a better paper trail of what I was doing, yes.

Mr Butt: Thank you.

Mr Watterson: I have already walked Mr Thompson down memory lane. You were the project manager on the Energy from Waste Facility, weren't you, for the Department of Local Government and the Environment?

Mr Blain: I was project director.

Mr Watterson: Project director, sorry, yes. I was just wondering... the new regulations that largely reflect what has been practice was that it is the responsibility of the Department. Were you involved in the financing and the chase-up of the currency then? I do appreciate that we are going back eight years, nine years here. I was just wondering if you have any recollections of that time as to whether you had been involved directly with the finance and the purchase of the euros for that project?

Mr Blain: I was, and I do remember it, from the Department's point of view – obviously not from Treasury's – but Treasury again accepted responsibility for securing the

euros. I did not know what was going on behind Treasury walls; they simply said they would accept responsibility for doing it, and they did. The Department relied on them and they came through with the euros when we needed them. How they did it, I do not know, but the agreement was... I understood the basis of why they were doing it and it all made eminent sense, and it all seemed to work very well.

Mr Watterson: Thank you.

The Chairman: Any further questions?
Is there anything else you want to add, Mr Blain?

Mr Blain: I would just say, for my colleagues, I feel for them. They are clearly very upset about what has gone on, the accountants. It breaks their hearts to lose £1, let alone £2 million. A lot goes on behind the scenes where they save us an awful lot of money, and nobody knows anything about that. It would just be nice to mention the fact that they do do some very good work behind the scenes and it goes unsung.

The Chairman: Thank you for that. Thank you very much for coming to assist us this morning. That concludes our public session and we will briefly meet in private.

The Committee sat in private at 12.32 p.m.