



**TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
QUAIYL TINVAAL**

PROCEEDINGS

DAALTYN

(HANSARD)

**SELECT COMMITTEE OF TYNWALD
ON THE
MANX ELECTRICITY AUTHORITY**

**BING ER-LHEH TINVAAL MYCHIONE
LUGHT-REILL LECTRAGHYS ELLAN VANNIN**

Douglas, Thursday, 28th May 2009

Members Present:

Chairman: The Speaker of the House of Keys (Hon. S C Rodan)

Mr D M W Butt, MLC

Mr D Callister, MLC

Mrs C M Christian, MLC

Mr D J Quirk, MHK

Clerks:

Mr R Phillips, Clerk of Tynwald

Mrs M Cullen

Business transacted

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Select Committee of Tynwald on the Manx Electricity Authority

*The Committee sat in public at 2.35 p.m.
in the Millennium Room,
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

Procedural

The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan): Good afternoon everyone and welcome to this meeting of the Select Committee of Tynwald on the Manx Electricity Authority, taking evidence in public.

The Committee, established in July 2005, has, as its remit:

'To investigate the true and correct position with regard to the Manx Electricity Authority's affairs and, noting the PKF Report, to investigate the role of the Authority, the Treasury, the Department of Trade and Industry and other parties deemed appropriate, to ascertain what went wrong and to report to Tynwald with findings and recommendations.'

If I can introduce my colleagues on the Committee: Mr Callister; Mrs Cullen, the Clerk; Mr Butt; Mrs Christian; Mr Quirk; and Clerk of Tynwald, Mr Phillips. Mrs Ellen Callister is our *Hansard* Editor responsible for recording. If everyone could please have their mobile phones switched off, it would be appreciated.

Our investigation is wide, with considerable written evidence received, and we are therefore progressing the investigation by separating various issues in sequence and issuing a series of interim reports. Currently, we are concentrating on the MEA's compliance with financial regulations and the provision of information by the MEA to Treasury and the DTI.

We are conscious that many of the events being investigated took place some years ago and, in fairness, have prepared a file of evidence relating to the subject matter to which witnesses have had access, and the file has also been placed in the Tynwald Library for members of the public. We have also notified witnesses, in advance, of possible questions.

Administration of the Oath

The Chairman: I welcome, as our first witness, Mr Wilcox. Good afternoon to you and thank you for attending.

Can I ask the Clerk to administer the Solemn Oath, please?

Mr Wilcox took the Bible in his right hand and repeated the Oath.

Mr Wilcox: I swear by Almighty God that the evidence I shall give to the Committee at this and any further hearing shall be the truth, the whole truth and nothing but the truth. So help me, God.

EVIDENCE OF MR C J WILCOX

The Chairman: Thank you.

Could you please start by stating your name and your roles and responsibilities at the MEA during the time in question.

Mr Wilcox: For the period 2000 through 2005, I was Director of Corporate Services at the MEA.

That position included the responsibilities that might, in another organisation, be held by a finance director or chief financial officer. I have always defined the job as what I did not do. The MEA was split into three divisions. There was a generation division running the power stations, a network division running networks, and there was corporate services, which covered everything else. During the latter part of the period we are looking at, there was another division created, called the capital projects division.

The Chairman: And in the period 2000-03, what was your title?

Mr Wilcox: Director of Corporate Services.

The Chairman: Director of Corporate Services. Was that financial responsibility?

Mr Wilcox: Yes, sorry, it included the responsibilities that might be held in another organisation by someone with the title of finance director or chief financial officer.

The Chairman: Thank you very much, and your full name is?

Mr Wilcox: Clive John Wilcox.

The Chairman: Thank you very much.

I would like to give you the opportunity, if you wish, before we put formal questions, to make an opening statement. Is there anything you wish to say to the Committee at this stage?

Mr Wilcox: No. I am happy to answer the questions and supplementary questions as they follow.

The Chairman: In that case, we will put some specific questions. Firstly, were your financial reports submitted direct to the board of the MEA?

Mr Wilcox: Effectively, yes. I produced financial reports which were collated by the Chief Executive's personal assistant and bound into a board pack which was then distributed to the board prior to board meetings.

Those reports were not edited in any way. There would be... From memory, I can only think of one occasion when there was an error pointed out to me that I later corrected, but they certainly were not edited – a little light proofreading, possibly.

Procedural

Administration of the Oath

The Chairman: Did you yourself attend any board meetings to discuss financial matters with the board?

Mr Wilcox: Not on a regular basis, and I cannot tell when procedures changed or when the pattern of attendance changed. Towards the end of my time at the MEA, I was attending a fair number of meetings.

For a significant period of time, Mike Proffitt, as Chief Executive, had introduced the process of bringing in all directors on a rotational basis, either to attend board meetings or to have lunch with the board following a board meeting. So I would have attended a number of board meetings on that basis, but I could not say how many without looking at the minutes.

The Chairman: Thank you.

If I could turn to colleagues on the Committee: Mr Callister.

Mr Callister: Yes, thank you, Mr Chairman.

Mr Wilcox, you said latterly there was a capital projects division created, is that right?

Mr Wilcox: Yes.

Mr Callister: Was there no capital projects unit prior to this work on the power station?

Mr Wilcox: No. I think in the MEA we had a relatively low and relatively steady level of capital spend, and most of the capital spend was on network services – it was reinforcement of the network or extensions to the network – and that work was done by a capital projects manager reporting to the Director of Network Services.

Mr Callister: You started in the year 2000. Did you start as the Corporate Services Director, Finance Director, at that time?

Mr Wilcox: Yes.

Mr Callister: Straight into that job?

Mr Wilcox: Yes.

Mr Callister: Who would be your predecessor in that post?

Mr Wilcox: A gentleman called John Kelly.

Mr Callister: What sort of handover period would you have?

Mr Wilcox: He had left by the time I started.

Mr Callister: He had left, so there was no handover as such.

Mr Wilcox: No. I have known John for a number of years, so I had spoken with him before starting the job but he had... I think he was still on the Island, but he had left the job before I started.

Mr Callister: Did you apply for the position, answering an advertisement?

Mr Wilcox: Yes.

Mr Callister: Were there several other people involved, as well?

Mr Wilcox: Other applicants?

Mr Callister: Yes.

Mr Wilcox: I am almost certain there were, but obviously that would have been something I would have heard about after the event.

Mr Callister: Had you had any association with Mr Proffitt prior to your appointment?

Mr Wilcox: No. The first time I met Mr Proffitt was in his office. We had a long discussion about our respective pasts. He and I had worked in similar parts. Specifically, we had worked in Jamaica at concurrent times. I was working for a firm that did the accounts for his hotels at the time.

Mr Callister: So you knew him then, or at least knew of him.

Mr Wilcox: Not at that time. I knew of him on the Island; he is a well-known man.

Mr Callister: So when this capital projects division was created, it had other people in addition to yourself, presumably.

Mr Wilcox: No, capital projects was a team that reported in to the Network Services Director, i.e. it was an engineering team. With running a capital project of the size that we had, the job required... There were a couple of reasons. There were personnel issues, personality issues and a big job being run, and it was felt that capital projects were important enough to have a director in charge of that work and nothing else.

So rather than a network services director who looked after network services and capital projects, this capital project was outside of network services – was largely the power station rather than networks – so a director's position was created for the then capital projects manager. He was effectively promoted to director and thereby had direct access to the Chief Executive, rather than reporting through another director.

Mr Callister: What were the personality problems?

Mr Wilcox: I have to mention some names if we are going to start talking about that.

The Capital Projects Director was Ashton Lewis. Ashton Lewis is, by temperament, a very, very strong project manager, which is, as is often the case, almost a backhanded compliment. Good project managers wear blinkers and get things done and focus on getting things done, rather than all the niceties that life sometimes requires. Ashton had an enormous project to put through and he was very focused on delivering it and did not readily report through another director to the Chief Executive. It was not entirely driven by personalities, but it made life easier for Ashton and it improved the management of the project unquestionably.

Mr Callister: Thank you.

The Chairman: Mr Butt.

Mr Butt: You said that the fourth arm was established latterly, that is the capital projects unit.

Mr Wilcox: Yes.

Mr Butt: Can we get some dates on this? How far into the project for the building of the power station and the pipelines etc... How far in was that unit set up?

Mr Wilcox: There was a capital projects unit within network services. It was really a reporting line. That unit grew hugely and altered its reporting line, so it was not an entirely new creation. Ashton was the manager of the capital projects unit, I think it was called, within network services. He took on more staff, grew a bigger team and skipped out a level of reporting on his way up to the Chief Executive, i.e. he reported to the Chief Executive direct.

Mr Butt: So Ashton Lewis was capital projects manager throughout that process.

Mr Wilcox: Yes.

Mr Butt: When was it deemed sufficiently important to actually set up its own wing? You said 'latterly'.

Mr Wilcox: Sorry. I think, as anyone would, I am very much focusing on the period... The MEA began in 2000 to me and it finished in 2005, so I would say midway through that period, possibly. So 2002-03?

Mr Butt: Thank you.

The Chairman: Mrs Christian.

Mrs Christian: Yes, thank you.

Just to take that a little further, when this capital projects division or directorate was established, you said that the reporting line changed. Would it normally have gone through you to the board or to the Chief Executive?

Mr Wilcox: No. Sorry, I am not being very clear.

The capital projects team was a subdivision of network services. It was an engineering team, because capital projects... The last big capital project prior to the one we are talking about was, I think from memory, strengthening the line up to the north and that was Ashton's last big project. He worked with a team of engineers who knew about networks and it had been Ashton's life for a number of years beforehand. He needed a team that was then competent to get involved in building a power station, building gas pipelines and all the other ancillary work that went with that. He grew his team enormously and, rather than reporting through the Network Services Director, he reported direct to the Chief Executive, Michael Proffitt.

Mrs Christian: Thank you.

Who was responsible for the financial control and reporting on the capital project?

Mr Wilcox: I was responsible for all financial matters.

All money that was paid away was paid away by me and all records of all money that was spent and received were kept by me.

Mrs Christian: Who controlled it? In other words, who compared it with budget?

Mr Wilcox: I would produce actual numbers. They could not be produced without me. If someone was comparing numbers against a budget, there were two parts to that: there are the real numbers and there is the budget. I would unquestionably produce the numbers, which might be analysed by other people, and the budget would have been prepared within capital projects.

Mrs Christian: Did you oversee the comparison of budget with expenditure?

Mr Wilcox: I saw every comparison that was produced and I was happy with every set of numbers, any actual numbers that went into that comparison.

Mrs Christian: Thank you, Chairman.

Mr Butt: Can I just follow that up, please?

The Chairman: Yes, Mr Butt.

Mr Butt: When Mr Lewis gave evidence before us some months ago, as project manager, he said he did not know what the actual cost of the project was: he just built it. What is your view of that statement?

Mr Wilcox: I think you have to answer that by looking at the numbers that were produced in the board packs.

Mr Butt: So you were comparing to a budget of some sort, is that what you are saying?

Mr Wilcox: I was reporting actual numbers that we used in a comparison against budget.

Mr Butt: Did you have a budget, then? You had a budget to work to?

Mr Wilcox: We had a budget that was used... There are a number of levels of budgeting. We had an overall round-sum amount budgeting. This is how we need to work the finances of the Authority.

Mr Butt: Was it £185 million?

Mr Wilcox: That was a number that was in there at one point, yes, and that number would be used in planning the Authority's balance sheet, planning forecasting, moving forward.

In terms of actual spend against the individual line items within a budget, those budgets would have been produced by our consultants, PB Power, and the analysis of actual spend was also undertaken by PB Power. I confirmed that those numbers in aggregate were correct: there was no expenditure being unreported.

Mr Butt: So were PB Power on site then, actually

monitoring how the budget progressed and the spend compared to budget?

Mr Wilcox: Yes. I am not quite sure how many people we had from PB Power, but we had a number of people, including at least two, and certainly at times at least three, finance people.

Mr Butt: So if the project did not go to budget, would it have been their responsibility or yours?

Mr Wilcox: I would not like to say it is anyone's responsibility if a project does not go to budget.

Mr Butt: Really?

Mr Wilcox: Unquestionably. Budgets are plans and forecasts, and spending the right amount of money is not a measure of success. Getting the right job done is the measure of success.

Mr Butt: So budgets are not budgets, they are plans and forecasts – is that what you are saying?

Mr Wilcox: Budgets are things to aim for, but I think there is more to a project than meeting your budget. If all you do is meet the budget and you have not built the project, I would say that is a failure.

Mr Butt: Thank you.

Mrs Christian: Shouldn't the budget be designed to allow you to build the project?

Mr Wilcox: That is the purpose of the budget, yes. You have a budget and you would aim to build within that budget.

I think it is a fact of life that you never get unexpected good news. It is a fact of life. You never find unexpectedly something has gone a lot better than is expected. You invariably only ever get unpleasant shocks, which is why you have margin in a budget, why you have a contingencies provision. Is your contingencies provision big enough? You only find out at the end.

Mrs Christian: There is no question of modifying a scheme to compensate for areas where you may have been going over budget?

Mr Wilcox: It is one way of trying to come in under... onto budget, yes.

Mrs Christian: Was it ever done?

Mr Wilcox: Yes, the scheme was modified in a number of ways, I think, but those modifications would not be financial, i.e. save £2 million here; they would be engineering based, because the primary purpose of that project was to end up with a functioning power station.

Mrs Christian: Thank you, Chairman.

The Chairman: Within the overall figure, the budget headings that you were working against... Were you reporting

to the board over-expenditure under any of the headings and *viring* the amounts by transferring from other parts of the budget to accommodate that overspend?

Mr Wilcox: No, I think... I have not looked at board packs recently, but if you look at the detailed numbers in the board pack, they are produced by PB Power, consolidated into the capital projects report and submitted to the board. Within the financial reporting part of the board pack, i.e. within my reporting in the board pack, I think we would typically be reporting the project on three or four lines and the key thing for me, the key responsibility I had, I felt, was to make sure that all actual expenditure was truly reflected in the detailed analysis. I could not do the detailed analysis, but I could say that, yes, this is a fair report in total, this is the amount that has been spent, I agree with that number.

The Chairman: Who would be doing the detailed analysis and reconciling your figures against any constraints or budgets?

Mr Wilcox: The detailed numbers would be produced by PB Power and reported through the capital projects unit report in the board pack, which then went to the board.

The Chairman: So it was ultimately the board that would reconcile any –

Mr Wilcox: No, sorry... It would be useful if we had a board pack. The board pack had... and it is now four or five years since I have last seen one. The capital project expenditure would be shown on... I remember it as being three or four pages of detail, line by line, and those lines would fall under the headings of... We had the gas pipeline itself, we had the pressure-reduction station, we had the new Pulrose and enabling works at the beginning, network strengthening to tie the new assets into the network. So maybe five main headings.

Under each one there would have been maybe 20 lines. There would have been maybe 10 or 12 major subcontracts under each of those for physical kit delivered or services provided. There would then have been some staff cost lines, which would have been either MEA employees or temporary contractors, or pure temps who were hired by the hour.

The Chairman: Of these very detailed numbers you were producing, what financial information did you provide to Treasury?

Mr Wilcox: I had contact with Treasury in four or five areas and the one I think will be of most interest to the Committee is the quarterly reports that we put through which fed through to the Treasury reporting process and reported against the Pink Book lines. Those were done quarterly from the day I started.

At some point fairly early on in my time, when we started projects that were spanning more than one year... We had reported projects like network strengthening. It is something the MEA are doing all the time. There are always bits of the network to improve, there are always little jobs – replacing transformers, upgrading lines, upgrading switch gear – small bits and pieces, maintenance almost, but treated as capital spend because each line had a fairly major rebuild periodically. So we would have had that as an item.

It is a bit like the roads programme, I suspect, in another Department. You spend so much a year and within your allowance you prioritise these various projects. That was the way the MEA worked, so we had... and this is where you have the situation where you do try and spend exactly what you have in your budget. If you have more money than you spend, you catch up at the end of the year. If you are over-running a bit, you stop work towards the end of the year and you come in on budget.

When we moved onto capital projects of a different type, i.e. big projects that spanned... In this case, the actual construction phase was more than two years. I wanted to make sure that the numbers I was reporting made some sense and I spoke to Treasury to find out how to deal with a project that spanned a period. The budget for Pulrose CCGT during the course of 2002 might have been £65 million. If that £65 million was not a particular project on its own, I did not feel it would be useful necessarily to just report how much we had spent on Pulrose. I felt that a useful report would be to say, 'This is the overall total budget that has gone in the Pink Book, and this is the overall total spend to date.'

So I spoke to Treasury about that, struggled to make that question and received no answer on it. I then felt that the numbers I was producing were not really being used, certainly not intelligently, if at all, within Treasury, and did not spend a lot of time on those numbers going forward. Treasury told me what they wanted: 'This is how we fill in the lines, they have to match up with the Pink Book, that's all that we need. Don't do anything beyond that, don't do anything more clever than that, just give us the numbers to plug in against the Pink Book.'

The Chairman: So there were quarterly returns you made to Treasury and they were on a cumulative-total basis, were they?

Mr Wilcox: No. Treasury did not want that. I felt they should have been. That would have been the intelligent way to report. That would be useful to the reader. But no, we just produced quarterly reports.

The Chairman: And those quarterly reports contained expenditure within that quarter under various headings –

Mr Wilcox: Against three or four line headings, yes.

The Chairman: – and as you have said to us, you were not specifically working to a budget. Would it have been possible for Treasury to reconcile the figures under those headings with previous budgetary figures?

Mr Wilcox: Yes, and we have gone through the exercise a number of times, haven't we?

Those numbers have been added up and various people have looked at them. The numbers I produced were always correct. I have not been back on them over the last four years, but as of four years ago I had spent a lot of time looking at those historically. At the time I produced them they were not being used intelligently. I was not going to spend a lot of time on the preparation of them, but they were correct. All those numbers went out.

The differences, the reconciliation errors that have been talked about a number of times... There are two errors that are considered. One is that there was a loan in Manx Cable

Company that was bought out by some of the money. That was not capital expenditure; that was just refinancing a loan, so that was specifically not included. And there was an occasion when Treasury asked me to backdate some invoicing to help with the VAT arrangements that they dealt with and the numbers were not reissued. I was asked to backdate invoices into a previous quarter and the numbers that I had already produced for that quarter, whilst correct at the time, have now been held out to be incorrect, which is very much not the case.

The Chairman: Were you reporting to a specific officer in Treasury, or was it the capital projects unit of Treasury? Who, routinely, were you sending this information to?

Mr Wilcox: I did not send it in. I was aware of what was sent in, but the way it was being used – or not being used – meant that after that conversation I had had with Treasury, I found it was not the best use of my time.

The Chairman: Who was the conversation in Treasury with?

Mr Wilcox: Whoever received the capital projects reports at the time. Towards the end of my time I am fairly sure it was Mr Rivers. Earlier on I am not sure who it was.

The Chairman: Thank you.
Mrs Christian.

Mrs Christian: Thank you, Chairman.

Was there an understanding of the different divisions in Treasury in the MEA, that there is a capital projects unit and there is a treasury unit? To which unit were you sending the figures?

Mr Wilcox: I would not know. I do not think it was capital projects.

Mrs Christian: It was not capital projects?

Mr Wilcox: I do not think so.

Mrs Christian: A minute ago you said it was capital projects, but now you are saying it was not capital projects.

Mr Wilcox: I do not think I did say it was capital projects.

Mr Quirk: There was an inference on that.

Mrs Christian: It does not matter; it will be on *Hansard*, anyway.

Mr Wilcox: I made no implication of that.

Mrs Christian: Just to –

Mr Wilcox: Sorry, could we explore that, because I am pretty sure in my mind that... I came across the capital projects unit within Treasury because, within the MEA, there was discussion of the argument that had happened with capital projects. I sent in numbers to Treasury – Mr Rivers

towards the end. I do not know who his predecessor was. I do not know to this day which department he worked for – I assume it was not capital projects, but I do not know if that is the case.

Mrs Christian: That clarifies it was not capital projects.

May we go on to the next element, Mr –

The Chairman: Before we do, Mr Quirk.

Mr Quirk: No, Clare has covered it.

The Chairman: Mr Butt.

Mr Butt: One on this issue. You said that you did not think they were being used intelligently, these figures, and that you did not want to spend a lot of time on that in future. Does that mean that you actually reduced what you did with them or stopped sending figures?

Mr Wilcox: No, the numbers went in and the accountant at the MEA produced those numbers. I had originally collated the numbers and sent them in to Treasury. I felt that the format was not a sensible format and I tried to discuss how those numbers could become more useful. I felt that if Treasury wanted numbers that were not that useful, that was fine. They could tick their box and they would be happy and I would spend less time working on these numbers.

That said, the numbers were absolutely correct and exactly what Treasury wanted. I think they could have been more useful, though.

Mr Butt: Does that mean you delegated that job from then on for somebody else to do?

Mr Wilcox: Yes.

Mr Butt: Who was that?

Mr Wilcox: That was the accountant, Clodagh Maher.

Mrs Christian: Chairman, could I –

The Chairman: Mr Callister first.

Mr Callister: I just want to go back, Mr Chairman, to the budgets, or rather the budgets that are not budgets.

When the work on the power station began, what figure would be held in mind as a kind of budget then? Were we talking about £90 million or somewhere around there?

Mr Wilcox: Yes, the first number would have been the element within the £185 million.

Mr Callister: Are you familiar with the PKF Report into the Manx Electricity Authority, which finished up to 2005? Do you accept that, in 2001, the power station cost was running at £80 million, and by the time it came to 2005, it was £129 million?

Mr Wilcox: I am not in a position to accept any numbers, really, from memory. We are talking about... Sorry, 2001 to...

Mr Callister: Yes, in 2005 you left the MEA. This may have been after that, I do not know, but certainly the figures they show are an £80 million cost in July 2001 and by January 2005 £129 million. They will have reflected somewhere along the way in the figures you were receiving, would they not, those increases?

Mr Wilcox: The actual cost would have gone from zero on day one to, if it was £129 million at the end, £129 million, so I would have produced actual numbers that tracked the progress from zero to £129 million, yes.

Mr Callister: So £39 million over the rough budget you began with.

Mr Wilcox: I have read the Report, so I am... I cannot remember the numbers.

Mr Callister: You do not disagree with the numbers in the Report?

Mr Wilcox: No, not at all.

Mr Callister: Thank you.

Mr Butt: So on the day, then, when the £80 million mark was passed, what did you do? You knew the bond was for a set number and there is £80 million for the power station. There must have been a day when you thought, 'Whoops, we're over £80 million.' What did you do then?

Mr Wilcox: There would not have been a particular day. Throughout the period there were plans being revised and altered as the thing came towards its conclusion.

Mr Butt: Would you report to anybody that there was an overspend on the way, or likely to happen?

Mr Wilcox: I would not have focused on whether there was going to be an overspend or not because I was reporting actual numbers and we had a team of engineers producing an analysis of that actual number, i.e. spend to date, against total forecast spend, and those reports were produced and were included in the papers that went into the board pack.

Mr Butt: But, as Chief Financial Officer, that would have been your duty, surely, to point out to the board, 'We are heading for an overspend.' Whose duty would it be?

Mr Wilcox: If it was reported to the board, I believe it was in the board pack by the capital projects team.

I think it had been reported to the board. If it had not been, it probably would have been my duty to point it out to them, yes.

The Chairman: Mrs Christian.

Mrs Christian: Just following on there, too, as a Chief Financial Officer, do you not have an oversight of the whole of the financial arrangements of the MEA?

Mr Wilcox: Yes.

Mrs Christian: So would you not be concerned that

something was going over budget to a degree which upset all your business plans going forward?

Mr Wilcox: We would produce business plans each year that would take account of progress and events during the previous year.

Yes, everybody involved would have been concerned at the final cost of the project. However, as I said earlier, I think, the project was not about... The most important thing about that project was not to come in and say, 'Yes, we hit budget exactly'; the critical thing about the project was to have an operating power station before it was too late to have one. That was very much the focus of things and, if money was needed to build a pressure-reduction station, for example, it was not my job to argue whether we needed the pressure-reduction station or not. I am absolutely satisfied that we did need one and, in the team that we worked in, my job – my key responsibility within that, probably – was to make sure that the money was available to get that asset built.

The Chairman: From what you have just said, then, Mr Wilcox, were you working to the principle that the original £185 million, the subject of the bond, was purely an indicative figure in 2001 and not a capped budget that in any way constrained you?

Mr Wilcox: I think it had to be, yes.

The Chairman: Yes, because Mr Proffitt clearly indicated to us that, in his eyes, that was simply indicative and was quite likely to be exceeded. Was that the principle?

Mr Wilcox: That would not have been the intention on day one, to exceed that budget, but this project had been left far too late to start. To cost something like the power station properly, I suspect, would have taken a couple of years.

The Chairman: Was it your understanding that it was inevitable it would be exceeded, if only for the simple reason that the power station project originally did not include, for example, demolition costs of the original existing building, decontamination costs, and so on? Those were, from day one, always going to be extra costs to the project.

Mr Wilcox: No. That would have been... No. Absolutely, very definitely not. There was not an expectation at the beginning that the costs would be any greater than the indicative figures that were put into it.

The Chairman: Well, assuming the ground decontamination issue was not perhaps out in the open at that point but, clearly, demolition of the existing site, which was not evidently budgeted for –

Mr Wilcox: I do not know if it was or not, because at the time those indicative figures were put together, I think, was 2001 –

The Chairman: Yes.

Mr Wilcox: – and there was a fairly... I think we had a meeting in this room with all political Members of Treasury, at which this silver-covered book was discussed. It had been sent to Treasury a while before and it was discussed by

political Members of Treasury, together with the then Chief Financial –

The Chairman: Was that the Deloitte and Touche Report, the silver-covered book –

Mr Wilcox: Yes.

The Chairman: – which was drawn up to provide validation of the financial aspects of seeking the loan, and not to verify the accuracy of the figures that were in the business case to Treasury. In other words, it was not an audit. It did not audit the figures that the MEA had produced to Treasury; it simply showed how the loan would be structured and what the component elements of it were.

Mr Wilcox: As I say, I think we were late, by a number of years, starting this project. Given the required delivery date, based on expectations for Island demand, that project was late by a few years.

In order to get the project going, we needed to raise financing and you have a chicken-and-egg situation, where you are going round and round in circles. If we had got a plan, a detailed fixed-price contract for everything we thought that we needed, a turnkey operation delivered to us, by the time the price had been delivered, it would be becoming close to being out of date. We would have then gone away to raise financing for it and by the time we came back to the people who were going to build it... There was just not the time. The thing did not work in that way. It is not possible, I do not believe, to get good, accurate costing for something of that level of complexity within two years.

So to answer your specific question – were those numbers being audited, were the engineering numbers, if we might call them that, the actual cost of the project, being audited – no, they were not, but we needed something on which to raise money, and those were indicative numbers. Whether they included things like demolition or not, at this stage I do not know; it was eight years ago, now.

The Chairman: Thank you.
Mrs Christian.

Mrs Christian: Were you aware that financial regulations and capital procedure notes applied to the MEA?

Mr Wilcox: I think a yes and a no. Going back, I would have looked at... Certainly, to answer things I can be specific on, capital procedure notes... We are all very aware there was a long argument about that. I am still not sure whether it has been resolved or not, whether they apply or not. At the time, capital procedure notes did not really fall into my department because it was outside in capital projects.

Financial regulations I would have looked at very soon after starting at the MEA. I would have made it my business to take a look at the Electricity Act and I am pretty sure, from memory, I saw a set of financial regulations. I think most people would accept that those regulations are written for Government Departments, and in the same way as there are parts of the capital projects notes that are not appropriate to the MEA, there are parts of the financial regulations that are totally unworkable within the MEA.

Again, going back eight, nine years, from memory, I think, for example, the MEA were not permitted to have their

own bank accounts. All bank accounts had to be Government bank accounts. There were a number of ways in which the MEA did not comply and there were a number of reasons for some of those non-compliance issues. Whether we were required to comply or not... I am sure that there is a statutory requirement for the MEA to do so, but I think it was an impossible requirement and it was not fully observed by either the MEA or enforced completely by Treasury.

The Chairman: Thank you.
Mrs Christian.

Mrs Christian: Were you aware, then, that there was a lot of discussion between the Capital Projects Unit and your Chief Executive about the application of capital procedure notes and an agreement, a compromise agreement, that certain information would be sent to the Capital Projects Unit? Did he give you any instruction to send information to the Capital Projects Unit?

Mr Wilcox: My knowledge of that argument came about largely after the event. I knew the capital projects team were having that discussion with Treasury and I knew the result of that conversation in the end when Treasury called for all correspondence on the matter to be either returned or destroyed.

As to what I was asked to do by the Chief Executive afterwards, I think, from memory, he asked me to make sure that an analysis of total spend went to Treasury and I think I confirmed to him that it was already happening in the quarterly reports that we spoke about at the very beginning.

Mrs Christian: Can I just follow that up? There is a paper from the CPU officer, Mr Thompson, which says that there was an agreement:

'It was stressed that the report was not to be in great detail...'

– this is the report from the MEA to the CPU or Treasury –

'... but was to give an overview of key areas of the project at the time it was produced. For example, programme overview, financial statement with narrative, cash flow claims, contingency review etc.'

Were you ever asked to send anything like that?

Mr Wilcox: I do not believe so, no.

Mrs Christian: In the event, he says:

'This is not what happened. During the intervening 10 months, out of a possible 12 reports only five have been received. Reports carry a narrative that, whilst interesting, have no context. They are completely bereft of financial data. Indeed, the first mention of the financial status of the project was the latest report received on 16th July 2002. They seem to have been prepared for Treasury, rather than those being prepared for the board.'

I think you have indicated earlier that what went to the board was not what you were sending to the Treasury. Is that right?

Mr Wilcox: No, very different. Treasury had what they wanted from me, which was three, four, five numbers.

Mrs Christian: A different aspect, at Treasury, was seen?

Mr Wilcox: Yes. For clarity on those reports, those would have been reports from the capital projects unit within the MEA to the Capital Projects Unit within Treasury.

Mrs Christian: So you, as financial officer, were not asked to send them?

Mr Wilcox: No, I was –

Mrs Christian: It was the capital projects division in the MEA who were invited by the Chief Executive to send them, you think?

Mr Wilcox: I would speculate, yes. I cannot remember ever speaking to the Capital Projects Unit in Treasury.

Mrs Christian: Thank you.

Mr Callister: The former Chief Executive and a number of other people have said this is the largest civil engineering work the Isle of Man has ever seen. What you are saying to us this afternoon, Mr Wilcox, is that this large contract had no financial restraints.

Mr Wilcox: No, I do not feel that is what I am saying.

Mr Callister: Well, there was a limit, then? If there were no constraints, there must have been a limit somewhere. There does not seem to have been.

Mr Wilcox: I will stand on what I had said, I think. I do not think I can expand on that.

Mr Callister: Well, either it was an open-ended cheque, or it was not.

Mr Wilcox: I do not believe there was the option to come back to Government and say, 'We have built you half a power station and it has cost this much money and we have finished now because we do not want to go over budget.' If you choose to phrase that as there was an 'open cheque', then I think you know that you are slightly altering what I am trying to say.

Mr Callister: I think you are altering what I am trying to say, but thank you.

The Chairman: As we know, of course, the additional costs were met through raising additional loans. Did you believe that Treasury approval was necessary for those loans, and if so, if you did believe that, did you believe Treasury approval had been given?

Mr Wilcox: At the time, I do not think I felt Treasury approval was required. Clearly, I do not feel that Treasury approval was given, but I do feel that Treasury consent was given.

The Chairman: Could you just explain the difference between the two?

Mr Wilcox: I do not think it was a requirement that we had Treasury approval. I think Treasury were aware of what was going on within the MEA and aware of the way the MEA

was being run and what was being done, and I think they agreed with what was being done, but there was clearly no formal approval or sign-off for anything.

The Chairman: Are you saying you believe Treasury had given tacit consent from having knowledge of the information they were being provided with?

Mr Wilcox: Yes. There was certainly no attempt to instruct that other things should happen, and I believe that Treasury had knowledge.

The Chairman: And the lack of any protest from Treasury or any questioning from Treasury during that period about the way the numbers were heading implied that they knew what was going on and concurred with that level of spending – is that what you are saying?

Mr Wilcox: Yes.

The Chairman: Thank you.

Mr Butt: Can I just go into that? When you started that question, I think you said Treasury clearly did not know the loans had been taken out, but they gave consent, not approval.

Mr Wilcox: No, I think Treasury –

Mr Butt: Did you think Treasury knew the loans had been taken out?

Mr Wilcox: Yes.

Mr Butt: Why did you think that?

Mr Wilcox: I have no idea, going back at this stage. There are no specifics I can point to, but Treasury... I had been –

Mr Butt: You seem to say they should have known about the overspend because of submission of figures. Why would that imply that they would know about the loans being taken out?

Mr Wilcox: That is a thread that has been put forward by other people, I think, rather than me today. I am not saying that they should have known it from those numbers. My view is that Treasury did not use the numbers that were provided, because I think they were provided in a...

Mr Butt: How would they know about the specific loans, though? You said they –

Mr Wilcox: Because I felt that there was enough communication between the MEA and Treasury and I felt the Treasury would have known what was going on.

Mr Butt: But you did not know; you just felt that.

Mr Wilcox: No, I did not.

The Chairman: There is a difference, isn't there, between consent or tacit consent to the overspending and consent in the sense of approval for additional loans to cover

that additional spending. You were not aware of any such approval being given?

Mr Wilcox: No.

The Chairman: I just repeat the question: was it your understanding that Treasury would have had to give formal approval to such additional loans?

Mr Wilcox: No, because I recognise that we did not have that approval and, if we had needed it, we would not have been able to go ahead.

The Chairman: And the fact that Treasury were not raising concerns, are you saying that implied that they concurred with the spending and, if necessary –

Mr Wilcox: That was my feeling on things, yes; not derived from that specific event, but I felt that Treasury had knowledge of what was going on.

The Chairman: What was your understanding, then, of how Treasury would bring about the additional financing, if you had not been given approval for specific loans? How, in your view, was that additional spending ultimately going to be met? The first lot of spending required Tynwald approval of a bond issue, so how was the additional spending to be covered?

Mr Wilcox: It was met by the MEA borrowing the two loans that we have been talking about.

The Chairman: And in your view, Treasury were aware of those loans –

Mr Wilcox: Yes.

The Chairman: – and of what was happening?

Mr Wilcox: Yes.

The Chairman: Thank you.
Mrs Christian.

Mrs Christian: You have not really substantiated how you think they knew that.

Mr Wilcox: No, it would not have been... I do not think approval was required for those loans. It would not have been something that I would have given even the level of analysis that we are giving to it now at the time.

Mrs Christian: Why did you think you had to go to the Treasury in the first place for a loan, if you did not have to go for the second lot?

Mr Wilcox: Because the first loan was a bond. The best way to raise that money was a bond, and that was best raised by the Government.

Mrs Christian: Would the second lot not have been best raised by the Government, on the same argument?

Mr Wilcox: I do not think they had time to raise a bond

in the same way as we did the first time round, no.

Mrs Christian: Because you were not monitoring expenditure?

Mr Wilcox: No, I do not think there was the time for it. I think it is a long process.

Mrs Christian: But if you are monitoring the expenditure and know you are heading over budget, is that not part of the function of the capital procedure notes and the financial regulations to give an alert to Treasury or yourselves that things are getting out of hand? I accept the fact that you make that not every project comes in under budget, but part of the process of monitoring it through these projects is to foresee the difficulties you are going into, to alert Treasury that this is happening and to take appropriate steps.

Mr Wilcox: Yes, so if we had known that at the beginning, when we raised the £185 million, we could have raised the appropriate amount. By the time we knew it needed to be a different amount, there was not time, I do not think, to raise another bond issue.

Mrs Christian: You felt that a different approach, because it was a bond and a loan, that they were –

Mr Wilcox: In terms of timing, yes, very much so.

Mrs Christian: But not only in timing; in terms of reporting to Treasury?

Mr Wilcox: Well, the bond was borrowing by Treasury, so Treasury needed to be involved because they were the borrower. A bank loan to Manx Cable Company did not involve Treasury. They were not the borrower.

Mrs Christian: But there are rules about what the MEA can borrow, aren't there, under their legislation?

Mr Wilcox: Yes, and so we go back to the question, did the MEA need approval to borrow that money or not, and my answer to previous questions is not whether they did or not, but I did not believe that they did.

Mr Butt: Can I come in? You say there was not time. With the original £185 million... You went to a meeting on 18th June 2001 – I think you were there – where you went to Treasury to get approval for the £185 million. It was approved by Treasury two days later, and two weeks later approved by Tynwald. So the time there was just over two weeks. Why couldn't that have been done for the next two loans?

Mr Wilcox: I think that is a very small part of raising a bond, to be honest.

Mr Butt: It was two weeks. Within two weeks you had the money.

Mr Wilcox: No, within two weeks of going to... What was your start point for that two weeks?

Mr Butt: On 18th June, you got approval by Treasury.

Mr Wilcox: By Treasury, and it took two weeks to get

Treasury's concurrence to it.

Mr Butt: No, two days to get concurrence.

Mr Wilcox: And then two weeks –

Mr Butt: Two weeks for Tynwald concurrence.

Mr Wilcox: Yes.

Mr Butt: That is two weeks.

Mr Wilcox: So that was two weeks to get Government to agree. I am not saying that it would take too long to get Government to agree for a bond issue; I am saying that the process of raising a bond is a lot more than two weeks, a lot more.

Mr Butt: But you could have gone to Government and had approval within two or three weeks, in theory?

Mr Wilcox: We are talking about the bond issue?

Mr Butt: Yes.

Mr Wilcox: It would not have been any use to us.

Mr Butt: Was it that crucial, two weeks?

Mr Wilcox: No, I am saying it does not take two weeks to raise a bond.

Government saying that they receive a request to raise a bond and then giving their concurrence to it... There is an awful lot that goes on either end of that two-week period. A bond needs to be sold into the market. You need salesmen out there. You need a product and you need a team of salesmen from your bookmaking banks on it, and it was a fairly major project getting that done, and it was certainly nothing like two weeks.

Mr Callister: There is another matter. The interest payments on the bond... The decision was that there would be no capital repayment of the bond. Is that something you agree with in principle?

Mr Wilcox: Yes, for certain... The best analogy is probably a building society which cannot issue shares. Well, it does, and it can: it issues permanent interest-bearing shares and that is the way a company that cannot issue common stock... Normally, you would finance a company issuing shares and you would pay the people who buy those shares with dividends, as we all know. If it is a body that cannot issue shares, how does it raise its permanent capital? You have some form of permanent borrowing.

Mr Callister: You are talking about taxpayers' money. It is not a company matter; it is the taxpayers of the Isle of Man, isn't it? It is the consumers as well, of course.

Mr Wilcox: Absolutely, yes, and what is the best way for the consumers to finance the MEA? Is it for the MEA to keep buying its vehicles on hire purchase and keep financing each project and trying to repay that individual project, or does an organisation of that size need some permanent

capital? I believe that an organisation of that size, and it is my opinion we are looking at here... I think it is appropriate for an organisation of that size, which is, despite being publicly owned, a commercial organisation, i.e. it is selling services, unlike most other parts of Government, which are providing services... I think it needs some permanent capital and I think long-term bond finance is probably the most appropriate.

Mr Callister: So the consumer pays at the rate, currently, of about £10 million a year or so on a 30-year period. It is expensive borrowing, isn't it?

Mr Wilcox: No, I think it is very cheap borrowing.

Mr Callister: It is not expensive to the MEA; it is expensive to the consumer.

Mr Wilcox: No, I think it is very cheap. Compared to any other alternative, I think that was the cheapest form of borrowing.

The Chairman: We need to move on, Mr Callister.

Mr Callister: Yes, indeed.

The Chairman: Mr Butt.

Mr Butt: I just want to follow on from that, actually, if I can. The Deloitte and Touche Report, which was the Report presented to Treasury to explain the situation to get the money, what part did you play in that, the figures that were given to Deloitte and Touche?

Mr Wilcox: I was the primary contact in the MEA with Deloitte and Touche on that.

Mr Butt: So following from Mr Callister's query, a bond of £185 million, at I think about 5½ per cent, would require repayments of £10 million a year or so.

Mr Wilcox: In interest.

Mr Butt: In interest, yes, from the consumer.

Mr Wilcox: Yes.

Mr Butt: That is hardly sustainable, is it – with what, 30,000 households – per year?

Mr Wilcox: I am sorry, it is the same question.

Mr Butt: No, I am going to go on a bit further than that.

Mr Wilcox: If that is a statement, it is wrong. If it is a question –

Mr Butt: You say, then, £10 million a year interest is sustainable for the MEA to pay back?

Mr Wilcox: It is cheaper than any other way of providing electricity on the Island. The other option we had was expensive diesel units, buying diesel at, even then, horrendous prices – which would be far more expensive than

what we currently have with its capital cost – or borrowing the money in some more expensive manner.

That was a very cheap way to borrow the money. I agree £10 million is a big number, but I absolutely... It would be wrong to suggest that that was the wrong way to borrow. That was the best way to borrow and we needed to borrow money to build an efficient economic way of generating electricity. Otherwise, we would be stuck with the diesels, like we have at Pulrose, except we would now have 30 of them running round the Island.

Mr Butt: My question really is... £185 million. You are saying it was sustainable, it was the way to do it. When it goes up to, in effect, £305 million, when you add the £70 million and the £50 million, is that sustainable – £305 million – interest on that at well over 5 per cent?

Mr Wilcox: If we want a reliable and affordable electricity supply on the Island, I think we have done it the best way we can. I think there is one possible alternative we could have looked at, which would have been to import all our electricity from the UK, but if we are going to generate the major part of our electricity on the Island, I believe we are doing it the cheapest way we could do.

Mr Butt: Would you accept though that, because of those extra loans, it was not sustainable and had to be paid back by the Government in the end? It was not sustainable for the MEA to finance those loans.

Mr Wilcox: I am not sure I would accept it because I have not seen the numbers.

The Chairman: Are you saying the subsequent borrowings... How were they to be funded? In the same way as the original loan was to be funded?

Mr Wilcox: Yes. So far as the planning was when I finished with the MEA, the plan would have been to tap the bond, to have a considered bond issue process again and refinance those loans on a longer term.

The Chairman: And Treasury were content with those proposals or that approach, as far as you were aware?

Mr Wilcox: No. This was as I left the MEA and I think, by the time the project was finished, the Treasury had decided that they were unhappy with everything that had gone on.

The Chairman: Did you have any concerns about the expenditure or the additional borrowings, and if you did, did you raise those concerns?

Mr Wilcox: No, I think that all the borrowings that were taken out were necessary and, with hindsight, that was the correct thing to do.

The Chairman: With hindsight, it was –

Mr Wilcox: Even with hindsight, it was still the correct thing to do. I do not believe there was... not just not a credible alternative; there was *no* alternative to what was done.

The Chairman: I do not mean with hindsight was it the

correct thing to complete the power station, whatever the cost – it cost what it cost – I am asking, with hindsight, the manner in which the additional financing was raised through additional loans through the Manx Cable Company as a route, and not by Treasury direct approval, for which there is no reason to believe it would have been withheld... Clearly, Treasury did not want half a power station any more than you did. Are you still saying that, with hindsight, that would have been the correct way to raise the additional financing?

Mr Wilcox: No. It would have been an option to borrow directly from Treasury. I think we could not have raised the bond through Treasury; we could have borrowed through Treasury, yes.

Whilst I am not able to substantiate this in any way, I should probably make the comment that I do not believe Treasury would have wanted to help Mike Proffitt finish that project at all.

The Chairman: Are you saying Treasury... Why do you say that?

Mr Wilcox: I cannot substantiate it. I doubt that there was... I think at this stage there was a degree of bad feeling and I am not sure that we would have had consent, let alone seen any money within the space of a two-week period, or indeed some substantially longer period.

The Chairman: And what do you think would have been the outcome if they had refused? A half-built power station mothballed?

Mr Wilcox: I cannot believe that would have happened, no. I believe it would have been finished one way or another.

The Chairman: One way or another.
Final questions, Mr Quirk.

Mr Quirk: I just wanted to ask, Mr Wilcox, were all the financial plans for loans taken on just your thoughts and ideas, or did you share those with the board and Mike Proffitt so it was a joint cohesive decision?

Mr Wilcox: Are we talking about the final two loans?

Mr Quirk: Yes.

Mr Wilcox: The final two loans... It was my job to make sure the money was available to finish this project. My view was that the best, quickest, most efficient way to borrow money, short-term money – i.e. short term in the sense that it would be refinanced in a more calm, considered manner later – was to use the Manx Cable Company, which effectively provides a security to support some borrowing. It was set up in a... We had a separate company. It was that company that was going to own the power station. It was that company that already owned the cable. It had a source of income by renting the cable, which makes it easy for a bank to do its modelling. Rather than modelling how an organisation like the MEA is doing, you can model a company like the Manx Cable Company more readily. So that was my suggestion.

Mr Quirk: Did they support you?

Mr Wilcox: Yes. We spoke to, I forget whether it was three or four banks at the time. Charles Fargher, who was board member with financial responsibility, did not support me in the process, but was involved. He would have been the person I would have discussed that with most closely and he made sure he understood my reasoning and my recommendation, so he was supportive of what I was doing and the rest of the board were broadly supportive. I suspect they discussed it more in board meetings where I was not present than when I was.

Mr Quirk: So who told you, then, to go and do it, the green light? Was it Mike, Mr Proffitt?

Mr Wilcox: No, it would have been signed off by the board because, particularly at this stage, we are all aware that Mike was Chairman of Barclays and he would have been scrupulous about making sure it was not down to him to arrange that borrowing. It has been suggested a number of times that people were unaware that Mike was Chairman of Barclays. I can tell you that he was extremely proud to be Chairman of Barclays and everybody who had dealings with him knew that that was what his position was, so it was not a back door arrangement.

The Chairman: Just before Mrs Christian, are you saying that, at that time you recommended this method of the additional borrowing... Why – just to repeat – why did you not simply go to Treasury? What would have been the difficulty?

Mr Wilcox: I do not think we would have borrowed money from Treasury quickly.

The Chairman: Was it... I mean you did say you did not think, or implied, Treasury would not co-operate because it did not want to help Mike Proffitt. You are saying they would not co-operate quickly: was it to avoid the need for cumbersome, bureaucratic procedures that you did this method?

Mr Wilcox: It was the quickest way of raising money, I am sure, and it was supposed to be a short-term loan until we refinanced it onto a longer maturity. That was the quickest way to get money into Manx Cable Company, which was building the power station and...

The Chairman: And were Treasury aware of that approach, your decision to raise money that way?

Mr Wilcox: I think Treasury was aware of what had happened, yes, but only, as we had the conversation a few moments ago... nothing further to add on why I think that.

The Chairman: Thank you.

Mrs Christian: Did you consider the legal position of the MEA when you looked at that structure for borrowing through the Cable Company?

Mr Wilcox: Did I look at it as a means for avoiding Treasury approval?

Mrs Christian: Yes.

Mr Wilcox: No.

Mrs Christian: Did you recognise that there were legal issues?

Mr Wilcox: No.

Mrs Christian: Because you did not explore them, or you did not accept that there were legal issues?

Mr Wilcox: I was not aware that we needed Treasury approval to borrow on MCC.

Mrs Christian: I am not talking about borrowing on MCC, I am talking about MEA and MCC borrowings.

Mr Wilcox: No, we were looking to borrow from the bank and the reason for borrowing through MCC was that it had an income stream that could be taken as security for the loans, for one –

Mrs Christian: What income streams did the MCC have?

Mr Wilcox: Rental on the cable paper. The MCC was set up... When it was set up as a joint venture with National Grid, it was financed externally through HSBC and they financed that project financing on the basis of the rental that the cable company would be earning from the MEA. That seemed a good stream to borrow money against and the borrowings were going to be employed within MCC as well.

Mrs Christian: And the MCC was earning enough on the cable to pay the interest on that loan?

Mr Wilcox: It had a... The cable had just been... I think we had bought out National Grid at that point, the cable capacity had been increased by 50 per cent and if the MEA wished to use that extra 50 per cent, I am sure there would have been enough money to support the interest payments.

Mrs Christian: If that was the position, it had not been lit at that time, had it?

Mr Wilcox: Sorry, no, this is the electrical connector which was built with a capacity of 40 megawatts. National Grid: we go back to the argument why National Grid was part owner and why we bought them out. National Grid were a part owner because they were a good development partner. They had some credibility when we went out getting bids for that cable – this was late 1990s – they were a good development partner. They were not keen to use it as aggressively as the MEA were and the MEA were keen to use that extra capacity, which is why we bought out National Grid and that is why the cable became worth more than we paid them for it.

Mrs Christian: Coming back to the point you made before, you did not think that the Treasury would lend money to the MEA. Bearing in mind – never mind the personalities involved here – supply to the Isle of Man consumer was the critical issue both for Government and the MEA surely, why did you think that the Treasury would not recognise the position that the MEA was in?

Mr Wilcox: I have no specific points I can give you as to why the relationship between the Treasury and the MEA was the way it was.

Mrs Christian: The relationship surely would not have overridden, if there was a bad relationship, the need of the consumer and the purpose of building the station.

Mr Wilcox: Possibly so. That is a subjective view to others. Whoever was in the position at the time... my view happened to be that we would have struggled to get support from Treasury.

The Chairman: Mr Butt.

Mr Butt: Yes, a totally different subject if I may, Mr Chairman.

Mr Dewar: Paul Dewar, the Internal Auditor, what was his relationship with you in terms of reporting and line management?

Mr Wilcox: Well his reporting line was for... In terms of administratively, I think he reported to the Chief Executive in terms of getting expense claims signed off, in terms of getting – I do not know – administrative, paying rations as you might call it. In terms of Internal Audit reporting, he reported I think to the Chairman of the Audit Committee, well, to the Audit Committee as a whole, and I had dealings with Paul when he was either auditing sections of the business that related to myself or I attended Audit Committee meetings as well.

Mr Butt: What independence did he have? Could he go anywhere in the organisation to examine accounts?

Mr Wilcox: I think he and his team did examine accounts throughout the organisation, yes.

Mr Butt: In his evidence to us he said that he was excluded from examining Manx Cable Company accounts and accounts to do with the project, the build.

Mr Wilcox: He may well have been. That would not have been where an Internal Auditor would most usefully spend their time.

Mr Butt: So he may well have been excluded from those?

Mr Wilcox: Yes.

Mr Butt: Mr Proffitt said on Friday that Mr Dewar was not telling the truth when he said that.

Mr Wilcox: I have not seen Mr Proffitt's evidence, I am afraid.

Mr Butt: So you were not party to him being excluded from anything or included in anything.

Mr Wilcox: I would have known what the audit plan was during the year and I would have always pushed for the audit plan to focus on transactional areas, which is where I strongly felt that Internal Audit added something useful.

Mr Butt: So as Chief Financial Officer, then, was there

any reason why he should not be allowed to look at Manx Cable Company accounts?

Mr Wilcox: There were a dozen transactions a year in Manx Cable Company, so it would not have repaid an Internal Audit inspection. Internal audit is like looking at processes and systems to make sure that there are appropriate controls within that process or within that system and our key processes were billing the customers and purchase invoices coming in, so those were the two biggest volumes of transactional stuff, together with payroll, I suspect.

Mr Butt: Okay, thank you.

The Chairman: Well, thank you Mr Wilcox. That concludes all the Committee's questions this afternoon. Is there anything you would wish to add before I close this session?

Mr Wilcox: Not at all.

The Chairman: In that case, I would like to thank you very much for your attendance and your assistance to the Committee. It is much appreciated. There will be further evidence sessions from other witnesses, following which there might be occasion to contact you and possibly recall you to give evidence again in public. So I would like to thank you very much for your attendance and you may stand down.

Thank you.

Mr McCallion was called at 3.45 p.m.

Administration of the Oath

The Chairman: Can I call forward our next witness please: Mr McCallion.

Right, good afternoon Mr McCallion, thank you very much for attending today and can I ask our Clerk to invite you to take the Solemn Oath, please?

Mr McCallion took the Bible in his right hand and repeated the Oath.

Mr McCallion: I swear by Almighty God that the evidence I shall give to the Committee at this and any further hearings shall be the truth, the whole truth and nothing but the truth, so help me God.

EVIDENCE OF MR W J McCALLION

The Chairman: Thank you very much.

Could you please commence, Mr McCallion, by stating your full name and your roles and responsibilities at the MEA during the time in question.

Mr McCallion: Indeed, Mr Chairman.

Can I just say, at the beginning, that I have a slight hearing difficulty in my right ear, but in both sessions that I have come to here, I find it incredibly difficult to hear any of the Committee. Now I see that there is a microphone here for

the person who is being interviewed but could I suggest – it is not my place to suggest – but sitting back there I cannot hear what you are saying.

Mr Callister: Are we able to increase the level on these desk mikes?

The Clerk: No, they are for recording.

The Chairman: We will take on board what you say, Mr McCallion, and apologies if you have any difficulties in hearing us.

I would like to give you the opportunity to make an opening statement before we put any questions, so is there anything you wish to say?

Mr McCallion: Yes, I have prepared a short opening statement, which I believe my advocate has passed to you, so I shall deliver it to the Committee.

It did not occur to me, over 12 years ago, after what I considered a successful career in engineering and business management spanning over 40 years with a major, world-renowned company, that I would be required to sit before a Select Committee of the Isle of Man parliament. After retiring from the position as Chairman and Managing Director of the Shell Shipping Company, registered in the Isle of Man in 1994, I was invited to chair the Statutory Board of the Electricity Authority in 1997, January.

Having carried out some research on the MEA status, I realised this would be a challenging position, bearing in mind the condition at that time of the infrastructure of the electrical system and, indeed, the ability of the power generation, but accepted the opportunity to serve. I was very fortunate to have appointed to the board at that time a number of highly experienced and successful businessmen, well versed in finance, power generation technology and business acumen. I was fortunate in having my line of responsibility to the Government via the then DTI Minister, namely Mr David North, and his Chief Executive, Mr Ken Bawden. Their guidance and foresight was always appreciated by the board. They were also the front runners in strongly recommending we allow for laying fibre optics alongside the subsea electric cable and eventually securing a natural gas supply to the Island. They were supportive in our objectives, but were not hesitant to criticise if they felt it was necessary. We, the MEA Board at that time, knew where we stood.

Sadly, after successfully achieving most of our objectives, relations between the then Government – and I am now talking circa 2003 – and the MEA Board, began to degenerate. This situation led to the complete board resignation in June 2005. There is no doubt in my mind the *en masse* resignation is exactly what the Council of Ministers wanted. This was obvious to me when, on the afternoon of the meeting that we had with the Council, the Attorney General arrived at the MEA boardroom to advise it would be prudent to have our letters of resignation written and signed before 4.00 p.m. I also saw, in his notebook, the names of the board which would be appointed to replace us. Needless to say, the new Chairman, my replacement, was to be a Government Minister.

I believe we, the old board, had no option but to resign, as we were being stifled at every turn to advance our objectives in making the MEA a more robust business enterprise. For example, we were led to believe we would have full support and encouragement to enter the telecommunication business,

as the DTI, who had the subsea fibre optic cables on lease, declared it did not have the expertise to put them into a business model. We took over the task with enthusiasm and presented to the Council of Ministers a detailed plan of action. There is still debate whether this plan was ever studied by CoMin. It was certainly never acknowledged as being so.

We were given information by the DTI that all necessary legislation was being progressed. Meanwhile, the Isle of Man Director of Communications stated publicly that he would never – repeat, never – issue the MEA with the necessary licensing to enable it to operate.

I feel these background comments are important to be in the public domain to ensure there is a balanced view taken when examining the MEA compliance to financial guidelines etc. All the borrowings by the MEA were done in good faith to ensure we met the objectives and targets asked of us. We were aware that considerable cost had been incurred by Government, on behalf of the taxpayer, to forensically trawl through the MEA accounts to try and find an impropriety. There has been none. All moneys borrowed were used to meet our objectives in giving the Isle of Man a first-class power station, coupled with an updated electricity distribution system complete with diversity of energy source.

Many of my friends have suggested to me that I should never have accepted the position of Chairman of the MEA in the first place and thereby avoided all the aggravation that has ensued to not only myself but also to my family. I cannot agree because, although the Government had never had the decency to register a vote of thanks to any of the achievements that have come to pass, I have a strong feeling of satisfaction personally and, in addition, I have had the opportunity to meet and enjoy the friendship of my fellow board members, Chief Executive and directors of all the departments and, as importantly, a workforce that was always there when needed. In times of storm etc. they would turn out and get electricity back to the people.

Throughout my term as Chairman the board meetings were all working sessions that lasted for an average of three to five hours and sometimes much longer. When I took over as Chairman, the previous board had 10 meetings per year, one per month, excluding August and, I think, December. After discussion with my new board members we agreed that we would meet 12 times a year, minimum. In addition to that, of course, we met often, whether it be the whole board or whether it be myself and the Deputy Chairman, the CEO and myself, whatever, we put a lot of effort into achieving what I believe, and have been told, is one of the finest power stations in the world.

Thank you, Mr Chairman.

The Chairman: Thank you, Mr McCallion.

Given that financial regulations, including the capital procedure notes, applied to all statutory boards, how aware were you of those obligations in respect of the MEA during your time on the board?

Mr McCallion: It was made obvious to me when I took over in January 1997 – there was a different CEO in charge at that time, a Mr Nation. He advised me that there was this legislation that existed, but the problem was that he did not feel it could apply in particular to the MEA. I concurred with that and, while I was aware of these regulations, I believed that we were satisfying the Treasury as much as we could.

At that time there was good relations between – I believe

there was good relations between – Treasury and ourselves, the MEA.

The Chairman: And what was your reaction when you received the Treasury direction dated 25th June 2002 in relation to non-compliance with capital procedure notes and what action did you take in response?

Mr McCallion: Well, I think the first reaction was one of total disbelief that, as I said, we had all been working very hard to put together an operation which would satisfy the Isle of Man, not just for the immediate future but for 20 to 30 years to come, when, out of the blue, there seemed to be somebody who was trying to torpedo us, to try to put every obstruction possible in our way. I put it to the board that we needed to have this examined and that is what happened.

The Chairman: Who was firing the torpedoes?

Mr McCallion: In my opinion, Mrs Williams.

The Chairman: Mrs Mary Williams, the then –

Mr McCallion: Yes, well, she signed it.

The Chairman: – Chief Financial Officer. Thank you. Mrs Christian.

Mrs Christian: Thank you.

Mr McCallion, you said that the letter came out of the blue, which implies –

Mr McCallion: That tone of letter came out of the blue.

Mrs Christian: The tone of letter.

Mr McCallion: Yes.

Mrs Christian: To what extent was the board aware and had discussed the ongoing concern of the Treasury about the non-compliance with the financial regulations and the discussions which were supposed to be ongoing between the MEA audit officer and the Chief Internal Auditor of the Treasury, to try and find a compromise which would be applicable and workable for the MEA? To what extent were the board aware of this?

Mr McCallion: I would go back, actually, until I took over in 1997 to say that I was made aware that, even then, there were grumbles or mumbles at low working level within Treasury and it appears that the Treasury end wanted far more detail than the MEA had been producing. I did not believe that was something that should take up the time of the board, although the whole board knew about it, but something at that level, in my experience in business, should have been worked out at that level and not allowed to escalate.

However, obviously it did escalate till we came to that situation in June 2002. So for three years – four and a half years – there was a grumbling that we were aware of and I suppose I have to say the grumbling increased, but not to the level that I foresaw, a letter of that composition being sent to the MEA.

Mrs Christian: What did you see as the purpose of the

information that the Treasury wanted, the capital project team?

Mr McCallion: Sorry, what did I?

Mrs Christian: Why do you think this Capital Project Unit wanted the information that they were seeking, apart from the fact that it is a statutory obligation?

Mr McCallion: Well, I think possibly they felt it was part of their job and wanted to be seen doing their job, which I have no objections to. I also feel that there was a deep-down resentment that the MEA were being so successful as they were and it was not, shall I say, brushing off on Treasury officials.

Mrs Christian: You regard it as successful that the budgets were so far astray?

Mr McCallion: Yes.

Mrs Christian: You do?

Mr McCallion: I regard the projects as being successful. We had nobody killed in all the hours that were put in to build that power station and, indeed, bring a gas pipeline ashore, which is a major undertaking. The amount of Health and Safety that was applied by the MEA to this project was immense. So, yes, we are proud of it.

Mrs Christian: I accept that we are proud of it and we have a system which delivers us electricity.

Mr McCallion: I am sorry?

Mrs Christian: (*Speaks loudly*) We are indeed... we have – it is acknowledged – we have a good system for delivering electricity to our consumers. The issue is the communication between the MEA and the Treasury, so that there was an understanding of how the finances of the project were developing as it occurred. That is the issue, is it not?

Mr McCallion: Well, it is an issue that has been made an issue. I cannot say any more than that.

The Chairman: Mr Callister.

Mr Callister: Do you regard that personalities came into this issue?

Mr McCallion: I do.

Mr Callister: That it is more about personalities than anything else?

Mr McCallion: I do.

Mr Callister: Could you elaborate on that?

Mr McCallion: Well, I am under oath. I am not sure whether you want to hear my elaboration.

The Chairman: You are covered by parliamentary privilege, Mr McCallion.

Mr McCallion: Am I?

The Chairman: Any witness giving evidence to a Select Committee is.

Mr McCallion: Right. I believe there was a personality problem between Mr Proffitt and Mrs Williams and I think – because I cannot be sure – I think that Mrs Williams at that time was considering her position to become Chief Secretary to the Government and I think she felt that Mike Proffitt could be a threat to that position. In other words, he could throw his hat in the ring.

These are items I think that caused the problems and I think this letter which, using my expression, came out of the blue was generated by the fact Mrs Williams wanted to appear highly efficient and on the ball and take down Mike Proffitt.

Mrs Christian: Chairman, was not Mrs Williams responding to a Treasury directive? She was instructed to send it. It was not sent of her own volition.

Mr McCallion: Well, if that is the case, that is the case. I do not know. Nobody had an addendum on the letter saying as to whether it was an instruction by Treasury.

The Chairman: The pile of evidence does clearly show Mrs Williams acting on the instruction from a decision at a Treasury meeting as the Chief Financial Officer to carry out the will of Treasury. So would you accept it was not motivated – what was said was not motivated – or necessarily her own words, but the considered view of Treasury?

Mr McCallion: No, I would find it difficult to.

The Chairman: Okay. Had you been aware, prior to the issue of that direction, that Treasury were dissatisfied with the level of financial information supplied by the MEA – and you have described the grumbings over a number of years, I appreciate that – but had Mr Proffitt advised the board about Treasury's concerns about this alleged lack of financial information that was being provided?

Mr McCallion: As far as I can remember, and bearing in mind this is going back five or perhaps six years, Mr Proffitt did certainly advise me as Chairman. Whether he actually said it at a board meeting or not, I cannot be sure, but, yes, the answer is yes.

The Chairman: Okay, and the board, how did they react, then, to that information about the concern of Treasury? How did they view that concern?

Mr McCallion: The board wished that this divergence between agreement of the MEA and the Treasury could be brought together. I believe that Mr Proffitt put in place, with full board approval, to increase meetings and possibly to give more information that Treasury was asking for, but I cannot be 100 per cent sure, Mr Chairman.

The Chairman: Okay, in your response to the Chief Financial Officer dated 25th July 2002, you stated that the Treasury direction had been vexatious. You made some observations some moments ago but could you just explain

further why you believe it had been vexatious?

Mr McCallion: Yes, well, I think my explanation earlier covers that point.

I mean, here we were, trying to do what was asked of us, build a power station for the future, bring gas, diversify the energy fuel, etc – when we seemed to be up against hurdles that were being unnecessarily placed. So, I suppose that is the answer.

The Chairman: Okay.
Mr Butt.

Mr Butt: Yes. Can I ask why you think providing some financial information to the Treasury would be a hurdle? Why would that be a hurdle?

Mr McCallion: I did not say that. I said they were asking for things which perhaps we could not easily supply. Financial information, to me, was not a hurdle, but there were limitations of how much financial information we could supply. We were not in the business to supply the Treasury with every ‘i’ dotted and every ‘t’ crossed. We believe that sufficient information was being given to Treasury for them to sit down and deal with it and make an analysis of what they wanted to know.

Mrs Christian: If you believed that they were getting the information that they wanted, why do you think that the argument went on for two years that they were not getting the information that they wanted?

Mr McCallion: I do not know. I simply do not know.

Mrs Christian: Were you aware that it had been going on for so long?

Mr McCallion: I was aware there were grumblings at a working level, as I said, from when I took the job in January 1997 but, to me, the grumblings remained at that level. It was only on receipt of this letter that I felt things had started to explode.

The Chairman: On receipt of the letter, there was a very negative reaction on the part of yourself (**Mr McCallion:** Yes.) and the board, as you have told us and, at this point, Mr Donald Gelling, (**Mr McCallion:** Yes.) who was then a member of the Treasury, obviously former Chief Minister... a meeting was held with him and yourself. Could you just tell us what happened, what was discussed and the purpose of that meeting?

Mr McCallion: Yes, it was the meeting that I can remember clearly. Mr Gelling came to the Ballacottier head office boardroom and he met with myself and Mr Proffitt. We discussed with Mr Gelling the disagreements that existed between the MEA and Treasury, and we said that we would like to try and... or I said I would like to try and reduce these, so that we could get on with the business on both sides.

From memory, there were probably other things that developed – we did not just sit there for two minutes – but, at the end, Mr Gelling said he would do what he could to try and help and forward the situation.

The Chairman: Did you form the impression, from your

discussion with Mr Gelling, that he supported the issue of the direction to the MEA, as a Member of Treasury?

Mr McCallion: I am sorry, I cannot remember.

The Chairman: No. Did – ?

Mr McCallion: Sorry, Mr Chairman. When I am saying I cannot remember, I am not trying to dodge your question. But if I am under oath, it is senseless trying to make up some kind of answer just for the sake of it.

The Chairman: I appreciate that, no.

Mr McCallion: So, if I do not remember, I do not remember.

The Chairman: I accept that perfectly, Mr McCallion. Did you threaten to resign, if the Treasury direction was not withdrawn?

Mr McCallion: No. What I can tell you is that, in January 1997, when I was invited... I did not apply for the job. When I was invited to become Chairman of the MEA – on reflection, I say I was very proud to have been invited – I made it clear to Mr David North and to Ken Bawden, who was the Chief Executive of the DTI, to the DTI that, should they ever lose confidence in my stewardship or, indeed, should the Government or CoMin or Tynwald lose confidence in my stewardship of the MEA, I would stand down, resign, because I had no contract of employment.

I had no condition where I had to serve three months’ notice. I had no contract whatsoever. So I felt it correct to make it clear, there and then, that should at any point they see or seem to think I was failing in my duties, I would resign.

The Chairman: Okay.

Mr McCallion: It was not a threat; it was a fact.

The Chairman: But if you did not threaten to resign, did you remind anyone of your initial undertaking that, if this meant there was no confidence in the board, you would simply stand down?

Mr McCallion: Probably.

The Chairman: Probably. Thank you.

Mr McCallion: Probably, yes. That is what happened when, subsequent to the meeting, we did resign *en masse*, and Mr Gelling already had the replacements in the frame.

The Chairman: Yes. Of course, at that point, as a result of that meeting – at least, in part – what was called ‘Operation Fresh Start’ was made, that there would be a renewed attempt to get co-operation between Treasury and the MEA Board.

Mr McCallion: Sorry, was this Mr Gelling’s meeting?

The Chairman: At the time of Mr Gelling’s meeting in July 2002, there was a letter from the Treasury Minister, Mr Gelling’s Minister, of 31st July, suggesting that a working party be established comprising officers of the Treasury

and officers of the MEA to seek to find a constructive way forward which meets the requirements of both the Treasury and the MEA. And, in your response, dated 1st August 2002, you stated:

‘I on behalf of the board concur completely with your suggestion and will ensure such comments are acted upon.’

Mr McCallion: Yes.

The Chairman: And that is obviously a matter of record. What action did you, or others, take to fulfil that commitment?

Mr McCallion: Well, I passed down to the CEO the opinions that the board had that there had to be a fresh start. We had made a promise in that direction. I believe that a fresh start was made.

In other words, there was an increase in the number of meetings. There was an increase in facts-flow. I could not sit here and tell you exactly what they were, and I could not sit here and tell you whether there were meetings weekly or meetings monthly or who went to them. I do know that there is a record – because I asked the PA at that time in the MEA, Mrs Cottier – to put together a diary of the meetings, dates, which she did and they should be some place on record.

I understand, particularly... That was DTI and, at the DTI meetings, again I understand, because I did not, and would not, attend them – when I say would not or did not, I was not invited – there was always a chair for a Treasury member which, I understand, was invariably never occupied.

The other thing that happened, again from memory, was that the CEO, Mr Proffitt, put together an agreement with Mark Shimmin, now the Treasury Chief – was it Chief Minister?

The Chairman: Chief Financial Officer.

Mr McCallion: – Chief Financial Officer – that they would meet with frequency. I understand from the notes made by Mrs Cottier that Shimmin attended, I think it was two and, after that, did not attend and no member of Treasury attended. When she tried to put together the dates for meetings, she had no response from Treasury or they said, ‘Sorry, nobody available’.

The Chairman: So, when Members or officers of Treasury give evidence to us that the MEA were seemingly unwilling to attend, that is incorrect?

Mr McCallion: In my opinion, totally incorrect.

The Chairman: Thank you.
Mr Butt.

Mr Butt: Can I just go back to the letter which the Chairman mentioned on 1st August, where you committed to comply with trying to make the meetings happen more frequently, etc. You say you instructed the Chief Executive to make sure that happened?

Mr McCallion: Yes.

Mr Butt: That is right.

Mr McCallion: Which I believe he did.

Mr Butt: You may not have knowledge of this personally but, about a year later, we have evidence before us from Treasury officials that Mr Proffitt said to them, ‘As long as I am Chief Executive, you will not get any financial information from me’.

Mr McCallion: I am sorry, Mr Butt, I cannot answer that question because that is not to my knowledge. I was not party to it, nor would have been party to it, and I honestly doubt very much if Mike Proffitt would have been silly enough to say something like that.

Mr Butt: Did Mr Proffitt discuss with you how the progress was going with these reconciliation meetings? You gave the instruction. Did you follow up to see whether this...?

Mr McCallion: As a board, I believe he did but they will be in the minutes somewhere. Specific meetings outside the board, I do not remember, no.

Mr Butt: Again, thank you.

The Chairman: On 4th July 2003, Mr McCallion, you had a meeting, along with other members of the board, with the Council of Ministers (**Mr McCallion:** Indeed.) and, on that day, you also signed, on behalf of MCC Limited, to borrow £70 million. Why did you not...?

Mr McCallion: If that is on record, then I accept it. I do not remember it, but if it is in the record, I accept it.

The Chairman: Yes. At the meeting with the Council of Ministers, why did you not mention or inform Council about that borrowing?

Mr McCallion: Well, because you were good enough to give me some of the oral evidence questions beforehand, I took time to look out that. If my memory serves me correctly, that was a meeting we had with the Council of Ministers to deliver the plan – the five-year or ten-year forward plan – of the MEA, which covered all aspects but also included telecommunications, because that was the area we saw as taking off quickly and earning considerable moneys for the Isle of Man.

The reason I did not mention it, I have not a clue. I can only answer by saying it is MCC business. That was not why we were there before the Council of Ministers. We were there, as I understand it, to deliver a five-to-ten-year plan, which we did.

The Chairman: So the fact that this additional borrowing, which had been in the pipeline for some weeks or months, had been concluded at that same time, was that something not worth mentioning because, presumably, that borrowing was very important to MCC and part of the MEA five/ten-year plan?

Mr McCallion: I suppose, in my mind, the only way I can answer that is because it had been building up for a number of months that I assumed the Treasury knew about it, anyway.

The Chairman: Okay.

Mr Butt: Why would you assume they would know? What evidence would you have for that?

Mr McCallion: Because I would have thought, on an Island this size, that to go to the banks to ask to borrow £70 million, if that is what it was, it would not have been kept in closed doors. You have got a financial services organisation that must talk to the banks, who must know what is going on. Treasury must talk to the financial services organisation.

I assumed, and I repeat, that they already knew about it.

Mr Butt: We have on the file a letter from Mr Moroney, the advocate, (**Mr McCallion:** Yes.) which actually says that MCC deliberately did not go to Government to avoid telling them (**Mr McCallion:** No.) and took the loan on that basis.

Mr McCallion: With due respect, I do not think that is right. I think that was a copy of a letter by Mr Beloff, the QC in London, who certainly gave that type of information, but your Attorney General, I understand, explained to the Council of Ministers that that letter was being misread and misunderstood.

Now, I cannot give you any more evidence here, but I am sure there is something on file that contradicts what the Council of Ministers assumed from that letter. We did not try to evade telling...

Mr Butt: Was Mr Moroney your advocate?

Mr McCallion: Sorry?

Mr Butt: Was Mr Moroney your advocate?

Mr McCallion: Yes. Yes. He asked for opinion by Mr Beloff, a well-known QC in London, and that was Mr Beloff's opinion, but it was misread and I think, to be honest, mis-written, but I am not a legal brain so I cannot fully answer.

But no, there was no devious intention vis-à-vis that letter nor, indeed, to try... How on earth, Mr Butt, can we try to hide a borrowing of £70 million? What were we going to do with it?

Mr Butt: Your advocate said that you did, in his letter.

Mr McCallion: Well...

Mr Butt: He said it was not evasion, it was avoidance – is his phrase.

Mr McCallion: Well, I think there is a legal definition between evasion and avoidance.

Mr Butt: He explained that in the letter.

Mr McCallion: We did not try to avoid.

Mr Butt: Okay, thank you.

The Chairman: Mrs Christian.

Mrs Christian: Yes, thank you, Chairman.

You have suggested that, somehow, Treasury, by virtue of gossip in the Island, would be aware of the loan. Can I go on, then, to ask you: do you not believe that Treasury approval was a requirement for the MEA in taking out loans – or the MCC?

Mr McCallion: For the MEA, it was; not for MCC, no.

Mrs Christian: Right.

Mr McCallion: If you go back to the very inauguration of MCC, the Treasury were never involved in MCC, not when it was a part-owned company or, indeed, when MCC raised money to buy out National Grid.

Mrs Christian: But it became fully owned by MEA.

Mr McCallion: Sorry, again?

Mrs Christian: They bought the National Grid element of it.

Mr McCallion: Yes.

Mrs Christian: Right. So, the loan –

Mr McCallion: By money that was raised by MCC.

Mrs Christian: Yes. The MEA were relying on MCC money.

Mr McCallion: The MEA were relying on MCC money? I am sorry, I do not follow the question.

Mrs Christian: You do not follow the question?

Mr McCallion: No.

Mrs Christian: Right. So you believed that the MCC loan did not require Tynwald approval?

Mr McCallion: Correct.

Mrs Christian: Did the MEA have any use of that money?

Mr McCallion: I think this is where it becomes slightly long-winded, so if you will pardon me... It was always in the thoughts of the board that, once the gas pipeline was finished, bearing in mind the huge cost of that and the additional cost that none of us foresaw vis-à-vis the pressure reducing station at Glen Mooar – which was supposed to have been owned by Bord Gáis Éireann, where the MEA paid an annual lease fee – or, indeed, the pressure reducing station – a further pressure reducing station that had to be built at Pulrose to accommodate the low pressure gas into the Manx Gas mains, which we were requested to do by the Government... It was not our wish, but we certainly did not stand in the way of it because we felt it was very good for the Isle of Man to get natural gas, rather than produced gas at an enormous cost by Manx Gas.

So, consequently, these additional costs were building up and the idea, as I started off to say, was that eventually, once

we had the subsea fibre optics operating, we would change Manx Cable Company to be known as a new company called Manx Cable and Pipeline Company, which would still be divorced from the MEA in the question to ensure the MEA and, consequently, the Isle of Man Government would be protected against unlimited liabilities, should there be an accident or – Heaven help! – a gasline explosion or the subsea cable being chopped in half by a ship. So that was the intent, but we never got that far.

Mrs Christian: Can I ask you, then, if certain extra costs fell upon the MEA at the request of Government, i.e. the reduction station to provide Manx Gas with a supply –

Mr McCallion: Some, not all.

Mrs Christian: Not all, but some of the cost was extra cost (**Mr McCallion:** Yes.) imposed at the request of Government. Why did you not seek Government assistance to fund it?

Mr McCallion: I tell you – I will if I can, but before I say that, in my darkest days, when all this was going on, I felt the biggest mistake the MEA made was to say to the Government, ‘We will operate it. You buy it, the gas. You pay for the subsea connection into the Bord Gáis Éireann second main gasline from Moffat to Dublin. You pay for it and we will operate it and we will charge you a fee for operations.’ That would have been the cleanest way and then you could have paid up and you could have then dissected all the costs.

But that was not what we were asked to do by Government. We were asked to bring gas ashore, and we did.

Mrs Christian: But going back to the loan issue, why did you not go back to Treasury for the extra money?

Mr McCallion: Well, I thought that had been ably answered before me, but the answer is that we wanted to get all the costs into one pot – all the additional costs into one pot – and, as far as I am concerned, the idea was then to go Treasury and say we want to tap into the bond, which was a long-term financial support.

But to go in dribs and drabs, according to what I believe – and I am not an accountant – was not the way to move and so, consequently, the short-term loans came into being.

Mrs Christian: Chairman, if I may just continue, please? (**The Chairman:** Yes.)

The borrowing, from the perspective of the public, I think – the requirement to borrow – is perceived to have been because of the overspend on the capital project. Were the board monitoring the expenditure on the capital project and fully aware that they were going over budget, as presented to Tynwald?

Mr McCallion: The answer is yes, but there was never any budget for what you call the overspend. We did not know what had to still be done. We had budgeted for the power station, because you can actually pick up a book from General Dynamics or General Electric and find out what the cost of a 10 megawatt gas turbine is. You can do the same for the producers of boilers. You can get a company like Enron that will come in – as we know, they failed – and say, ‘Right, to build the structure will cost this much, to buy the turbines

will cost this much, to buy the boilers will cost this much, to buy the generators will cost this much’. So, yes, and then you can say there is my budget. What you cannot budget for is all the additions that occurred.

Mrs Christian: If we recognise that, the question is why did you not report to Treasury the fact that you were going over the budget that had been presented to Tynwald and approach them to assist with the overspend?

Mr McCallion: I will have to answer that, Mrs Christian, by saying I thought we did. I thought Treasury were aware of these overspends. I thought that was why they had meetings with whatever they call themselves, the project department, or Capital Projects, or whatever.

Mrs Christian: But Capital Projects were saying that they were not getting the information that they needed. Was that not why you had a fresh start, simply because they were not getting it?

Mr McCallion: No, I do not believe the fresh start was the whole basis of that. I believe the fresh start was to try and get the personality problem out of the issue, so that Treasury and the MEA could again walk together without friction.

Mrs Christian: Thank you.

The Chairman: Mr Callister.

Mr Callister: Yes, thank you, Mr Chairman.

Pressure reduction stations and so on may not have been foreseen, but it was necessary to demolish the old power station to build the new one. (**Mr McCallion:** Yes.) Why was there no account taken of the cost of demolition of the old power station in the indicative figure, shall we say?

Mr McCallion: Well, I believe there was, but I believe what we did not realise was that we would be landed with thousands of tons of contaminated soil which, through Health and Safety, had to be removed and could not be dealt with on the Island. We had to charter a ship from Antwerp and we had to load it. I cannot remember how many times we loaded it to take it to Antwerp to put it through a proper and safe – health safe – incinerator.

Mr Callister: Yes, that was something unforeseen (**Mr McCallion:** Right.) but, according to Mr Proffitt, there was no allowance in the cost for the demolition of the old power station.

Mr McCallion: What, do you mean to actually knock down the walls and take the old engines out? Is that what you...?

Mr Callister: Yes, the demolition, yes.

Mr McCallion: I am sorry I cannot answer that. I do not remember.

I do remember the fact that, when it came to try to take down the second chimney – it was not necessary and really had to come down – the contractors, when they started, could not believe the strength of how that chimney had been built, so all good marks to the people that did it in the past, but

they had to bring in more special equipment and that cost a great deal more money than was ever considered.

Mr Callister: So it should have had some allowance initially, then?

Mr McCallion: It probably did.

Mr Callister: Well, not according to what we have heard so far.

Mr McCallion: Well, okay.

The Chairman: I just want to move on to two or three further questions, Mr McCallion.

In March 2004, you had a meeting with the Treasury Minister and I quote Mr Bell's evidence. You advised him:

'that the contract for the power station was on time, within budget. There were no areas of concern whatsoever.'

Mr Bell's account of what you said to him. Did you give those assurances to the Treasury Minister?

Mr McCallion: If it is the same one, Mr Chairman, this is the meeting that I remember with great clarity. The way it occurred was that the PA in the MEA got a message from, I believe, Mr Bell's PA to say that Mr Bell would like to see me in his offices to discuss various matters. Now, I hope I have got the right meeting because there was nobody else in attendance. I felt it rather strange to be asked to go to his office on my own – not something, as a businessman of 40 years' standing, I would attempt to do unless I was particularly sure of my ground and, indeed, would want to have an agenda of what was going to be discussed.

However, when I went to his offices and was invited in and there was only him and I there, it seemed to me that it was to be a relaxed, informal meeting. I remember certain things being discussed. The question of the power station, to be honest, I do not and I will come to that later. What I remember specifically is two points.

One, he said to me how pleased he was about the relationships between Mr Colin Kniveton and the MEA – which set me back on my heels somewhat because I did not believe that Colin Kniveton was a particular friend of the MEA. I will tell you why, as I am under oath and I have got protection. Mr Kniveton was a candidate for the job that was advertised as the MEA Financial Director. I think there were only two, from memory, that were shortlisted. There were obviously more but two were shortlisted. One was Mr Wilcox, who you have just interviewed; and the second was Mr Kniveton. After the interview, Mr Wilcox was chosen as the candidate most ideal for the job. Mr Kniveton, regretfully and sadly, and I said to him... he did not get the job. I remember that puzzling me as to why the Treasury Minister would say, 'And I am so pleased that Colin Kniveton and the MEA are now on good terms'.

The second thing I remember was what did the board intend to do about the tariff for the coming year? I made comment that, obviously, we were trying desperately hard to maintain low tariffs because we understood that it was not the factories or anything like that. It was, as I always use the expression, the old way, we were on our own, having to use the same amount of electricity as probably a family

is, who can ill afford high tariff rates. So I remember that crystal clear.

In my training with my previous company, it was always said when you have a meeting and the meeting has no secretary and no minutes, you must go and write a note, a memo for a note, which I did. Now, I do not know whether you...

Mr McCallion's adviser: That is what I have handed out. I have handed out two board packs, one March and one April, and I think the note Mr McCallion is referring to is somewhere near the beginning of the March pack. Then there is a minute and a further note in the April pack.

Mr McCallion: This is my sheet marked 04/07, signed by me.

The Chairman: Have we all got that minute? Eight pages in.

Mr Callister: Yes.

The Chairman: A one-sided sheet.

Mr McCallion: That is correct.

The Chairman: That is fine. We have that, Mr McCallion.

Mr McCallion: It was a note for the file, Mr Chairman. It was inserted in the next board pack to advise all board members of my discussion with the Treasury Minister on that particular day.

The Chairman: Shall I, for the record, read out that note? Are there points you wish to refer to?

Mr McCallion: Shall I do it?

The Chairman: It perhaps would be better if you did it, Mr McCallion.

Mr McCallion: This is my Chairman's discussion matters with the Hon. Allan Bell, Treasury Minister:

'The Chairman of the board was requested to attend a meeting called by the Treasury Minister, Hon. Allan Bell MHK, on 10th March 2004 at 2.30 p.m. at Government Offices.

A meeting agenda was requested and the response was 'a general discussion on the annual report 2002-03'.

The Chairman suggested board member, Mr Charles Fargher, and/or Director of Corporate Services, Mr Clive Wilcox, should accompany him. The response was that was not necessary and not wished for.'

I interject here, Mr Chairman, to say these were not direct calls between me and Mr Bell; it was between secretaries.

'The meeting took place in the Treasury Minister's office and was conducted on a one-to-one basis.

Issues raised by the Minister:

(1) the excellent co-operation that existed between the MEA and the Treasury;'

Remember, this is 10th March 2004.

'(2) the standing charge and what options were there to deal with it;'

If you cast your mind back – to interject again – the standing charge was an issue which was causing the MEA concern because, while the Government paid the standing charge up until then, they had revoked that and they had said, effectively, ‘You pay it,’ – the MEA – ‘or the customer pays it.’ That was subsequently rescinded, and I believe the Government continues to pay.

‘(3) the tariff set for 2004-05;

(4) the annual report, with particular reference to the bond issue and how confident was the board that it could defend itself against any criticism;’

In the annual report we felt there was no defence necessary. It was an annual report: it was passed by the auditors with no comment from them.

‘(5) telecommunications – the position of the MEA;’

I remember, on reflection now, that I was more and more concerned that we had a viable moneymaking machine, that we could not press the button and start, and I could never get anybody to tell me why. I still cannot, apart from what I said in my statement, that the Isle of Man Director of Communications said we would never get a licence.

Lastly,

‘(6) the senior executives of the MEA.’

I do not remember. I do not know whether Mr Bell made comment about Mr Proffitt or Mr Wilcox, or the board or whatever, but I reported it to the board so he must have said something.

The Chairman: So from that discussion, Mr Bell, when he said the contract was on time within budget, no areas of concern whatsoever, does that not accord with your recollection of the meeting?

Mr McCallion: No, unless it was covered in the annual report and perhaps in that annual report there was an issue, but no, he did not specifically bring that up, to my memory.

The Chairman: There is no reference to him bringing up questions of the additional loans which had been obtained by that time.

Mr McCallion: No. I can guarantee that was never brought up.

In my mind, Mr Chairman, when I said, when the invitation came through, ‘Can I bring Clive Wilcox or Charles Fargher - they are accountants, I am not an accountant,’ if Mr Bell wanted to go into detail on loans, I would have preferred them to have been at my side.

The Chairman: Did you anticipate that he might have been wanting to ask you about the loans?

Mr McCallion: No. I thought, being a Treasury Minister, he was going to ask me about finance.

The Chairman: Of course, as we know now, the additional loans were not known to Mr Bell, from his evidence, and the fact that he did not raise those loans at this meeting, does that indicate to you that he had no knowledge

of the loans which subsequently became such a concern to him?

Mr McCallion: No. I think I would take away from that he did know about it, so what was the point in talking about it.

The Chairman: So you think, in April 2007, he knew about the loans and it was not a matter of any concern such as to require discussion?

Mr McCallion: That would be my generalisation of the situation.

The Chairman: Do you believe Treasury approval was required for additional loans of the sort that took place, and if it was required, did you believe that Treasury approval had been given?

Mr McCallion: Loans to MEA, I would agree that we would have sought approval from Treasury; loans to MCC, no. I think all the MEA... Well, I cannot speak for the rest of the board; you will speak to them individually.

On my part, MCC were a different entity and it suited the Government, when it was set up, because it limited the liability of the Isle of Man people to a liability that could have cost hundreds of millions. Our connection at Blackpool, at Bispham, where the subsea cable international grid... If that composite area had to blow up and destroy the distribution of National Grid to about 50 sq. miles, minimum, this place would have been landed with a bill that you would never see the bottom of. So please bear in mind we set this up with due diligence. We wanted to protect the Isle of Man.

The Chairman: We hear that very clearly, what you say, Mr McCallion.

If I may, when the MCC took out a £35 million loan – with HSBC, I think it was – in 1999, Manx Cable Company, it is very clearly in evidence to this Committee from Mr John Cashen, then Chief Financial Officer, that Treasury did not require to give express approval because it was being taken out by a company for a specific purpose. Was that, in your view, or in the view of the board, the precedent that existed as to why, five years later, four years later, Treasury approval was not needed for additional loans to do with this project?

Mr McCallion: Without looking for excuses, I would say, yes, a precedent had been set, so we had no conscience about going ahead with MCC loans without Treasury approval.

The Chairman: Just to repeat: notwithstanding what might have been said in evidence to us through lawyers’ letters, in your view, that route was not taken in order to circumvent the Treasury’s procedures, the time delay that might have been a consequence of following those procedures and the extra bureaucratic steps. It was not done to avoid that and get a result more quickly?

Mr McCallion: Correct. It was not for those reasons.

The Chairman: In your view... and I will let Mrs Christian in. You said a few moments ago that... You talked about a viable moneymaking machine and, in your opening address, you described the objectives in making the

MEA a more robust business enterprise and you believed you had the full support and encouragement to enter the telecommunication business etc.

With that income-generating capacity that might have become very rapidly a fact of life, had you been allowed to do that, in retrospect, do you see that as the end that justified the means for obtaining additional loans to cover the overspend?

Or, if I can put it this way, the fact that there had been an overspend requiring £120 million extra finance happened to be through additional loans through MCC, but the fact that you are relaxed about that happening was that the ultimate end was going to be an income-generating machine that would have actually made that additional finance pretty academic and, in the long run, really a fairly trivial issue. Is that correct?

Mr McCallion: Again, I am not trying to look for excuses, Mr Chairman, but you have put it in a rounded manner that, certainly, the fact that I knew, and the board knew and MCC knew, that there was a machine there waiting to fire up, and we already had customers ready to sign contracts... I believe we even had contracts drawn up ready to sign that would have brought millions of pounds in revenue. That is the business side of it.

The other side was the fact that we had, with our engineers... and you were aware because you came to Ballacottier and saw the beast in action... we could have ended up supplying communication over power lines to virtually every property that has electricity at a considerably lower rate than you are paying at the moment through a very slow system that is organised by Manx Telecom. Communications over power lines I saw personally in Singapore. They were able to say to all their inhabitants, 'Local phone calls are free, no problem; overseas calls you will have to pay for.' I believe we could have done the same here. We could have given a much lower tariff and we could have made local calls free.

The Chairman: And that being so, if you had been allowed to develop along those lines, the fact of additional loans of £120 million really would have been recovered fairly quickly.

Mr McCallion: Again, Mr Chairman, I am not sitting here suggesting that we put all our eggs in one basket. We were well aware that... Well, we were *not* well aware, regarding the Government's approval to proceed. We thought we would get that.

The Chairman: And it would have come as a shock when you did not and all the focus went on to the additional loans.

Mr McCallion: Not only did it come as a shock; we never were told why.

We were taken to the limit by Mr Downie saying, 'It's been passed. The Appointed Day Order is still to be signed, but then it goes to the Governor and then it goes to the Queen for ratification,' or whatever the system is – and, for some reason, the plug was pulled on it and we were never, ever told why.

The Chairman: Mr Callister.

Mr Callister: You will be familiar with the document 'Joint Preliminary Statement on behalf of Mr Fargher, Mr McCallion, Mr Mackay and Mr Ferrer', signed by, I think –

Mr McCallion: Sounds familiar, but go on.

Mr Callister: It is familiar, I am sure, because there are a number of statements in here under the pen of Miss Jenny D Holt, advocate. It is a document that has been presented to us – and you do not need to see it – which refers to references to vested interests which prevented the telecommunications going ahead. What can you tell us about your view of how vested interest affected the plans?

Mr McCallion: Am I still protected by...

The Chairman: You are, Mr McCallion, yes.

Mr McCallion: The vested interest, in our opinion, was made up by the fact that there were various people of a high position, or previously high position, on the boards of Manx Telecom and other... I am just trying to think of the other activities. But there was obviously good reason, shall I say, for people who were involved, or had vested interests in, Manx Telecom to make sure our project did not proceed, because we wanted to buy Manx Telecom.

Manx Telecom at that time was owned by O2 in the UK. The board agreed for Mike Proffitt, and indeed Mike Proffitt got agreement, as I understand it – and I think it is in a written document somewhere – from the DTI and, indeed, maybe from the Government, to proceed with meetings with the then Chairman of O2, who was John Barney, who was an ex-colleague of mine, to see the due diligence of the possibility of buying Manx Telecom. That, for some reason, was stopped. I do not know why.

Now, we are not finished, because on top of that we warned the Government that O2 would not maintain the ownership of Manx Telecom. We could see that on the horizon. Subsequently, O2 sold Manx Telecom to some Spanish company. The bottom line, Mr Callister, is these companies take off profits from the Isle of Man taxpayer, who pays for these services. If our project had gone ahead, we would not have. The profits would have gone back into the Manx Government.

The other point that I had missed regarding vested interest was Manx Star, which was owned by –

The Chairman: ManSat?

Mr McCallion: ManSat and Manx Star. They are owned by... I have forgotten the name now. I had a meeting – and I think Mr Proffitt was there as well – with Mr Corkill, who was then Chief Minister, and Mrs Williams, with the owners of Manx Star.

The Chairman: Mr Stott?

Mr McCallion: Stott, yes, Mr Stott. It was a fairly fiery meeting, to begin with, because Mr Stott was going to sue Mike Proffitt for all this business over cables and fibres and business, because he felt that we had stolen some of his customers. I might add he might have thought they were customers but they certainly had signed no contracts with

him and were not enamoured with what he could provide. So, cutting a long story short, we were asked – Proffitt and I were asked, or the MEA was asked – to buy their facilities, which were somewhere next to a school, which was a dead duck, for a start.

To do that, we would have still had to pay Manx Telecom, because they had the connection into the distribution of the telecommunications system. It would have been of no advantage to us. However, we went back and we carried out due diligence by a totally independent company, who said it is not worth a bean, so we rejected it. I believe that was another reason why the whole business of MEA becoming a telecommunications activist was scrubbed.

The Chairman: I would like to thank you for that particular evidence and I think the Committee appreciates it was in response to a line of questioning regarding telecommunications that we have introduced. I would just make clear, for the record, that the aspect of our inquiry relating to telecommunications is a further phase of our investigation, but it was introduced by us and we thank you for your response to it.

Just before I bring matters to a close, I would like to ask the Committee members if they have any further questions on the compliance issues we have talked about.

Mr Butt.

Mr Butt: Just one question, please.

The meeting with Mr Bell, where he says that you mentioned the power station was on time and on budget etc, you may be able to help me... I think about the same time there was a public declaration of that and Members of Tynwald went to visit and they were all told about the same time that it was on budget and –

Mr McCallion: Yes, it was in the annual report.

Mr Butt: Yes, so it was there. So about the same time as you had the conversation with Mr Bell, that was being said as a general principle.

Mr McCallion: Yes, it was in the annual report.

Mr Butt: Thank you.

Mr McCallion: The reason I know it was in the annual report is because I was questioned subsequently by people saying, ‘Ah, yes, but it was way over budget.’

The power station, Mr Butt, was not over budget; the additional items that we did not know we had to deal with, which were not in our budget because we could not budget for them, were extra money. But the power station, the purchase of the generators, boilers – I hate to underline it, but I have to – the gas turbines, the actual glass roof, which many people said, ‘What a waste of money! Why do you want a glass roof?’ We felt, besides having power for the next 40 years, you would want to look at something that was nice. So, yes, but that was on budget.

The Chairman: So the £185 million, to summarise what you have said, was, using Mr Proffitt’s word, always simply indicative and not a final figure and there was always going to be additional spending required.

Mr McCallion: Yes, absolutely, and some of it we did not even know what they were going to be.

Mr Callister: Could I just ask you what your figure is for the final cost of the power station, then? What is the figure it actually cost in the end?

Mr McCallion: From memory, the power station was £92 million or whatever.

Mr Callister: So something like the original estimate.

Mr McCallion: Yes, for the power station.

Mr Callister: And the only way that Treasury were to find out about the £120 million was through jungle drums, then, was it?

Mr McCallion: No, my understanding, sorry, Mr Callister, is that the meetings... Certainly Ashton Lewis at that time, was the project director, must have given an insight – even if it did not have £x at the end of it, there must have been an insight – to the people who received these things that you do not get these for nothing. You have to pay for them.

The Chairman: Thank you very much, Mr McCallion. That concludes all the questions from the Committee. Is there anything else you would like to add at this point?

Mr McCallion: No, just to thank the Committee for the opportunity to give my statement, first of all, but also, I hope constructively to have answered your questions.

To finalise the whole thing on my side is that the MEA – its board, its directors, the workforce – have done everything in their power, in an honest manner. There was never any intent to deceive anybody and we have not.

The Chairman: Thank you for that, and thank you very much for your assistance to the Committee. It has been very helpful indeed.

As I indicated earlier, we will be taking more evidence, of course, from other witnesses, and in the event we need to contact you or recall you, we will take that opportunity. Thank you, Mr McCallion.

Ladies and gentlemen, that concludes the evidence session this afternoon. The next session will take place on Friday, 19th June at 10.30 a.m., when the witnesses will be the former board members Mr J C Fargher, Mr T Ferrer, Mr T D Mackay and Dr J C Taylor.

Thank you, ladies and gentlemen. That brings our evidence to a conclusion.

The Committee sat in private at 5.00 p.m.