



**TYNWALD COURT  
OFFICIAL REPORT**

**RECORTYS OIKOIL  
QUAIYL TINVAAL**

**PROCEEDINGS**

**DAALTYN**

**(HANSARD)**

**SELECT COMMITTEE ON THE  
MANX ELECTRICITY AUTHORITY**

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

**Douglas, Tuesday, 29th July 2008**

**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

*Clerk:*

Mrs M Cullen

**Business transacted**

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*The Committee sat in private at 12.41 p.m.*

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# Tynwald Select Committee on the Manx Electricity Authority

*The Committee sat in public at 10.30 a.m.  
in the Millennium Conference 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 morning everyone, and can I welcome you all to this meeting, the sitting of the Select Committee of Tynwald on the Manx Electricity Authority taking evidence in public session.

The Committee was established by Tynwald in July 2005 and in order to be helpful I will remind you of our remit, which is

*‘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.’*

I would like to introduce my colleagues on the Committee: Mrs Christian, Mr Butt, Mr Quirk, Mr Callister, our Clerk, Mrs Cullen and our *Hansard* Editor, Ellen, who is responsible for recording today’s proceedings. Could I ask us all please to switch off mobile phones to avoid interference with recording.

As you will gather from our remit, the investigation is very wide-ranging and we have received a considerable quantity of written evidence. We have therefore decided to progress our investigation by separating out the various issues where practicable and to investigate them in sequence, after which we will be issuing a series of interim reports.

Currently we are concentrating on investigating the MEA’s compliance with financial regulations and the provision of information by them to Treasury and to the DTI. We are conscious that many of the events to be investigated took place some years ago and therefore, in fairness to witnesses, prepared a file of evidence which relates to the subject matter currently under investigation. Witnesses are given the opportunity to view that documentation in order to refresh their memories. The file itself has been placed in the Tynwald Library and is available to members of the public.

## Administration of the Oath

**The Chairman:** Therefore can I call forward this morning our first witness, Mr Paul Dewar. I invite you to

sit at the front, thank you.

Good morning, Mr Dewar.

**Mr Dewar:** Good morning.

**The Chairman:** Thank you for attending and I will ask the Clerk to invite you to take the Solemn Oath.

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

**Mr Dewar:** 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 P DEWAR

**The Chairman:** Thank you, Mr Dewar, and if I could ask you and all witnesses to speak up, so that the members of the public can hear.

Could you start, please, by stating your name and your role and responsibilities in the MEA?

**Mr Dewar:** Yes, my name is Paul Dewar. I was appointed as Head of Internal Audit at the MEA in March 1999. Prior to that, I worked for two regional electricity companies in the UK.

I am responsible for the management of the internal audit function at the MEA and the review of activities and operations, in accordance with an agreed plan, to provide independent insurance under control environment to the board through the Audit Committee.

**The Chairman:** Thank you, Mr Dewar.

I am just going to pause for one moment: we are not clear if the PA system is working properly.

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

**Mr Dewar:** Yes, I do have a statement.

I have heard several comments made during this oral evidence that the MEA did not follow financial regulations. While there is no doubt in my mind that the financial regulations including the –

**The Chairman:** I am so sorry, Mr Dewar. I will have to ask you to speak up. We are still having problems with our system. I apologise for the interruption.

**Mr Dewar:** While there is no doubt in my mind that the financial regulations including the guidelines issued by Treasury apply to the MEA, as Mr McGreal has already made you aware in his evidence, the Authority did comply with almost all the directions and the guidance issued by Treasury.

There are some aspects of individual directions where the MEA deviated and still deviates from the requirements because of the way it operates. It is funded by tariffs and charges rather than from general taxation as distributed by

## Procedural

### Administration of the Oath

Treasury. For example, the MEA operates its own bank accounts with the approval of the MEA board which, on the face of it, contravened Financial Directives No. 4 and No. 6 at the time. These deviations appear to have been accepted by Treasury as they were a necessary result of the Authority being at one step removed from Government, as stated by Mr Corlett and others in previous oral evidence and did not seem to give rise to any concerns that were raised with the Chief Executive at that point in time.

Mr McGreal in his paper to Treasury in July 2002 reported that there were a few areas of non-compliance, and such non-compliance seemed reasonable and was not an issue, although he did cite that we failed to comply with four directives, including FD17 which is the real crux of the matter.

The issue of non-compliance with financial regulations is therefore only related to FD17 and compliance with capital procedure notes as issued by the Capital Procedures Unit (CPU), and it is acknowledged that, during my time in the MEA, this directive was not complied with. I cannot comment on projects prior to my employment in 1999.

Outside the major capital schemes that arose out of the £185 million bond, the vast majority of capital schemes undertaken by the MEA were under the £100,000 threshold as contained in the capital procedure notes at the time. However, there were a number of capital schemes which did exceed that level, which did not follow the procedures. Mr Thompson has already mentioned these to you in his evidence, including some prior to my employment.

There was, I believe, a view from those members of the MEA staff that are involved in our capital schemes that the capital procedure notes applied to building projects undertaken by those Departments that would not normally have been involved in construction work, for example, the building of a school by the Department of Education or a swimming pool by Tourism and Leisure and not necessarily to engineering organisations such as the MEA, where much of the skill is already held in-house.

Some of these schemes would have been visible to an outside agency, like the power station, but others would not. They involved replacing service cables or upgrading fuel-diesel systems at the power station. In the case of the new power station, the MEA board appointed PB Power, recognised worldwide for their ability to manage the implementation of major power station projects. They were appointed in 2000 to oversee the project work and to provide advice and assistance for those areas outside our immediate area of expertise. This would, I suspect, have also have been beyond the knowledge and skill of the CPU.

Part of PB Power's engagement was to undertake the kind of scrutiny for the board and the executive of the MEA that the CPU would have provided for other Government Departments.

That ends my statement, Mr Chair.

**The Chairman:** Thank you very much, Mr Dewar.

Can I just refer to a point you made in your statement that – correct me if I am wrong – on the basis that Government Departments who were not engaged normally in construction projects, for example building of schools, I think that is what you said, they would be expected to adhere to capital procedures –

**Mr Dewar:** That is my understanding of it, yes.

**The Chairman:** – as distinct from areas or organisations who were used to construction, for example the building of power stations?

**Mr Dewar:** We have that electrical expertise that is required in the building of such assets, yes.

**The Chairman:** And on that basis are you telling us that your understanding therefore was and is that the MEA, because it is engaged in that sort of work, is not required to comply with procedure?

**Mr Dewar:** At that time. That would be my understanding, at that time, yes.

**The Chairman:** That was your understanding at that time. What is your current understanding?

**Mr Dewar:** That the financial regulations do apply to us in total, including the capital procedure notes for projects above the threshold that is now set.

**The Chairman:** And therefore your understanding today is different from what your understanding was back in 2000-01, (Mr Dewar: Yes.) at which time it was that the capital procedure notes, financial regulations did not apply to the MEA?

**Mr Dewar:** The financial regulations apply to the MEA. The crux of the matter is the capital procedure notes.

**The Chairman:** Capital procedure notes and the various stages that had to be reported on?

**Mr Dewar:** Yes.

**The Chairman:** Thank you very much.

Can I just refer you to specifically in 21st November 2001, you sent an e-mail to Mike Proffitt which followed a meeting with Clive McGreal from Treasury's Internal Audit and Jim Midgley to discuss the MEA responses and procedures and you summarised the key issues at that meeting. You stated it was recognised at the meeting that the capital procedure notes do not lend themselves to be easily followed by the MEA.

**Mr Dewar:** That is right.

**The Chairman:** And in your e-mail you advised Mr Proffitt:

'The monthly reports being sent to the Capital Projects Unit are not as expected as they do not include financial information and progress charts. It seems other Departments provide this but it was not clear what the CPU do with the information provided.'

What was Mr Proffitt's response to that particular point?

**Mr Dewar:** There was no real response from him on that particular issue. I said that we should be providing this information and he did not give me any positive reaction to that. Mr McGreal had provided me with copies of what other Government projects were producing and I provided these to him, with an expectation that is what we would be giving.

**The Chairman:** Okay, and in the same e-mail, you said:

‘I have let Clive McGreal know that you would be discussing our compliance with Mary Williams’

– that is the MEA compliance. Did that discussion take place?

**Mr Dewar:** I do not actually know whether that specific meeting took place, although I know Mr Thompson in his evidence has made reference to a meeting between Mr Proffitt and Mrs Williams. I certainly was expecting a meeting to take place, in order to move this issue forward, but I did not get any feed back from Mr Proffitt that a meeting had actually taken place, other than being told by him that Treasury had issued a directive in July 2002.

**The Chairman:** So when you said also that the MEA’s responses are being considered, are you aware of what those responses were and whether they were sent to Treasury?

**Mr Dewar:** Yes, the responses are when I did this particular piece of work, what I was looking at is how we complied with the financial regulations including the capital procedure notes at that time. I produced two schedules which are contained in the evidence packs, which show the level of our compliance.

The financial regulations that I looked at were those that were in force at that particular time. They have since changed slightly but I was looking at them as they were back in 1999-2000. The scope of that work was to identify differences between what the requirements of financial regulations was and where we complied or did not comply.

I produced the two schedules, which show that level of compliance, across all financial regulations and capital procedure notes, and I used the gas-fired power station as the model on which to test our compliance against the procedure notes themselves.

The two schedules were discussed with Mr McGreal. I issued one to him in round about November 2001 which was the one that dealt with compliance with the capital procedure notes and then I did another exercise that looked at how we complied with the remaining financial regulations. I presented that to him in round about May 2002 and I believe that he then produced both those schedules to Treasury in June or July 2002.

**The Chairman:** And was it your understanding that, having received those schedules, which demonstrated how the MEA were otherwise going to... how they were going to adopt or adapt the procedures in order to better comply... Were they received as being satisfactory, to your knowledge, by Treasury?

**Mr Dewar:** I do not know how Treasury viewed them. I did not get any feed-back as to say whether they were satisfactory or not. I was certainly expecting to get some feedback. I am aware that the then Treasury Minister suggested that a working-party be set up, but I was not party to that information at that time.

**The Chairman:** So those notes and the schedules that you compiled, they were sent to Treasury, having been approved by Mike Proffitt as Chief Executive?

**Mr Dewar:** Yes, the results of the schedules were discussed both with Mr Wilcox who was the Director of Corporate Services at the MEA at that time and had responsibility for finances. They were discussed with Mr Proffitt and discussed then with Mr McGreal and, as far as I know, issued to Treasury.

**The Chairman:** And as far as you were concerned, that satisfactorily addressed the concerns of Treasury, in terms of how the MEA was complying?

**Mr Dewar:** It set out our position. It set out how we complied as best we could with those regulations, yes.

**The Chairman:** And therefore would be the subject of further discussion with Treasury?

**Mr Dewar:** That was my expectation, to get some feedback from Treasury but the only feed-back that the MEA received was the Treasury directives, as far as I was aware.

**The Chairman:** So from that point until the Treasury directive was issued in June 2002, the six months previous, there was no substantive discussion on the MEA’s submission on how they were to comply with the regulations or adapt the regulations?

**Mr Dewar:** No, the work was done in two tranches: the compliance with the capital procedure notes was done in October, November 2001 and then the compliance for the remainder of the financial regulations themselves was done January to March or thereabouts in 2002.

**The Chairman:** Thank you very much. Mrs Christian.

**Mrs Christian:** Yes, thank you. You said that you believed at the time that the capital procedure notes did not apply to organisations like the MEA. Why did you make that assumption when the whole issue was being discussed with the Treasury, as to whether or not they should be complying?

**Mr Dewar:** Because at the time of my appointment, there was this sort of understanding that some regulations applied and some did not. The majority of the work that the MEA were doing at the time I came was considerably lower than £100,000, so those capital procedure notes would not have kicked in. It is only from 2000-01, when you started having the power station being built, that the procedure notes kicked in.

**Mrs Christian:** So at what point then did you change your view about this, about whether or not they applied? You say you now believe that they do apply. When was the transition from one view to another?

**Mr Dewar:** They have always applied, but people who were building or doing the capital scheme work in the MEA had a view that they did not apply at that point in time, because the engineering work that we are involved in is contained in-house. All the skill base is there.

**Mrs Christian:** That applies also in other Departments, such as the DoT, does it not? But they are still subject to capital –

**Mr Dewar:** They are subject to capital procedure notes, yes.

**Mrs Christian:** So what is the difference – for engineering-based –

**Mr Dewar:** We have that in-house skill on electrical engineering and that is what the power station is.

**Mrs Christian:** It is not about electrical engineering; it is about financial controls isn't it?

**Mr Dewar:** It is about financial controls.

**Mrs Christian:** We are recording financial controls.

**Mr Dewar:** We are indeed, yes.

**Mrs Christian:** So it is irrespective of what the nature of the work is then.

**Mr Dewar:** Those financial regulations should apply irrespective of the nature of the work, yes.

**Mrs Christian:** Thank you.

**The Chairman:** Mr Quirk.

**Mr Quirk:** Can I just ask, Mr Dewar, regarding: you mention that Mr McCallion was aware of the situation; was the board at that time? Do you believe any discussions happened with the board?

**Mr Dewar:** I do not know. I reported my progress, with doing the financial regulations review, to the Audit Committee. Mr McCallion is a member of that Audit Committee. I assume... I cannot recall whether it has been mentioned at board meetings, but I would expect it to have been mentioned at board meetings.

**Mr Quirk:** And did you see any proof of that? Would you be concerned then? Once you had given it to the Financial Committee, is that you then gone?

**Mr Dewar:** No, because I still have meetings with the Chairman of the Audit Committee and I would have been raising it with him, as to what progress was being made.

**Mr Quirk:** So at that particular time, you would expect that all board members would have been aware?

**Mr Dewar:** I would have expected them to have been aware that we were not complying with the financial regulations, yes.

**Mr Quirk:** And did you know if any of the board members had a concern, was it transmitted back, was there anything?

**Mr Dewar:** No, I do not know whether the board members had any particular concern. They never made that known to me and certainly the Chairman of the Audit Committee, when I mentioned it to him, said he would talk to Mr Proffitt about it and that is as far as it got.

**Mr Quirk:** So over that particular period, did you feel uncomfortable or you were just in a mode?

**Mr Dewar:** What I am trying to do is present where our compliance is and try to find why we cannot comply and the reasons for it. That is what I stated in those schedules.

**The Chairman:** Mr Butt.

**Mr Butt:** Thank you, Mr Dewar.

In your day-to-day role as internal audit, what view did you have of the progress of the projects and the finances that were being provided for them?

**Mr Dewar:** I was aware the power station was being built. I was aware there were capital procedure notes in place that we should have been complying with and were not being complied with. As far as I was aware, the board were taking a view on how that project should be managed and were getting the financial information that they should have been getting.

**Mr Butt:** And what about you personally? What information were you getting?

**Mr Dewar:** I was not getting any financial information on the project.

**Mr Butt:** You were not?

**Mr Dewar:** No.

**Mr Butt:** You mention PB Power being appointed to scrutinise the project.

**Mr Dewar:** Yes.

**Mr Butt:** Who were PB Power in real terms? Was it a company?

**Mr Dewar:** Yes, it is a global organisation that specialises in design and construction of power stations.

**Mr Butt:** And you seem to imply that they were going to provide the scrutiny which was not going to be provided by the Treasury through financial –

**Mr Dewar:** They were appointed by the board, yes, to provide that scrutiny.

**Mr Butt:** And what scrutiny did they provide? Where is the documentation of their scrutiny?

**Mr Dewar:** As far as I am aware, they provided monthly reports into the board on the progress of the projects.

**Mr Butt:** And what was your view of those reports?

**Mr Dewar:** I did not see those reports.

**Mr Butt:** You did not see them?

**Mr Dewar:** No.

**Mr Butt:** So from what you are saying then, you would

not be aware of the nature of the progress of the project at that stage?

**Mr Dewar:** Not in a great detail, no.

**Mr Butt:** Before we move on, Chairman, can I just ask one question. Financial Regulation FD17, just to clarify in my mind, what actually is the basis of that Regulation?

**Mr Dewar:** That is the one that talks about compliance with the capital procedure notes.

**The Chairman:** Mr Callister.

**Mr Callister:** Thank you. How would you describe your relationship with Mr Proffitt?

**Mr Dewar:** Mr Proffitt is a very forceful character. If he wanted things to be done, he expected them to be done.

**Mr Callister:** So you have had some difficulties with him, would you say?

**Mr Dewar:** I had disagreements with him, yes.

**Mr Callister:** Could you give any explanation of any of those?

**Mr Dewar:** In terms of whether we should audit some of the subsidiary companies, my view was that we should, but his view was that we should not and that was an issue that was taken up via Mr McCallion who was a member of the Audit Committee at that point in time to the MEA board and to the MCC board.

**Mr Callister:** So there might have been areas where you felt uncomfortable throughout this period?

**Mr Dewar:** There were things I was not happy with, yes.

**The Chairman:** Just perhaps following on from that, what internal audit investigations did you carry out on any of the MEA's major capital projects?

**Mr Dewar:** In the MEA, the capital projects are defined as anything above £5,000. Most of our project work is contained in that and as you know the capital procedure notes kick in at £100,000. The schemes that are between the £5,000 and £100,000 are involved in extending or improving the network.

The audit plans for 2002-03/2003-04 contained assignments relating to the management of capital schemes within our network services and generation divisions. It was also planned, as part of 2001-02, to carry out some project work on the power station and the gas pipeline and that was agreed with Mr Proffitt that we would do that. That work was to look at the tender process, the management information that was being produced, control of variations and the value of work that was done.

Unfortunately, some of that work did not take place in 2001-02 and I cannot recall why that has been the case. I think it may well have been that it coincided with being asked to do the financial regulations review and therefore – we

are a small section, limited resources – we did the financial regulations review.

Plus then in October to the December time, you had the collapse of Enron that took place and that would have had an impact on progressing that work. Consequently, some of the audits relating to the power station were moved into the audit plan for 2002-03 and in an early draft version of that, there are some projects there to do that particular work, but as the plan became finalised, those assignments were removed at the request of Mr Proffitt, because they clashed with what PB Power were doing and the work of scrutiny that they were providing to the MEA board.

**The Chairman:** Did your work include any aspects of tendering for project procedures?

**Mr Dewar:** We would have looked at tendering procedures in general for projects but we were not looking at the tendering procedures specifically for the gas station.

**The Chairman:** I think you indicated that your remit did not extend to other projects or other subsidiary companies, so Manx Cable Company and Skyward – were you internal auditor for them also?

**Mr Dewar:** They are part of the MEA Group, so yes, I was expecting to be able to audit those activities as well.

**The Chairman:** So your remit did extend to them.

**Mr Dewar:** As far as I was concerned, yes it did.

**The Chairman:** How was your remit established and what was the reporting structure?

**Mr Dewar:** The internal audit remit is established in an internal audit charter and although that charter was not specific in the early days, in terms of the subsidiaries that you have mentioned, that has now been corrected and it is specific. The audit charter sets out my roles and responsibilities. It was, in the early days, approved by the Chief Executive. That has now been changed, in keeping with best practice, and it is now approved by the Chairman of the Audit Committee and the Chief Executive.

**The Chairman:** Were you given access to all the information you needed to carry out your remit properly?

**Mr Dewar:** Yes, I was given access to records and documentation that I needed for the topics that were in the audit plan that I was concerned with.

**The Chairman:** Just coming back to this period, we started off with your e-mail of November 2001 and the work that then you undertook to draw up the schedules which you submitted to Treasury, demonstrating the extent to which you were able to comply with financial regulations. When did you become aware of the dissatisfaction of Treasury, regarding the MEA's non-compliance with capital procedures?

**Mr Dewar:** My first recollection of that is when I had a meeting with Mr Proffitt back in late September, early October 2001. I had just returned from holiday and Mr Proffitt made me aware of the meeting that he had had with

Treasury at which compliance with capital procedure notes and the financial regulations had been raised, and that is the first time that I was aware of it.

I know that Mr McGreal has made reference to it in his evidence that he raised it at a meeting with me in April. He probably did: I just cannot recall that.

**The Chairman:** We have an e-mail from Mr McGreal to the Chief Financial Officer at the time, Mrs Williams, in which he confirms that he has periodically met with you to review the completed audit work. The last occasion was about mid-2001 and the subject of compliance... the exercise that you did of compliance with financial regulations was looked at in some detail. I think you said earlier that you had had no contact with the Government Internal Auditor leading up to the financial regulations review, was that correct then? He says you have periodically... Mr McGreal periodically met with you.

**Mr Dewar:** Yes, at the time that this issue came to a head, we did meet. We met I think it was in October, when we were scoping out the exercise, and then we met, I think in November, to discuss the compliance with the capital procedure notes and then in 2002, April or May time, to discuss the compliance with the rest of the procedures.

**The Chairman:** Do you know what the outcome of that financial regulations review was?

**Mr Dewar:** I assume you are referring to the review that I conducted, because I know in some of the evidence, there has been talk about other reviews taking place, which I was not party to. I can only give you the answer of the review that I took. I produced the two schedules, I did discuss them with Mr McGreal and he took copies and took them over to Treasury.

**The Chairman:** When did you first become aware of the additional loans which were taken out by the Manx Cable Company Ltd?

**Mr Dewar:** The first time I became aware of those was in November 2004, which is when like most people in the organisation heard about them. I heard nothing about them prior to that.

**The Chairman:** Would you have, in the course of your internal audit work, not have expected to – ?

**Mr Dewar:** I would have expected to have had something – been aware of something that was happening; but no, I was not aware of everything. I had a meeting with John McCallion back in May 2004, as part of my brief as Head of Internal Audit, and he did not mention anything untoward, at that point in time.

**The Chairman:** Because of course, as we know now, the loans were signed off in July 2003, so during all this period, in the course of your internal audit work, you would have normally expected to see evidence of...

**Mr Dewar:** Yes. If we had been allowed in to audit the subsidiary companies then we may have picked that up, but we were not allowed into the subsidiary companies.

**The Chairman:** But you said earlier, when I asked you, that your remit did extend to –

**Mr Dewar:** It did extend to those, yes.

**The Chairman:** It did extend, but the Chief Executive refused you –

**Mr Dewar:** He said I should not concern myself with auditing MCC because that was being independently audited by KPMG, and that was an issue that I took up with the Chairman of the Audit Committee from time to time.

**The Chairman:** Because clearly your remit, as far as you were concerned, did extend to the subsidiary companies –

**Mr Dewar:** Yes, it did.

**The Chairman:** – and you would have expected to be able to audit them.

**Mr Dewar:** Yes.

**The Chairman:** What was your reaction to not being allowed to audit them, or being told that another body was going to do that?

**Mr Dewar:** Not best pleased over it, but it was the situation I had to take. The Chief Executive is my line manager and therefore I have to adhere to his authority.

**The Chairman:** When you found out in November 2004 about the additional loans, what position did you feel that put you in as having been at least nominally responsible for auditing the subsidiary companies?

**Mr Dewar:** I felt I was in a very vulnerable position. I immediately contacted the Chairman of the Audit Committee at that point in time, and he came in and we had a meeting together, at which he explained to me what had happened: the board had made these borrowings and did not feel they had done anything wrong.

**The Chairman:** Could you just say a bit more about... When you say he explained to you what had happened, what did happen, according to what you recall?

**Mr Dewar:** From what I can I recall, the way he explained it to me was that they needed to make a borrowing and they were using MCC as the vehicle with which to make this borrowing.

**The Chairman:** And how did you react?

**Mr Dewar:** I did not think it was right, and I think it is something that should have been raised with me a lot earlier on. Had it been raised earlier, then I would have said, 'Well, no, you cannot do this; this is something that needs to go through Treasury.'

**The Chairman:** So your advice to him was that, if you had known, you would have advised that –

**Mr Dewar:** I would have advised that that process should

have gone through Treasury, as is required by the financial regulations.

**The Chairman:** Thank you very much.  
Mrs Christian.

**Mrs Christian:** May I just clarify a point, please. You have said that you raised with the Chairman of the Audit Committee your concern that you were being excluded from oversight of the subsidiary companies. Were the Audit Committee communications of that nature minuted anywhere, or was it informal?

**Mr Dewar:** The meetings I had with the Chairman of the Audit Committee, Mr Terry Mackay, were informal round-the-table meetings. It was a meeting merely where he would discuss audit reports that we had done, recommendations we were putting forward, things of that nature. The work that I did on the financial regulations was presented to the Audit Committee as a piece of work and it was discussed, and there is information on that in the Audit Committee minutes. The issue of the subsidiary companies was raised back in 2000, soon after I joined, and there is a minute in the Audit Committee minutes that says I do not need to concern myself with them because they have been undertaken by KPMG.

**Mrs Christian:** So that has been recorded as a decision of the Audit Committee.

**Mr Dewar:** That has been recorded, yes.

**Mrs Christian:** Thank you. So, you have effectively, it would seem – I do not know what your view is – been excluded from the two areas where trouble has arisen?

**Mr Dewar:** Yes.

**Mrs Christian:** Can you tell us anything about PB Power? Were you excluded from seeing their reports?

**Mr Dewar:** I had not asked for sight of any of their reports at that time, but I would not expect to have been excluded from them, no.

**Mrs Christian:** But you did not ask to see them?

**Mr Dewar:** I did not ask to see them at the time.

**Mrs Christian:** Because they were doing the job, and you did not –

**Mr Dewar:** They had been appointed by the board to provide the scrutiny, yes, and I would –

**Mrs Christian:** So the progress on the capital project was, in your view, through PB Power, if they were doing their job. The expenditure was being reported via PB Power to the board?

**Mr Dewar:** It was being reported by somebody to the board. I am not quite sure whether PB Power would have compiled the financial information. I do not think they probably would, but somebody would have been providing that information to the board.

**Mrs Christian:** You do not think PB Power were. What was their job, then, if it was not to scrutinise? I think you said 'to scrutinise the projects'. In what sense 'scrutinise': the financial aspects, or the building aspects?

**Mr Dewar:** They may well have been scrutinising the financial aspects, but probably the build and how it was progressing is what I would expect, and then the financial reports, I would presume, would be pulled together by the Finance Department at that time.

**Mrs Christian:** The Finance Department of the MEA?

**Mr Dewar:** Of the MEA at that time.

**Mrs Christian:** Would you not have had oversight of what the Finance Department were doing on a capital project?

**Mr Dewar:** If I was auditing a particular capital project, yes, I would be going in and looking what they were doing in terms of providing financial information on that particular scheme.

**Mrs Christian:** So you did not clarify who was auditing the major capital projects?

**Mr Dewar:** No, because financial reports were going to the board at that point in time.

**Mrs Christian:** Do you know who was responsible for those financial reports?

**Mr Dewar:** No, I do not.

**Mrs Christian:** Thank you.

**The Chairman:** Thank you.  
Mr Butt.

**Mr Butt:** Can I, just for the record, clarify who was the Chairman of the Audit Committee at the time when you had this conversation?

**Mr Dewar:** The Audit Committee consisted of three board members. It consisted of Mr Terry Mackay, who was the Chairman, and it consisted then of Mr Charles Fagher and Mr John McCallion.

**Mr Butt:** In his evidence at the last session we had, Mr Gelling, the former Chief Minister, said he thought that possibly the board may have been misled themselves. In your conversations, was there any element of that that was conveyed to you?

**Mr Dewar:** No, not really. With hindsight, yes, I think they were misled, but at that particular time, no. I was expecting the Chairman of the Audit Committee to challenge the Chief Executive on what was being done at that time.

**Mr Butt:** In your time at the MEA during that period, there was obviously an overspend, which must have occurred long before 2003 because of the loans taken out then. Was there any inkling at all, or what inkling was there at all, that matters were progressing to an overspend?

**Mr Dewar:** No inkling at all to me. Nothing was made known to me.

**Mr Butt:** In your role as an internal auditor, what independence do you have? What, in the constitution of the board, in effect, gives you the power to override the board and go and check things yourself?

**Mr Dewar:** I report into the Audit Committee and the Audit Committee is an advisory subcommittee that has been established by the board.

**Mr Butt:** Do not some private companies have... The internal auditor has a power to override other people in private companies. Is that not the case in some places?

**Mr Dewar:** I am not quite sure that is the case in...

**Mr Butt:** What is the situation now? Has it been changed now, that you have more power?

**Mr Dewar:** The situation has changed considerably, yes. We now have three political Members on the board, the Chairman of the Audit Committee is a political Member, and I believe that the Chairman of the Committee does challenge the Chief Executive over decisions and papers that are put to them. So it is a far tighter organisation than it was back in 2000-01.

**Mr Butt:** Just going back to PB Power, just to clarify something you said, you said that something was not done because it clashed with what PB Power were doing. Could you just remind me what that was?

**Mr Dewar:** In the audit report for 2002-03, we had set aside some assignments that we wanted to do on the power station, and they appeared in a draft audit plan that we had at the time, but by the time it became final, those particular assignments had been removed by Mr Proffitt because he said they duplicated the work that PB Power was doing at that point in time.

**Mr Butt:** Just one final thing. We have a note to the Treasury Minister by the Chief Financial Officer on 6th June 2002, which you may have seen. There is a paragraph in there where they talk about the abridged financial reports coming through, and the comment says:

*'This issue was raised with the MEA auditor earlier last month to determine whether the MEA board itself was being presented with more informed overview and detailed report.'*

I just wonder, do you remember that?

**Mr Dewar:** I do not remember being asked that particular issue, but I do know that the board did receive reports that included financial information.

**Mr Butt:** They did?

**Mr Dewar:** They did.

**Mr Butt:** More than you received?

**Mr Dewar:** More than I received, yes.

**Mr Butt:** Thank you.

**The Chairman:** Mr Callister.

**Mr Callister:** In view of what you just said, and the fact that you said there was no inkling of an overspend, do you think then there was a process of concealment deliberately taking place?

**Mr Dewar:** There was definitely a process to keep things within a close view, yes.

**Mr Callister:** And just slightly peripheral to the main thrust of this, in your experience, how common is it for loan interest to be capitalised?

**Mr Dewar:** This has been the subject of discussion between the former board and KPMG, and it was raised at an Audit Committee meeting at which the differences were explained, but the situation was the MEA was going to deal with it the way it did.

**Mr Callister:** But is it a common practice?

**Mr Dewar:** It depends whether you wish to comply with GAAP or not.

**Mr Callister:** So there was no complying with GAAP in this case?

**Mr Dewar:** At that particular point in time, no.

**Mr Callister:** Is there now?

**Mr Dewar:** Yes, there is now.

**Mr Callister:** Thank you.

**The Chairman:** Mr Quirk.

**Mr Quirk:** Mr Dewar, can I just ask you, are you the only person in the team, or do you have people who assist?

**Mr Dewar:** At the time that I was appointed, there was myself and one other.

**Mr Quirk:** There were just two?

**Mr Dewar:** Yes, and then we increased our staffing level in 2002 to one other, so –

**Mr Quirk:** Earlier, you said you had a one-to-one meeting with Mr McCallion.

**Mr Dewar:** Yes. That was held informally and privately.

**Mr Quirk:** Why wasn't that with Mr Mackay then, as Chairman?

**Mr Dewar:** I have three reporting lines: as Head of Audit, I report to the Chief Executive as my line manager, and he is responsible for my terms and conditions of engagement; I report to the Chairman of the Audit Committee, who is

responsible then for the remit and the work that we do; and then latterly, since round about May 2003 or 2004, I have informal access to the MEA Chairman, and that was the meeting that I had.

**Mr Quirk:** Did you not feel confident to go to Mr Mackay?

**Mr Dewar:** Yes. Mr Mackay was well aware that I had this third reporting line that I could use as and when I wanted, and I felt, at that particular point in time, I had been offered that and therefore I would take opportunity to talk to Mr McCallion to see if he had any issues that he wanted to raise with me outside the Audit Committee, and of course Mr Proffitt was not there, so they were all held in private.

**Mr Quirk:** So I suppose the comfort you got was that the board were aware of it.

**Mr Dewar:** As far as I was aware... I was not given any inkling that there had been any illegal borrowings at that point in time.

**Mr Quirk:** And no other officer came to you from within the...

**Mr Dewar:** No other officer came to me, no.

**Mr Quirk:** And said, 'We think there is a problem here; there is something going on there'?

**Mr Dewar:** No.

**Mr Quirk:** Can I just ask, regarding the tenders, were you present when any of the tender documents were opened?

**Mr Dewar:** No, I was not present.

**Mr Quirk:** Were you aware of anybody else who was present? Was it the board that did it, or the...?

**Mr Dewar:** I cannot recall whether the board were present or not. I just cannot. I would have to go back and check and –

**Mr Quirk:** Did the Chief Executive open them himself and just...?

**Mr Dewar:** Not that I am aware of, no.

**Mr Quirk:** Was there a procedure at the time for...?

**Mr Dewar:** There was a procedure, yes. We were using PB Power's methodology for tender processing, and that would have been followed.

**Mr Quirk:** So you would expect them to be present when a major tender was opened?

**Mr Dewar:** Of this sort, yes.

**Mr Quirk:** When the packages of plant, machinery, or whatever, services to be provided...

**Mr Dewar:** I would have expected some sort of

independence, yes.

**Mr Quirk:** Check, and are those boxes to be ticked when...

**Mr Dewar:** They will have had their own methodology to follow, which they would have built up over their many years of expertise in that area. They were quality assured, so I would expect them to have adhered to the highest standards of openness in opening those tenders.

**Mr Quirk:** A final thing, can I just ask what was the feeling like when Enron collapsed and it happened? What was the feeling between yourself and the board? Did the board have a meeting with everybody at senior level?

**Mr Dewar:** No, the board did not have a meeting with everyone at senior level, no.

**Mr Quirk:** Was there much going on? Presumably there was a big furore at the time.

**Mr Dewar:** There was an awareness that the power station was at risk, but then Mr Proffitt did whatever he did to bring it back on track.

**Mr Quirk:** You did not get a visit from Treasury?

**Mr Dewar:** No, not to my knowledge – not to me anyway.

**Mr Quirk:** Loads of phone calls offering help?

**Mr Dewar:** Not to me.

**Mr Quirk:** And the board did not have anybody in, the senior officials, to say what was going on?

**Mr Dewar:** I do not know. You would have to ask the board members that particular question.

**The Chairman:** Thank you, Mr Quirk.

At any time, did the Treasury Internal Auditor give any indication to you that they were entitled to come into the MEA, as a Statutory Board, and carry out an internal audit?

**Mr Dewar:** Their terms of reference that they have give them the power to come into the MEA any time they wish.

**The Chairman:** And you were clear about that throughout this period?

**Mr Dewar:** Oh, yes. I understood the relationship between ourselves and Treasury Internal Audit, and we have since put that now into a document that formalises the arrangements between us.

**The Chairman:** The fact that that did not happen at the time, notwithstanding the Treasury's concerns that were documented at that time, did that give you... Did you reach any conclusion about that?

**Mr Dewar:** I was aware they were not happy that we

were not complying with the capital procedure notes, but I was not getting any feedback from Treasury as to the level of that concern or what action was taking place.

**The Chairman:** Was the fact that you were co-operating with Mr McGreal in finding a formula that would satisfy both parties, and that was progressing... Was that, in your mind, sufficient evidence that there was dialogue going on and any question of an internal audit by Treasury would have been premature?

**Mr Dewar:** We were having discussions. We were trying to find common ground. I have heard Mr Thompson say that the procedures had changed when he did the incinerator and when he did the hospital, so I was hoping that things would have changed, we would have found some common ground that we could move forward with.

**The Chairman:** And before any common ground was reached, the Treasury direction was issued in June 2002 –

**Mr Dewar:** Yes.

**The Chairman:** – requiring compliance with the Regulations?

**Mr Dewar:** That is right, yes, and that seemed to put a stop then on the arrangements that we had to moving forward.

**The Chairman:** And what was your reaction to that, which could not have been totally unexpected, could it?

**Mr Dewar:** It was to me, because I had not been privy to any of the dialogue between Mr Proffitt and people in Treasury beforehand. I was aware that, having issued the schedules to them, we would be meeting. That was my expectation; that did not happen. The letter that I have seen from the Treasury Minister, asking for a working party, that did not happen. So I had no feedback from anybody as to what was happening, other than Mr Proffitt telling me about a Treasury direction that had been issued.

**The Chairman:** So your contact with Treasury was solely through Mr McGreal, your equivalent in Treasury Audit?

**Mr Dewar:** Yes, that would be right.

**The Chairman:** A further question, Mr Butt?

**Mr Butt:** Just one question, please. You say you were denied access to the subsidiary companies' accounts to investigate those, and you did ask to do that.

**Mr Dewar:** Yes.

**Mr Butt:** Have you any written evidence – letters or e-mails – confirming that denial of access, or any colleagues who can corroborate what you are saying?

**Mr Dewar:** The minutes of the Audit Committee meeting say that the issue was raised and that, as MCC at that time was being independently audited by KPMG, our own internal

audit function need not go into it. At that point in time, MCC was owned partly by National Grid, so in order for me to go in there, I would have had to have been sanctioned by the National Grid representatives. I do not know whether that ever took place.

**The Chairman:** So there should be a record in the Audit minutes of your request and their response?

**Mr Dewar:** Yes.

**Mr Butt:** Thank you.

**The Chairman:** Thank you. Any further questions?

**Mrs Christian:** After the direction was issued and withdrawn, what was the working relationship between you and the Treasury? Was there one?

**Mr Dewar:** It was a case of things seemed to be... As far as I was concerned, things were in limbo. The direction had been issued. I was aware that it had been withdrawn. I had not seen sight of any of those letters until the information pack. It was a case of when I spoke to Mr McGreal – 'What's happening?' – the answer was, 'Well, it seems to have stopped at this point in time.'

**Mrs Christian:** Thank you. Do you feel that you have a freedom to go in anywhere now and look at the financial records, or do you still work to the line management of the Audit Committee Chairman or the Chief Executive?

**Mr Dewar:** No, I have access. My remit does extend to all activities and operations of the MEA.

**Mrs Christian:** And that is a change from the previous position?

**Mr Dewar:** It is, inasmuch as that access is not now denied as it was before.

**Mrs Christian:** Thank you.

**The Chairman:** Mr Quirk.

**Mr Quirk:** You mentioned earlier about information went to the Treasury Minister. Who was that at the time?

**Mr Dewar:** I assume that was Mr Bell. Would I be right? In 2002?

**Mr Quirk:** I am asking you, because you were communicating with someone.

**Mr Dewar:** I was communicating with Clive McGreal. Clive McGreal was my principal contact in Treasury.

**Mr Quirk:** But you did not know Mr Bell at the time.

**Mr Callister:** 2002, it would have been.

**Mr Dewar:** Yes.

**The Chairman:** Yes, it was.

**Mr Dewar:** I assume Mr McGreal was communicating with Mrs Williams, as Chief Financial Officer, but I was not privy to any conversations between them.

**Mr Quirk:** And nothing came back the other way?

**Mr Dewar:** Nothing came back to me, no. All communication was coming through Mr Proffitt or Mr McCallion.

**The Chairman:** Thank you, Mr Dewar. That concludes all the Committee's questions. Do you have anything further you would like to add?

**Mr Dewar:** No, I do not, Mr Chairman.

**The Chairman:** I would like to thank you for your assistance to the Committee this morning. We will, of course, be having further evidence sessions with other witnesses and they may raise further points that require clarification, in which case it may be necessary to contact you for further information or, if necessary, recall you for further evidence. But with that, meantime, Mr Dewar, thank you very much.

**Mr Dewar:** Thank you.

*Mr Corkill was called at 11.22 a.m.*

#### Administration of the Oath

**The Chairman:** I call forward our next witness, Mr Corkill. Please have some water, if you wish.

**Mr Corkill:** Good morning, Chairman, Members.

**The Chairman:** Good morning, Mr Corkill, and thank you for attending today.

Can I ask the Clerk to give you the Solemn Oath.

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

**Mr Corkill:** 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 R K CORKILL

**The Chairman:** Thank you very much.

As you will have gathered from our remit, Mr Corkill, our investigation is a wide-ranging one and we have had considerable written evidence and oral evidence. We are conducting our investigation in stages, separating out various issues and issuing a series of interim reports.

What we are doing currently is concentrating on compliance by the MEA with the financial regulations and the information that they were giving during the period to Treasury and the Department of Trade and Industry – just

to set the scene for you.

Could I ask you to start by stating your name and the role and responsibilities that you had during the time that we are looking at?

**Mr Corkill:** Thank you, Chairman, for the opportunity to give evidence to the Committee. It is the first time anyone has actually approached me officially concerning MEA matters, other than a brief e-mail received from PKF when they were preparing that original Report to Treasury. So I am more than pleased to help the Committee with their questions.

I was Treasury Minister from 1996 to 2001, and Chief Minister from 2001-04. I was a Tynwald Member from 1991 to 2006. So during that time I had a number of responsibilities, which also included the Home Affairs Minister job. I suppose crucial in the timing is that in the November, when this issue really blew up... There are two periods: there is the General Election 2001; and there is the time that I finished as Chief Minister, which was 2004, the beginning of December.

**The Chairman:** Thank you.

**Mr Corkill:** Is that sufficient?

**The Chairman:** That is fine, but I would like to give you the opportunity to make an opening statement, if you wish, before the Committee puts specific questions to you. Is there anything you would like to say at this stage?

**Mr Corkill:** Just really for the record, Chairman, I wish to say that at the beginning of the Committee's work I was contacted and gave instruction for all Treasury and Council of Ministers minutes that were relevant to my period of office and to your work to be disclosed, and I believe that has happened – I hope it has happened. The procedure notes and your invitation invite me to make an opening statement, but really I am quite prepared just to start with the circulated questions. They were circulated to me, anyway.

**The Chairman:** We gave you advanced notice of the areas we would be covering, so if we start with the first area, and that –

**Mr Corkill:** If I can interject, Chairman – I am happy to work through the questioning. I am just conscious of the fact that this is quite a long time ago now and I am having to recall from memory quite a lot of things, so obviously I will do the best I can. I would just like to make a comment at the end of the questioning, if I can, which I think will be something that would be helpful for the Committee into the future. It will only be a –

**The Chairman:** We will certainly give you that opportunity.

**Mr Corkill:** It will only certainly be a minute or two of your time.

**The Chairman:** Yes, you will have that opportunity, with pleasure.

**Mr Corkill:** With that, I do not really need to make an opening statement.

**The Chairman:** That is fine, Mr Corkill.

**Mr Corkill:** Thank you.

**The Chairman:** If I could start by asking when did you first become aware of the Treasury concerns? You were Treasury Minister until November 2001. When did you first become aware of the concerns regarding the failure of the MEA to comply with capital procedures, and what action did you take to try and remedy that situation, and specifically when did you first raise those concerns with the Council of Ministers?

**Mr Corkill:** I have examined three lots of minutes that I have dug out – minutes 488/01, 524/01 and 596/01 – and I think these minutes explain that Treasury Members were informed that the MEA were failing to comply but that a report from the Chief Internal Auditor, which I and the Members of Treasury had asked for, was awaited at that time. It was expected that the report would recommend a way forward for the application of capital procedures and financial regulations within the MEA. We had been advised that the MEA appeared to be having difficulty, or even reluctance, regarding compliance, and so the way forward that Treasury determined at that time was for the internal audit to produce a report to find out what the issues were and to recommend a way forward, basically to make it easier for the MEA to comply.

**The Chairman:** So when was that? At what time, what date, was the first indication to you that the capital procedures were not being followed? It was while you were Treasury Minister?

**Mr Corkill:** The date of that first minute is 26th September 2001.

**The Chairman:** 26th September 2001.

**Mr Corkill:** Yes.

**The Chairman:** In July 2001, of course, Tynwald had given approval for the £185 million bond, so the question then would be did you... Are you saying that you were not aware of any non-compliance issues in the lead-up to seeking Tynwald approval?

**Mr Corkill:** From memory, I seem to remember that there may have been issues, but I did not see them at the time as directly connected to the bond. I have had to resort to researching minutes to refresh my memory, and certainly there were a number of issues, obviously, at the Treasury where the MEA would... There would be contact with the MEA, whether that would be tariff increases and various things like that that would come through on a routine basis. I may have received one or two verbal comments, but I cannot put those in a time perspective.

**The Chairman:** I am hoping that you were given the opportunity to look at the file of letters and the evidence. You made reference to various minutes. I am assuming you have seen the file that has copious notes and minutes and memoranda contained within it before coming this morning?

**Mr Corkill:** I have not accessed that, no.

**The Chairman:** If I could put it to you, just to help then, there was a Treasury minute of 20th June 2001, which said:

‘Treasury concurred with the request of the MEA for approval to accept the tender from General Electric NEPCO in the sum of £85,600,000 for the supply of the gas turbine generator at Pulrose.’

That was certainly one element of the expenditure that was being sought.

‘Treasury noted the following capital procedures have not been followed at any stage. Following persistent requests for information and assurances that best practice, due diligence and established protocols had been followed, the MEA were unable or reluctant to fulfil this requirement.’

That was in June at a meeting you attended. Did you stipulate that, in seeking the £185 million bond at any time, that would be subject to the MEA complying with capital procedures, which Treasury certainly had been advised in June was clearly not taking place?

**Mr Corkill:** I think that would have been, probably, unprecedented to make that part of the motion. My view is that obviously Statutory Boards of Tynwald and all Government Departments have no choice but to comply with these procedures. In moving forward with a bond which was a Treasury bond, the money was then put to the MEA. We were a conduit for the funding on the basis that we would get a better bond deal, as it were, as Treasury rather than as the MEA. That was done in all good faith that in fact the MEA would comply with financial regulations and capital procedures.

I cannot remember any other motions to Tynwald where this sort of condition would be attached. I do not know whether it is done nowadays, but I think it would be quite unusual for that to have been attached to the wording.

**The Chairman:** Certainly any motion going to Tynwald then or now would only be put if capital procedures were being followed, and it was very clear that, unusually... and, in a letter of 20th June 2001 to Mr Proffitt, Treasury took note that in this instance standard capital procedures had not been followed and Treasury were asking that in the case of future schemes a mutually acceptable process is identified and agreed at an early stage. So clearly it was unusual that a Tynwald financial motion was being made with that reservation on the part of Treasury.

So, from what you have just outlined to us, that indeed it was a Treasury motion for obtaining the issue of a bond –

**Mr Corkill:** Having said that, it was clear what the purpose of the bond was.

**The Chairman:** Yes, it was clear what the bond was for. Were you satisfied then, as Minister, that the level of scrutiny given by Treasury to the anticipated capital expenditure by the MEA, for which the £185 million bond was being set up... Were you satisfied that Treasury had properly scrutinised the project, given that it was well documented at the time that capital procedures had not been followed?

**Mr Corkill:** Yes, I was aware that Deloitte’s had been

involved on behalf of the MEA to produce the figures that were required for the MEA borrowing. It was a substantial document, the Deloitte's document, from memory. I have not read it recently, but I did at the time, and it seemed a very robust document in terms of what the MEA requirements were going to be for this massive programme of infrastructure renewal. To put it in context, at the time there was a desire by just about everybody, I would say, to press on with the new generating capacity because it had been repeatedly impressed upon Government that capacity was running out, and the last thing we were wanting to have was a situation where, at peak times in the wintertime, we would not have sufficient generating capacity on the Island. So there was an urgency afoot at that time to progress matters, but I still feel that at the time my view was that the Deloitte's work could be relied upon.

**The Chairman:** So they were the consultants appointed at the time. Are you saying that Treasury and Council of Ministers were led to believe that it was the Deloitte and Touche financial modelling of the proposals for financing and repaying the moneys... that that is what was being relied upon within Treasury?

**Mr Corkill:** Absolutely, yes. With hindsight, you can say, 'Well, why didn't the Treasury appoint a set of accountants to do the same work again?' bearing in mind that things had obviously gone wrong, but the view taken by Treasury would be, at that time, why duplicate? At the end of the day, Deloitte's are a professional firm, they work in an independent fashion for whoever their clients are. So it was relied upon.

**The Chairman:** Was it your understanding that Treasury had endorsed the appointment then of Deloitte's for that purpose?

**Mr Corkill:** No, I do not think... I cannot recall whether Treasury endorsed it or not, but the fact is they were there doing that work, a substantial piece of work, and in fact, over time, in the run up to finalising what the figure would be for the bond, there were revisions of the figure as the Deloitte work progressed and eventually the figure of £185 million was arrived at, based on that Report.

**The Chairman:** So, whereas other Departments would satisfy Treasury direct, through the capital procedures, that they had a sound business case which satisfied Treasury on a particular project prior to getting Tynwald's sanction for that expenditure, in this case it was a bit different. Capital procedures had not been followed, but nonetheless Deloitte's had financially modelled the proposal and, are you saying, had... if they were satisfied with the business case and the £185 million projected expenditure was correct and what was needed, then Treasury was clearly satisfied also?

**Mr Corkill:** I remember saying to the Chief Financial Officer in Treasury at the time that this was obviously a huge amount of money to be borrowing, to be raising as a bond issue, and that we had to be absolutely sure that the figure was a good figure, because there would not, in political terms, be a second opportunity to borrow even more. I would not have wanted to sanction borrowing any more, so do not read that wrong, but what I was saying was the figure had to be

right; it was a one-off opportunity to start investing in new MEA infrastructure.

The bond market at the time was such that it was a way of borrowing money at very reasonable rates. There was an appetite in the financial markets for that type of investment at that time. So I said to them in reality the £185 million had to be a firm figure, and in fact when I presented the motion to Tynwald I made it clear to Tynwald Members that that was a sound figure and there would not be a requirement, and basically, I think I said, Government would not come back anyway. There was a confidence in that figure because a number of people relied on the Deloitte's Report.

**The Chairman:** It certainly... Yes, the *Hansard* confirms that in the debate you said you did not expect there to be any more additional finance required. So, having expressed your determination that this... before going to July Tynwald to get the borrowing, that expressed to the Chief Financial Officer that you had to be satisfied, what was his response to that, the reliance that you were entitled to place on the Deloitte's modelling?

**Mr Corkill:** There were a number of things going on at the time. We wanted to do a presentation to Members, obviously, in advance of going to Tynwald. We were making sure that what we were presenting to Members at that time was as accurate as we could make it. So there again I am sure it was all based on the Deloitte's Report, what we presented to Members.

**The Chairman:** The Capital Project Unit, according to the Treasury minute of 20th June, where they said they had not endorsed the appointment of the consultants employed, and that confirms your understanding. It also said:

'Nor have the MEA presented adequate supporting documentation to meet minimum standards of an audit trail within the Treasury.'

So clearly there must have been great reservations at the time that you were about to get borrowing sanctioned by Tynwald and yet Treasury officers were clearly advising that there was not adequate documentation for audit.

**Mr Corkill:** That may certainly be the minutes in that committee meeting, but other than certain references at the Treasury board level, there was no fervent comment put forward that this was a real issue.

**The Chairman:** Was there no sense...? We have had evidence from the Chief Financial Officer of the time that the situation was so urgent to press ahead with the power station project – the General Election coming in November that year – that Tynwald sanction of the borrowings had to have taken place in July at the latest, and unless the project got underway, the lights were going to go out. Was that how you saw things at the time?

**Mr Corkill:** Certainly that had been put to Treasury over a period of time by the MEA over a period of years. In fact, I think Mr Machin made reference to that in terms of timetabling new generating capacity, and in reality, of course, the Island's economy grew very rapidly at that period of time, so the timetable got squeezed more and more. And yes, the political timetabling of Tynwald would be a factor in trying to deliver a way forward, but certainly at the time I was aware

of the MEA struggling to comply with capital procedures, but it is only at a later date that I have appreciated that they were really ignoring them, and within the Treasury certainly I was not advised that there was, at that time, this – it appears to me now, with hindsight – almost a determined effort to avoid them. I was not aware of that at the time.

**The Chairman:** Thank you.  
Mr Callister, I will start with you.

**Mr Callister:** Not quite yet, no.

**The Chairman:** Not at the moment.  
Mr Quirk.

**Mr Quirk:** Could I ask, Mr Corkill, your Treasury team at the time, did they not share any concerns, or nothing was ever brought to your attention that the other political Members, never mind the officers...?

**Mr Corkill:** On a Wednesday morning... We meet obviously every Wednesday generally in Treasury. The agenda is always quite packed, so I do not believe at that time that this issue was a major item on the agenda. It was seen as an ongoing, grumbling problem that needed to be resolved, which is why eventually we had the Chief Internal Auditor start work in producing a report to actually find a way forward for the MEA. So maybe we tried too hard to please, I do not know.

**Mr Quirk:** Do you think... I suppose hindsight is wonderful, really, but this would be a starred item, I presume, in a future meeting, wouldn't it?

**Mr Corkill:** It was not a starred item –

**Mr Quirk:** Whatever they call it. I have never been...

**Mr Corkill:** – or a highlighted item at the time.

**Mr Quirk:** No, and when you met as Treasury Minister for the Council of Ministers, you would not have passed anything on then?

**Mr Corkill:** Sorry, say that again.

**Mr Quirk:** When you were Treasury Minister at the time then, when you went to the Council of Ministers, because it was not a –

**Mr Corkill:** No.

**Mr Quirk:** You would not have passed any feelings on, or...

**Mr Corkill:** No. I think the real issue was that Treasury has got the powers to deal with these things, so there would not be a need to, at the early stages, involve Council of Ministers.

**The Chairman:** Thank you.  
Mr Butt.

**Mr Butt:** Yes, thank you.

The Chief Financial Officer, Mr Cashen, has given evidence already before us about this period June-July 2001, and he expressed to us his view that he was uncomfortable with the speed and the rush of the project. Was that conveyed to you in any way at all?

**Mr Corkill:** No, it was not conveyed to me that he was uncomfortable. It was conveyed to me that it was a really busy period of working, and I know officers were working very hard and rapidly at that time.

**Mr Butt:** He also said that again they relied on the Deloitte –

**Mr Corkill:** But I am on memory now.

**Mr Butt:** Yes. The Deloitte and Touche Report, he said that was relied upon as well, as you have. You say you have read that Report?

**Mr Corkill:** I did at the time.

**Mr Butt:** Were you aware, or how aware were you, of the facts that appear to be that the information in there was based purely on what the MEA provided to Deloitte and Touche without any independent outside influences?

**Mr Corkill:** Yes, I am aware that it was an MEA capital project, so obviously their desires or their way forward was put into that system and they were going to... and Deloitte's financially modelled it, as to what it was all going to cost.

**Mr Butt:** The Deloitte and Touche Report does not seem to test the business case, but just provide the way of providing the finance. Would you agree that is the case?

**Mr Corkill:** I did not see it that way at the time. I saw it as a robust document of what it would cost, and obviously a Statutory Board, like the MEA, pays for its borrowings over time with revenues raised from the consumers.

**Mr Butt:** Were you aware again of a disclaimer at the end where they basically disclaimed any responsibility by saying they were only relying on information provided to them by the MEA?

**Mr Corkill:** At the time, I do not remember reading the disclaimer, but with having re-examined a certain amount of documentation, I understand it is a fairly standard disclaimer that was on the document, one that you might get from any firm of accountants who have done some work, a standard industry disclaimer that you see on lots of documents.

**Mr Butt:** If I could just ask finally on that sort of theme, about the lights going out, you said it had been going on for some time from Mr Machin onwards. Was there anything in particular happening in the spring of that year from, say, Mr North or Mr Proffitt saying, 'This has got to happen now'? Any extra pressures being put on you?

**Mr Corkill:** I think when you are Treasury Minister and Chief Minister there are pressures all the time, every day. I would not say there were unusually... or pressures applied in any particular way. They were one of a number

of pressures at that time, but I think the message I received was that, because of the economic growth of the Island rapidly growing... I remember the Budgets I did as Treasury Minister. Things were growing at 12 per cent per annum. Government spending was going up at over 10 per cent per annum, but growth was 12 per cent one year, so there was a huge economic juggernaut on the go at the time, and as part of that debate, the issue of reliable power was a debate that kept coming up over and over in a number of areas.

**Mr Butt:** And just to go into the DTI's role for the time, there are several e-mails between Mr Thompson and Mr McGreal and other Treasury officials about their concern about the lack of compliance, in addition to these minutes of 20th June. Did you discuss these issues with the Minister for DTI at the time? Was he aware of the concerns of the Treasury?

**Mr Corkill:** I do not suppose he would be aware of Treasury concerns, but the DTI and the MEA, in my mind, were very close and single minded in what they were trying to achieve, which you would expect because the MEA effectively comes under the wing of the DTI in statute and in political terms. It is their way of having a voice at the Council of Ministers table, through the DTI.

So there were a number of policy issues that were emanating within the MEA, that the DTI was promoting quite vigorously in the Council of Ministers. That was certainly the environment that was there at the time. Is that what you mean?

**Mr Butt:** Yes, there was some vigour going around at that time.

**Mr Corkill:** Oh, yes. The DTI were, as you would expect – 'vigorously' I think probably is the right word – promoting the MEA and trying to facilitate the MEA's efforts in delivering this new infrastructure, infrastructure which, in my view, was badly needed. What we have today is so much better than what was existing then, and it is a great pity, Chairman, in lots of ways, that this issue has happened when in fact we do have some wonderful new infrastructure. That does not in any way minimise the seriousness of this, but it in some ways clouds what has actually been, in a peculiar way, a very big achievement, in my view.

**The Chairman:** Thank you.  
Mrs Christian.

**Mrs Christian:** Just one issue on the Deloitte and Touche Report: did the Treasury, to your knowledge, see the terms of reference that were given to them in producing their Report?

**Mr Corkill:** I cannot answer that; I do not know.

**Mrs Christian:** But your assumption was that they verified the MEA figures?

**Mr Corkill:** Yes. I cannot recall any discussion about the terms, but the Report having surfaced, the Report was then seen as a reliable and robust plan of action.

**Mrs Christian:** Notwithstanding, as Mr Butt has said, the disclaimer.

**Mr Corkill:** It seems to me that all professionals put disclaimers on things, just for events like this maybe, which is cold comfort.

**Mrs Christian:** Thank you.

**The Chairman:** Mr Callister.

**Mr Callister:** Just again slightly deviating from the main drive of this, when you brought the £185 million bond to Tynwald in July 2001, you referred to the advice from Deloitte and Touche, and you said that, 'They are satisfied' – and presumably you would then have been satisfied – 'that the Authority can meet the repayment costs of borrowing the £185 million.' What did you have in mind as the method of repayment of that at that time?

**Mr Corkill:** In terms of how the bond would eventually be repaid?

**Mr Callister:** Yes.

**Mr Corkill:** In my mind at that time was the view that... The term of the bond was 32 years, from memory, and my view was that it would be repaid over that term.

**Mr Callister:** By using a sinking fund?

**Mr Corkill:** By whichever way, but that was the extent of the borrowing, 32 years. I am realistic to know that, like all businesses, other things come along at a later date and finances can be repackaged and changed –

**Mr Callister:** Which they were.

**Mr Corkill:** – but you would obviously only do that with another Tynwald motion, if there were going to be changes to that. But certainly at that time that was all that was envisaged –

**Mr Callister:** The Council of Ministers would take –

**Mr Corkill:** – and I am astute enough, I hope, to realise that over a period of 32 years something else might happen, which would be for people further down the line coming after us to deal with, which might have necessitated a change to that process.

**The Chairman:** Were you or Council of Ministers aware that the MEA was capitalising the interest on the bond in its annual accounts?

**Mr Corkill:** I have given this a lot of thought, Chairman, before coming here, and I am just not sure about this. The accounts would have to be laid before Tynwald, and so there is a process through the Council of Ministers for that, to get them onto the agenda, but outside of that process I cannot throw any light on that.

**The Chairman:** Had you been Treasury Minister rather than Chief Minister at the time, would you have expected... If that had been brought to your attention, is that something that you would have found noteworthy, that unusually the GAAP principles of accounting were not being...

**Mr Corkill:** The accounts would have come onto the Treasury agenda and for scrutiny and then up to the Council of Ministers. I would hope something like that would surface. You are asking me a hypothetical question, Chairman, in terms of would I, if I had been there. The fact is I was not there in the Treasury at that time. As a good Treasury Minister, I would hope to pick up as many things as possible, but like all good fishermen, some fall through the net.

**The Chairman:** As Chief Minister eventually by November 2004 –

**Mr Corkill:** December, yes.

**The Chairman:** – you would have been aware by that time that there were substantial sums that were appearing as loan interest capitalised.

**Mr Corkill:** I do know that as that period approached, there was a lot of discussion going on with officers as to how this was being dealt with. I cannot remember or recall now the outcome of that.

**The Chairman:** We have a copy of an Answer that you gave on 7th December 2004 to Mr Karran where you were asked to set out the breakdown of the expenditure, which was £295 million at that point, of which £26 million was loan interest capitalised, so the record shows that.

**Mr Corkill:** What was the date of that Question?

**The Chairman:** 7th December 2004, so it was quite a bit after.

**Mr Corkill:** Okay.

**The Chairman:** When were you first aware of the Treasury direction that was issued in June 2002, the direction by Treasury to the MEA to comply statutorily with financial regulations, and did Council of Ministers approve the issue of that direction?

**Mr Corkill:** I certainly did know that the direction was being prepared, and I am not sure when I was made aware of that. It would probably be a verbal comment from the Treasury Minister. This is a Treasury responsibility, so not necessarily a matter for Council of Ministers to determine. It is a Treasury act.

**The Chairman:** And when you were aware, we have heard in evidence that that direction sent shockwaves through the MEA and the political fallout was considerable. There were emergency meetings and consultations with the Attorney General. Were you aware of this bombshell that was going to explode by the issuing of a direction?

**Mr Corkill:** Maybe not to the actual extent that I now know, having hindsight knowledge of things, but certainly any Treasury direction of that nature should be received very seriously, so you would expect anybody in receipt of that to act as a priority. So I would be hopeful at the time that the MEA did act as a priority because that is what a direction of that type is designed to do.

**The Chairman:** Did you have misgivings of any sort at

the proposed issue of this direction?

**Mr Corkill:** None whatsoever, no.

**The Chairman:** Were you aware of the Attorney General's advice?

**Mr Corkill:** Only that you know there is going to be a lot of shouting, but you cannot mess around with directions like this. If they have to be issued, they have to be issued.

**The Chairman:** And were you aware of the Attorney General's Chambers' advice regarding financial regulations being applied to the MEA?

**Mr Corkill:** I became aware that there was variable advice from the Attorney General's Chambers, in my view, that first of all there was advice in one direction and then it appeared to fade and be reinterpreted. I suppose, to coin a phrase, the advice seemed to flip-flop, and I am not aware of the reason from the Attorney General's Chambers for that change of advice. Even now, I cannot agree that the MEA are different in the way that there is a need for compliance, and I still think that, and I have re-read the –

**The Chairman:** Was it a surprise when the direction was withdrawn then, following further advice through the Attorney General?

**Mr Corkill:** That was of some consternation, yes, because I was concerned that it would undermine the authority of Treasury, and having been in Treasury five years, that is not a good position to be in.

**The Chairman:** Were you aware that, had the direction stood, according to evidence, the board was going to walk? It was suggested there would be mass resignations of the Chairman, the Chief Executive and...

**Mr Corkill:** I was not aware that the board members felt that way.

**The Chairman:** In terms of the very obvious lack of clarity, certainly on the part of the MEA, that financial regulations, whether they applied at all... Was any consideration given to strengthening or amending the legislation to avoid the confusion over whether financial regulations did apply to Statutory Boards? Was there something in the legislation missing, do you recall?

**Mr Corkill:** I cannot remember that the issue of new legislation was raised. Maybe it is a question best addressed to those who came after me. I am not a lawyer, Mr Chairman, but it remains my opinion that the MEA were, and still are, obliged to comply with capital procedures and financial regulations without exception. So, having that in my mind now, and as I did then, I would not have thought that there was a need for new legislation.

**The Chairman:** You referred to the MEA coming under the wing of the DTI – I think that was the way you put it.

**Mr Corkill:** Yes.

**The Chairman:** What was the Council of Ministers'

view – or the collective Government view, shall we say – of the extent of the responsibility of DTI over the MEA?

**Mr Corkill:** I think this is a very important question, Chairman, because the time I spent in Tynwald, I have always had the feeling that Statutory Boards are an anachronism, really, from an older system, that do not really fit alongside ministerial government as we have had it this last period of time. Forgive me, Chairman, I am trying not to be political now because I am no longer a politician, but I would not have Statutory Boards if I had my time again. I would make sure they were a part of Government Departments, because I think you would avoid this separation of responsibilities going on. I think the responsibilities need to be closer to the centre. That is a political view. It is a view I put to the Committee that was looking at the reorganisation of Government.

My view is that... I will give you an example, Mr Chairman. There was the issue of the telecoms fibre optic cable in the power cable and what the DTI may or may not do with that, which had rumbled on for years. The DTI, from a Treasury perspective, had failed to come up with a business plan to light the cable. They argued differently, but our view was that it was not a sufficiently strong business plan. At some point, the DTI decided to transfer that opportunity, as they saw it, to the MEA. So I think that is an example of how closely the DTI and MEA were functioning in this sort of area.

**The Chairman:** Did you give any thought to placing a Member of Tynwald on the board of MEA, given the very evident difficulties in communication that were taking place at this time?

**Mr Corkill:** That just was not the political flavour at the time. It had been non political for some time, and in fact the general tenor of things was that the MEA was best *not* having a political Chairman or a Member of Tynwald on the board, that there had not been a requirement for some time. It is not something that was discussed at length; that was just the tenor of the time.

**The Chairman:** Just to let my colleagues in, Mr Butt.

**Mr Butt:** Thank you.

Could I just go back to the direction, Mr Corkill. Did you take any part in the withdrawal of the directive?

**Mr Corkill:** I took no part in it, but I was kept informed through the Chief Secretary's Office at each stage that Treasury and the Attorney General's... what was happening. I did not intervene.

**Mr Butt:** The reason given for the withdrawal was because there was a flaw in the way it was worded in terms of one of the sections. We asked Mrs Williams why was it not reissued then with the correct legal background on a legal basis, and she basically said there was not the political will to do so at that stage. I just wondered what involvement you would have in, say, influencing the political will at that time.

**Mr Corkill:** I am not sure which general area of political will she is referring to.

**Mr Butt:** It is a question of why not reissue the directive

and say, 'You will comply, and here is the correct format.' Why wasn't that done?

**Mr Corkill:** I think the view that I got back from Treasury was that they had sent a thunderbolt and so there was now an opportunity to actually still make things work in a normal way. They had gone to the brink and stepped back, so my view at the time would be to allow that some more time to happen.

**Mr Butt:** So you were aware then of this, I think they called it Operation Fresh Start, and that matters were going to start again.

**Mr Corkill:** I was aware that new efforts were going... I am not sure of the title of it, but I was aware that fresh efforts were going to be made.

**Mr Butt:** And we then have a succession of more e-mails and letters which show that it was not as –

**Mr Corkill:** Bearing in mind we were all Government together, in Isle of Man terms, it seems not an unreasonable thing to do.

**Mr Butt:** Were you aware though that over the next year or so there was no actual fresh start and things did not change? Were you kept informed of that?

**Mr Corkill:** I wished I had been informed more. I am not saying I was not informed, because I have not got that detailed memory, but I wished I had been informed more.

**Mr Butt:** Thank you.

**The Chairman:** Just following on, before I bring Mrs Christian in, with the issue of the direction and the consequences that were going to flow, did you ask Mr Gelling to broker a meeting to calm things down? There was a meeting attended by Mr Gelling and Mr McCallion.

**Mr Corkill:** I am not aware that I asked for that.

**The Chairman:** Were you aware of that meeting taking place?

**Mr Corkill:** I was aware that lots of efforts were going on to break out some harmony. I do not know how that meeting was instigated. Maybe the Treasury Minister would help better with that one.

**The Chairman:** Thank you.  
Mrs Christian.

**Mrs Christian:** On the issue of being informed, can you recall when you and Council of Ministers were first advised about the additional loans?

**Mr Corkill:** I prefer to call them unauthorised loans still. It was the week beginning 8th November 2004 I was made aware of the existence of some borrowings, but I had no figure. I was told, I think, that it was substantial but there was not an exact figure. It was 11th November 2004 – I had a formal meeting, called by myself – that the truth

really emerged about the actual figures, and I think Council of Ministers was advised as quickly as possible after that – possibly the next day or the same day, I am not sure now – but having revealed something like that, then obviously it was a Council of Ministers matter straightaway.

**Mrs Christian:** Prior to that, presumably you had continuing confidence in the board of the MEA.

**Mr Corkill:** As we know, board members are nominated to Tynwald, and Tynwald approves their nomination. When the names of the board were put to Tynwald, I was very pleased at the time that such eminent people had attached themselves or volunteered to do this – what I regard public service – at the MEA, and it is of great regret to me that the situation is as it is, because I think all of those people at the MEA are very honourable people. The board members all come from different backgrounds, but to my view, when the nomination in Tynwald occurred, I had confidence that here was a group of people who knew a lot of things that would be of use to the people of the Isle of Man. It was very much towards the end of my term of office that I felt some disappointment.

**Mrs Christian:** Can I ask you, prior to you becoming aware in November of that year, 2004, there had been presentations to the Council of Ministers about the programme going forward on telecoms issues, I understand. Was there no inkling at that time given about the requirement for more funding?

**Mr Corkill:** This is where it is difficult to contain the Committee's section of this work –

**Mrs Christian:** Alright, perhaps I was straying, Chairman, from the –

**Mr Corkill:** – separate from another area –

**Mrs Christian:** Yes.

**Mr Corkill:** – if I may, Chairman, because the telecoms debate is a big subject, in my view, on its own, and it does take us into that area.

**Mrs Christian:** I will withdraw the question then, but simply that at that time, proposals were being put to the Council of Ministers, presumably within the normal constraints of financial controls.

**Mr Corkill:** There was a great enthusiasm within the MEA to get involved in telecoms and –

**Mrs Christian:** But can you say now whether or not the Council of Ministers were content at that time that they had produced robust enough a case in terms of the normal financial requirements and regulations?

**Mr Corkill:** I think, bearing in mind that the generating side of the MEA was still not... there were still things to be done from the original package – nearly all done, but still things – I think there was a caution within the Council of Ministers, a great caution, that telecoms was a whole new area and that it should not all be wrapped up with existing

MEA business. So the Council of Ministers were, I think, very interested in hearing what the proposals in detail at the MEA would be, but there was no permission given, from a Government perspective, for them to go off down that route. It was still a fact-finding situation by the Ministers; the Ministers wanted to know more.

**Mrs Christian:** Thank you.

**The Chairman:** Thank you.  
Mr Quirk.

**Mr Quirk:** Mr Corkill, can I just ask, at that particular time, how enthusiastic was the DTI Minister in the Council of Ministers to progress things? At your meetings, was he...?

**Mr Corkill:** I do not know what it is about the DTI, but my experience has been that all DTI Ministers are enthusiastic, and it is, in lots of ways, a good thing, I think, because they are promoting a lot of economic initiatives on behalf of the Island. So Mr North was enthusiastic; he is an enthusiastic person about everything he gets involved in. Mr Downie is very strong in the things he puts forward. So over a period of time my view, rather than just the actual Ministers, is that the DTI as a Department, headed by their Ministers, continued to promote the activities of the MEA as being good for the Island.

**Mr Quirk:** Do you think, at that particular time, Mr North then, or subsequently Mr Downie, were aware of the pitfalls that were coming along?

**Mr Corkill:** In terms of the borrowings?

**Mr Quirk:** Yes.

**Mr Corkill:** I am not aware of any comment from any Minister, let alone DTI Minister, that there was some knowledge of borrowings in advance of anybody else finding out.

**Mr Quirk:** What was your view of Mr Proffitt? Did you have a view?

**Mr Corkill:** My experience of Mr Proffitt at meetings was that he was very tough and strong in the way he negotiated things. I think a lot of people thought that was a good situation, bearing in mind there had been difficulties in the contracts with Enron and that sort of situation, that he was probably a tough negotiator and could put things like that back on track very efficiently, and in my view he did that. That is with hindsight, looking back.

I sometimes got the feeling that he felt Government was a bit of an obstacle – Treasury and Council of Ministers were seen sometimes as an obstacle – but he is not alone in that. Council of Ministers and the Treasury often are an obstacle for the purposes of scrutiny.

**Mr Quirk:** When Enron actually collapsed, what was his role? Did he take up...? Was it something you supported, taking over that initiative?

**Mr Corkill:** I do not have notes here on that particular issue, so these comments are just from memory, but I think

that the general feeling was Members generally and I, and certainly the DTI and the MEA, I think, were pleased that there was someone in a position who was savvy enough in business terms to actually go out and proactively deal with that situation, rather than waiting for the impact of Enron to grow and roll over us. He was proactive, and I think that is a good thing.

**Mr Quirk:** Was that at any cost, though?

**Mr Corkill:** I cannot talk about figures. I do not have that in front of me, I am sorry. I can find out.

**The Chairman:** Mr Callister.

**Mr Callister:** Yes, thank you, Mr Chairman.

Can we just go back to the unauthorised borrowings. I think you said that you first became aware of that on 8th November 2004, was that right?

**Mr Corkill:** That is to the best of my recollection.

**Mr Callister:** When did the Council of Ministers become aware of it?

**Mr Corkill:** We... I would have to...

**Mr Callister:** The Council of Ministers would have been aware of it before you became aware of it?

**Mr Corkill:** They were aware that there was a meeting going on with the MEA, and I think anecdotally some Ministers anyway would be aware that there was a crunch meeting.

**Mr Callister:** The Treasury would presumably know first of all, would they, before bringing it to the Council of Ministers?

**Mr Corkill:** Treasury were at the meeting I convened, and I convened the meeting because of Treasury's concerns –

**Mr Callister:** How did Treasury's concerns –

**Mr Corkill:** – to bring the MEA and the Treasury together and to try and find out what the true situation was.

**Mr Callister:** What prompted Treasury's concerns at that time?

**Mr Corkill:** They had become aware of what they regarded as accounting irregularities, for want of a better term.

**Mr Callister:** Were they aware of the amounts at that time then at that meeting?

**Mr Corkill:** Before they came to the meeting they were aware of a figure, but at the end of the meeting the figure had gone up to £120 million.

**Mr Callister:** So the £70 million borrowing, as far as I can see, according to Mr Bell, was sanctioned in July 2003, and £50 million borrowing was sanctioned in February 2004.

So £70 million was borrowed, or sanctioned for borrowing, some 15 months before you or the Council of Ministers knew anything about it.

**Mr Corkill:** Correct.

**Mr Callister:** And the £50 million, about nine to ten months. How can you explain that no-one – Treasury, Ministers, Government – either officially or unofficially knew about those borrowings for that period of time? Do you have some thoughts on why that might have happened?

**Mr Corkill:** Chairman, on 4th July 2003, the MEA met with Council of Ministers and there was no mention made of borrowed moneys that I am aware of. Obviously, a meeting with Council of Minister is in private. It was an opportunity to raise such an important matter, and, like everyone else, I later found out that Barclays issued a facility letter, on or around the same day of that meeting, for £70 million. I think it is an illustration of what Government has had to contend with. I do not have an answer for that; I hope the Committee finds one.

Can I say again at a meeting on 24th March 2004 – it is the following year, but in March – there was a meeting with the MEA. This was a meeting which I convened, and it was in order to really discuss the MEA's desire to control, own and operate the Island's telecoms. It was a meeting that I had brought forward. There had been a meeting scheduled for April, I think, and this is where, with respect to Mrs Christian, we start getting into a whole other area that I think the Committee should look at, and I hope the Committee does look at. That meeting was mainly about an evolving telecoms potential situation, but during that meeting I asked how much of the £185 million bond money was left unspent. I was told by Mr Proffitt that £10 million was left.

I do have some notes of the meeting and I hope the Committee has got those.

**The Chairman:** What was the date of that meeting?

**Mr Corkill:** 24th March 2004.

**The Chairman:** Thank you.

**Mr Corkill:** I have a copy here, if that is of help to... I will just try and make sure I have not scribbled on it.

I was told £10 million was left, notwithstanding, as I found out later, that the £70 million facility referred to had been accessed months earlier and the money drawn down.

Also, just one day after this meeting of 24th March 2004 – this one I have passed you the minutes of, or notes of; they are not really minutes – a further facility of an extra £50 million was formalised by the MEA board and Barclays, and £15 million was drawn down that week, I now know. So I would say to the Committee, yet again the MEA board had the opportunity, but failed to mention these extra finances.

I now know that by November, I think it was £110 million had been drawn down, and even in November 2004, when things surfaced, the MEA tried to play down these figures. As I say, it was at the meeting when we finally, right at the very end, found out that the figure had reached a facility of £120 million, and I think £110 million was already drawn.

**The Chairman:** The meeting of 25th November 2004

was when... I think that might be the meeting you are referring to. Anyway, it took place at that time. You and Mr Bell met with the board members and Chief Executive –

**Mr Corkill:** Correct.

**The Chairman:** – and the Chairman. Can I ask, what explanation did they give for the failure to obtain Treasury concurrence for the additional loans, and what did they say at that meeting?

**Mr Corkill:** I think the reasoning was variable, depending on how the question was put to the board.

It was initially said that they had assumed Treasury concurrence was in place, and at the Committee we felt that totally unacceptable. Then the debate moved on to the fact that the MEA position was that concurrence was not needed by the MEA, and of course there is this issue of how the money was borrowed and how it was lent on to the MEA. Then, as the discussion continued, there was a suggestion that Treasury knew anyway about these borrowings, which was... Well, the minutes... You have, hopefully, got those minutes. Those minutes clearly say that Treasury do not accept that.

It came clear to me that the MEA had circumvented the normal processes of Government and Tynwald approval in order to sanction loans to progress their plans. That is how I feel about it, Chairman.

**The Chairman:** Just that meeting – and I think you have a copy of the minutes... Likewise, just for the record, to restate what you have just told us, minute 15:

‘Mr Kniveton asked the MEA representatives who had led the board to believe that the MEA had been given consent to further borrowing. There was no answer to that question.

The Chief Financial Officer then asked, given the high level of borrowing, did it not occur to the board that Treasury consent was required. Mr Wilcox replied that the board fully believed that they had the required Treasury consent.

Mr Shimmin asked, given that this was the case, what made the board believe this was the case: was it a verbal statement by a Treasury official, or a written declaration by Treasury. The board members did not answer this question.’

Does that minute confirm your recollection that there was no –

**Mr Corkill:** I cannot find a copy of it with me now, but that is how I remember it, yes.

**The Chairman:** Can I ask, was any consideration given from that point, accepting about your own... the continuation in office of your good self, but are you aware whether any consideration was given as to whether any representation should be made to the Financial Supervision Commission regarding the conduct of any of the former MEA board members in the light of what emerged?

**Mr Corkill:** I seem to remember... I have just searched the minutes and I cannot find it, but I seem to remember that one Minister at the table raised this issue about FSC involvement. It might have been Mr Henderson, but I have not found my notes to correspond. That is my memory, but certainly, it was raised by a Minister and I think it was resolved that, certainly at that stage, it was not really the

sort of thing that was in the remit of the FSC; the FSC being the regulator. I think the view was at this point, having got to such a serious situation, that there had to be complete transparency by all involved to really get to the root of what the borrowings were. There was more focus on that rather than individuals.

**The Chairman:** Thank you. Now, as we come to a close of this session, can I ask if there are any further questions? Mr Butt.

**Mr Butt:** A couple of points. You said that in March 2004 you were told there was still £10 million left of the £185 million. Was that Mr Proffitt who told you that?

**Mr Corkill:** Yes. It was a question directed to him.

**Mr Butt:** I think somewhere around the same time there was a tour of the power station by MHKs and officials, a visit of the power station. Do you remember that?

**Mr Corkill:** It is surprising how the memory fades. Did I – ?

**Mr Butt:** The reason I raise it...

**Mr Corkill:** What stage was the power station at? Was it half built? I think we did. The whole of the Council of Ministers did visit the power station whilst it was being constructed. At what stage, I cannot remember.

**Mr Butt:** At that time.

**Mr Corkill:** Basically, as a courtesy visit to see how it was going.

**Mr Butt:** At the time I am referring to there was an announcement made by the Chief Executive that the power station, once they had clawed the money back from the bond over the Enron collapse, would be built to within budget to within £1 million or £2 million within budget. Were you aware of that?

**Mr Corkill:** I remember that. I remember that publicity at the time. There were other comments made, such as the price of electricity, because some of these meetings I have referred to were actually convened to discuss why we were getting electricity price rises when the feeling had been that the standing charge would be done away with at some point and that in real terms the cost of electricity would be cheaper to the consumer.

**Mr Butt:** And just one final point, Mr Chairman.

There have been suggestions in previous evidence that there was a breakdown in relationships between the Treasury and MEA because of a poor personal relationship between Mrs Williams and Mr Proffitt and some are saying that was the cause of the whole breakdown. What is your view on that, having worked in Treasury and with Mrs Williams?

**Mr Corkill:** I have a lot of regard for Mrs Williams’s professional outlook on things. I have been around in Government whilst she was with Internal Audit and Chief Financial Officer and now Chief Secretary. She became Chief

Secretary during my tenure. I find her analytical skills are really good. I was aware that there was some personality clash, but I would not expect that would in any way alter Mrs Williams's professional capabilities at all. She is too experienced for that.

**Mr Butt:** Thank you.

**The Chairman:** Any further questions? Mr Quirk, a final question?

**Mr Quirk:** Just one. Was there any, in your opinion, in the life of this particular saga, any political pressure just to say to get on with it?

**Mr Corkill:** Well, there is always political pressures, Mr Quirk –

**Mr Quirk:** At any cost?

**Mr Corkill:** – but there was... no. In my time in Tynwald I have never come across a situation where something is bulldozed through to the points of recklessness. That was not the case. In terms of my initial part in this, when I went to Tynwald to borrow the £185 million bond, I was fully confident that was money that was being well utilised for the wellbeing of the Island and it was based on, as I said before, the Deloitte's appraisal of things. It is about priority sometimes, so in terms of was it a political priority: yes it was. It was a higher priority than a lot of other things.

**Mr Quirk:** Just a final thing, Mr Speaker, if I could. Just on the £10 million that was earmarked for wind turbines. Over that particular period, knowing Mr North's enthusiasm for alternative energy sources, were you not concerned that nothing was ever coming forward on that?

**Mr Corkill:** Well, referring to the minutes that I just passed across: the March meeting, the reason I asked if there was any money left from the £185 million bond – and the answer was £10 million – was that I was aware that the wind power side of the package was still to be delivered. I seem to remember there was discussion that in terms of everything that needed to be done, that was at the end of the list, but nonetheless there was money allocated in that package for that purpose and I think in those minutes Mr Proffitt refers to the fact that there is £10 million left and that it was going

to be directed to towards the gas infrastructure. I remember thinking at the time, well that is a change and maybe that will require Tynwald approval, because it is changing the expenditure to a different purpose.

I think the MEA at the time were concerned about planning and they were busy with a lot of things and I think they had put wind power on the back burner, possibly or something to be done when possible.

Then there was a also a political pressure, if that is the word, or interest, in extending the gas infrastructure as well at that time. Now that natural gas was available on the Island, there was a debate about can more people have it. So, I was content that the MEA was going to go away and think about what to do with that £10 million. So, I do not think I can expand on that point.

**The Chairman:** Thank you very much, Mr Corkill. That concludes the Committee's questions, but this is an opportunity, if you wish, to make any further statement to us.

**Mr Corkill:** In fact, what I wanted to say at the end has come out during the questioning, Chairman. I just would like to say that the telecoms areas is an interesting situation that I feel the Committee ought to look at in due course. I am not trying to determine the Committee's own agenda but I hope it is examined at some point in the future and I would be pleased to attend again to help with that aspect if that is required.

**The Chairman:** Well, thank you. I can confirm that, as I said at the beginning, we are focusing primarily on the compliance with financial regulations at this stage but, indeed, there are other areas of inquiry that we will be recalling witnesses on and the area you describe will be one of them.

So, thank you very much indeed and that concludes today's evidence session. I would like to thank you, Mr Corkill, for your courtesy in coming to answer questions from the Committee and to members of the public to advise that details of further evidence sessions will be advised in due course.

So that brings the public hearing to a close. Thank you very much.

*The Committee sat in private at 12.41 p.m.*