



Grant Thornton

BUSINESS INVESTMENT GRANTS

**SUBJECT TO AN EXEMPTION UNDER SECTION 30 OF THE
FREEDOM OF INFORMATION ACT**

dated 24 June 2013

Draft

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Draft

1 INTRODUCTION

- 1.1 We have been instructed by Wirral Borough Council (WBC) to produce a summary of our draft report dated 5 June 2013. In order to understand the detail behind this summary, it would be necessary to read the whole of our draft report dated 5 June 2013.

INSTRUCTIONS

- 1.2 Grant Thornton UK LLP have been instructed by WBC to undertake the work set out in WBC's request for a quotation, dated 5 October 2012 (the RFQ). The RFQ refers to a contract issued by WBC for the:

"provision of assessment and advice services in relation to the award of Business Investment Grants (BIG) and the Council's Intensive Start Up Service (ISUS)".

- 1.3 In reviewing BIG and ISUS we have established that while these were both associated with a sub-contractor called Enterprise Solutions (NW) Ltd (Enterprise Solutions), WBC had separate contracts with Enterprise Solutions in relation to the BIG and ISUS programmes. This draft summary does not address the ISUS programme as that is the subject of a separate draft report, and draft summary submitted to WBC.

- 1.4 The RFQ explained that:

"A number of allegations were made in respect of both schemes and continuing allegations and additional supporting information continue to be provided up to the present."

- 1.5 The RFQ explained that investigations had been commenced by two former WBC employees and that WBC had been seeking to appoint a firm of accountants to complete the investigation. In our response to the RFQ, we recommended that the successful applicant should meet with the people who had made the allegations before reviewing documents collated as part of WBC's investigation.

- 1.6 Having met with the people who had made the allegations, we produced an enquiry log which we sent to those people we had met for their review. That part of the enquiry log which is associated with BIG is attached as Appendix 1 to our draft report dated 5 June 2013. The remaining parts of the log are attached to a separate draft report which addresses ISUS and are not referred to in this draft summary.

- 1.7 If further information is produced and brought to our attention after service of this draft summary, we reserve the right to revise our opinions as appropriate.
- 1.8 This work does not constitute an audit performed in accordance with Auditing Standards.
- 1.9 Except to the extent set out in this draft summary, we have relied upon the documents and information provided to us as being accurate and genuine. To the extent that any statements we have relied upon are not established as accurate, it may be necessary to review our conclusions.
- 1.10 No responsibility or liability for this summary, or the draft report dated 5 June 2013 is accepted by Grant Thornton UK LLP or its staff to anyone other than WBC. This draft summary should be read in conjunction with a more detailed draft report, dated 5 June 2013.

RESTRICTION ON CIRCULATION

- 1.11 This draft summary is confidential and should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent. Such consent will only be given after full consideration of all the circumstances at the time.
- 1.12 It should also be noted that this draft summary addresses concerns we have regarding one of the BIG applications we have reviewed and whether the information associated with it had been given in good faith. We have not identified concerns regarding the integrity or honesty of any WBC employees. We also note that we have been given the access we have required to WBC and Invest Wirral employees.
- 1.13 However, this draft summary is likely to be exempt in whole or in part from disclosure under the Freedom of Information Act, attracting an exemption under section 30. Careful consideration should, therefore, be given before responding to a request for access to this draft summary under the Freedom of Information Act. This is particularly relevant to the comments included from paragraph 2.36.

DISCLOSURES OF INTEREST

- 1.14 Since accepting this instruction, Grant Thornton UK LLP has become the external auditor to WBC. This draft summary and the underlying review has been undertaken by members of our Forensic and Investigation Services team who are not involved in that audit work.

FORMS OF REPORT

- 1.15 For your convenience, this draft summary may have been made available to recipients in electronic as well as hard copy format. Multiple copies and versions of this draft summary may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

LIMITING FACTOR - ACCESS TO ENTERPRISE SOLUTIONS

- 1.16 We attached a copy of an unsigned "service level agreement for the provision of specialist business support between Invest Wirral and Wirral Biz" (the SLA), as Document 1 to our draft report dated 5 June 2013. We understand that Enterprise Solutions were commonly known as "Wirral Biz" and also understand that the SLA was never signed. We understand that Enterprise Solutions does not recognise the SLA.

- 1.17 In the absence of better information, we have relied on it as a final and contractually binding document.

- 1.18 Document 1 describes the services which Enterprise Solutions/Wirral Biz were due to provide under the BIG programme. They include advice and assistance concerning the preparation of business plans and "Wirral Council Grant Applications". The SLA explained that:

"Wirral Biz will work alongside referred businesses offering support under one of the headings listed above [such as support with business plans and WBC grant applications] for a maximum three days per company (£300 per day)."

- 1.19 The SLA does not specifically refer to audit rights and access to records, but WBC wrote to Enterprise Solutions on 26 November 2012 asking that we be given access to the accounts and records associated with the SLA.

- 1.20 Enterprise Solutions wrote to us on 13 December 2012 and stated:

"this company has nothing to hide in relation to its involvement in any of the above programmes [one of which was the BIG programme] on which it provided services. We are therefore prepared to grant access on the basis requested, on the understanding that your costs of the exercise are to be borne by the Council."

- 1.21 Contrary to the commitments made by Enterprise Solutions, we have not been given access to documentation retained by the company concerning the services it provided under the BIG programme and have, therefore, been unable to discuss these with Enterprise Solutions. This has limited the depth of our findings, and is one of the reasons our summary remains in draft form, as we cannot comment on the way in which Enterprise Solutions' own records might help to explain the programme and the way in which the documentation submitted by applicants evolved. This is of particular relevance to an application from an applicant we have referred to as BIG6.
- 1.22 This is also important as ordinarily (subject to possible police involvement), we would have discussed our findings in draft form with Enterprise Solutions before preparing this draft summary. Enterprise Solutions' unwillingness to cooperate with us has meant that we have been unable to do so.

HINDSIGHT

- 1.23 It might be said that the best way to assess the applications described in this draft summary would be with reference to hindsight, for example, is the applicant still trading etc. However, hindsight would not have been available to the BIG Applicants, or WBC staff and we have not, therefore, applied hindsight or reviewed the trading history of applicants after their BIG had been provided.

2 EXECUTIVE SUMMARY

- 2.1 Document 2 (a report titled "Invest Wirral – Big Support") to our draft report dated 5 June 2013 explained that funds applied to the Business Investment Grant (BIG) programme had been intended to:

"support SME's [sic] with potential for growth in Wirral, but importantly, will also support the sustaining of companies who may be having difficulty during this downturn."

- 2.2 The same document also explained that grants were anticipated to range from £4,000 to £20,000.
- 2.3 We have reviewed six BIG Applications in response to the allegations set out in the enquiry log attached as Appendix 1 to our draft report dated 5 June 2013. These applications were brought to our attention and we do not know a) whether they are representative of the wider population of BIG Applications or b) whether the anomalies we have identified might also apply to the wider population. The six BIG Applications we have reviewed are referred to in this summary as BIG1 to BIG6.
- 2.4 There are anomalies within each of the BIG Applications we have reviewed as summarised from paragraphs 2.22, 2.32 and 2.36.
- 2.5 In large part, the anomalies may have arisen because of ambiguities and inconsistencies in the documentation given both to WBC's cabinet and a panel of people who were asked to review BIG Applications (the BIG Panel). It is also likely to be because the majority of the BIG Applications we have reviewed relied on a cashflow forecasting model which had been supplied by Enterprise Solutions¹ which also has its limitations.
- 2.6 As we understand it, BIG Applications were subject to review which sometimes resulted in amended applications being submitted. It is important to note, therefore, that had the anomalies been identified before the corresponding BIG had been approved, they might have been resolved and the revised application might have succeeded.

¹ or, more particularly, a sub-contractor working on behalf of Enterprise Solutions

- 2.7 The anomalies discussed in our draft report dated 5 June 2013 would not, in isolation², have been sufficient to conclude that an applicant would necessarily have been precluded from a BIG. However, they might have resulted in the submission of improved financial information which might have enabled WBC to make a better informed decision or they might have resulted in the application being rejected.
- 2.8 It is also important to note that, with one possible exception (BIG6), the BIG Applicants themselves are not subject to criticism in this draft summary. This is because, with one possible exception, the BIG Applicants appear to have made transparent applications which were subject to review and approval by WBC. It is also important to note that Enterprise Solutions was not directly responsible for the BIG applications and had not, for example, been instructed to audit or otherwise corroborate the contents of BIG applications.

AMBIGUITIES AND INCONSISTENCIES

SOLVENCY

- 2.9 Document 2 to our draft report dated 5 June 2013 sets out a range of criteria which BIG applicants needed to fulfil in order for their application to succeed. This included the requirement that applicants needed to be "solvent". This term does not appear to have been defined elsewhere and is a very broad term which is capable of interpretation in more than one way.
- 2.10 For the purpose of this draft summary, we have considered solvency within the context of the Insolvency Act. This refers to two tests:
- balance sheet insolvency; and
 - cashflow insolvency, associated with the inability to pay debts as they fall due.
- 2.11 Both of these tests, in particular whether a company is able to pay its debts as they fall due, involve an element of judgement.
- 2.12 We have spoken to the WBC employee who was responsible for drafting the BIG criteria and he has advised that he fails to see how Grant Thornton can decide if any of the applicants were insolvent, particularly given (in his view) that all were trading at least two years further on. Further, he has advised that should a question regarding solvency arise by looking at accounts or forecasts, then the BIG Panel would need to be assured that there was no other funding

² with one possible exception (BIG4)

available to stop insolvency, and that 'it is not as straightforward as making a paper based determination'.

- 2.13 As noted at paragraph 1.23, hindsight would not have been available to the BIG Applicants, or WBC and we have not, therefore, applied hindsight or reviewed the trading history of applicants after their BIG had been provided, or corroborated the following comments provided by WBC who have advised us that:

"The purpose of the BIG fund was to be a source of financial investment to local companies to secure monies for additional and future investment. Of those companies considered in this report, it is important to note that only one of those companies is no longer actively trading and that all were trading at the time of application and award of the grants from the BIG fund.

It cannot be ignored that the support provided to these companies under the BIG fund scheme has helped to achieve the objectives of the scheme and contributed positively to the local economy.

The support provided to the companies referred to below through the BIG fund scheme resulted in all the projects securing and/or creating jobs – and all the companies continuing to be important employers within the Borough.

(Company 1)

Company 1 were incorporated in June 1993 and presented an application for funding from the BIG fund which was approved in August 2010. The company continued to trade until earlier this year when in March 2013 it went into administration. Despite its current status of the company, it traded for two and a half years after the award thereby securing jobs and employment in the area.

(Company 2)

Company 2 is a well established business operating as a sole trader having established itself in the early eighties and had been trading some twenty five years at the time of its application for BIG funding. The company's proposal was agreed in January 2010 and was awarded later in March 2010. The business still operates today providing revenue and employment to the local economy.

(Company 3)

Company 3 was incorporated in 2003 and continues to successfully trade today following three staged awards during 2010 having successfully had their project agreed in December 2009 and since met their objectives over the last three years.

(Company 4)

Company 4 was incorporated in December 2008 and was a former recipient of funding from this scheme. Funding for a new project was approved in October 2010. The project was successful and the company continues to trade.

(Company 5)

Company 5 was incorporated in June 2009 but has since ceased to trade (due to non-financial reasons). However, a new company was formed with the project obligations, assets and workforce transferring to the new company. It was not until September 2012, some twenty six months after the BIG award, that Company 5 was dissolved. Despite the trading position of the Company 5, the BIG fund award helped achieve a positive and successful outcome for the new company.

(Company 6)

Company 6 was incorporated in December 2009 and having applied for assistance through BIG, which was agreed in May 2010, continues to trade today following five staged payments during 2010 and 2011. "

- 2.14 We have reviewed the accounts and forecasts of a selection of BIG applicants, as identified to us during the meeting described at paragraph 1.6, and our findings are discussed in more detail in our draft report dated 5 June 2013. Our review has identified a number of matters which might have been reported to the BIG Panel regarding the solvency of five of the six applicants we have reviewed, and we have been unable to find any documentary evidence of these questions being raised during the appraisal process or discussed by the BIG Panel.

Model provided by Enterprise Solutions

- 2.15 All but one of the BIG Applications we have reviewed have used a version of a forecasting model supplied by Enterprise Solutions.
- 2.16 The first tab of the model pertaining to one of the BIG Applications (BIG4) stated:

*"This Excel Workbook is intended to help you compile a realistic Financial Forecast for your **proposed business start-up** [our emphasis]."*

- 2.17 Companies House records show that this company was incorporated almost two years before the date of the corresponding BIG Application. BIG4 should not, therefore, have been treated as a "proposed" business start-up and should have been asked to use a more appropriate model.

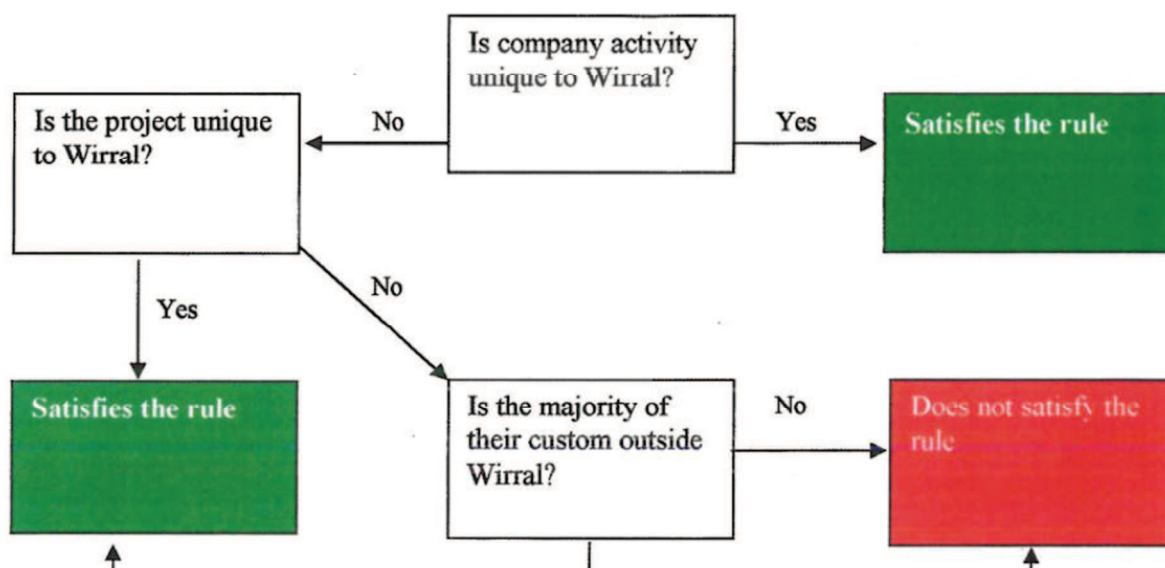
- 2.18 In speaking to the directors of BIG4, they have told us that they initially submitted a forecast using the same approach which they had adopted when making an earlier successful application for a BIG, but were asked to re-submit the forecast using the Enterprise Solutions model.
- 2.19 Furthermore, the underlying assumptions within the forecasting model used by many of the BIG Applicants were inherently optimistic as it assumed that the applicant would incur none of the following which would have resulted in reduced profits and cashflow:
- no bad debts;
 - no stock loss/wastage.
- 2.20 Furthermore, the model appears to have assumed that creditors would either have been paid during the month in which the sale of the corresponding item of stock (or similar) had taken place or one month in arrears. This would not necessarily have applied to businesses which:
- had a lead time of more than one month to convert stock into sales, ie the forecasts linked creditor payments with sales, rather than with the purchase of goods and services; or
 - new or financially distressed businesses which might have been expected to pay in advance for goods and services.
- 2.21 In addition, without manual amendment, the model took no account of the impact that existing liabilities (such as VAT creditors) might have had on future cashflow and the corresponding applicant's ability to pay its debts as they fell due.

THE LOCAL COMPETITION TEST, AND BIG4

- 2.22 The criteria which should have been used to consider BIG applicants, as submitted to WBC's cabinet stated that the:

"project must pass the "local competition test" in that their sales are not primarily to a local market or be primarily at the expense of local businesses."

- 2.23 The test required that sales were not primarily to a local market. In order to help a panel of people responsible for reviewing BIG Applications, WBC produced a flow chart which summarised the "local competition test" as follows:



- 2.24 The extract here shows that the test would be passed if the company or its project was unique to the Wirral. Although the flow chart made reference to the location in which sales had been made, the location of the sales was not a relevant consideration if a conclusion had already been reached that either the "company's activity" or the "project" were unique to the Wirral. Thus, the flow chart does not reflect the wording per the criteria submitted to WBC's cabinet.
- 2.25 Based on the contents of the flowchart, BIG4's application satisfied the local competition rule because its project appears to have been "unique". However, the flowchart did not go on to ask where the sales were primarily to be made, one of the criteria set before WBC's cabinet.
- 2.26 We have spoken to the WBC employee who was responsible for drafting both the BIG criteria and the flowchart discussed above. He has advised that BIG4's application did not fail the local competition test as its project was unique to Wirral. We note that this is on the basis of the flow chart discussed at paragraph 2.23, which does not reflect the wording of the criteria submitted to WBC's cabinet as discussed at paragraph 2.22.

THE DECISION MAKING PROCESS

2.27 The flowchart attached as Document 4 to our draft report dated 5 June 2013 indicates that the panel set up to consider BIGs could either:

- "reject an application"; or
- "agree with the positive recommendation of the Appraiser and confirm award of the grant".

2.28 In our view, BIG applications submitted by BIG1, BIG2, BIG3, BIG5, and BIG6 contained what appear to have been financial anomalies. These apparent anomalies were not explained to the corresponding BIG Panels.

2.29 The BIG Panel was made up of a combination of people employed by WBC and from third party organisations. With reference to the BIG applications we have reviewed, only one "third party" panellist sat on all of the applications listed within paragraph 2.28. Having discussed some of the anomalies with that panellist, we understand that had he been made aware of the anomalies we discussed with him, he would not have supported the corresponding application without additional information or before the apparent anomalies had been resolved.

2.30 It is uncertain what impact this might have had on the applications. This is because, although we have seen minutes of BIG Panel meetings which reflect practice, we have seen no guidance documentation setting out whether the BIG Panel's decisions were to be taken on a majority basis or on the basis of a unanimous decision.

2.31 With reference to "practice", BIG Panel meeting notes dated 21 April 2011 indicate that on one occasion (not associated with the applications listed at paragraph 2.28) an application had succeeded even though one of the BIG panellists had felt that the application should have been rejected. On at least one occasion, therefore, a BIG Application succeeded despite one panellist taking the view that the application should have been rejected. However, this was not reflected in written terms of reference.

INDIVIDUAL APPLICATIONS SUBJECT TO REVIEW

BIG1, BIG2, BIG3, BIG5

2.32 In reviewing these applications, we found significant anomalies which were not brought to the BIG Panel's attention.

2.33 For example, one or more of these four BIG Applicants submitted:

- cash flow forecasts which did not appear to take account of existing liabilities, such as VAT which would, had they been reflected in the cash flow forecasts raised doubt about the applicant's ability to pay debts as they fell due;
- a balance sheet, where an opening balance did not match the corresponding closing balance from the previous period;
- accounts which indicate that the applicant had paid unlawful dividends (ie contrary to the Companies Act);
- forecasts which assumed that turnover and profitability would grow quickly despite a recent history of declining turnover and losses.

2.34 Each of these anomalies might have been addressed and explanations sought, and/or revised and more prudent forecasts prepared for the benefit of the BIG Panel. It is possible that the BIG Applicants we have considered might have:

- provided more complete or more accurate financial information resulting, ultimately, in a successful application; or
- been unable to provide better financial information resulting, ultimately, in the application being declined.

2.35 It is difficult to second guess what impact this information might have had on the BIG Panel. This is particularly true given that the judgement as to whether an application should have succeeded would not have been easy given that BIGs were intended to support businesses which had been unable to locate finance from commercial sources, such as high street banks.

BIG6

2.36 BIG6 provided WBC with two BIG Applications and appear to have provided two sets of accounts in support of those applications with differing year ends.

2.37 The two sets of accounts are almost identical, for example, referring to exactly the same levels of turnover and net profit.

2.38 We also note that both sets of accounts include a £500 grant which appears to have been provided by WBC. Based on the information available to us, it seems that WBC might have recognised that the grant should not have been accounted for in both sets of accounts as it was provided around four months before one of the two accounting periods had begun.

- 2.39 We met with BIG6 and discussed the corresponding application. As things stand, it is unclear, whether BIG6's declaration that the information provided in the corresponding application was "correct and given in good faith" had been appropriate.

RECOMMENDATIONS

- 2.40 We have made detailed recommendations in our draft report, dated 5 June 2013. These include recommendations that WBC considers whether it:
- can, or should, claw back the BIG given to BIG6; and
 - should refer BIG6's application to the Police.
- 2.41 We have recommended that the Police should be asked to confirm that sharing our present draft findings with any third parties would not jeopardise any actual or potential Police investigation. We have recommended to WBC that WBC ensure that the Police are satisfied that either we and/or WBC are able to share these draft findings with any third parties before proceeding further. To do otherwise might jeopardise any subsequent police investigation, if any such investigation was deemed necessary.
- 2.42 It should be noted that, if WBC decide to refer BIG6's application to the Police, it should delay any efforts to claw back the grant until the Police have given the matter due consideration.
- 2.43 It is also very important that WBC:
- reviews the criteria it uses to review grant and similar applications to avoid ambiguities in the corresponding criteria wherever possible; and
 - ensures that where panels are used to review applications, the panellists are given written terms of reference.



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