



Grant Thornton

BUSINESS INVESTMENT GRANTS

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

dated 2 May 2014

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## 1 INTRODUCTION

### INSTRUCTIONS

- 1.1 Grant Thornton UK LLP have been instructed by Wirral Borough Council (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)".*

- 1.2 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 report does not address the ISUS programme as that is the subject of a separate report submitted to WBC.

- 1.3 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."*

- 1.4 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.
- 1.5 Having met with two former employees of Enterprise Solutions and an applicant to an unrelated business start-up programme, we produced an enquiry log which we sent to the people we had met, for their review. That part of the enquiry log which is associated with BIG is attached as Appendix 1. The remaining parts of the log are attached to a separate report of today's date and are not referred to in this report.
- 1.6 If further information is produced and brought to our attention after service of this report, we reserve the right to revise our opinions as appropriate.

- 1.7 This work does not constitute an audit performed in accordance with Auditing Standards.
- 1.8 Except to the extent set out in this report, 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.
- 1.9 No responsibility is accepted to anyone other than WBC.
- 1.10 This report has been finalised on the basis that WBC advised, on 1 May 2014, that no action will be taken by police in relation to this case. No further work has been performed since this report was issued in draft form on 5 June 2013, and our recommendations contained in our draft report of that date regarding reporting matters to the police and other authorities are contained in Section 7 of this report.

### RESTRICTION ON CIRCULATION

- 1.11 This report 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 report addresses matters which may be associated with illegal or dishonest activity. In doing so, we have referred to doubts we have concerning the integrity of one of the BIG applicants and/or his external advisors. We have not identified concerns regarding the integrity or honesty of any WBC employees. We also note that WBC has not restricted our access to WBC and/or Invest Wirral employees.
- 1.13 However, this report 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 report under the Freedom of Information Act. This is particularly relevant to the comments included in parts of Section 2 and throughout Section 6.

### DISCLOSURES OF INTEREST

- 1.14 Since accepting this instruction, Grant Thornton UK LLP has become the external auditor to WBC. This report 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 report may have been made available to recipients in electronic as well as hard copy format. Multiple copies and versions of this report 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 have 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. 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 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 ML Engineering, as discussed in Section 6.
- 1.22 This is also important as ordinarily (possibly with exception of Section 6), we would have discussed our findings in draft form with Enterprise Solutions before preparing this report. 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 report 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 We have reviewed six BIG Applications in response to the allegations set out in the enquiry log attached as Appendix 1. 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.
- 2.2 There are anomalies within each of the BIG Applications we have reviewed as summarised from paragraph 2.32.
- 2.3 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 because the majority of the BIG Applications we have reviewed relied on a cashflow forecasting model which had been supplied by Enterprise Solutions<sup>1</sup> which also contained anomalies.
- 2.4 It is important to note that, 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.
- 2.5 The anomalies discussed in this report would not, in isolation<sup>2</sup>, have been sufficient to conclude that an applicant would necessarily have been precluded from a BIG, but they might have resulted in the submission of improved financial information which might have enabled WBC to make a better informed decision.

## AMBIGUITIES AND INCONSISTENCIES

### SOLVENCY

- 2.6 Document 2 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.

<sup>1</sup> or, more particularly, a sub-contractor working on behalf of Enterprise Solutions

<sup>2</sup> with the 



- 2.7 For the purpose of this report, 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.
- 2.8 Both of these tests, in particular whether a company is able to pay its debts as they fall due, involve an element of judgement, particularly whether the assessment involves consideration of whether such a situation might arise at a future point.
- 2.9 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 available to stop insolvency, and that 'it is not as straightforward as making a paper based determination'.
- 2.10 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.
- 2.11 We have reviewed the accounts and forecasts of a selection of BIG applicants as identified to us during the meeting described at paragraph 1.5, and our findings are discussed in Section 4. Our review has identified a number of questions regarding the solvency of the applicants, and we have been unable to find any documentary evidence of these being raised during the appraisal process or discussed by the BIG Panel.
- 2.12 As part of the BIG application process, applicants submitted a range of historic financial information as well as forecasts, including a one year cashflow forecast. The historic financial information submitted by applicants tended not to have been in a format consistent with the forecasts. This makes it relatively difficult to compare historic and forecast information. We would have recommended that applicants be required to submit historic and forecast information in a consistent format.

- 2.13 Notwithstanding this feature, the forecasts could have been subject to sensitivity analysis taking account of a series of assumptions which were more or less prudent than those used by the applicants. This is a commonly used approach to appraise potential investments, especially concerning businesses whose financial circumstances are already weak and the likelihood of a project's success is in doubt. Such a process did not take place.

#### Model provided by Enterprise Solutions

- 2.14 All but one of the BIG Applications we have reviewed have used a version of a forecasting model supplied by Enterprise Solutions.
- 2.15 The first tab of the model pertaining to [REDACTED] stated:

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

- 2.16 Companies House records show that this company was incorporated in December 2008. The BIG Application discussed in this report was made in September 2010 and followed from an earlier and successful grant provided by WBC to [REDACTED] should not, therefore, have been treated as a "proposed" business start-up and should have been asked to use a more appropriate model.
- 2.17 In speaking to the directors of [REDACTED], they have told us that they initially submitted a forecast using the same approach which they had adopted when making their earlier successful application, but were asked to re-submit the forecast using the Enterprise Solutions model.
- 2.18 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.

2.19 Furthermore, the model appears to have assumed that creditors would either have been paid during the month in which a sale took 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.

2.20 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.

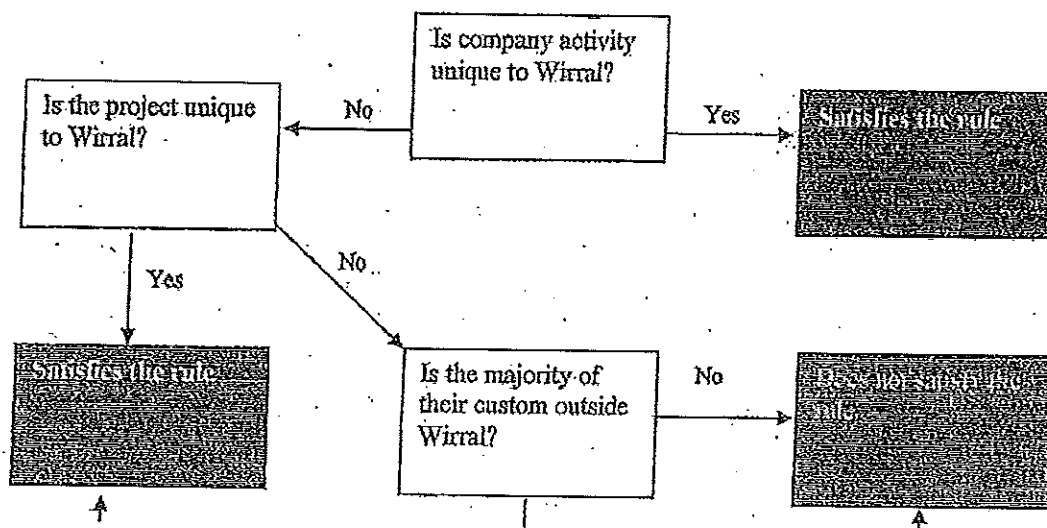
2.21 The model supplied by Enterprise Solutions is discussed in more detail from paragraph 3.11 and also throughout Section 4.

#### THE LOCAL COMPETITION TEST

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. The flow chart does not reflect the wording per the criteria submitted to WBC's cabinet.

2.25 As discussed below (from paragraph 2.55), [redacted]'s application had been for funds to support the creation of a business magazine for businesses on the Wirral. We have been informed that no other company produced a business magazine specifically for businesses on the Wirral. Thus, it might be said that [redacted] project was "unique" and according to the flow chart, satisfied "the rule". 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 [redacted] application did not fail the local competition test as it 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 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 [REDACTED] g contained what appear to have been financial anomalies. These apparent anomalies were not explained to the corresponding BIG Panels, as summarised from paragraph 2.32.

2.29 The BIG Panel was made up of a combination of people employed by WBC and Invest Wirral, 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

2.32 We have summarised some of the key points arising from our review here.

2.33 We have discussed [REDACTED] in more detail from paragraph 4.10.

### Growth forecasts

- 2.34 [REDACTED] achieved turnover of less than £500,000 in its first ten months of business, but anticipated that it would achieve turnover of £2m following its BIG Application. [REDACTED] did not submit a monthly analysis of its historic turnover and it is not possible to say whether it demonstrated high levels of growth in turnover immediately before its BIG Application.
- 2.35 Although the BIG panel was informed that a large increase in future turnover had been anticipated, the impact that a failure to have achieved this level of growth on [REDACTED] solvency, and in particular, its ability to pay its debts as they fell due, was not reported to the BIG Panel.
- 2.36 The cashflow forecast submitted by [REDACTED] anticipated a closing bank balance [REDACTED] by the close of October 2010. [REDACTED] had an overdraft balance of only [REDACTED]. Thus, even on its own bases, [REDACTED] had very little headroom should its forecasts have proved inaccurate or over-optimistic. It might also have been the case that the overdraft limit would have been exceeded during October 2010, ie before the end of the month.
- 2.37 A small variation in reality compared with expectation would have meant that [REDACTED] would have been unable to pay its debts as they fell due and would have needed to either expand its overdraft or find alternative sources of finance. However, as Document 2 explained, in order to make a successful application under the BIG programme:

*"Businesses should be able to demonstrate that they have exhausted all other conventional sources of funding available to them".*

- 2.38 It seems doubtful, therefore, whether [REDACTED] should have been expected to pay its debts as they fell due if it failed to fulfil its forecast growth in turnover.

### Existing liabilities

- 2.39 Based on the most up to date balance sheet submitted by [REDACTED], it had high levels of unpaid tax liabilities. These were not reflected within [REDACTED] cashflow forecast. However, the payment of these existing liabilities would have further jeopardised [REDACTED] ability to pay its debts as they fell due. This feature was not reported to the BIG Panel.

- 2.40 We have discussed [REDACTED] a more detail from paragraph 4.30.

### Growth forecasts

- 2.41 [REDACTED] cashflow forecast was based on assumptions that it would enjoy huge increases in turnover and profitability. The impact that a failure to achieve these assumptions might have had on [REDACTED]'s ability to pay its debts as they fell due was not reported to the BIG Panel.
- 2.42 Sensitivity analysis we have produced involving more prudent assumptions concerning only profitability suggest that [REDACTED] might have been expected to exceed its overdraft facility within a year of the BIG Application.

### Unlawful dividends

- 2.43 Based on the historic financial information submitted by [REDACTED], it would appear that it had paid unlawful dividends prior to its BIG Application. This is important because it implies that Cass Coaches had preferred the interests of shareholders over creditors and this should, from a solvency perspective, have been of concern. This feature was not reported to the BIG Panel.

- [REDACTED]
- 2.44 We have discussed [REDACTED] a more detail from paragraph 4.64.

### Fundamental error in [REDACTED]

- 2.45 [REDACTED] submitted accounts for the year ended 31 May 2009 and for the five months ended 31 October 2009. The opening position in [REDACTED] capital account in accounts for the five months ended 31 October 2009 (ie 1 June 2009) should have matched the closing position in the capital account of the accounts for the year ended 31 May 2009. It didn't. This fundamental error was not reported to the BIG Panel.

### Growth forecasts

- 2.46 [REDACTED] appears to have had an overdraft facility [REDACTED]. On its own basis, [REDACTED] was forecast to exceed this facility within a year of the BIG Application. This feature was not reported to the BIG Panel.
- 2.47 [REDACTED]'s accounts reported that it had achieved turnover of [REDACTED] anticipated that it would achieve sales of [REDACTED] the twelve months after its BIG Application. It also seems to have been associated with, or indirectly related to, a recent history of bad debt [REDACTED] also anticipated a growth in gross profit margins from 13% to 27%.
- 2.48 The impact that a failure to achieve these forecasts might have had on [REDACTED]'s ability to pay its debts as they fell due was not reported to the BIG Panel.

- 2.49 We have discussed [REDACTED] in more detail from paragraph 4.79.

#### Growth forecasts

- 2.50 The historic financial information submitted by [REDACTED] showed that its turnover and profitability had been declining significantly prior to its BIG Application. Nonetheless, its cashflow forecast was based on assumptions that it would immediately return to profitability, and record turnover of [REDACTED] m compared with turnover of [REDACTED] m in the 11 months before the BIG Application.
- 2.51 The impact that a failure to achieve these forecasts might have had on ability to pay its debts as they fell due was not reported to the BIG Panel.

#### Existing liabilities

- 2.52 Although [REDACTED] cashflow forecast took account of its existing trade debts and trade creditors, it does not appear to have taken account of an existing balance marked "taxation/dividends" of [REDACTED].
- 2.53 In a broadly similar way, although [REDACTED] g estimated that it would recoup all outstanding trade debts within two months, it assumed that it could pay its outstanding trade creditors over a five month period.
- 2.54 This is significant because [REDACTED] ng appears to have exceeded its existing overdraft facility prior to making its BIG Application and the bank had refused to increase the facility. Even on its own basis, [REDACTED] anticipated exceeding the facility within three months of the BIG Application. The extent to which it might have exceeded this facility would only have grown had its assumptions proved over-optimistic and the need to pay the "dividends/taxation" taken place shortly after the application. These features were not reported to the BIG Panel.
- [REDACTED]
- 2.55 [REDACTED] had received a grant from WBC before the application which we have reviewed, and is discussed in more detail in Section 5.



2.56 This second application involved a request for finance to set up a free at the point of receipt magazine for businesses on the Wirral. Based upon the contents of its application, it might have been reasonably foreseen that the advertising and other revenues it was likely to accrue would have primarily come from local sources. We have spoken to [REDACTED]'s directors who have confirmed that this had been their expectation.

2.57 As a consequence [REDACTED]'s directors had been surprised when WBC staff suggested they apply for a BIG. The application succeeded despite the criteria which underpinned BIG which stated that a:

*"project must pass the "local competition test" in that their sales are not primarily to a local market".*

2.58 As explained from paragraph 2.22, the application seems to have succeeded because documentation provided to the BIG Panel was not consistent with the criteria presented to WBC's cabinet.

[REDACTED]

2.59 We have discussed [REDACTED] in more detail in Section 6.

2.60 It would seem that [REDACTED]'s provided WBC with two BIG Applications and appear to have provided two sets of accounts in support of those applications:

- year ended 30 November 2009; and
- year ended 31 March 2010.

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

2.62 We also note that both sets of accounts include a [REDACTED] grant which appears to have been provided by WBC in or around December 2008. If that is correct, the £500 grant should not have been included in the accounts for the year ended 31 March 2010 as it was provided around four months before the period began.

2.63 We discussed the two sets of accounts with [REDACTED] the similarities in them. [REDACTED] told us that, in his view:

*"it's obviously a mistake<sup>3</sup>".*

2.64 In making his BIG Application, [REDACTED] stated that:

*"I confirm that, to the best of my knowledge, the information above is correct and given in good faith."*

2.65 It is unclear, therefore, whether [REDACTED]'s statement had been appropriate and whether he made his application in good faith.

## RECOMMENDATIONS

2.66 We have made recommendations in Section 7 of this report. These include recommendations that WBC considers whether it:

- can, or should, claw back the BIG given to [REDACTED]
- should refer [REDACTED] application to the Police.

2.67 It should be noted that, if WBC decide to refer the [REDACTED] application to the Police, it should delay any efforts to claw back the grant until the Police have given the matter due consideration.

<sup>3</sup> Having met Mr Lamb, we pulled together notes of our meeting and asked him to review these for accuracy and completeness. We have not yet received a response and so these comments may be subject to change.

### 3 BUSINESS INVESTMENT GRANTS – BACKGROUND

- 3.1 Document 2, "Invest Wirral, BIG Support" described BIGs and was attached to a report prepared by WBC's Director of Corporate Services, titled "Business Support – Response to the Current Economic Climate", dated 19 March 2009<sup>4</sup>. Among other things, Document 2 described the criteria businesses needed to fulfil in order to receive a BIG<sup>5</sup>, as well as describing the "application process"<sup>6</sup>.
- 3.2 It has been alleged that BIGs have been paid to four businesses which did not qualify for financial support because they were insolvent, as listed here:
- [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]
- 3.3 It has also been pointed out that the former Enterprise Solutions staff who have made these allegations did not have access to the full suite of BIG Applications which were processed with the support of Enterprise Solutions on behalf of WBC. It has been suggested, therefore, that the alleged failings concerning the applications addressed in this report may apply to other BIG Applications.
- 3.4 We have discussed the criteria concerning solvency from paragraph 3.41 and discussed whether the claimants listed above fulfilled the solvency criteria in Section 4.
- 3.5 It has also been alleged that a BIG should not have been paid to [REDACTED] because the claimant did not require financial support in order to complete the project for which it had applied for a BIG. We have discussed the corresponding criteria from paragraph 3.56.
- 3.6 Before describing these criteria, we have discussed the decision making process concerning BIGs from paragraph 3.8.

<sup>4</sup> attached as Document 3

<sup>5</sup> first and second pages of Document 2

<sup>6</sup> final page of Document 2

- 3.7 It has also been alleged that an application submitted by [REDACTED] and associated documents provided in support of a BIG Application were manipulated by staff/sub-contractors of Enterprise Solutions in order to deceive WBC. We have discussed [REDACTED] in more detail in Section 6.

## DECISION MAKING PROCESS

- 3.8 Document 2 described the "application process" which BIG Applicants and WBC needed to follow. However, the information included in this document was brief and contained significant gaps, as discussed below in this section of our report.
- 3.9 We understand that the decision making process used to consider applicants for BIG was summarised on the flowchart attached as Document 4. Some of the key points are summarised here:
- Businesses prepared a detailed application for BIG (the BIG Application) attaching a trading forecast and a cashflow forecast, part of the "Financial Information" described in more detail at paragraph 3.11, often with the support of Enterprise Solutions.
  - The BIG Application and Financial Information was passed to WBC's Chief Accountant to enable the Chief Accountant to review the Financial Information. The Chief Accountant provided Invest Wirral with a memorandum with his comments on the application and Financial Information.
  - The BIG Application and Financial Information was appraised by WBC staff, resulting in the preparation of a BIG Appraisal form, taking account of the Chief Accountant's memorandum.
  - A written appraisal concerning the BIG Application was prepared by WBC staff (the BIG Application) and circulated to a panel (the BIG Panel) prior to a meeting.
  - The BIG Panel agreed with the recommendation reflected in the appraisal given to the panel members or declined the BIG Application and this was recorded in minutes of the BIG Panel's meeting.
  - In the event that the BIG Panel agreed with the recommendation made in the appraisal, a report and offer letter were prepared for a senior WBC officer and Cabinet/Cabinet member.

3.10 We have discussed the financial information provided by BIG applicants and the BIG Panel from paragraphs 3.11 and 3.32, respectively.

### FINANCIAL INFORMATION SUPPLIED BY BIG APPLICANTS

3.11 BIG Applications required the applicant to provide the following Financial Information:

- Twelve month profit and loss forecast broken down monthly, and monthly cash flow projections from the "current" month through to the first twelve months of the project.
- Audited accounts for the previous year and six months management accounts.

3.12 We have discussed the forecasts provided by BIG Applicants from paragraph 3.15 and the accounts submitted by BIG Applicants from paragraph 3.29.

3.13 A representative of the BIG applicant was asked to sign the BIG Application to state that "*the information in this Application is correct and given in good faith*". Whilst a legal matter, we assume that the financial information required of BIG applicants fell within the information which applicants stated as being "correct" and "given in good faith".

3.14 Staff or sub-contractors at Enterprise Solutions were not required to sign the BIG Applications or (as far as we can tell) otherwise warrant or audit the contents of the BIG Applications. Rather, the applications and the associated Financial Information belonged to and was the responsibility of the applicant.

### Forecasts

3.15 We have discussed the assumptions underpinning the forecasts provided by BIG Applicants from paragraph 3.16 and whether the pro-forma forecasts provided by Enterprise Solutions were appropriate for BIG Applicants from paragraph 3.26.

### Assumptions underpinning the forecasts

3.16 Being forecasts, their contents were inherently uncertain, and should have been based on a series of assumptions such as:

- forecast sales and levels of profitability;
- the number of days in which customers were expected to pay their debts to a BIG applicant;
- the proportion of bad debts which might be experienced;
- the expected number of days in which the BIG applicant would pay creditors.

- 3.17 With the exception of [REDACTED] the format of the Financial Information provided by the five BIG applicants listed at paragraphs 3.2 and 3.7 was the same, being based on pro-forma spreadsheets which were subject to [REDACTED] copyright and provided by Enterprise Solutions.
- 3.18 The pro-forma spreadsheets were maintained using Microsoft Excel and included:
- a sales forecast;
  - an expenses forecast;
  - a P&L forecast; and
  - a cashflow forecast.
- 3.19 The BIG applicants listed above provided WBC with electronic copies of the forecasts in Microsoft Excel. In principle, this should have enabled WBC to provide sensitivity analyses in the form of alternative forecasts for the BIG Panel which took account of more or less prudent assumptions than had been reflected in the forecast<sup>7</sup>.
- 3.20 WBC did not provide the BIG Panel with alternative forecasts or other forms of sensitivity analysis. This is significant because, as explained in Section 4, the forecasts we have reviewed concerning [REDACTED] optimistic and often overlooked opening balances.
- 3.21 The number of days in which customers were expected to pay their debts was shown on the pro-forma sales forecast which underpinned the cashflow forecast. However, the forecasts appear to have assumed that applicants would incur:
- no bad debts;
  - no stock loss/wastage.
- 3.22 The pro-forma forecasts and the model on which they depended were, therefore, inherently optimistic. The BIG Appraisals we have reviewed did not alert the reader to the inherently optimistic nature of the forecasts which had been appraised by WBC staff.

<sup>7</sup> subject to the comments at paragraph 3.24

3.23 The forecasts did not specify when creditors would be paid. The spreadsheets appear to have assumed that creditors would have been paid either during the month in which a sale took 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 payments to creditors 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.

3.24 Many of the cells within the pro-forma forecasts (which were excel spreadsheets) were "locked" and some of the underlying assumptions could not be changed without a password. As far as we can tell the assumptions concerning the dates when creditors would be paid were locked and could not be changed by BIG Applicants or by WBC staff without the support of Enterprise Solutions.

3.25 However, WBC might have asked BIG applicants to have either provided forecasts based on a range of assumptions or might have asked for the password used to "lock" the forecasts and might have undertaken its own sensitivity analysis. This is relevant because small changes in the assumptions within the pro-forma forecasts could have had significant implications for a business' solvency and, in particular, its ability to pay its debts as they fell due.

#### ***BIG Applicants compared with business start-ups***

3.26 In addition to the forecasts listed at paragraph 3.18, two of the pro-forma forecasts we have reviewed included guidance notes which stated that:

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

3.27 As shown by the quotation, the pro-forma was intended for "proposed business start-ups". The BIG applicants we have reviewed had all started trading by the date of their application. As a consequence, they had existing assets and liabilities which should have been reflected in their cashflow forecasts (eg in the form of receipts from unpaid sales, and payments to existing creditors). The guidance notes made no reference to existing assets and liabilities and how these should have been reflected in the cashflow forecasts.

- 3.28 As discussed in Section 4, the opening position (ie existing assets and liabilities) was not always properly reflected in the cashflow forecasts which supported BIG Applications. The BIG Panel does not appear to have been made aware of this inherent weakness in the purpose behind the cashflow forecasts on which BIG Appraisals were made.

#### Audited accounts and six months management accounts

- 3.29 As explained at paragraph 3.11, BIG applicants were required to provide audited accounts. In reviewing five BIG Applications for the applicants listed above, we have not seen audited accounts for any of the BIG Applications. Instead, we have seen unaudited accounts. The BIG applicants were not legally obliged to have their accounts audited owing to their size.
- 3.30 It might be said, therefore, that the applications we have seen should not have been accepted by WBC or, as an alternative, the fact that audited accounts had not been submitted should have been disclosed to the BIG Panel. Based on the BIG Appraisals we have seen, the BIG Panel was not informed that the underlying application (and therefore BIG Appraisal) had been prepared using unaudited accounts.
- 3.31 Given the size of many of the BIG Applicants, WBC should have recognised that the application forms which it asked applicants to submit were flawed as they asked for "audited accounts" from applicants who were unlikely to have had them.

#### THE PANEL AND INFORMATION PROVIDED TO IT

- 3.32 We have reviewed minutes from BIG Panel meetings in which the applications listed above were approved. These show that the panel included representatives from:
- WBC;
  - Invest Wirral;
  - Business Link NW;
  - the Federation of Small Businesses;
  - Wirral Chamber of Commerce; and
  - Natwest/RBS.
- 3.33 Document 2 stated that:

*"The financial information will be independently assessed by an allocated manager within the Council [presumably the Chief Accountant]."*



3.34 However, Document 2 did not specify what information should have been made available to the BIG Panel. Although not specifically stated in Document 2, we understand that the BIG Panel was provided with the BIG Application and the BIG Appraisal, but not typically given the Financial Information.

3.35 Document 2 did not specify how the Panel would reach a decision (eg by majority vote or unanimous decision) but read:

*"A panel will be set up to determine applications and will meet monthly to ensure that speedy decisions are made."*

3.36 With reference to the five BIG Applications listed at paragraphs 3.2 and 3.5, WBC employees and third party representatives sat on the BIG Panels which considered the BIG applications we have reviewed. Of the third party representatives who sat on the BIG Panels, only one person sat on all of the corresponding BIG Panels, referred to hereafter as the "External Panellist". We have spoken to this representative in order to discuss his involvement with the BIG Panels and the BIG Applications described in this report.

3.37 The External Panellist has told us that he received a copy of BIG Applications and the corresponding Appraisals before the BIG Panel met and sometimes received additional information.

3.38 We understand from WBC staff that the Financial Information was made available to BIG panellists when they met, but the External Panellist has told us that, in his view, the Panel was not required to perform a full financial analysis of the BIG Application and that, whilst questions were asked during meetings, the panellists relied on the financial analysis which had been performed before the panel met.

3.39 The External Panellist has also told us that he can remember discussions concerning BIG Applications taking place and that, ultimately, each of these discussions reached a consensus as to whether an application should be rejected or the recommendation reflected in the BIG Appraisal accepted. WBC staff have told us that a majority decision was sufficient to reach a conclusion but have confirmed that the voting mechanism to be applied by the BIG Panel was not documented.

## **BIG CRITERIA**

3.40 As explained at the beginning of this section, it has been alleged that BIG Applicants fell outside the BIG criteria either on the bases of solvency or because the applicant did not need a BIG in

order to undertake the corresponding project. We have discussed these criteria from paragraphs 3.41 and 3.56 respectively.

### SOLVENCY

3.41 The criteria which businesses needed to meet in order to be considered for a BIG application were set out in Document 2. The "business eligibility criteria" which applicants needed to meet are listed here:

- *"Invest Wirral Business Team will consider investment plans from local SME's (up to 250 employees) with particular focus on the micro businesses.*
- *The business must be financially and organisationally sound and trading in legitimate activity and be able to demonstrate this.*
- *The Company and its Directors must be solvent [our emphasis].*
- *The business and its 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.*
- *Must comply with rules relating to EU State Aid."*

3.42 We understand that the terms used to describe the business eligibility criteria were not defined in any more detail than shown above.

3.43 As it has been alleged that a group of BIG applications should not have succeeded because the applicant was insolvent, we have discussed the definition of solvency here.

#### Definition of solvency

3.44 Solvency was not defined by WBC within Document 2. In the absence of a definition, we have considered the Insolvency Act as this is often used by accountants in order to consider whether a company is solvent.

3.45 Section 123 of the Insolvency Act 1986 refers to two primary types of insolvency:

- Cash flow insolvency - where a company is unable to pay its debts as they fall due.
- Balance sheet insolvency - where a company's balance sheet liabilities exceed its balance sheet assets.

### *Cash flow Insolvency*

- 3.46 As stated above, a company is considered to be insolvent if it is not able to pay its debts as they fall due. According to the Insolvency Act 1986, this is specifically defined as follows:

*"122 (1) A company may be wound up by the court if:*

*...*

*(f) the company is unable to pay its debts*

*"123 (1) A company is deemed unable to pay its debts:-*

*...*

*(e) if it is proved to the satisfaction of the court that the company is unable to pay its debts as they fall due."*

- 3.47 We assume that WBC had this definition in mind when it required BIG applicants to provide cash flow projections. This is because satisfactory cash flow projections would have provided confidence that a company would be able to pay its debts as they fell due and were not, therefore, insolvent. It should also have provided WBC with confidence that the "investment" which WBC was supporting was capable of being fulfilled.

### *Balance sheet Insolvency*

- 3.48 The second test of insolvency is, according to the Insolvency Act 1986, defined as follows:

*"123 (2) A company is also deemed unable to pay its debts if it is proved to the satisfaction of the court that the value of the company's assets is less than the amount of its liabilities [our emphasis], taking into account its contingent and prospective liabilities."*

- 3.49 We note that the practical application of section 123 (2) should not involve a mechanical calculation which only compares assets and liabilities. In doing so, we have referred to "*BNY Corporate Trustee Services Limited v Eurosail-UK 2007-3BL Plc & others* [2011] EWCA Civ 227" in which Lord Neuberger MR concluded:

*"section 123(2) does not amount to a wholly new, relatively mechanical "assets-based", basis for seeking to wind up a company. It supports the view that the section can only be relied on by a future or contingent creditor of a company which has reached "the end of the road" [our emphasis], or in respect of which the shutters should be "put up", imprecise, judgement-based and fact-specific as such a test may be".*

- 3.50 The Insolvency Act was not prepared in order to define solvency for BIG applicants. However, whilst a legal matter, it seems to us that, when considering "solvency" with reference to the balance sheet test (and in the absence of a better definition), WBC should only have relied on the balance sheet test to conclude that an applicant was not solvent where it had been demonstrated that a business had "reached the end of the road".
- 3.51 This seems to have been the approach adopted by WBC because, in some cases, the BIG Applicants we have reviewed had greater liabilities than assets on their balance sheets. Generally, this feature appears to have been considered by WBC, and did not render the application unsuccessful.
- 3.52 In the context of the BIG Applications, a suitable definition of solvency might have revolved around whether WBC/the BIG Panel was satisfied that the applicant would have been able to pay its debts as they fell due within a period of one year, or if foreseeable, within the lifetime of the corresponding project.
- 3.53 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 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 available to stop insolvency, and that it is not a straightforward as making a paper based determination.

- 3.54 As noted at paragraph 1.23, regarding the comment that the applicants were all trading following receipt of the grant, 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.
- 3.55 We have reviewed the accounts and forecasts of a selection of BIG applicants and our findings are discussed in Section 4. Our review has identified a number of questions regarding the solvency of the applicants, and we have been unable to find documentary evidence of these being raised during the appraisal process or discussed by the BIG Panel.

### PROJECT SUCCESS

- 3.56 It has been alleged that ██████ should not have succeeded in its BIG Application because ██████ didn't require financial support.

- 3.57 As shown on Document 2, amongst other things, the "purpose of the fund" had been:

*"to enable the project to succeed."<sup>8</sup>*

- 3.58 The BIG criteria also stated that:

*"Businesses should be able to demonstrate that they have exhausted all other conventional sources of funding available to them."<sup>9</sup>*

- 3.59 We have discussed the ██████ BIG Application in Section 5 and note that this application may not have passed the "local competition test" which was referred to in the BIG criteria as follows:

*"the business and its project must pass the "local competition test" in that their sales are not primarily to a local market..."*

<sup>8</sup> first page of Document 2

<sup>9</sup> third page of Document 2

#### 4. BIG – ELIGIBILITY (SOLVENCY)

- 4.1 We have discussed the BIG Applicants where it has been alleged that they should not have been given a BIG on the grounds of solvency in this section of our report. In doing so, we have considered whether the applicants met the BIG "solvency" criteria based on the "balance sheet test" and the applicant's ability to pay its debts as they fell due.
- 4.2 As explained from paragraph 3.48, we do not take the view that a BIG applicant fell outside the BIG criteria concerning solvency simply because its liabilities exceeded its assets, but have addressed the balance sheets provided by the four BIG applicants associated with a suggested lack of solvency below.
- 4.3 We have also considered the cashflow forecasts provided by the BIG applicants in order to consider whether they were likely to be able to pay their debts as they fell due.
- 4.4 Document 2 referred to the purpose of the fund from which BIGs were paid and stated:
- "During the current economic downturn, this fund will be used 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 through this downturn".*
- 4.5 As explained in the previous section, the Enterprise Solutions cashflow forecast model had inherently optimistic assumptions built into them, such as the assumption that applicants would not suffer bad debts.
- 4.6 As explained below, the forecasts prepared by each of the applicants also relied on optimistic assumptions concerning their future expectations, as well as being driven by generic assumptions within the forecasting model. Whilst we recognise that the BIGs were intended to support businesses with the potential for growth, at a time of economic slowdown/recession, assumptions that applicants would increase their turnover and/or profit margins were not necessarily appropriate.
- 4.7 Against this backdrop, static turnover/profitability or a slow-down in the rate of decline might also have been indicative of success. This is especially true of applicants such as [REDACTED] which had been incorporated in 2003.

4.8 This was, or should have been, recognised by WBC given that the report prepared by WBC's Director of Corporate Services, dated 19 March 2009 (Document 3<sup>10</sup>) pointed out that:

*"Whilst the Council's Invest Wirral team continues to work with companies regarding expansion and investment plans, there are significantly more occurrences of them working with companies which are experiencing operating difficulties in the current economic climate [our emphasis]. Invest Wirral is acting in a responsive manner in identifying and targeting such companies and is working much more closely with partner organisations to ensure a co-ordinated approach. The proposals outlined in this report will build upon that co-ordinated approach and the package of support available."*

4.9 We have discussed the four BIG Applicants whose solvency has been questioned as follows:

- o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
- [REDACTED]

4.10 As with each of the four BIG applicants listed at paragraph 4.9, we have considered whether [REDACTED] passed the "balance sheet test", and, whether it was likely to be able to pay its debts as they fell due and therefore merit investment/financial support.

**ELIGIBILITY – BALANCE SHEET SOLVENCY**

4.11 [REDACTED] BIG Application was dated 7 October 2010. However, the corresponding BIG Appraisal was dated 17 May 2010, the application was approved by the BIG Panel on 27 May 2010 and an offer was made to [REDACTED] in June 2010. We assume, therefore, that the BIG Application was incorrectly dated.

4.12 Companies House records show that [REDACTED] was incorporated on [REDACTED] [REDACTED] and changed its name to [REDACTED] [REDACTED].

<sup>10</sup> paragraph 2.8 of Document 3

4.13 In support of its BIG Application, [REDACTED] could not provide accounts for a whole year of trading as required by BIG Application stationery (see paragraph 3.11) because it had only been incorporated for approximately 11 months (June 2009 to May 2010). It did, however, provide management accounts for the 10 months ended 31 March 2010. That [REDACTED] had been established in June 2009 was reported to the BIG Panel in the corresponding BIG Appraisal.

4.14 As [REDACTED] BIG Application is likely to have been made in May 2010, the Financial Information provided (its management accounts for the 10 months ended 31 March 2010) by [REDACTED], was, therefore, at least a month old at the date of its BIG Application. However, the profit and loss account provided by [REDACTED] showed that it had generated profits in the period to 31 March 2010 and the balance sheet included within [REDACTED]'s management accounts referred to net assets of £60,885. Assuming that it had continued to accrue profits in the period from 31 March 2010 to the date of the BIG Application, [REDACTED] is likely to have passed the balance sheet test at the date of its BIG Application.

#### ELIGIBILITY – ABILITY TO PAY DEBTS AS THEY FALL DUE

4.15 In support of its BIG Application [REDACTED] provided a cashflow forecast for the year ending 30 April 2011.

#### Growth in turnover

4.16 The cashflow forecast provided by [REDACTED] anticipated growth in monthly turnover from [REDACTED]

4.17 We note that the BIG Appraisal pointed out<sup>11</sup> that the growth in turnover was "ambitious" and noted that the forecast anticipated future annual sales of "just under £2m" having achieved sales of "£458k in its first ten months of operation to March 31<sup>st</sup> 2010".

4.18 The BIG Appraisal also stated<sup>12</sup> that

*"The [REDACTED] it has been consulted on the financial position of the company and has commented that although the company's incorporation is too recent to offer any degree of reliable conclusion at this time there are no adverse signs concerning solvency."*

<sup>11</sup> section 2 of the BIG Appraisal

<sup>12</sup> section 7 of the BIG Appraisal



4.19 However, the BIG Appraisal did not endeavour to quantify the point at which a lack of sales growth might have prevented [REDACTED] from paying its debts as they fell due.

4.20 According to the BIG Appraisal<sup>13</sup>, [REDACTED] had a:

*"£500 overdraft facility which is the maximum their Bank is prepared to provide without increased and unavailable security."*

4.21 The cashflow forecast submitted by [REDACTED] indicates that it anticipated having a bank balance of [REDACTED]

4.22 As far as we can tell, [REDACTED] did not submit a monthly analysis of its historic levels of turnover. As a result, we do not know (and nor did WBC) what monthly turnover had been during its first 10 months of trade. The monthly level of turnover might have been growing and it might have been appropriate to model the coming year based on the most recent months of trade, rather than on a pro-rata basis. Therefore it would have been difficult to conclude as to whether projected turnover was realistic.

4.23 However, assuming that [REDACTED] had doubled its turnover during the year for which it provided forecasts from that achieved in its first 10 months of trade [REDACTED] would have had turnover of approximately £1.1m<sup>15</sup>, compared with forecast turnover of £2m.

4.24 Owing to the way in which the forecast was prepared, we have not re-modelled [REDACTED]'s cash flow forecast. However, given the very limited headroom available at the end of October 2010, without making significant savings or finding alternative sources of finance, the existing overdraft is unlikely to have been sufficient to have enabled [REDACTED] to pay its debts as they fell due. Furthermore, for a company to generate such an increase in turnover, it should have been expected that [REDACTED] would have needed to find alternative sources of finance with which to fund its growth in working capital. These risks do not appear to have been reported to the BIG Panel.

<sup>13</sup> paragraph 3.3

<sup>14</sup> the cash flow forecasts we have reviewed only show the opening and closing position for each forecast month

<sup>15</sup>  $(£457,877 + 10 \times 12) \times 2$

### Opening position - VAT and other tax payments

4.25 [REDACTED]'s balance sheet shows that the company had a VAT liability of [REDACTED] as at 31 March 2010. It is likely that the VAT creditor would have been due for payment in May 2010<sup>16</sup> as a company with a VAT quarter of March 2010 would be required to make payment within six weeks of the quarter end. However, [REDACTED]'s cashflow forecast made no allowance for the payment and this possible anomaly was not identified in the BIG Appraisal.

4.26 [REDACTED]'s balance sheet also shows that the company owed [REDACTED] [REDACTED]. These may also have been payable in May 2010, but are not reflected in [REDACTED]'s cashflow forecast and this possible anomaly was not identified in the BIG Appraisal.

4.27 As such, taking account of no other anomalies [REDACTED] [REDACTED] would have been unable to pay its debts as they fell due during 2010/2011 unless it located alternative sources of finance or outperformed its projections. This is because [REDACTED]'s cashflow forecast anticipated that it would have a cash/bank balance of [REDACTED] at the end of October 2010, but in the absence of any other amendments, the company would have needed an overdraft of [REDACTED] at that point after it had met its obligations to pay its taxes, rather than the existing overdraft [REDACTED].

### Conversation with the External Panellist

4.28 A BIG Panel, convened on 27 May 2010, approved [REDACTED]'s Application. The minutes show that the panel comprised two WBC representatives, one Invest Wirral representative and two other people.

4.29 We discussed the apparent shortcomings regarding the apparent lack of provision for repayment of the VAT, and other tax payments with the External Panellist. He has advised us that, in his view, had the BIG Panel known that the cashflow forecast had not made provision for these existing tax liabilities, the application would have been:

*"unlikely to have gone through".*

<sup>16</sup> alternatively, the debt might have been paid in April 2010 but this would have brought into question whether an opening bank balance of [REDACTED] is likely given the [REDACTED] had cash and bank reserves of only [REDACTED] as at 31 March 2010

[REDACTED]

### ELIGIBILITY – BALANCE SHEET SOLVENCY

- 4.30 [REDACTED]'s application was dated 27 November 2009. This was supported by unaudited and unsigned accounts for the year ended 31 March 2009 and management accounts for the seven months ended 31 October 2009.
- 4.31 [REDACTED]'s balance sheet as at 31 March 2009 and 31 October 2009 showed that the company had net liabilities of £77,163 and £51,483 at these dates.
- 4.32 On a strict interpretation of the balance sheet test [REDACTED] is likely to have been insolvent at the date of its application in November 2009. That [REDACTED] had liabilities which exceeded its assets was known to staff at WBC because they had access to a letter from [REDACTED] accountants dated 19 June 2009 which stated:

*"and can confirm that your balance sheet is insolvent (approx.*

[REDACTED]

- 4.33 Although the BIG Appraisal concerning [REDACTED] did not point out that [REDACTED]'s liabilities exceeded its assets, it did point out that [REDACTED] had a "net current liability of [REDACTED] 09".
- 4.34 The letter from [REDACTED]'s accountants dated 19 June 2009 explained that the shortfall in assets compared with liabilities was largely because [REDACTED] owed [REDACTED] 10. Companies House records show that [REDACTED] had been a director of [REDACTED] since 2003. This feature was referred to in the BIG Appraisal which stated that:

*"The information also indicates that a long term debtor of £135k is to the owner/director."*

- 4.35 Although there is a difference between the total liabilities of [REDACTED] and current liabilities of [REDACTED], on either basis, for the reasons explained from paragraph 3.48, we would not say that these balances were, on their own, sufficient to have concluded that [REDACTED] is insolvent.

### ELIGIBILITY – ABILITY TO PAY DEBTS AS THEY FALL DUE

- 4.36 In addition to management accounts for the seven months ended 31 October 2009, [REDACTED] provided a cashflow forecast for the year ending 31 December 2010 (ie beginning on 1 January 2010) in support of its application, dated 27 November 2009.

- 4.37 The BIG Application required [REDACTED] s to "provide cashflow projections from the current month". It seems to us, therefore, that [REDACTED] should have provided a forecast for the period from 1 December 2009, rather than from 1 January 2010 in order for it to have run concurrently with its application.

#### Forecast sales

- 4.38 Based on the contents of its cashflow forecast, it would seem that [REDACTED] was a seasonal business with sales peaking in the summer months of June, July and August.
- 4.39 It would be misleading, therefore, to compare average monthly sales shown in the management accounts for a seven month period to 31 October 2009 with the forecast average monthly sales shown in the forecast for the year to 31 December 2010. This is related to the seasonal nature of [REDACTED]'s business. It is also because one period included seven months, whereas the other included 12 months and also because the management accounts did not include a month by month analysis with which to make a direct month on month comparison.
- 4.40 However, average monthly sales shown in the accounts for the year ended 31 March 2009 were [REDACTED] increasing to [REDACTED] the sales forecast for the year ended 31 December 2010, an increase of approximately 50%. The BIG Appraisal<sup>20</sup> informed the BIG Panel that turnover of [REDACTED] had been recorded in the year ended 31 March 2009 and that this was forecast to increase to [REDACTED] in the year ending 31 December 2010, ie an increase of approximately 50%.
- 4.41 However, the impact that a failure to meet these growth targets might have had on [REDACTED] ability to pay its debts as they fell due was not identified in the BIG Appraisal.

#### Gross profit margins

- 4.42 [REDACTED] achieved gross profit margins of:
- 51%<sup>21</sup> during the seven months ended 31 October 2009; and
  - 27%<sup>22</sup> during the year ended 31 March 2009.

18 [REDACTED]  
 19 [REDACTED]  
 20 [REDACTED] on  
 21 [REDACTED]  
 22 [REDACTED]

- 4.43 The change in gross profit margins may have come about because of the different way in which [REDACTED] accounted for its direct costs in its two sets of accounts. If that is correct, it would help to explain why WBC might have asked BIG applicants to submit historic and forecast results which had been prepared using a consistent of approach. The absence of such a consistent approach made a comparison of historic and forecast trading more difficult than it needed to have been.
- 4.44 [REDACTED] cashflow forecast was based on forecast gross profit margins of 66%<sup>23</sup>. The forecast growth in profitability was not identified in the BIG Appraisal.
- 4.45 Had adjusted cashflow forecasts been prepared using the gross profit margin achieved in the seven months prior to the BIG Application (ie 51%), this would have resulted in the cashflow forecast attached as Appendix 2.
- 4.46 Making no other changes, Appendix 2 shows that [REDACTED] would have needed an overdraft (or other lending facilities/third party investment) at the end of February 2010 and throughout the rest of that calendar year, beginning with a requirement for finance of [REDACTED] and peaking [REDACTED]
- 4.47 This is important as [REDACTED] BIG application explained that it had an overdraft facility of [REDACTED] by June 2010 there was a risk which could have been foreseen that the [REDACTED] would have been unable to pay its debts as they fell due.

Opening cash balances

4.48 [redacted] s' "cash at bank and in hand" and "bank loans and overdraft" as at 31 March 2009 and 31 October 2009 and are summarised in the following table:

	31 March 2009	31 October 2009	Difference
	£	£	£
Cash at bank/hand	[redacted]	[redacted]	[redacted]
Bank loans/overdrafts	[redacted]	[redacted]	[redacted]

4.49 Thus, the information available to WBC showed that [redacted] cash/loans/overdraft position was considerably weaker as at 31 October 2009 than as at 31 March 2009.

4.50 [redacted] balance sheet as at 31 October 2009 showed that it also had an unpaid "credit card" balance of [redacted] as at 31 October 2009.

4.51 Neither of these features (ie the reliance on credit card(s) and the apparent deterioration in the company's cash/bank/overdraft position) were identified in the BIG Appraisal.

4.52 [redacted] cashflow forecast had an opening balance of [redacted] ie it assumed that as at 1 January 2010, the company would have a positive cash position of [redacted]

4.53 Thus, in order for the opening cash position in the forecast to be correct, [redacted] needed to generate cash of at least [redacted] in a two month period<sup>26</sup>. This gap and the need for [redacted] to generate [redacted] in order for the opening position in the cashflow forecast to be accurate was not identified in the BIG Appraisal.

4.54 In the event, the [redacted] s' financial position as at 1 January 2010 remained unchanged compared with 31 October 2009, rather than having a deficit of [redacted] May 2010 (as shown in [redacted] cashflow forecast before the sensitivity analysis set out from paragraph 4.45), the company would have had a deficit of [redacted]

<sup>26</sup> [redacted]  
[redacted]  
[redacted]

4.55 The BIG Appraisal states that [REDACTED] had an overdraft facility of [REDACTED]. In circumstances such as these, [REDACTED] es would have needed to locate alternative sources of finance – in the event that it failed to do so, it is likely that [REDACTED] would have been unable to pay its debts as they fell due.

4.56 We note that the BIG Appraisal pointed out that:

*"There is some concern over the ability of the company to survive through its period of short term indebtedness through 2010 when profits should improve liquidity. It would appear that the owner is fully committed to the company and mention is made of the value of the property which although not part of the company's assets is also owned by the director and by implication may be used as collateral."*

4.57 It seems to us that, had WBC amended [REDACTED] s' cashflow forecast such that the opening cash balance matched the position reflected in [REDACTED] es' management accounts, the advice provided by WBC might have been more prudent and the concern regarding [REDACTED] ability to survive through 2010 emphasised further.

#### OTHER POINTS

4.58 The financial information supplied by [REDACTED] included unaudited accounts for the year ended 31 March 2009 (Document 5). These show that [REDACTED]

- had a "deficit" brought forward into the period or year ended 31 March 2008. [REDACTED]
- the "deficit" increased during the period or year ended 31 March 2008 following the payment of dividends totalling [REDACTED]
- had net liabilities as at 31 March 2008. [REDACTED] including retained losses c [REDACTED]

4.59 Section 830 of the Companies Act 2006 states that:

*"A company's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses..."*

4.60 As such, it seems likely that [REDACTED] es should not have paid a dividend during 2007/2008 as, at the beginning and end of the year ended 31 March 2008, it did not have accumulated realised profits from which to pay a dividend. [REDACTED] s may have paid an unlawful dividend was not identified in the BIG Appraisal.

- 4.61 This is relevant because the requirement that dividends are paid out of accumulated, realised profits acts to protect creditors who might otherwise be favoured over shareholders.

#### Conversation with the External Panellist

- 4.62 A BIG Panel, convened on 10 December 2009, approved [REDACTED] BIG Application. The minutes show that the panel comprised two WBC representatives, one Invest Wirral representative and three other people.
- 4.63 The External Panellist has told us that he would have expected the potentially unlawful payment of dividends to have been reported to the BIG Panel. He also told us that, without more information and explanations, had he been made aware of the kind of deterioration in [REDACTED] financial position (see from paragraph 4.48) he would not have supported the application.

#### ELIGIBILITY – BALANCE SHEET SOLVENCY

- 4.64 [REDACTED] BIG Application was dated 11 December 2009. In support of the BIG Application, Cara provided:
- unaudited financial statements for the year ended 31 May 2009; and
  - management accounts for the five months ended 31 October 2009, ie beginning on 1 June 2009.
- 4.65 The unaudited financial statements for the year ended 31 May 2009 reported that [REDACTED] had a capital account of [REDACTED] as at 31 May 2009 (Document 6). This should have been the opening balance in [REDACTED] capital account for its five months of management accounts ended 31 October 2009. However, rather than showing an opening balance of [REDACTED] the management accounts for the period from 1 June 2009 showed an opening balance of [REDACTED] (Document 7), a difference of [REDACTED].
- 4.66 This is a fundamental error which should have been identified by WBC and reported within the BIG Appraisal. The error was not reflected in the BIG Appraisal and should have raised fundamental concerns regarding the reliability of the Financial Information submitted by



## ELIGIBILITY – ABILITY TO PAY DEBTS AS THEY FALL DUE

### Opening position

4.67 In support of its BIG Application dated 11 December 2009, Cara provided management accounts for the five months ended 31 October 2009 and a cashflow forecast for the 12 months ending 31 December 2010.

4.68 The management accounts showed that [REDACTED] had a great deal of debt for a business turning over approximately [REDACTED]

- "bank current account" [REDACTED]
- mortgage of [REDACTED]
- loan of [REDACTED]

4.69 The BIG Appraisal and corresponding BIG Application<sup>29</sup> stated that [REDACTED] had an overdraft of [REDACTED]. The BIG Appraisal explained that [REDACTED] had a "cash deficit" of [REDACTED] being an overdraft of [REDACTED] and a bank loan of [REDACTED]. The opening cash position in the cashflow forecast provided by Cara was an overdraft of [REDACTED].

4.70 The BIG Appraisal did not inform the BIG Panel that, as at 1 November 2009 [REDACTED] had headroom of only [REDACTED] ie only a small change in [REDACTED] circumstances would have threatened its ability to pay its debts as they fell due. Given the existing high level of debt, it seems doubtful whether [REDACTED] could have been able to extend its overdraft or otherwise find alternative sources of finance.

### Sales and bad debts

4.71 [REDACTED] accounts for the year ended 31 May 2009 disclosed annual turnover during the three previous years of [REDACTED] and [REDACTED]. [REDACTED] forecast for the year ending 31 December 2010 anticipated sales of [REDACTED] four fold growth compared with 2008/2009, the most recent accounting period. [REDACTED] historic levels of turnover were disclosed in the BIG Appraisal.

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- 4.72 The forecast assumed the [REDACTED] non cash sales would be paid by the corresponding debtor after one month after the sale, but made no allowance for bad debts. The BIG Appraisal pointed out that [REDACTED] had incurred a bad debt of [REDACTED] during the year ended 31 May 2009 following the liquidation of a related party, [REDACTED] however, the BIG Appraisal did not inform the BIG Panel that [REDACTED] cashflow forecast anticipated no future bad debts.

### Gross profit margins

- 4.73 [REDACTED] financial statements for the year ended 31 May 2009 did not disclose its results using the same format as its management accounts for the five months ended 31 October 2009. In particular, unlike the financial statements [REDACTED] management accounts identified wages as expenditure, whereas the financial statements recognised all of the company's wages as a cost of sale.
- 4.74 If [REDACTED] management accounts are adjusted to recognise wages as a cost of sale [REDACTED] financial information pointed to gross profit margins of:
- 13% during the five months ended 31 October 2009<sup>33</sup>; and
  - 11% during the year ended 31 May 2009<sup>34</sup>.
- 4.75 [REDACTED] cashflow forecast was based on forecast gross profit margins of 27%. Although the BIG Appraisal referred to forecast levels of net profits for the year ending 31 December 2010, the forecast growth in profit margins was not identified in the BIG Appraisal.
- 4.76 Had adjusted cashflow forecasts been prepared using the gross profit margin achieved in the five months prior to the BIG Application (ie 13%), this would have resulted in the cashflow forecast attached as Appendix 3. Making no other changes, Appendix 3 shows that [REDACTED] would have needed an overdraft (or other loan facilities) from the end of November 2009 until the end of August 2010 peaking at [REDACTED] the end of March 2010. This is important as [REDACTED] appears to have had an overdraft facility of only [REDACTED]

### Conversation with the External Panellist

- 4.77 A BIG Panel, convened on 14 January 2010, approved [REDACTED] BIG Application. The minutes show that the panel comprised two WBC representatives, one Invest Wirral representative and one other person.

32 [REDACTED] usal

4.78 We discussed [REDACTED] BIG Application with the External Panellist. In particular, we discussed the differences in [REDACTED] opening and closing balance sheet position (see from paragraph 4.65). The External Panellist told us that had he would have expected the BIG Panel to have responded:

*"should just be saying no, it's a waste [ie the BIG Application] of everyone's time".*

#### ELIGIBILITY – BALANCE SHEET SOLVENCY

4.79 [REDACTED] s BIG Application was dated 12 August 2010. In support of the BIG Application, [REDACTED]

- unaudited financial statements for the year ended 31 July 2009; and
- management accounts<sup>n</sup> for the period ended 30 June 2010.

4.80 These<sup>r</sup> reported that [REDACTED] had net assets of [REDACTED] and [REDACTED] at 31 July 2009 and 30 June 2010. On a strict interpretation of the balance sheet test, the information supplied by [REDACTED] demonstrated that they were solvent.

4.81 However, [REDACTED] balance sheet shows that it had "inter-company" debtors of [REDACTED] 30 June 2010. Without these, [REDACTED] would have had net assets [REDACTED] (ie its assets would have continued to exceed its liabilities, but to a much smaller degree). That recovery of [REDACTED] intercompany debt was contingent on a factor outside of [REDACTED] s direct control was reflected in the BIG Appraisal<sup>36</sup>.

#### ELIGIBILITY – ABILITY TO PAY DEBTS AS THEY FALL DUE

##### Growth in turnover and profitability

4.82 [REDACTED] accounts for the year ended 31 July 2009 referred to two years of profitable trading, but a decline in turnover [REDACTED]

4.83 [REDACTED] s management accounts refer to a period ended 30 June 2010. We assume that this covered the 11 month period from 1 August 2009 as their earlier accounts ran to 31 July 2009. [REDACTED] management accounts showed that the business had ceased to be profitable and referred to a continued decline in turnover (presumably for 11 months) of [REDACTED]

[REDACTED]

[REDACTED]

4.84 [REDACTED] cashflow forecast was based on an immediate return to profitability and anticipated sales for the year ending July 2011 of almost [REDACTED]. This was in contrast to the results recorded during the 11 months ended 31 July 2009. Thus, in order for the cashflow forecast to be achieved, Atlantic Engineering required a quick turnaround in sales.

4.85 The BIG Appraisal alerted the BIG Panel to some of these features and the impact they might have had, but did not explain the impact that the continued decrease in turnover might have had on [REDACTED] ability to pay its debts as they fell due<sup>37</sup>:

*"As already stated [REDACTED] has experienced severe trading difficulties over the last twelve months and latest figures show that whilst the company was generating profits over 2008 and 2009 it is now indicating a loss of [REDACTED] as at 30/6/10. The cashflow allows a grant of [REDACTED] in September 2010 and without the grant the company would exceed its overdraft that month and continue to do so until January 2011."*

4.86 However, the BIG Appraisal does not appear to have been prepared with reference to cashflow forecasts based on more prudent forecasts concerning both turnover and profitability. The BIG Panel does not appear, therefore, to have been given information which enabled it to appreciate what impact, say, static sales might have had on the company's ability to pay its debts as they fell due.

#### Opening position

4.87 To some extent [REDACTED] cashflow forecast for the year from August 2010 took account of its opening position as it assumed that:

- outstanding trade debtors as at 30 June 2010 would pay [REDACTED] during August and September 2010; and
- outstanding creditors as at 30 June 2010 would be paid by [REDACTED] August 2010 through to December 2010.

[REDACTED]

4.88 However, the cashflow forecast made no allowance:

- for "taxation/dividends" of [REDACTED] which were outstanding as at 30 June 2010; or
- any other cash outflows accruing during August and September 2010 except for employee wages and national insurance and short term interest.

4.89 Similarly, whilst the cashflow forecast assumed that all of [REDACTED] debtors would pay in two months, the forecast assumed that it would be possible to delay paying its trade creditors (ie those outstanding as at 30 June 2010) in full until December 2010.

4.90 This was important because according to its balance sheet, [REDACTED] had an overdraft of [REDACTED] at 30 June 2010 and, according to the BIG Appraisal and [REDACTED]'s BIG Application, [REDACTED] had an overdraft facility of [REDACTED] and the company's bank had refused to increase the facility<sup>38</sup>. Thus, only a slightly more prudent cashflow forecast would have resulted in the conclusion that [REDACTED] would have been unable to pay its debts as they fell due without finding alternative sources of finance.

4.91 The possible anomalies in Atlantic Engineering's cashflow forecast were not identified in the BIG Appraisal.

#### Conversation with the External Panellist

4.92 A BIG Panel, convened on 25 August 2010, approved [REDACTED] BIG Application. The minutes show that the panel comprised two WBC representatives, one Invest Wirral representative and one other person.

4.93 We discussed [REDACTED] with the External Panellist. The External Panellist told us that had he been given Atlantic Engineering's cashflow forecast and been made aware that these did not take account of opening balances on a balance sheet, he would have looked into the matter. He told us that without more information and explanation concerning "opening balances", he would have "refused the application".

<sup>38</sup> Section 3.3 of the BIG Appraisal and section 2. [REDACTED]

## 5 BIG – ELIGIBILITY (ENABLING AND LOCAL COMPETITION)

### LOCAL COMPETITION

5.1 [REDACTED] Application included an executive summary which stated that

[REDACTED] intends to launch a magazine serving the business community of Wirral. It would be published quarterly and distributed, free of charge, to the owner/decision maker at each of Wirral's 8,000+ businesses.

All revenues will be generated through a range of paid-for advertising options, creating a uniquely targeted platform for business to business marketing in Wirral. [our emphasis]<sup>39</sup>

5.2 [REDACTED]'s BIG Application included a project description stating that

"We plan to start working on the Wirral Business Magazine [our emphasis] in November 2010, giving us 11 weeks to put the first edition together to launch in the New Year. We have identified a local journalist with experience of Wirral's business community [our emphasis] to work alongside our existing editor, Barry and write the magazine and we will also be recruiting an experienced sales person, who together with the company director Melissa (with 12 years marketing experience with Wirral businesses [our emphasis]) will promote and sell the first issue."<sup>40</sup>

<sup>39</sup> paragraph 2.2 of the Let's Go BIG Application

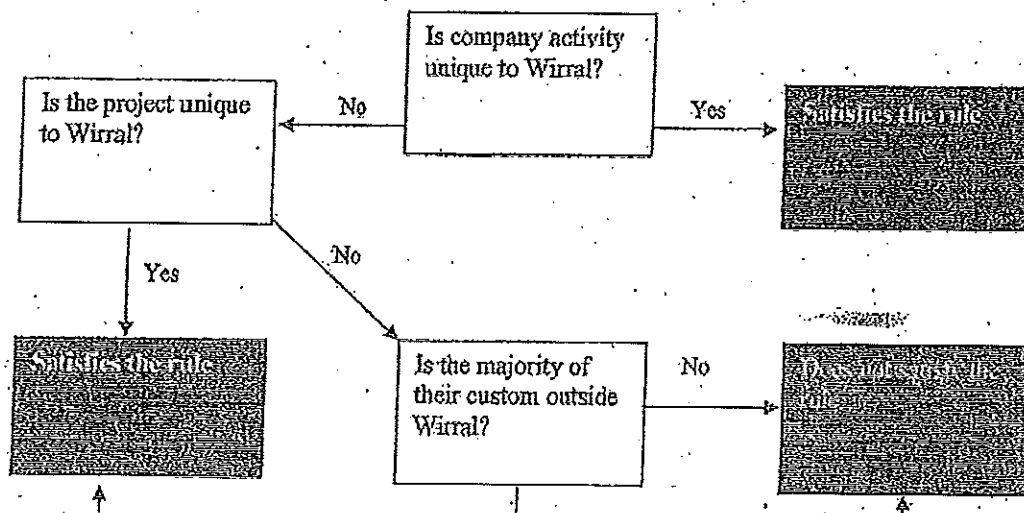
<sup>40</sup> paragraph 2.6 of the Let's Go BIG Application

The distribution method of [REDACTED] will be similar to School Select: we will purchase the names and contact numbers of every business in Wirral [our emphasis] and contact each business by phone to obtain the name of the owner/main decision-maker. This will form our distribution list and magazines will then be poly wrapped (giving us the opportunity to sell direct flyer distribution) and addressed before being sent by Royal Mail to each named recipient."

- 5.3 [REDACTED] submitted sales forecasts in support of its BIG Application. These included forecast sales for a [REDACTED] ("New Project"), including forecast turnover of [REDACTED] in January 2011 [REDACTED] and [REDACTED]. These were consistent with the sales forecasts shown in Section 2.7 of the BIG Application whereby revenue appears to have been forecast exclusively from advertising.
- 5.4 [REDACTED] BIG Application did not specifically address where it would generate its sales. However, based on the comments included above, it seems likely that many, perhaps the majority, of forecast sales were anticipated to come from Wirral. It seems to us, therefore, that [REDACTED] BIG Application failed the local competition test as sales were primarily (or exclusively) to a local market.
- 5.5 We have discussed this feature with WBC staff and have been told that [REDACTED] intention had been to begin with a business magazine in the Wirral, and then to roll it out throughout the North West and then the remainder of the UK. Such a model would have been broadly consistent with an earlier publication which had been supported by WBC (a publication known as School Select). On that basis, sales might have been generated primarily outside of the Wirral. However, these plans were not reflected in the [REDACTED] plication.
- 5.6 We have spoken to [REDACTED] directors and have been told that they had understood that they would not be eligible for a grant to promote their new business magazine. We understand that this had been because [REDACTED] had understood that the BIG programme was not intended to support businesses which generated their custom in the Wirral. We understand from [REDACTED] that they were encouraged to apply for a BIG on the basis that there wasn't an existing business on the Wirral offering this product.

## MEETING WITH THE EXTERNAL PANELLIST

- 5.7 We discussed [REDACTED] with the External Panellist and whether [REDACTED]'s application had fulfilled the "local competition test". The External Panellist explained that, in his view, the panel took the view that an application should succeed provided that this was not at the expense of existing local competition.
- 5.8 The External Panellist gave us a copy of Document 11, being a flow chart titled "Local Competition Rule Decision Process" and explained that he and the panel had addressed applications in the context of Document 11. An extract from Document 11 is included here:



- 5.9 Thus, on the basis of the flowchart, the local competition rule was passed if "the company activity" or the "project" was unique to the Wirral. On this basis [REDACTED] project passed the local competition test. However, the flow chart is not consistent with the criteria submitted to WBC's cabinet as this stated that the local competition test could only be passed if an applicant's:

*"sales are not primarily to a local market or be primarily at the expense of local businesses."*

- 5.10 Given the content of [REDACTED] application, WBC might reasonably have been expected to have recognised that the sales to be achieved from [REDACTED] BIG application would have primarily been achieved within the local market.



- 5.11 As such, on the basis of WBC's own criteria as discussed at paragraph 5.9, the [REDACTED] BIG application should not have succeeded. It appears to have succeeded because guidance given to BIG panellists was not consistent with the criteria given to WBC's cabinet.
- 5.12 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 [REDACTED] application did not fail the local competition test as it was unique to Wirral. We note that this is on the basis of the flow chart discussed at paragraph 5.8, which does not reflect the wording of the criteria submitted to WBC's cabinet as discussed at paragraph 5.9.

## PROJECT SUCCESS

- 5.13 The BIG criteria attached as Document 2 state that:

*"Businesses should be able to demonstrate that they have exhausted all other conventional sources of funding available to them."*

- 5.14 WBC's BIG Appraisal concerning [REDACTED]'s application stated that:

*"the company returned a reasonable financial return at the end of their last financial year which ended 31<sup>st</sup> December 2009 with a turnover of [REDACTED] and a net profit of [REDACTED]. Current assets and liabilities were approximately in balance at £103,000 and £104,000 respectively but this leaves little capacity in terms of cash availability."*

- 5.15 [REDACTED] management accounts for the period ended 30 September 2010 show that by that point, it had net assets of [REDACTED] including the following current assets:

- "cash at bank in hand" of less than [REDACTED]
- trade debtors of [REDACTED]

- 5.16 Sections 2.7 and 3.1 of [REDACTED]'s BIGs Application showed that [REDACTED] had a project which would have cost [REDACTED]. [REDACTED]'s BIG application shows that it anticipated spending the majority of the [REDACTED] working capital related expenditure such as wages and salaries, research costs and design costs and that [REDACTED] anticipated providing [REDACTED] from its own resources.

- 5.17 The BIG Application made no reference to the efforts [REDACTED] had taken to obtain funding from "other conventional sources". This was not pointed out in the BIG Appraisal.
- 5.18 We discussed the steps taken to obtain alternative sources of funding with [REDACTED]'s directors who have told us that they had been declined an overdraft by their bank and that they had been asked to provide evidence of the same by WBC in support of the application. We have asked [REDACTED] to provide us with this documentary evidence but this has not been forthcoming. We have also reviewed the files collated by WBC but could not locate a copy of such evidence.

### ALLEGED CONFLICTS OF INTEREST

- 5.19 It has been suggested to us that the BIG Application which was paid to [REDACTED] involved a conflict of interest. We have, therefore, reviewed Companies House records for [REDACTED]. These show that the company is owned by [REDACTED] who have been [REDACTED] only directors. Through our review of Companies House records we have not located a connection between [REDACTED] and the members of the BIG Panel who approved [REDACTED] BIG Application. We do not know whether or not other information is available that would indicate a conflict of interest in respect of the BIG application by [REDACTED].

6 [REDACTED]

6.1 [REDACTED] IG Application was dated 5 May 2010 and was signed by [REDACTED]

6.2 With reference to [REDACTED] "audited accounts for the previous year and six months management accounts", the application stated<sup>43</sup>:

*"no compliance accounts have yet been submitted. Management accounts for April 2009 to March 2010 are enclosed."*

6.3 However, this would not seem to have been [REDACTED] first BIG Application as an internal WBC email dated 15 December 2009 (Document 12) stated:

*"Thanks for the application from [REDACTED]"*

6.4 As stated above, we have not had access to Enterprise Solutions' records concerning the BIG programme and do not know what records they may have in support of the advice provided by Enterprise Solutions to [REDACTED] as paid for by WBC. However, WBC have provided us with a schedule titled "Project Time Spent Report" for [REDACTED] (Document 8), whom we understand had been a sub-contractor to Enterprise Solutions. This includes an entry on 15 April 2010 which includes the narrative:

*"Referral from [REDACTED] Review App [REDACTED] [our emphasis] and Fins and meet with [REDACTED] and [REDACTED] next week to discuss how to proceed."*

6.5 It also included the narrative for 21 April 2010:

*"Met with [REDACTED] review progress to date and decide how to move forward. Agreed I would top and tail App, update Financials and pass back to [REDACTED] for submission."*

6.6 The files retained by WBC include historic accounts for [REDACTED] or the:

- year ended 30 November 2009; and
- year ended 31 March 2010.

6.7 We have been unable to establish when these were submitted by [REDACTED] g to WBC. However, it seems likely that the numbers for the year ended 30 November 2009 were not submitted in support of the BIG application dated 5 May 2010 but may have been submitted in support of the application which had been received in December 2009. This is because, as stated at paragraph 6.2, [REDACTED] signed application referred only to the historic accounts for the year ended "March 2010".

6.8 We note that Mr Lamb signed his application (Document 9) to state that:

*"I confirm that, to the best of my knowledge, the information above is correct and given in good faith."*

## SIMILARITIES IN THE HISTORIC RECORDS

6.9 The financial data provided by [REDACTED] (document 10) included profit and loss accounts, discussed from paragraph 6.10 and balance sheets, discussed from paragraph 6.15.

## PROFIT AND LOSS ACCOUNT

6.10 The profit and loss accounts provided by [REDACTED] are summarised in the following table:

	Year ended 30 November 2009	Year ended 31 March 2010	Difference
	£	£	£
Turnover	2: [REDACTED]	[REDACTED]	[REDACTED]
Less:			
Purchases	[REDACTED]	[REDACTED]	[REDACTED]
Site expenses	[REDACTED]	[REDACTED]	[REDACTED]
Sub-contractor <sup>13</sup> /staff	[REDACTED]	[REDACTED]	[REDACTED]
	17, [REDACTED]	[REDACTED]	[REDACTED]
Insurance	[REDACTED]	[REDACTED]	[REDACTED]
Telephone	[REDACTED]	[REDACTED]	[REDACTED]
Others <sup>14</sup>	[REDACTED]	[REDACTED]	[REDACTED]
Grants receivable	[REDACTED]	[REDACTED]	[REDACTED]
Net profit/Profit for the year	[REDACTED]	[REDACTED]	[REDACTED]

6.11 Thus, the trading accounts provided by [REDACTED] in support of its application were almost identical. A close inspection shows that site expenses were recorded as being [REDACTED] in both sets of accounts, but included as an "expense" in the accounts for the year ended 30 November 2009 and a cost of sale in the accounts for the year ended 31 March 2010.

6.12 It is highly unlikely that [REDACTED] recorded such similar results including exactly the same turnover and profits during the two periods for which it provided accounts. These similarities were not identified in the BIG Appraisal.

<sup>13</sup> Sub-contractors costs of £1,860 in the accounts to 31 March 2010, staff costs in the accounts for the year ended 30 November 2009

<sup>14</sup> including depreciation

**Grants**

6.13 As shown in the table, both sets of historic accounts submitted by [REDACTED] referred to grants receivable of £500. This appears to have been reflected in the corresponding BIG Application (Document 9) which stated:

*"The business was set up in December 2008"<sup>45</sup>*

*Support from Wirralbiz advisers was very valuable in the early days as was the start up grant of £500.<sup>46</sup>"*

6.14 Assuming that the grant was received in December 2008 then it might reasonably have been included in [REDACTED]'s historic accounts for the year ended 30 November 2009. However, it is much harder to understand how the grant could properly have been included in a set of historic accounts which refer to the period from April 2009. This apparent anomaly was not reflected in the BIG Appraisal.

**BALANCE SHEET**

6.15 [REDACTED] provided balance sheets as at 30 November 2009 and 31 March 2010. These were also very similar to one another:

	30 November 2009	31 March 2010	Difference
	£	£	£
Fixed assets	[REDACTED]	[REDACTED]	
Stock	[REDACTED]	[REDACTED]	
Accounts receivable	[REDACTED]	[REDACTED]	
Bank	[REDACTED]	[REDACTED]	
Liabilities	[REDACTED]	[REDACTED]	
Net profit for the period	[REDACTED]	[REDACTED]	
Capital introduced	[REDACTED]	[REDACTED]	
Drawings	[REDACTED]	[REDACTED]	

<sup>45</sup> Paragraph 2.2, second sentence

<sup>46</sup> Paragraph 2.3, second paragraph

- 6.16 The summary above shows that there was only one difference in [REDACTED] balance sheet as at 30 November 2009 and 31 March 2010 where [REDACTED] bank balance had decreased by [REDACTED] and its accounts receivable had increased by the same amount.
- 6.17 This would imply that [REDACTED] repaid a customer but still considered the debt to be outstanding (enabling cash to decrease to the same extent as debtors increased).

#### MEETING WITH [REDACTED]

- 6.18 We met with [REDACTED] and showed him copies of the two sets of historic accounts which he appears to have submitted.
- 6.19 In doing so, we asked [REDACTED] with whom he had dealt at Enterprise Solutions when applying for his BIG. [REDACTED] said that although he could not recall names, he did refer us to [REDACTED] and Mike. He stated that [REDACTED] name might

*"ring a bell...but would be guessing".*

- 6.20 [REDACTED] made no reference to the [REDACTED] who appears to have worked on [REDACTED] initial application (see the quotation at paragraph 6.4). We have referred to [REDACTED] in more detail in a report which addresses the ISUS programme and recommend that the corresponding part of that report is read in conjunction with this one.
- 6.21 We asked [REDACTED] who had prepared his accounts. He stated that it might have been his book keeper or his accountant, but it wouldn't have been him. He also told us that the accounts we showed to him:

*"wouldn't have been pulled out of the air...must have been realistic."*

- 6.22 When we discussed his cashflow forecast submitted to support his application for a BIG, [REDACTED] told us:

*"that probably would have been me".*

- 6.23 In discussing the similarities in the two sets of historic accounts [REDACTED] told us:

*"you're asking the wrong person...double dutch to me...not something I've done."*

6.24 [REDACTED] also told us that he had dismissed his book keeper because of errors she had made. When asked once more regarding the preparation of the accounts submitted to WBC and who had prepared them, [REDACTED] stated:

*"don't know...it's obviously a mistake."*

6.25 We sent [REDACTED] typed notes of our meeting with him and asked him to identify errors or areas which may have been incomplete. We have asked [REDACTED] for a response several times, but have not yet had one.

## CONCLUSION

6.26 It is not clear to us why the BIG Appraisal did not identify the fact that two sets of historic accounts which contain such similar results and such a similar balance sheet was not reported to the BIG Panel.

6.27 We have discussed this with the External Panellist who sat on the BIG Panel which approved [REDACTED] BIG Application on 27 May 2010 (along with two WBC representatives, one Invest Wirral representative and one other person). We showed the External Panellist the two sets of historic records submitted by [REDACTED] and he stated:

*"same net profit in the same period from the same sales...Nonsense".*

6.28 We discussed the inclusion of a £500 grant (see from paragraph 6.13) in both sets of historic accounts with the External Panellist and asked what the Panel's decision might have been had he been aware of this apparent anomaly, he stated:

*"No, take it away".*

6.29 In speaking to [REDACTED], he has described the similarities in the two sets of historic accounts as *"obviously a mistake"*.

6.30 [REDACTED] has stated in [REDACTED] Application that<sup>47</sup>:

*"to the best of my knowledge, the information above is correct and given in good faith."*

<sup>47</sup>



- 6.31 In doing so, [REDACTED] appears to have been referring to the second set of historic accounts which refer to a period from April 2009 to March 2010. These are very similar to an earlier set of accounts which referred to the year ended 30 November 2009.
- 6.32 It might be said therefore that had the BIG Panel been aware of the anomalies in information submitted by [REDACTED], the grant would have been rejected.
- 6.33 Whilst a legal matter and something which could only be proved with (among other things) access to [REDACTED] books and records, it might be said that the set of accounts attached to [REDACTED] BIG Application could not have been submitted in "good faith".
- 6.34 We note that, of a project which was anticipated to have cost [REDACTED] this included marketing costs of [REDACTED] being a programme of marketing activities which were:

*"currently in development with Wirralbiz".*

## 7 RECOMMENDATIONS

7.1 We have included a series of recommendations in this section of our report.

### SAMPLING AND CONSIDERATION OF CLAWBACK

7.2 Our review of BIGs has been limited to a small selection of applications, based on the claims made by former employees of Enterprise Solutions. We do not know whether our findings are representative of the wider population.

7.3 In reviewing six applications, it is unclear whether the documentation submitted by [REDACTED] had been made in good faith. WBC should consider:

- expanding the selection of BIG Applications under review such that is statistically significant and representative of the wider population; and
- whether it should undertake steps to claw back the BIG paid to [REDACTED]

### POLICE INVOLVEMENT

7.4 Section 17 of the Theft Act refers to false accounting and states that:

(1) Where a person dishonestly, with a view to gain for himself or another or with intent to cause loss to another,—

(a) destroys, defaces, conceals or falsifies any account or any record or document made or required for any accounting purpose [our emphasis]; or

(b) in furnishing information for any purpose produces or makes use of any account, or any such record or document as aforesaid, which to his knowledge is or may be misleading, false or deceptive in a material particular;

7.5 Whilst a legal matter and something which could only be proved with (among other things) access to [REDACTED] books and records, it might be said that either or both of the two sets of accounts submitted by [REDACTED] involved the "falsification of documents made for an accounting purpose". We would, therefore, recommend that this matter be reported to the Police.

- 7.6 In the event that the Police (or any other party) does not seek to investigate this matter then we would recommend that [REDACTED] are given the opportunity to respond before making this report available to any parties other than WBC.

## CRITERIA

- 7.7 We recommend that WBC reviews the criteria used to consider current and future grant applications to ensure that these do not refer to definitions or legal terms which are ambiguous.

## COMMITTEES

- 7.8 In order to consider BIG applications, WBC set up a panel made up of internal and external panellists. As far as we can tell, the way in which the panel would reach its decisions and whether the panel's decision would be by vote and, if so, whether a simple majority or a unanimous decision should be required for an application to succeed was not documented.
- 7.9 We recommend, therefore, that WBC reviews the decision making process concerning current and future grant applications to ensure that, where panels are used to address grant applications, panel members receive written terms of reference and that these make reference to the appropriate decision making procedure.
- 7.10 We would also recommend that WBC reviews the stationery used concerning applications for financial support from businesses to ensure that WBC's requirements are realistic. For example, and depending on the circumstances, it can be unrealistic to expect a recently created company to have audited financial statements.
- 7.11 Finally, we would recommend that WBC ascertains whether the documentation and guidance notes provided to the people who appraise, approve or review applications are consistent with the criteria approved by WBC's cabinet.
- 7.12 It is WBC's responsibility to consider the recommendations made in this report and, also, whether and how it implements these recommendations.

*Grant Thornton UK LLP*

Grant Thornton UK LLP

Liverpool

2 May 2014



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