

## **Audit Committee – 2 September 2009**

### **European Funding**

#### **1. Summary of Report**

- 1.1 This report describes the background and current position with regard to Walsall's 'Community Regeneration in Walsall' action plan, which was funded through the European Regional Development Fund (ERDF). It outlines historic issues that impacted on the closure process for this action plan and also European Social Funded (ESF) activity, the measures taken to minimise any financial loss to Walsall Council and lessons learnt for future European funding rounds.

#### **2. Recommendations**

- 2.1 To note the steps taken to minimise the financial exposure of the council to ensure final claims to Government Office West Midlands contained only eligible expenditure.
- 2.2 To note the decommitment of just over £700,000 from the ERDF and ESF programmes, as set out in paragraph 4.2 and the potential of up to a further £206,000 clawback on a separate project which is subject to an on-going negotiation with GOWM.
- 2.3 To note the lessons learnt that will be applied to any future European funding rounds where the Council is the Accountable Body.
- 2.4 To note that there may need to be further adjustments to the final claim following receipt of the Article 10 inspection report from Government Office, which is expected imminently.



**Jamie Morris - Executive Director**

**21 August 2009**

#### **3. Background Information**

- 3.1 Walsall Council's 'Community Regeneration in Walsall' European Regional Development Fund (ERDF) Action Plan was approved by Government Office

West Midlands in 2003. The Action Plan was designed to deliver social and economic benefits to eligible areas within the following wards: Brownhills, Bentley and Darlaston North, Willenhall South, Pleck, Darlaston South, St. Matthew's, Birchills, Leamore, Blakenall, Bloxwich East, Bloxwich West, Short Heath and Palfrey, covering approximately 40% of the geographical area of the borough.

- 3.2 The Action Plan proposed that the Council should generate, approve and manage a series of funded projects to achieve the outputs specified in the Action Plan, which included targets relating to worklessness, community cohesion and economic development. A total of 29 projects were approved by the Council which committed £3.9 million of grant.
- 3.4 As the Accountable Body for the Action Plan, the Council is liable for any under-performance in relation to its own activity or for projects delivered by other organisations. This could result in repayment of grant paid by the Council or the Council not being reimbursed for grant they have paid to other organisations. Where it has been possible to pass on this liability to the relevant delivery organisations this has happened. However many of these are small community based groups with few assets and recovery has proven to be impractical.
- 3.5 The Council is also the Accountable Body for ESF activity which is subject to the same audit requirements. The final claim processes for this highlighted projects that were potentially at risk of not being able to provide sufficient evidence for a full audit trail for grant previously paid to them by the Council.

#### **4. Programme Closure**

- 4.1 European Union (EU) regulations state that final claims by all authorities for ERDF must contain only eligible audited expenditure. Extensive work by officers uncovered a series of irregularities which needed to be addressed before the final claim was submitted. The irregularities on which ERDF grant has already been claimed have been settled by these amounts being deducting from the final claims made by the Council. The final claim for ERDF was submitted on 7 August 2009.
- 4.2 The claim submitted to GOWM will result in the Council being unable to reclaim or repaying just over £750k of grant it has paid to other organisations. Of this £48k is being clawed back by the council, resulting in a potential net loss of around £700k. This is primarily because the third parties in receipt of grant have subsequently gone into liquidation or are unable to provide the required audit trails.
- 4.3 The following specific problems resulted in the Council being unable to claim grant that it had paid out to other organisations:
  - A number of organisations in receipt of ERDF funding entered into liquidation. These are - African-Caribbean Social and Economic Regeneration Group (ACSERG), Walsall Community Development Trust (WCDDT), and Walsall Ethnic Business Association (WEBBA). The above organisations were unable to provide a full audit trail and in the absence of this GOWM advised that all of the expenditure on these projects should be

declared as ineligible. This meant that the Council was not able to claim the grant it had paid to these organisations.

- Another organisation (The Carpenter's Shop) which also entered liquidation was not able to provide a complete audit trail. Former trustees co-operated in providing evidence and files. However this resulted in the Council not being able to reclaim the total grant that it had paid to this community organisation.
- The 'Score a Goal with Walsall Learning Net' project operated through a series of funded sub-projects. Unfortunately, the sub-projects did not abide by the regulations such as in relation to procurement or retaining adequate records which meant the Council was unable to claim a percentage of the grant paid.
- Other projects that had minor irregularities leading to smaller scale de-commitments were GroundWork Black Country and AAINA. Both organisations have been invoiced to reclaim these funds.

- 4.4 In addition, a stand alone project not part of the Action Plan (Enhancing Access to Learning) may result in the Council being unable to reclaim £206,000 of grant. This project (which was match funded through the Single Regeneration Budget (SRB) round 5 programme) was delivered through a series of sub-projects. The majority of these sub-projects had been in turn funded through the SRB5 Minor Building Works programme. Enhancing Access to Learning was designed to allow the West Midlands ERDF programme as a whole to achieve its spending profile, so much of the activity had already been completed before the project was appraised and approved by GOWM. The SRB projects had lower standards of evidence and document retention than ERDF projects, and many of them were short term improvements – it is now difficult to provide an audit trail, and the GOWM position is that the original project contract makes the Council liable for the loss although this is currently under negotiation.

## **5. Lessons Learnt**

- 5.1 The organisational strength, financial robustness and track record of delivery of some organisations were found to be weak. The scrutiny processes at the application stage have subsequently been strengthened.
- 5.2 Some projects that contained ineligible activities were approved. The complex EU guidelines have been simplified for project appraisers and additional training recommended to ensure the most up to date guidance is being applied.
- 5.3 The Action Plan contracted with a number of projects in addition to the ones above that were ill resourced to bear the bureaucratic and administrative burden of the ERDF programme. Walsall Voluntary Action have been approached to look at ways in which the third sector can be supported from the outset and throughout the process to ensure they are able to fully comply with EU requirements.
- 5.4 Management and control systems during the early stages of programme design and commissioning (2000 to 2003) were subsequently discovered to be flawed

- during later inspections and evaluations, with the result that even successful projects in the Action Plan have been adversely affected.
- 5.5 We also now have a comprehensive grants manual which provides guidance on grant administration including appropriate evidence and audit trails. Training is provided through Corporate Finance.

## **6. Resource Considerations**

### **6.1 Financial**

The European Funding programmes (ERDF and ESF) has foregone just over £700,000 of grant, with a further £206k at risk. The final figure will be known once negotiations with GOWM about Enhancing Access to Learning have been completed.

Financial provision has been made for this.

### **6.2 Legal**

Walsall MBC is the Accountable Body for the Programme, having signed an agreement with Government Office West Midlands to deliver the action plan in accordance with European Union rules and regulations.

### **6.3 Staffing**

The European team is staffed by officers on fixed term temporary contracts. Additional resource was secured to carry out the work to provide effective closure to the programme.

## **7 Citizen impact**

- 7.1 The potential loss of funding could be mitigated in some projects by seeking to reclaim grant paid in error from partner organisations. However this is difficult to enforce where those organisations acted in good faith and provided such evidence as Walsall requested.

## **8. Performance and risk management issues**

- 8.1 This issue represents a major risk to the council and has been the subject of a risk management action plan which was reported to Audit Committee in 2008.

## **9. Consultation**

- 9.1 Members and senior officers within the Council have previously been briefed on this issue over recent months. Officers have held meetings with Members, with GOWM and with local partners in order to minimise the residual liability to the Council. The Walsall European Programmes and Performance Board is a partnership body with a key role in project approvals and they have been consulted on the proposed actions.

### **Author**

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