

## **Arbed Scheme Caerau – Findings of Internal Audit**

In view of ongoing concerns brought to the attention of the Council, in 2018, Bridgend's Internal Audit Service were requested to carry out a review by the then Chief Executive to ascertain the extent to which the Council's policies and procedures had or had not been applied in respect of the Arbed funding scheme for the period September 2012 to April 2013 in Caerau.

The findings of Internal Audit (outlined below) highlighted a number of internal procedural issues relating to the governance, decision making, procurement, monitoring and control aspects of the funding that the Council administered for this scheme at this time. There is no evidence that these issues were widespread in the Council and to provide assurance Internal Audit undertook a review of the procurement and governance aspects of 10 externally funded schemes from 2018 onwards. No issues were identified. Audit Wales were appraised of the findings throughout this work.

### **Objectives & Scope of the Review**

Following an initial audit review undertaken at the request of the previous Chief Executive in respect of Arbed funding for residents in Caerau, Maesteg, a draft audit report was produced in early 2019. The draft report concluded that the review was hampered by the lack of a clear audit trail and the unavailability of key officers who were involved at the time. The report also concluded that no evidence of any form of competition, to demonstrate value for money, could be found. The work also identified that a Councillor was involved in the project and was the Company Secretary / Director of a company undertaking the work on behalf of Bridgend County Borough Council. As the initial review was only based on information retained in three paper folders, Internal Audit were requested to undertake further work by accessing and reviewing the relevant previous Officers' email accounts as well as trying to speak to the Officers involved at the time to establish a more comprehensive sequence of events.

The initial review was to ascertain the extent to which the Council's policies and procedures had or had not been applied in respect of the Arbed Funding Scheme for the period September 2012 to April 2013. Particular concerns were raised by the then Chief Executive specifically relating to an apparent absence of an audit trail and whether there would be any particular circumstances that would explain this.

### **Findings**

#### **Engagement of Contractors**

The draft audit report concluded that no evidence of any form of competition to demonstrate value for money was found to support the engagement of the contractors. Therefore, further work has been undertaken to establish how the contractors were engaged by BCBC. The initial audit work identified that a company, Green Renewable Wales Ltd, received Arbed funding for Caerau from Bridgend County Borough Council (BCBC) and it was identified that a Councillor, at the time, had been a Director of this company since 22<sup>nd</sup> January 2010.

Green Renewable Wales Ltd were paid by BCBC via two separate funding streams from Welsh Government (WG):

- Arbed = £49,376 awarded to BCBC in September 2012
- ECO-BRI-001 = £259,825 awarded to BCBC in February 2013

This funding equated to £309,201. Analysis of the BCBC financial system identified that a total of £316,192 (excluding VAT) was paid to Green Renewable Wales Ltd between February and May 2013.

A review of two former employees' email accounts identified that in December 2009 the Councillor concerned refers himself as the Managing Director of Renewable Wales Ltd in an email to various people including Council Officers. Companies House records shows that Green Renewable Wales Ltd was registered in January 2010 and the Councillor was listed as Director and Company Secretary, these records also show that there was another Director in July 2010. This company was dissolved in November 2017.

From examination of the former staff members email accounts, the first contact identified from Green Renewable Wales Ltd was in November 2011 when the Officer received an email from the Director, copying in the Councillor, attaching a briefing paper called "WalesCo / Green Renewable Wales", stating that Green Renewable Wales was a not for profit organisation and a development partner of WalesCo. They wanted to work with BCBC to deliver energy efficiency measures in Bridgend and stated that they were already working with community organisations in the area.

Companies House records show that WalesCo was registered as Wales Community CIC (Community Investment Company) in September 2011 with a sole Director who liquidated the company in November 2016 and remaining profits were distributed to various charitable organisations.

In December 2011 an email from the Officer confirmed that BCBC was working in partnership with WalesCo to submit a bid for Caerau 2. However, no other documentation can be found to identify who made that decision or on what basis. Evidence that other companies contacted BCBC offering to assist with bids has been found. Between May and November 2011 there is evidence that 3 different companies made contact with BCBC expressing an interest in working with them, these offers were acknowledged but no further contact could be identified.

The email examination found many emails between Officers, Directors of the company and the Councillor using both his BCBC email address and his private one. These emails indicate that all parties were jointly working on preparing an Arbed bid, often with the Councillor acting as the conduit between all concerned.

It is apparent however from the information identified within the files and emails, as well as the conversations with former employees that the Councillor was clearly involved in aspects of the funding schemes particularly in respect to Caerau even though he was a Director of Green Renewable Wales Ltd.

In June 2012, BCBC were notified that the original Arbed bid was unsuccessful. Nevertheless, BCBC continued to work with Green Renewable Wales Ltd and WalesCo to submit further bids when additional funding was made available. There is no evidence of any procurement exercise being undertaken or any other companies being considered by the Council.

## Funding

From documentation available it has been identified that WG contacted BCBC on 2<sup>nd</sup> August 2012 providing an opportunity to bid for additional funding to complement existing projects. Officers applied for funding and a "Schemes of Delegation of Functions Record of Decision" form was completed and approved by the then Head of Service. This document agreed the offer and acceptance of grant funding of £23,800 which was to reduce the financial contribution required from private home owners towards the replacement of boilers, the form stating that the work was being undertaken by WalesCo supported by BCBC. In November 2012 WG offered additional monies of £25,576 to fund additional properties and another Scheme of Delegation form was completed to accept the funding which stated that the money is awarded to WalesCo to install boilers and loft insulation. The total award was therefore £49,376 and the final claim for this funding had to be made by January 2013.

BCBC claimed and received the full award, £49,376, from WG in January 2013. The claim made by BCBC was supported by an invoice from Green Renewable Wales Ltd to Wales Community CIC Ltd (WalesCo) stating that 38 boilers had been installed by Glamorgan Gas Ltd and administration and management was provided by GRW Ltd. The total invoice was for £55,314.32 of which £4,560.00 was for the administration and management provided by GRW Ltd. There was no direct payment made by BCBC to WalesCo and it is unclear what relevance the supporting invoice accompanying the WG claim has to this scheme. However the payments actually made by BCBC were to Green Renewable Wales Ltd in the sum of £56,367.20 (excluding VAT). This is £6,991.20 more than the funding provided by WG and payments were based on 4 invoices submitted by Green Renewable Wales Ltd for this work.

On 1<sup>st</sup> February 2013 another bid was made by BCBC for additional funding made available from WG for projects. The bid was for loft and external wall insulation at 25 owner occupier properties in Caerau Road at a total cost of £317,325. WG were asked for £259,825 as Energy Company Obligation (ECO) funding of £57,500 had already been identified. The bid of £259,825 was approved on 7<sup>th</sup> February 2013 and a Scheme of Delegation form was partially completed. The terms of funding states that the works had to be completed by 31<sup>st</sup> March 2013.

The accompanying information from WG stated that this funding had been made available under the Arbed banner to attract energy efficiency money into Wales. As the timescales were identified as being tight it was specified that discussions with energy suppliers should already be advanced and the guidance also states that local authorities will be responsible for carrying out all works and engaging with residents. There was no specific guidance from WG in relation to any procurement arrangements that should be put in place, however, the accepted practice for any grant funding, in the absence of any guidance, is that the Council's own Contract and Financial Procedure Rules would apply.

The agreed figure of £259,825 was claimed by BCBC from WG and then paid to Green Renewable Wales Ltd in 2 payments made in March 2013 and April 2013. The invoices from Green Renewable Wales Ltd to BCBC were supported by invoices from various companies used to undertake the works with £29,750 being claimed directly by Green Renewable Wales Ltd for project management.

Therefore, between February 2013 and May 2013, BCBC paid Green Renewable Wales Ltd a total of £316,192.20 (excluding VAT). Based on the invoices provided the following companies were in receipt of this funding:

**Table 1 – Companies Paid By Green Renewable Wales Ltd**

	Arbed / CESP 11	Eco-Bri 001	Total
	£	£	£
Green Renewable Wales Ltd (retained)	56,367.20	29,750.00	86,117.20
Wales Co		10,000.00	10,000.00
Sustainable Building Services (SBS)		102,015.00	102,015.00
BSS Bridgend		37,500.00	37,500.00
Tower Energy Contracting		78,060.00	78,060.00
BCBC Building Regs		2,500.00	2,500.00
	<b>56,367.20</b>	<b>259,825.00</b>	<b>316,192.20</b>

It was therefore identified that three Scheme of Delegation documents were completed to accept the grant funding however Green Renewable Wales Ltd was not mentioned although WalesCo was referenced on two of the forms. Two of the three forms were authorised and signed by the “decision maker” being the then Head of Service whilst the third form was not fully completed or signed. However the submitted bid for the third element of work did identify that BCBC’s partner was Green Renewable Wales Ltd.

No evidence was found of any Scheme of Delegation forms being completed for the decision to award the work, so again, it is not clear how, when or who made decisions to request that Green Renewable Wales Ltd would undertake the work.

No contract, legal documentation, orders or any evidence of procurement activity in relation to these works was identified. As a consequence no evidence of any due diligence checks on the company or companies who were going to undertake the work has been found.

### **Role of the Elected Member**

The report illustrated that the Councillor’s role became increasingly unclear and officers admitted that although they were aware of a link between Green Renewable Wales Ltd and the Councillor, they did not know the extent of it.

All Members and Senior Officers are required to declare any related party transactions they have with the Council during a financial year as part of the closure of the accounts process which includes a description of the transactions and the amounts involved.

### **Subsequent Funding**

From the email accounts reviewed it has been identified that there was ongoing dialogue for several months, after payment had been made to Green Renewable Wales Ltd, between officers in BCBC and the Directors of the company before the properties under the Arbed funding scheme in Caerau had been satisfactorily completed and signed off. There appeared to be delays in completing works in certain properties as well as the issues identified within the initial draft report whereby

Green Renewable Wales Ltd had made changes to the original list / programme of properties. Although WG appeared to be unconcerned about these changes it does demonstrate that BCBC did not retain adequate control and direction for spending of the grant. Whilst there was evidence that Building Control Officers were inspecting elements of the work, it is unclear what other inspections of work were taking place by BCBC staff to monitor progress and to support payments. There are emails that show that Surveyors reports and Energy Performance Certificates (EPCs) were being chased up by the former Senior Strategy Officer from GRW in order to support payment of invoices.

An email string from June 2013 illustrates that there were still outstanding issues with the two funded schemes after payment had been made to Green Renewable Wales Ltd. In November 2013 WG announced further funding under Arbed.

No further payments were made by BCBC to Green Renewable Wales Ltd.

The findings illustrate that BCBC recognised that there were difficulties with the process adopted for previous schemes and therefore moving forward proper procurement was to be undertaken, adhering to advice from the Council's Procurement Officers. These actions confirm the assertion that there was no procurement involvement previously and hence the Council's Contract Procedure rules were not complied with.

## **Conclusions**

The report identified a number of significant concerns relating to the governance, decision making, procurement, monitoring and control aspects of the Arbed Scheme and the conduct and role of the Councillor as a Director of Green Renewable Wales Ltd.

## **Summary Conclusions**

### **Governance, Decision Making, Procurement, Monitoring & Control Aspects of the Scheme**

- There was a breakdown in Governance at the Council in relation to issues identified in this report linked to:
  - Contract Procedure Rules
  - Contract management & supervision processes
  - Financial Procedure Rules
  - Codes of Conduct for Members and Officers and
  - Protocol for member & officer relationships
  - Decision making processes and documentation
  - Management & Supervision
- No procurement process was followed and no due diligence checks were evidenced for the companies used to undertake these works.
- It is unclear what inspections of work were taking place by BCBC staff to monitor progress and to support payments made to Green Renewable Wales Ltd.
- There was no clear evidence of how, when or who made decisions in relation to this scheme.

## **Conduct of the Councillor**

- The Councillor was a Director of Green Renewable Wales Ltd which was paid £316,192.20 (excl VAT) by BCBC between February and May 2013.
- There were a number of examples indicating potential breaches of the Members Code of Conduct.

## **Detailed Conclusions**

BCBC started working with Green Renewable Wales Ltd and their partner WalesCo on various Energy Efficiency Bids to Welsh Government from December 2011. There was evidence of 3 other companies offering to work with BCBC on bids of this nature in 2011. No evidence has been found as to how, when or who made decisions for the Council to work with Green Renewable Wales Ltd and their partner WalesCo.

There is no evidence of any procurement exercise being undertaken or any other companies being considered by the Council.

Green Renewable Wales Ltd was paid £316,192.20 (excl VAT) by BCBC between February and May 2013. This was for works and services provided in relation to:

- Boiler Replacements and loft insulation for 38 Private Homes at Caerau, Maesteg.
- Insulation and Boiler Replacements for 25 Private Homes also at Caerau, Maesteg.

## **Governance, Decision Making, Procurement, Control and Monitoring Aspects of the Scheme**

There is no evidence that any procurement exercise took place prior to BCBC engaging with Green Renewable Wales Ltd for the two schemes undertaken by them which is contrary to the Council's rules particularly the Council's Contract Procedure Rules. In respect of the second block of funding, it is clear that WG gave very short timescales from the awarding of the funds to when they had to be spent (7 weeks). It would not have been feasible to undertake a procurement exercise but as a minimum the Council's Exemption process should have been followed to make a documented decision.

Three Scheme of Delegation documents were completed to accept the grant funding, two stating that the work was to be undertaken by WalesCo. No mention was made of Green Renewable Wales Ltd involvement nor was it disclosed that the payments would be made to them. Two of the three forms were authorised and signed by the "decision maker" being the then Head of Service. The third form was not fully completed or signed but the bid for this element did identify that the partner was Green Renewable Wales Ltd.

No evidence was found of any Scheme of Delegation forms being completed for the decision to award the work, so again, it is not clear how, when or who made decisions to request that Green Renewable Wales Ltd would undertake the work.

No contract, legal documentation, orders or any evidence of procurement activity in relation to these works was identified. As a consequence, no evidence of any due

diligence checks on the company or companies who were going to undertake the work has been found.

Green Renewable Wales Ltd had made changes to the original list / programme of properties that were in the bid. Although WG appeared to be unconcerned about these changes it does demonstrate that BCBC did not retain adequate control and direction for the work or spending of the grant.

Whilst there was evidence that Building Control Officers were inspecting elements of the work, it is unclear what other inspections of work were taking place by BCBC staff to monitor progress and to support payments. There are emails that show that there were delays in completing works in certain properties and Surveyors reports and Energy Performance Certificates(EPCs) were being chased up by the former Senior Strategy Officer from Green Renewable Wales Ltd both before and after they were paid.

BCBC recognised that there were difficulties with the process adopted for previous schemes and therefore moving forward proper procurement was to be undertaken. This confirms no previous procurement involvement and hence the Council's Contract Procedure rules were not complied with. No further payments were made by BCBC to Green Renewable Wales Ltd.

As part of the requirement to declare personal interests the Councillor correctly declared that he was a Director of Green Renewable Wales Ltd and SBS Ltd along with other companies. However, he stated that SBS Limited did not trade as a company when invoices indicate otherwise.

The invoices provided to support payments indicated that of the £316,192.20 paid to Green Renewables Wales Ltd the company retained £86,117.20 with £102,015 being paid to SBS Ltd. Therefore these companies retained a total of £188,132.20.

It cannot be confirmed if BSS Bridgend, which provided two of the supporting invoices actually existed. There was no company by this name registered with Companies House and BSS Bridgend were not registered for VAT even though VAT was charged. It was noted that one of the BSS Bridgend invoices quoted an invalid 8-digit VAT registration number and the other invoice contained no VAT registration number. There was no company logo and no payment or bank account details stated. The address on the invoice was Main Avenue, Brackla Industrial Estate but a google search could find no trace of a company of that name or at that address.

The invoices from SBS state that the company's address is Unit 4c Innovation Centre, Science Park, Bridgend which is also the base for Green Renewable Wales Ltd.

## **Recommendations**

The Chief Executive, Monitoring Officer and Section 151 Officer consider the content of this report in order to determine any further action.

The wider issues identified in the report need to be considered to identify what needs to be implemented/changed to minimise the risk of a similar occurrence of a breakdown in Governance taking place at the Council e.g. knowledge and awareness of:

- Contract procedure rules
- Contract management & supervision processes
- Financial procedure rules
- Codes of conduct for Members and Officers and
- Protocol for member & officer relationships
- Decision making processes and documentation
- Management & supervision

The report has been shared with the Police and after due consideration they have determined that it is not appropriate for them to take any action.

The Council has implemented all of the recommendations outlined in the report and the issues relating to the conduct of the Councillor were correctly and appropriately reported to the Public Ombudsman for Wales for investigation.