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Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

Invest Northern Ireland

Annual Report and Accounts

2019-20

Introduction

1 Invest Northern Ireland (Invest NI) is a Non-Departmental Public Body which was established in 2002 and received £175.8 million grant-in-aid from the Department for the Economy (DfE) in 2019-20. Invest NI's purpose is to grow the local economy by helping new and existing businesses to compete internationally and by attracting new investment to Northern Ireland.

2 I am required under the Industrial Development Act (Northern Ireland) 2002 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

3 Whilst I am content that Invest NI's 2019-20 financial statements give a true and fair view, my report below sets out why I have decided to qualify my regularity audit opinion in relation to potential ineligible expenditure amounting to £13.5 million in 2019-20 for the Small Business Grant Scheme.

4 In addition, earlier this year a number of concerns were raised publically in relation to issues highlighted in a BBC Spotlight programme regarding Invest NI's awarding of;

- a loan of £2.5 million to the Wrightbus Group in 2019; and
- funds to the Wrightbus Group between 2014 and 2019.

5 My report below also provides a response to the concerns raised.

Background to the Small Business Grant Scheme

6 In response to the unprecedented and significant impact of the Covid-19 crisis on the Northern Ireland economy and on businesses and their employees, the Small Business Grant Scheme was launched by DfE on 26 March 2020. This was an NI Executive initiative to provide one-off emergency grants of £10,000 to small businesses to help mitigate the potential threat of business closures. The scheme is one of three schemes that are focused on supporting various types of businesses during the impact of Covid-19 – the other two schemes being: the Business Support Grant for the Retail, Hospitality, Tourism and Leisure Sectors and the Micro-Business Hardship Fund. Payments on the Small Business Grant Scheme occur in both the 2019-20 and 2020-21 financial years. Payments on the other two schemes occur in the 2020-21 year only and are not considered here.

7 The scheme was required to be designed and delivered by DfE and LPS at a rapid pace and it was in recognition of these particular circumstances that it was subject to a Direction from the Economy Minister. As part of the submission to the Economy Minister, DfE highlighted a number of risks due to the nature of the scheme and the pace with which it was being delivered.

8 In order to deliver this emergency grant, DfE agreed a Memorandum of Understanding (MoU) with Invest NI and the Department of Finance (DoF) / Land & Property Services (LPS). Under the terms of the MoU:

- Invest NI's limited responsibility was to record the full estimated costs of the grant scheme on an accruals basis in 2019-20 budgets and accounts. Essentially, as Invest NI has the authority to provide grant funding to businesses, DfE acted as an agent for Invest NI to make the payments. Invest NI was not directly involved in determining the amounts payable or making the payments to the organisations;

- DfE assumed responsibility on behalf of the Executive for the scheme, including any potential error, fraud or losses arising from the administration of the scheme; and
- DoF (via LPS) was responsible for the identification and checking of eligible businesses and making the payments to those businesses. LPS's data on ratepayers was used to determine who was eligible to receive the grant, however, I note that this was not the normal intended purpose of the LPS information. This brought some risk, but was a pragmatic approach in the absence of any better information.

Qualified regularity opinion due to ineligible payments made

9 As part of their review of the scheme, LPS identified ineligible payments totalling £3.74 million. As part of my audit, on a sample basis, my staff reviewed the payments made by LPS in respect of the total scheme and identified ineligible payments, some of which were already included in LPS's list of ineligible payments (identified through internal control procedures) and one which was initially not included. The ineligible payments identified by my staff, if extrapolated across the scheme, indicates the potential of up to £13.5 million ineligible payments, which I consider to be material in the context of the scheme payments. One of the conditions of entitlement to the scheme was that businesses had to be trading at 15 March 2020. My staff identified errors where businesses were not trading from that particular property on which the grant was eligible and were therefore not entitled to receive the grant, despite in most cases completing an on line declaration. The Department told me that one assumption was that a 'live occupancy' for rating purposes indicated that a business was trading from the address, the assumption being that a business would not willingly pay full occupied rates for premises it was not occupying. The businesses had not therefore identified this fact to LPS at the point at which the grant payments were issued. I also note that LPS has identified other types of error that they are currently reviewing, such as landlords receiving payment instead of the tenant and duplicate payments made.

10 As these payments have been paid to participants who were not eligible under the Scheme, they are irregular and as Invest NI is responsible for accounting for the expenditure on the Small Business Grant Scheme, I have qualified my regularity opinion as the expenditure does not conform to the authorities which govern it. This qualification also applies to DfE who were responsible for the scheme and I shall consider what implications this has on my audit of LPS financial statements in due course.

11 I also note that DfE is currently working on a recovery process, with assistance from LPS, to clawback any grant that was paid to those not eligible. At the time of this report, 374 payments were being reviewed for possible recovery. I asked the Department for an update on the recovery of these payments and it told me that to date 62 payments have been recovered, 60 repaid in full, and 2 partial repayments.

12 Given the risks involved in setting up this scheme so quickly in exceptional times, I asked the Department what controls and procedures it had in place to ensure expenditure on the scheme was eligible and whether any lessons had been learned in administering this scheme. The Department told me a memorandum of understanding was signed between DfE and DoF/LPS on 22 April 2020. LPS informed the Department that a master dataset of all eligible ratepayers was created, which embedded a comprehensive set of validations and controls for managing ratepayer and property data and IDs, portal data, applicant bank account, and e-mail validations and controls. In addition, eligibility criteria was developed by DfE, and corresponding grant processing and review procedures were put in place by LPS. The Department is currently in the process of developing a lessons learned report covering the three business grant schemes.

13 The Department is commissioning research on the impact of its Covid-19 interventions in order to provide useful information on judging the impact and value for money of this scheme along with the Business Support Grant for the Retail, Hospitality, Tourism and Leisure Sectors and the Micro-Business Hardship Fund. I look forward to the outcome of this work and I will review the other two schemes as part of my 2020-21 audit at which point I may report further.

Wrightbus

14 Invest NI awarded a £2.5 million loan to Wrights Group in July 2019 when it was clear that the company was having some financial difficulties. The aim of the loan was to allow the company to continue to operate until a buyer could be secured, which happened in October 2019. Of the £2.5 million advanced, £1.5 million has now been repaid and Invest NI is confident that it will receive the remaining £1 million within the next 6 to 12 months.

15 I have also noted that the loan was awarded before formal approval had been received from the European Commission. On 25 June 2019, the European Commission was notified of the intention of the UK authorities to grant rescue aid in favour of the Wrights Group. Additional information was requested by the Commission on 2 July 2019, which was then provided on 12 August 2019, after £2.5 million had already been disbursed to the Wrights Group.

16 The European Commission outlined that the £2.5 million disbursed to the Wrights Group before the notification to the Commission was complete, "...constitutes unlawful state aid" and "…regretted that the rescue aid loan to the Wrights Group was in breach of Article 108(3) of the Treaty on the Functioning of the European Union." Despite these concerns, no further action was taken by the European Commission.

17 When I discussed this process with Invest NI, they told me that "given the nature and urgency of rescue aid, it is not uncommon that it is awarded prior to final approval by the EU Commission. In the case of Wrightbus, the cash flow pressures were such that to wait for final written approval from the Commission would have resulted in an administrator being appointed and the subsequent rescue and sale not proceeding. Invest NI therefore notified the aid to the Commission at the earliest opportunity and engaged with them throughout the process. During this engagement, the Commission advised that they understood there are times aid has had to be paid out before a decision i.e. "for urgent, understandable reasons to avoid a greater harm", but that ultimately this was a decision for the NI authorities. The Commission also asked that Invest NI inform them if it became necessary to pay the aid prior to approval. This was done and the Commission was sighted on the entire process throughout."

18 Whilst I note the breach of Article 108(3), I accept that the purpose of the loan was to secure the continuance of the Wrightbus operation until a buyer could be found and without providing the funding the successful outcome may not have been achieved.

19 In relation to the £3 million grants awarded by Invest NI to the Wrightbus Group since 2014-15, I was able to confirm, on the basis of a sample of the funding, that Invest NI carried out the relevant checks and applied the appropriate controls to ensure the funding met the requisite criteria of the funding schemes used.

20 I also note that a senior member of Wrightbus Executive Management (who resigned from Wrightbus on 31 March 2019) has been a member of the Invest NI Board from 1 April 2014. Based on my review, I sought and was provided with assurances that all appropriate steps were

taken to manage the potential for any conflict of interest to impact decision making, including exclusion of the Board Member from any relevant conversations and full disclosure of the relationship in the related parties transactions note in the Annual Accounts of years affected. I am content that the approach taken to manage the situation was reasonable.

21 As further assurance in relation to the governance concerns raised, I asked Invest NI to confirm what procedures and processes it followed to ensure there was appropriate governance arrangements in place at Wrightbus when awarding these grants. Invest NI told me that “the payments made to Wrightbus in the period between 2014 and 2019 were in respect of grant offers issued over the 9 year period from 2010 to 2019. Each of the offers made was subject to scrutiny by Invest NI’s Casework Committee process which is designed to discharge an independent challenge and assurance role on behalf of the Accounting Officer. Support cannot be offered to a company without this approval and all offers are approved in line with delegation limits agreed by DfE. In addition, for offers over £250k, which covered the majority of the grants awarded to Wrightbus, a detailed business appraisal was undertaken to provide an objective, balanced analysis of the company and the project, to inform the Casework Committee decision making process. The appraisals carried out on the Wrightbus projects considered marketing, technical, financial and commercial risks and opportunities relating to the proposed projects and the wider business. Preconditions relevant to the specific projects and to the future viability of the company were included in the offers and a written guarantee was obtained from the company in respect of the percentage of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) that could be paid out in dividends or external loans (for Wrightbus this was set at 50 per cent of EBITDA). Prior to the payment of any claims made against the offers, compliance with preconditions and guarantees was checked and appropriate vouching was undertaken. In addition, project and customer monitoring was carried out on a regular basis which is designed to assess progress against agreed project milestones as well as the ongoing viability of the business.”

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