



24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Epost: wales@wao.gov.uk
www.wao.gov.uk

Mr David Powell
Strategic Director - Resources
Powys County Council
County Hall
Llandrindod Wells
Powys
LD1 5LG

Reference JH58/NG
Date 22 August 2014
Pages 1 of 3

Dear David

Substance Misuse Action Fund for Capital Projects 2011/12 and 2012/13

You will be aware from our recent meetings that the Wales Audit Office has looked at how Powys County Council (Powys CC) has used the capital funds received from the Welsh Government in relation to the Substance Misuse Capital Grant above.

Powys CC was awarded £120,000 in 2011/12 for the purchase of the Grosvenor Bakery, to enable you to provide the charity Kaleidoscope with premises within Llandrindod Wells. The charity would then be able to provide the services and support connected with substance misuse.

As you know, the Bakery was purchased at auction by an employee of Kaleidoscope. That individual transferred the title deeds of ownership to Kaleidoscope and was subsequently reimbursed. Powys CC then gave the £120,000 to Kaleidoscope after receiving documentation supporting the purchase price and purchase costs.

Having looked at the Grant Agreement signed between Powys CC and Welsh Government, I have concluded that this transaction (ie Kaleidoscope purchasing the building and Powys CC providing the funds via this grant) is contrary to the Terms and Conditions of the Grant Agreement in a number of respects, some of which I list below:

Grant Terms and Conditions Ref	Requirement	Concern
Recital B	The Grantee proposes to use the grant aid to purchase the Grosvenor Stores.....to enable the Grantee to provide Kaleidoscope with premises within Llandrindod Wells.	The property should be owned by Powys CC.

Grant Terms and Conditions Ref	Requirement	Concern
5.2.3	Without the Grantor's prior written approval, there shall be no variation or modification to the Project including: <ul style="list-style-type: none"> • ...any changes to the aims of the Project, the use of the Property and their financing or ownership. 	No written approval for ownership by Kaleidoscope. How will Powys CC control any future changes or even disposal?
7.1.4	The Grantee shall: <ul style="list-style-type: none"> • ..retain all invoices, receipts, accounting records and other documents relating to expenditure generated in undertaking the Project for at least six years after the completion of the project. 	How are Powys CC complying with this requirement?
8.1.5	The Grantee undertakes to ensure that it has, in place, with a reputable insurance company, insurance cover including but not limited to: <ul style="list-style-type: none"> •damage and theft to the property • Public Liability insurance • Employer's Liability Insurance. 	How are Powys CC complying with this requirement?
10.1.4	The Grantor shall be entitled to...require, any or all, of the Grant paid to be repaid if: <ul style="list-style-type: none"> • ...the Grantee takes steps to dispose or disposes of all or part of its interest in the property within 15 years... 	Powys CC are at risk of financial loss, but do not own the property and hence the control of its disposal.

In addition to not meeting the requirements of the Grants Terms and Conditions, and potentially putting Powys CC at a risk of financial loss, there is a value for money and stewardship of public monies issue. I would ask you to consider whether it is now possible to mitigate some of these risks by exploring the possibility of bringing the asset into the Council's ownership or, failing that, entering into a formal agreement with Kaleidoscope that covers the points above and most importantly includes a recovery clause should Kaleidoscope choose to sell the property in the future.

I am aware that following questions from my team, your Capital Accountant has been in touch with her contacts at the Welsh Government to inform them of the situation, and I have seen some replies suggesting that they are relatively comfortable with this. However, given the size of the grant, it may be advisable to formally write to Welsh Government advising them of the departures from the Terms and Conditions along with your risk mitigation measures and request a formal response.

If you would like to discuss any of the above please contact me or Mike Jones.

Yours sincerely

A handwritten signature in black ink, appearing to read 'JH', with a long horizontal flourish extending to the right.

John Herniman
Engagement Lead
Wales Audit Office