

Fact Finding Report

Review of Lytham Hall Restorartion Project



Audit Team: Tracy Greenhalgh
Stephen Hagan
Date: 31st January 2017

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2. Scope

- 2.1 Blackpool Council was commissioned by Fylde Borough Council to undertake an independent review of the Lytham Hall Restoration Project. This was as a result of a meeting of the Tourism and Leisure Committee in November 2016 where it was determined that the Council could not be confident that grant monies provided by Fylde Borough Council had been spent appropriately.
- 2.2 At the Tourism and Leisure Committee meeting it was requested that the independent audit examined in detail and ascertained:
- The reasons for some of the major funding bodies pulling out of the project.
 - The findings of other work undertaken into the project such as the Moore Stephens report prepared by the Heritage Lottery Fund.
 - Whether in light of this information the borough council can have any confidence that the existing trustees and management of the Heritage Trust North West (HTNW) will be able to complete the restoration of Lytham Hall within a reasonable time period.
 - What has the £300,000 that Fylde Council gave to Lytham Hall been spent on (to be suitably itemised).
 - Whether the Council has any grounds to demand repayment of the £300,000 grant awarded by Fylde Council in 2011.
- 2.3 Blackpool Council's Chief Internal Auditor, Tracy Greenhalgh, was appointed to undertake this review and was supported by Stephen Hagan a member of the Internal Audit and Corporate Fraud Team at the Council.

3. Findings

3.1 **The reasons for some of the major funding bodies pulling out of the project.**

3.1.1 On the 3rd August 2011 the Heritage Lottery Fund (HLF) wrote to the Chief Executive at the Heritage Trust North West (HTNW) confirming the award of a grant of up to £2,441,200 towards the restoration of Lytham Hall and the surrounding parkland and gardens. This represented 41% of the total eligible project cost of £5,984,437. There were a number of approved purposes which the HLF would monitor progress against and these included:

- To restore, refurbish and interpret Lytham Hall so it is no longer a building at risk.
- Create a conference and events venue with restaurant facilities to generate revenue.
- Increase public access to the Hall and Park including full access for people with disabilities.
- Renovate the parkland and gardens to provide year round access.
- Provide a varied programme of events and activities to engage the public.
- Improve the long term management and maintenance of the Hall and park.

- Provide volunteering and training opportunities for the general public and staff.

3.1.2 The basis of the project required a considerable amount of match funding in order to meet the costs of the project. The partnership funding which was quoted as part of the HLFs agreement letter was as follows:

Income Heading	Description	Secured	Total
Cash	Lancashire County Council	Yes	£1,000,000
Cash	Heritage Trust North West	Yes	£403,312
Cash	Earned Income (HTNW)	Yes	£387,362
Cash	Fylde Borough Council	Yes	£300,000
Cash	Further donations to appeal	No	£249,025
Cash	Public Appeal and Fundraising Events	Yes	£115,000
Cash	Lytham Town Trust	Yes	£100,000
Cash	Grants / Sponsorship	No	£58,000
Cash	Landfill Tax	No	£50,000
Cash	Charitable Trust Donations	No	£50,000
Cash	Due to rounding down	No	£18
Non-cash contributions	Gifts in Kind	No	£197,520
Volunteer Time	Volunteer Tasks	No	£633,000
Total			£3,543,237

3.1.3 However, not all of the funding identified was secured at the time of receiving the HLF grant, even though some of it had been identified as being secured.

3.1.4 The key source of funding which had not been formally secured at the time of submitting the bid was the £1,000,000 from Lancashire County Council (LCC). Whilst discussions started between HTNW and LCC in 2011 about the potential of providing funding it was not until March 2013 that LCC wrote to HTNW outlining the decision which had been made in relation to providing funding for the scheme.

3.1.5 On the 6th March 2013 LCC wrote to the Chief Executive of HTNW outlining their position in terms of funding for Lytham Hall and HTNW. This highlighted that the funding they would provide would be focused on three key areas including:

- An in principle agreement to increase the HTNW's Loan Guarantee from £500,000 to £1,000,000.
- An in principle agreement to investment of £1,000,000 in the refurbishment of Lytham Hall.
- An in principle agreement to provide revenue funding for the operational costs of the HTNW.

3.1.6 The letter stipulated that in order for the above decisions to be implemented a number of actions needed to be undertaken by HTNW. These focused on the drafting of a Development Plan including:

- An Asset Disposal Strategy setting out a schedule for the disposal of identified Trust property assets in order to reduce the Trust's reliance on loans to undertake activity.
- An agreement to LCC taking a charge over Trust property assets as identified in the Asset Disposal Strategy, to a value sufficient to cover potential liabilities from the £1,000,000 Loan Guarantee.
- An agreement to the proceeds of sale on any Trust properties to be either:
 - Applied directly in reduction of Architectural Heritage Fund Loans and the guarantee from LCC reduced by the same amount, or
 - Set aside for loan repayment at a later date.

3.1.7 Discussions with LCC have confirmed that the funding model proposed was based not only on helping to restore Lytham Hall but also to help ensure that the HTNW was on a more sustainable financial footing going forward. LCC had been a Loan Guarantee for the HTNW since the 1990's for Architectural Heritage Fund (AHF) Loans however they had been notified in 2011 that the HTNW had defaulted on a loan and therefore LCC wanted to ensure that they took adequate due diligence before increasing the level of Loan Guarantee provided to the HTNW.

3.1.8 When the funding model was offered to HTNW by LCC it was on the basis that the AHF would be providing a loan for the Lytham Hall project. However, LCC became aware that the AHF would be no longer be making a loan in 2014 and therefore the loan package that LCC had proposed in March 2013 no longer existed, leaving a significant funding gap for the HLF project.

3.1.9 LCC and the Chief Executive of HTNW continued to discuss potential funding models and in January 2015 HTNW were requested to provide a revised business case for funding. HTNW missed the deadline for submitting the business case, however when it was received it was still seeking funding of £1,000,000 for the project.

3.1.10 In 2015 LCC were facing significant financial pressures due to funding reductions inflicted by Central Government as part of austerity measures. Therefore, it would be difficult to justify providing funding for a project at such a significant amount. In addition, when reviewing the business case submitted by HTNW it was noted that they had not sold the properties which they had stated they would dispose of as part of the 2013 agreement. Had they done this then the shortfall to deliver the Lytham Hall project would be much reduced at £300,000. The Chief Executive of HTNW provided a number of reasons as to why the properties had not been sold however LCC did not consider that they could fund the project.

3.1.11 In order to address some of the concerns identified by LCC and in order to pay off the AHF loans the Chief Executive of HTNW and HTNW entered into a £1.5 million refinance package with Unity Trust Bank in order to given the Trust greater flexibility in terms of rental incomes and mortgage payments. In doing so the HTNW would no longer require LCC to act as Loan Guarantee for AHF loans. However, this did not change LCC's view that they could not justify funding Lytham Hall at the levels requested by HTNW.

3.1.12 In May 2016 Lytham Town Trust contacted LCC seeking funding in the region of £300,000 for Lytham Hall as part of a revised package which was being prepared for the HLF which took account of the reduced level of match funding. LCC agreed to provide funding of £300,000 if the revised HLF submission was successful.

3.1.13 The Chief Executive of HTNW considers the protracted negotiations with LCC was the primary reason for the HLF project being delayed however it is evident from the information provided as part of this review that a formal decision was not taken by LCC to provide the funding until 2013 which was after the successful HLF bid in 2011 which indicated that the funding was already secured.

3.1.14 Due to the delays in starting the HLF project the Chief Executive of HTNW believes that the earned income contribution of £387,362 was no longer achievable as they did not have a full product or service to sell in order to generate the required level of income. This therefore created further vulnerabilities in the financial model and a significant shortfall in match funding. In retrospect it could be considered that the income target was unrealistic as no evidence has been provided which suggests that Lytham Hall had previously made a profit. The profit and loss accounts provided by HTNW as part of this review for Lytham Hall show a net loss in 2015/2016 of £109,669.29 and in the first three quarters of 2016/2017 a net loss of £102,746.30 which further supports the fact that the proposed earned income target may have been overstated and was not secured as identified in the HLF bid.

3.1.15 The impact of this significantly reduced the £2,712,717 cash funding which had been included in the HLF bid therefore putting the project at risk. The HTNW and Lytham Town Trust continued to secure some cash funding for the project and the money actually received is shown in the following table:

Source	Value	Terms
Fylde Borough Council	£300,000	Capital grant for restoration project
Getty Trust	£50,000	Restoration of Lytham Hall
Public Appeal	£115,000	-
Further Donations to the Appeal	£36,287	-
Monument Trust	£200,000	Restoration of Lytham Hall
Veolia (Landfill)	£20,828	Restoration of the south park
Lancashire Environmental Fund (Landfill)	£40,000	Restoration of the south park
Coastal Revival Fund	£30,000	Georgian Hall external restoration work
Harold Bridges Trust	£2,000	Not specified.
Country House Foundations	£28,800	External repairs to Lytham Hall
Total	£822,915	

3.1.16 This represented a £1,889,802 shortfall in terms of the level of cash match funding required in order to complete the HLF project. Therefore the previously agreed HLF project was no longer affordable and the project as was ended in 2016 with the last claim which has been settled by the HLF relating to Jan – March 2016. It total the HLF have paid HTNW £716,869 for the project. The HTNW have also submitted a claim to the HLF for the period of April to June 2016 however the HLF have not released payment for this as they are unable to reconcile the claim and are therefore undertaking an internal review of the case.

3.1.17 Given the shortfall in funding a Change of Approved Purpose was submitted to the HLF which presented a reduced scheme at Lytham Hall and an associated Increased Grant Intervention Rate. The HLF wrote to HTNW on the 9th August 2016 to advise that the request had been rejected. It stated that the Board recognised the good progress with the landscaping work, the strong engagement of volunteers and the need to restore the Hall but they did not have confidence in the

proposals submitted. They had identified significant risks with the business plan and the governance and management proposals which meant the request was not supportable.

3.1.18 Although the HLF project is being closed down HTNW have continued to incur costs including project costs for April to June 2016 and salary costs up to and including December 2016 totalling £77,483.

3.2 The findings of other work undertaken into the project.

3.2.1 When the HLF became aware of the need to reduce the Lytham Hall scheme due to funding issues they commissioned Moore and Stephens to undertake a Project and Organisational review. The HTNW were notified by letter on the 4th July 2016 that the HLF had arranged for the visit to take place on the 7th and 8th July 2016.

3.2.2 Discussions with the HLF have confirmed that the review was commissioned as they had concerns over the deliverability of the revised scheme and they had concerns that the initially agreed project was significantly delayed before it commenced, a situation that the HLF had experienced on another HTNW project they are funding. The review focused on the following key areas:

- Financial Health
- Financial and Project Governance
- Project Delivery
- Financial Controls

3.2.3 The HLF have confirmed that the report has identified a number of control failings in each of the above scope areas to varying degrees. The report was issued to the Chief Executive of HTNW who was given an opportunity to review the report and respond if he had any concerns over the contents. However, no formal response was received by the HLF.

3.2.4 The HLF have not provided a copy of the report to Fylde Borough Council and have rejected a Freedom of Information request to access the report. The decision not to respond to the Freedom of Information request is now being appealed by Fylde Borough Council.

3.2.5 The Chief Executive of HTNW has been asked by a number of stakeholders to provide a copy of the report but has been reluctant to do so. When asked to provide a copy of the report for this review the Chief Executive of HTNW advised that the report included a clause that he needed to seek authorisation from the author prior to sharing the report. The Chief Executive of HTNW advised that he considered parts of the report to be factually inaccurate and was not a true reflection of the work of the HTNW. The Chief Executive of HTNW advised that the Trustees were intending for an independent review of the report to be undertaken and then a formal response would be provided to the HLF.

3.2.6 Lytham Town Trust, who own Lytham Hall and lease it to the HTNW to manage, also have a number of concerns in relation to how the HLF project has been managed and the HTNW's ability to deliver the necessary restoration at the Hall. Lytham Town Trust have undertaken their own review of the information which has been made available to them in order to ensure that the funding received was being appropriately spent.

3.2.7 On the 14th July 2016 Lytham Town Trust wrote to the Chief Executive of HTNW advising that they were aware that the HLF has asked for a funding reconciliation in respect of the final grant claim submission. The Project Manager for the Lytham Hall project, could not account for £166k of grants received. The explanation provided by HTNW was that the money had been absorbed by travelling expenses and the cost of raising other grants for the project. Lytham Town Trust did not consider these to be approved costs under the terms of the HLF grant.

3.2.8 As a result of the above concerns Lytham Town Trust constructed an account of funding and capital expenditure on Lytham Hall. Based on the information Lytham Town Trust had available they assessed that there was a £491,605 discrepancy on the account which they sought an explanation for.

3.2.9 Lytham Town Trust determined that HTNW had received HLF grant to the value of £258,200 in respect of volunteer time and a further £44,743 for gifts in kind and have not been required to account for how this money had been used. This could partially account for the identified discrepancy along with the £200,000 of funding from the Monument Trust which did not appear to be captured in the account.

3.2.10 The Chief Executive of HTNW responded on the 28th July 2016 to provide an explanation to the concerns raised. He advised that project and associated funding was for both revenue and capital purposes as there was a need to develop and deliver an Activity Plan. The Chief Executive of HTNW also stipulates that it was impossible to separate the HLF project from the running costs of Lytham Hall as a holistic approach needed to be applied to ensure the delivery of a seven day operation. The Chief Executive of HTNW also emphasised that the HLF funding was limited to 40.79% which was considered low in comparison to other projects and in the current economic climate it was difficult to secure the 59% of match funding required. The Chief Executive of HTNW also cited the breakdown with LCC which had made it difficult to plan a strategy on the way forward causing expensive delays and uncertainties.

3.2.11 The Chief Executive of HTNW also highlighted a number of errors included in the accounts presented by the Lytham Town Trust and cited that these accounted for £172,613 of the difference. These included:

- The £67,200 from the Country Houses Foundation had not been received.
- The £64,500 was for the non-cash contribution from LCC for a Ranger Post which ceased in January 2015.
- The £25k Lytham Heritage Group funding was included in the figure for the public appeal.
- The actual expenditure on the joinery workshop was £15,933 over the £10k received from the Coastal Revival Fund.

3.2.12 The Chief Executive of HTNW also explained that the cost of the restoration of the Park and preliminary works for the Hall restoration have exceeded the budget due to unforeseen work which was not included in the original HLF project. These included:

- Provision of lavatories in the Stable Block for visitors.
- Repairs and upgrading rooms in the Stable Block to enable storage of the Collection.
- Provision of accommodation and welfare facilities for the volunteers.
- Additional flood lighting for the car parks.
- Creation for a joinery workshop for use by volunteers.
- Additional managing and overheads costs looking after 120 volunteers.
- Amendments and additions to the landscape works.
- Additional overhead costs of running the Activity Programme.

3.2.13 The Chief Executive of HTNW also highlighted that HTNW have invested in capital works at Lytham Hall valuing £18,585.31. The Chief Executive of HTNW acknowledges that these were not grant aided but were project related. Items included:

- Repairs to Gatehouse lock / door handle

- Routine maintenance to the Main House
- West Wing roof repairs and scaffolding
- WW Tearoom repairs
- Slating to the Privy
- Construction of Wood Store
- Made sandwich boards
- Provision and erection of scaffolding to North Porch for paint works and hire of a cherry picker for architects.
- Supplied two joinery work benches and created a secure compound.
- Created storage area for archaeological finds.
- Acquisition of and renovations to Catering Van.

3.2.14 The Chief Executive of HTNW also explained that under the HLF funding the HTNW were eligible to claim for full cost recovery to contribute to the funding's of overheads. It is suggested that the original value of the rebate was based on the 2010/2011 gross annual salary bill however the costs had increased therefore the original calculations were under-estimated on a low cost base.

3.2.15 The Chief Executive of HTNW provided a number of other explanations as to the costs of the project:

- The delays in starting the project since the concept of the lottery bid commenced in 2009, which the Chief Executive of HTNW believes were caused by LCC, resulted in the Trust being in deficit by £148,570.
- No charges were submitted from the HTNW for submitting the original HLF bid. Whilst consultants were paid staff time was not accounted for.
- The LCC negotiations were protracted over a period of 2010 to 2016 which had prevented the Trust from preparing a Strategy.
- HTNW incurring expenditure after April 2016 which they have been unable to claim for.
- The HLF cost plan only allowed for £1,100 for volunteer expenses including welfare provision which was inadequate to cover the number of volunteers. Therefore the HLF funding received for volunteers and non-cash expenses has been used to cover this.
- The HLF budget for volunteer tools and equipment was spent by April 2015 and the HTNW have borne the costs of the additional expense.

3.2.16 Lytham Town Trust replied on the 9th August 2016 in which they dispute that the reason for the delay in the project was due to the actions of LCC. They also state that the net income from the Hall of £387,362 which was projected as part of the match funding was unrealistic as the Hall had never operated at a profit. Concerns were raised that match funding grants had been made specifically for the restoration of the Hall and not to cover operational revenue costs other than those stipulated in the HLF grant letter. It was also suggested that HTNW, rather than Lytham Hall, were the principal beneficiary of the HLF project given the value of overheads charged to the project.

3.2.17 Lytham Town Trust conclude that there is a fundamental difference between them and the HTNW in relation to how the grants received for the HLF project at Lytham Hall should have been applied and also in the way in which a charity should be managed to ensure that protection of public money.

3.2.18 On the 24th August 2016 Lytham Town Trust contacted Fylde Borough Council to outline some of their concerns, which they had shared at a meeting of the Friends of Lytham Hall the previous evening. The key concerns raised were in relation to governance at the HTNW with particular issues being:

- The Chief Executive is instrumental in choosing the Trustees.
- Board meetings are currently only held once a year.
- Minutes are issued by the Chief Executive and issued twelve months in arrears. Any criticism he has received at the meeting is not recorded.
- The Chief Executive is supported by an absentee Chairman.

3.2.19 The above points have not been validated as part of this review. However the Chief Executive of HTNW confirmed, as part of this review, that there is a need to strengthen governance arrangements and has commissioned an independent review of governance which is currently underway.

3.2.20 Given the range of concerns raised with Fylde Borough Council, the Chief Executive instructed Darren Bell, who works at the Council to undertake a fact finding investigation and provide a formal position statement. The outcome of the review was presented to the Tourism and Leisure Committee on the 3rd November 2016. The report concluded that it was difficult to reach a conclusion as to whether the capital grant awarded by Fylde Borough Council had been spent in accordance with the Heads of Terms based on the information provided.

3.2.21 The Chief Executive of HTNW attended the meeting on the 3rd November 2016 and made a presentation which included some of the highlights of 2016, an overview of the HLF approved projects completed and those outstanding, HLF project costs as at 31st March 2016, details of further expected grant funding, matters associated with post HLF and the HTNW strategy for future years.

3.2.22 Mr Gill made a public representation at the meeting in his role as Chair of Lytham Town Trust as did Mr Kitt in his role as Secretary of Lytham Town Trust. Concerns were raised in relation to financial management and governance arrangements.

3.3 Confidence that the HTNW will be able to complete the restoration of Lytham Hall

3.3.1 It is evident that there has been a breakdown in the relationships between the key stakeholders involved in the project to restore Lytham Hall. There is a desire by all parties involved to see Lytham Hall restored, however there is clearly a lack of trust and a difference of opinion relating to the financial management of the HLF project.

3.3.2 This has been fuelled by an apparent lack of willingness by the Chief Executive of HTNW to share the outcome of the various reviews which have been undertaken, particularly the Moore Stephens report.

3.3.3 It should be recognised that HTNW have been in place for a number of years and have managed a number of building preservation projects. However, the Lytham Hall project is complex in terms of the number of funding streams and the scale of the programme, and it appears that it has suffered from a lack of effective management and dedicated financial support from someone who is qualified in financial management, specifically in relation to large scale projects. Based on this it would be difficult to provide assurance that the HTNW, at this moment and with their current processes, would be able to deliver the Lytham Hall project on a timely basis, nor is there currently the funding available to deliver the scheme.

3.4 What has the £300,000 that Fylde Council gave to Lytham Hall been spent on

3.4.1 On the 23rd March 2011 a decision was taken by Fylde Borough Councils Cabinet to potentially support a Capital Funding Request for Lytham Hall for the restoration appeal. Further information was sought from the HTNW and on the 28th June 2011 Cabinet agreed to provide the funding.

3.4.2 On the 4th August 2011 the Heads of Terms were issued by Fylde Council to the HTNW for the Lytham Hall Capital Grant. This stated that a single payment of £300,000 would be payable. There are a number of clauses in the Heads of Terms which are pertinent to the issue being explored namely:

- Clause 5 – The Provider will submit details of how the Grant has been spent within the restoration project and ensure that the capital grant is allocated to the restoration project only.
- Clause 14 – The Provider will notify the Council immediately if the restoration project or the funding requirement changes.
- Clause 19 – The Provider will repay the Grant to the Council in the event that the Heritage Lottery Fund contract terms for the Restoration Project are not delivered in terms of restoring the historic buildings and landscapes, sustaining investment in the long term through delivery of a management and maintenance plan and increasing usage of the facility through delivery on an activity development plan.
- Clause 22 – The Provider will supply sufficient information about its provision of the Services to enable the Council to assess compliance with the Performance Measures.

3.4.3 The Heads of Terms were signed by Phillip Woodward on behalf of Fylde Borough Council on the 8th August 2011 and the Chief Executive of HTNW on behalf of HTNW on the 5th August 2011.

3.4.4 A review of the financial information was undertaken to ascertain how the various streams of funding had been spent. It is apparent that the funding has been used to support the entirety of the HLF project through an apportionment methodology rather than individually detailing and accounting for the specifics which the various funding streams have been spent on. The financial profile for the overall project is as follows:

Cost Head	Description	Total Eligible Cost	Total Claimed Cost
Capital Works	Repair and Conservation Work	£2,291,236	£34,390
	New Building Work	£1,298,668	£0
	Country Park / South Prospect Landscaping and Horticultural Work	£172,853	£174,590
	Equipment and materials – Interpretative exhibitions / installations	£55,125	£539
	Archaeological Works	£29,500	£3,100
	Professional Fees	£410,685	£87,548
	Sub-Total	£4,258,067	£300,167
Further Development Costs	Staff costs – Project Manager 3 years	£108,288	£111,621
	Recruitment for Project Manager	£1,500	£1,493
	Sub-Total	£109,788	£113,114
Activity Costs	Activity Plan Officer 3 years	£84,600	£78,279
	Volunteer / Training Coordinator	£84,600	£44,848
	Training and CPD for staff	£1,000	£887
	Staff travel for 3 years	£3,300	£421
	Volunteer training	£4,600	£2,729
	Volunteer travel	£6,600	£1,843
	Volunteer expenses	£1,100	£1,343
	Equipment and Materials	£26,700	£26,706
	Production of Printed Materials	£5,500	£716
	Activity costs for interpretation	£85,953	£854
	Legal, audit and consultancy fees	£14,300	£12,356
	Sub-Total	£318,253	£170,982

Cost Head	Description	Total Eligible Cost	Total Claimed Cost
Other Project Costs	Recruitment	£1,500	£3,354
	Publicity and Promotion	£10,000	£2,856
	Post completion evaluation	£2,750	£0
	Overheads	£453,559	£423,940
	Gifts in kind	£197,520	£109,691
	Volunteer time	£633,000	£633,000
	Sub-Total	£1,298,329	£1,172,841
	Total Project Expenditure	£5,984,437	£1,757,104

3.4.5 As part of this review an analysis of each of the cost headings has been undertaken and the observations are as follows:

Cost Heading	Observations
Capital Works	<ul style="list-style-type: none"> Only £300,167 has been spent on capital works throughout the project and this expenditure is supported by invoices. Of this 40.79% of the funding has been reclaimed from the HLF estimated at £122,438. The grant from Fylde Borough Council for £300,000 was specifically for capital works and little over this has been spent in the entirety of the project. The grants from Veolia and Lancashire Environmental Fund totally £60,828 was specifically for the restoration of South Park which falls under capital works. The grant of £28,800 from Country House Foundations was specifically for external repairs to Lytham Hall which would also fall under capital works. The £30,000 from the Coastal Revival Fund was specifically for external restoration work to the Georgian Hall. Therefore match funding which was received for capital works totals £419,628 of which only £177,729 has been spent.
Further Development Costs	<ul style="list-style-type: none"> Invoices for the project manager are in place supporting the expenditure incurred in this area. Of this 40.79% of the funding was reclaimed from the HLF at an estimated value of £46,139. There was no specific grant evident to fund the remainder of this expenditure and therefore it would appear that a proportion of all match funding received has been used to support the additional costs of £66,975.
Activity Costs	<ul style="list-style-type: none"> The total cost for activities was £170,982 of which 40.79% was reclaimed from the HLF at an estimated value of £69,231. There was no specific grant for the remaining balance of £101,751 and therefore it would appear that a proportion of all match funding received has been used to support the additional costs. There is evidence of a significant activity programme being run throughout the project.
Other Project Costs	<ul style="list-style-type: none"> Costs of £1,172,841 were incurred through other project costs of which 40.79% was reclaimed from the HLF at an estimated value of £478,402. This included £633,000 for volunteer time. This would seem excessive, particularly as the total eligible costs of £633,000 have been claimed for the small proportion of the project

	<p>which was delivered prior to the HLF pulling the funding for the scheme.</p> <ul style="list-style-type: none"> • HTNW claimed 40.79% of the volunteer costs back from the HLF at an approximate cash value of £285,200. HTNW were not able to provide a detailed list of how this cash payment had been spent but advised that it was absorbed into the costs to support the volunteers, as there had been significantly more volunteers requiring welfare facilities, training and management, than originally provided for in the activity cost element of the funding bid. • Gifts in kind to the value of £109,691 were also claimed for as part of the project with the HLF providing cash funding for the value of 40.79% at £44,743. As above, a detailed list of how this money had been spent could not be provided but it had been absorbed in the overall project. • A budget of £453,559 was provided for in the bid for overheads of which £423,940 was expended. As the overhead budget was for the entire project it would seem excessive that almost all of this has been spent as the project was ended early. • The HLF funded 40.79% of the overheads budget providing cash payment in the region of £172,925.
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3.4.6 Due to the way in which the financial records have been maintained it is not possible to categorically say what element of funding was spent on what part of the project. This is complicated further by the existing banking arrangements. There is no separate bank account for the Lytham Hall Project and the money goes into the main HTNW account. This is complicated further by the fact that we were advised that revenue costs are met from one of HTNW's trading accounts and then a periodic sweep across the bank accounts is undertaken to balance them.

3.4.7 Therefore, there is no transparent record which can be referred to in order to assess money coming in and out of the project, and no clear audit trail which can be clearly attributed to Lytham Hall.

3.5 **Whether the Council has any grounds to demand repayment of the £300,000 grant awarded**

3.5.1 The Head of Terms provided by Fylde Borough Council for the funding for Lytham Hall clearly state that the £300k was a capital grant. However, the financial information provided shows that not all the money could have been spent on capital works but has been apportioned to contribute to all the costs identified in the HLF project.

3.5.2 Under the Heads of Terms Fylde Borough Council requires HTNW to:

- Clause 8 – The Provider will keep accurate financial records in accordance with good management practice and will make them available to the Council on request. The records will in particular provide a clear audit trail of how any Grant has been used.
- Clause 9 – The Provider will provide the Council with a schedule of dates when any external audit of accreditation inspection of the services will be undertaken and provide the Council with a copy of any resulting report.

3.5.3 Arguably the above clauses have not been met as it is not possible to specifically detail how Fylde Borough Council's funding has been spent. However, this needs to be balanced with the fact that considerable work has been done on the grounds at the Hall.

3.5.4 We also note that how the grant was being spent had previously been reported to the Council on:

- Cabinet – 27th June 2012
- Cabinet – 15th January 2014
- Tourism and Leisure Committee – 12th November 2015

3.5.5 At each of the above meetings it was resolved that the capital grant awarded to Lytham Hall was spent in accordance with the Heads of Terms.