

National Assembly for Wales
Public Accounts Committee

Grants Management in Wales - Interim
Report
August 2012



The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

An electronic copy of this report can be found on the National Assembly's website:
www.assemblywales.org

Copies of this report can also be obtained in accessible formats including Braille, large print; audio or hard copy from:
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Tel: 029 2089 8597 / 8032
Fax: 029 2089 8021
Email: Publicaccounts.Comm@wales.gov.uk

© National Assembly for Wales Commission Copyright 2012
The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading or derogatory context. The material must be acknowledged as copyright of the National Assembly for Wales Commission and the title of the document specified.

National Assembly for Wales
Public Accounts Committee

Grants Management in Wales - Interim
Report
August 2012



Public Accounts Committee

The Public Accounts Committee was established on 22 June 2011.

The Public Accounts Committee is not part of the Welsh Government. Rather, the role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to the Welsh Government's expenditure.

The Committee's powers are set out in the National Assembly for Wales' Standing Orders, with its specific functions of the Committee are set out in Standing Order 18 (available at www.assemblywales.org). In particular, the Committee may consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

The Committee also has specific statutory powers under the Government of Wales Act 2006 relating to the appointment of the Auditor General, his or her budget and the auditors of that office.

Current Committee membership



Darren Millar (Chair)
Welsh Conservatives
Clwyd West



Mohammad Asghar (Oscar)
Welsh Conservatives
South Wales East



Mike Hedges
Welsh Labour
Swansea East



Julie Morgan
Welsh Labour
Cardiff North



Gwyn R Price
Welsh Labour
Islwyn



Jenny Rathbone
Welsh Labour
Cardiff Central



Aled Roberts
Welsh Liberal Democrats
North Wales



Lindsay Whittle
Plaid Cymru
South Wales East

The following Member was also a member of the Committee during this inquiry:



Leanne Wood
Plaid Cymru
South Wales Central

Contents

Chair's foreword.....	5
The Committee's Recommendations.....	6
Background	9
1. The scale and costs of the use of specific grant funding in Wales	11
The scale of grant funding in Wales, compared to other parts of the UK.....	11
The Scale of grant funding in Wales	12
Determining forms of procurement in Wales	16
Complexity of large numbers of grants	21
Protocol with local government.....	22
Administration costs of grants to the Welsh Government	23
Administration costs of grants to their recipients	26
2. Weaknesses in Grants Management	31
Common weaknesses in grants management	31
Monitoring of grants.....	32
Qualification of grant claims from local authorities	33
Failure to follow up and monitor previously erroneous claims	36
3. The Welsh Government's Grants Management project	41
4. Grants management in sustainable waste management	44
Witnesses	47
List of written evidence	48

Chair's foreword

In a time of economic hardship, it is vital that Wales gets the best from every pound of public money spent. In this context, the Auditor General's report *Grants Management in Wales 2011* provided a timely insight into Wales' use of grants as a funding stream.

Wales uses grants more extensively than the rest of the UK. However, the Auditor General's report identified that many grants schemes are too complex, and that both funders and recipients rarely learn lessons from problems which have arisen with past schemes. The Auditor General concluded that the Welsh Government's Grants Management Project has the potential to cut costs and make the grants process more efficient, but he also found that while some local authorities have improved their grants management processes, others are failing to follow suit.

This interim report sets out our consideration of the concerns raised by the Auditor General's report, supported by information gathered in a series of oral evidence sessions with Welsh Government officials, the Welsh Local Government Association and the Welsh Council for Voluntary Action. We also held an informal evidence gathering session on grants management arrangements in Scotland, to learn more about processes there.

On the basis of this evidence we have detailed 15 recommendations in this report which we believe will improve grants management in Wales. We believe it is timely for the Welsh Government to consider these recommendations now.

However, this will not be our final report on Grants Management. Following the publication of the Auditor General's report, specific concerns arose in relation to the management of grants provided by the Welsh Government to the All Wales Ethnic Minority Association (AWEMA). As a result, the Wales Audit Office is currently conducting an examination of how the Welsh Government managed its relationship with AWEMA. We look forward to considering a report of the Wales Audit Office's investigation and anticipate that it will have a significant bearing on our final Grants Management report which we intend to publish later this year.

The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. We recommend that the Welsh Government ensures that all grants have been reviewed as part of the Grants Management Programme, to ensure that they are the most effective means of delivering Ministerial objectives by 31 December 2013.
(Page 16)

Recommendation 2. We recommend that the Welsh Government considers the wide spectrum of funding options when reviewing the effectiveness of existing grants.
(Page 21)

Recommendation 3. We recommend that the Welsh Government should provide guidance to local authorities, to ensure they consider this wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.
(Page 21)

Recommendation 4. We recommend that the Welsh Government considers good practice elsewhere in the UK in addressing practical challenges over the transfer of specific grants into the general revenue support settlement.
(Page 23)

Recommendation 5. We recommend that the Welsh Government should adopt a target of no more than 5% of its overall grant funding going towards administration of grants.
(Page 25)

Recommendation 6. We recommend that the Welsh Government ensures that managers make timely decisions on continuing or ending grant funding, and must abide by its Code of Practice for funding the third Sector.
(Page 26)

Recommendation 7. We recommend that the Welsh Government publish an annual grants management report. This should include progress towards its target for administration costs and details of any non-compliance with its Code of Practice for funding the third Sector.
(Page 26)

Recommendation 8. We recommend that the Welsh Government develops a transparent, proportionate and consistent business test for determining whether to make advance payments of grants to organisations. (Page 28)

Recommendation 9. We recommend that the Welsh Government accelerates its development of a range of standardised terms and conditions to particular types of procurement processes. (Page 30)

Recommendation 10. We recommend that the Welsh Government establishes a single-point of contact for advice on funding applications (including, but not limited to, grants). (Page 30)

Recommendation 11. We recommend that the Welsh Government holds to account local authorities which have had high rates of grants claims being qualified or adjusted. As part of this, the Welsh Government might consider withholding funding from local authorities if the frequency of qualifications on grant claims does not improve. (Page 35)

Recommendation 12. We recommend that the Welsh Government engages in dialogue with the WLGA towards enabling a reduction in the frequency of grant claims by local authorities being qualified. This should include the WLGA:

- actively sharing best practice;
- supporting poorly performing authorities; and
- ensuring that those authorities (particularly the quartile of authorities with the highest rates of qualified grant claims and returns) do not lead on regional grant claims. (Page 35)

Recommendation 13. We recommend that, taking into account the need for proportionality and proper procurement processes, the Welsh Government should include in its terms and conditions for grants and other forms of funding, a requirement that recipient organisations participate in the National Fraud Initiative. (Page 39)

Recommendation 14. We recommend that the Welsh Government enables the ongoing provision of accredited training for grants managers. As part of this, we recommend that the Welsh Government monitors the effectiveness with which such training will be put into practice by grants managers. (Page 43)

Recommendation 15. We recommend that the Welsh Government ensures that funding provided by its grants is used to support outcomes consistent with its strategic policy objectives. (Page 46)

Background

1. The Auditor General published his report *Grants Management in Wales 2011* on 29 November 2011. Welsh public bodies award grants amounting to over £2 billion a year, and Wales uses specific grant funding more heavily than other parts of the UK.
2. His report brought together the insight of the Wales Audit Office arising from its wide range of earlier reports on grant-related topics and its work on the certification of grant claims. The Auditor General concluded that administration costs are relatively high and many grants are poorly managed, with funders and recipients failing to learn from past mistakes. However, he also found clear evidence of a desire by some funders to improve.
3. His report commented on the unnecessary complexity of many grant schemes and warned that funders and recipients rarely learn from past failures, despite the fact that many of the high profile examples of poor grants management share common and recurring weaknesses. It states that the quality of grants management at local level varies considerably and that funders rarely tackle poor performance or follow up robustly when claims are qualified. However, the Auditor General emphasised that the Welsh Government's Grants Management Project has the potential to support significant improvements.
4. This interim report sets out our initial consideration of issues of concern arising from the Auditor General's report. It is an 'interim' rather than 'final' report, because we anticipate that we will take further evidence on the issue of Grants Management later in the year.
5. Following the publication of the Auditor General's report specific concerns arose in relation to the management of grants provided by the Welsh Government to the All Wales Ethnic Minority Association. In particular, a joint investigation Internal Audit between the Big Lottery Fund and Welsh Government stated that it could not:

“...provide any assurance that there are appropriate arrangements in place to safeguard and make proper use of the

Welsh Government, WEFO and the Big Lottery Funds entrusted to AWEMA.”¹

6. At the time of this interim report’s production, the Wales Audit Office was conducting an investigation into the Welsh Government’s management of its relationship with AWEMA. We will consider the report of the Wales Audit Office’s investigation, and any other relevant investigations, before determining our final report on Grants Management.

7. Consequently, although evidence arose during our inquiry in relation to the Welsh Government’s management of its relationship with AWEMA, this has not been detailed as a specific theme of this interim report. Rather, it is anticipated that such evidence will be considered when we produce our final Grants Management report.

8. In our inquiry, we took a range of formal and informal evidence. This included:

- a briefing from the Auditor General and Wales Audit Office staff on 6 December 2011;
- evidence from the Welsh Government on 31 January 2012 and 24 April 2012;
- evidence from the Welsh Local Government Association on 8 May 2012;
- evidence from the Welsh Council for Voluntary Action on 29 May 2012;
- an informal evidence gathering session on grants management arrangements in Scotland.²

9. We are very grateful to all the parties who assisted us with our inquiry,

¹ A joint internal report by Internal Audit Services of the Welsh Government and the Big Lottery Fund: A Review of the Effectiveness of Governance and Financial Management within the All Wales Ethnic Minority Association (AWEMA), Para 17.

² This consisted of an informal meeting of two Committee Members with Alex Linkston, IPFA, Former Chief Executive of West Lothian Council; Martin Sime, Chief Executive of Scottish Council for Voluntary Organisations; and Jennifer Wallace, Carnegie Trust UK.

1. The scale and costs of the use of specific grant funding in Wales

The scale of grant funding in Wales, compared to other parts of the UK

10. The Auditor General's report on *Grants Management in Wales 2011* states that the Welsh Government and other statutory funders in Wales use specific grant funding more heavily than other parts of the UK. The report notes that grants are a powerful lever for achieving their policy objectives but that the relatively high number of schemes leads to high administration costs.³

11. Unlike other UK administrations, the Welsh Government has not removed restrictions on a significant level of grant funding, although it is reducing the number of grant schemes to local government.⁴

12. By contrast, the Scottish Government introduced a new financial concordat with local government in 2008 and, as part of the funding package, the vast majority of ring-fenced grants in Scotland were abolished. The Scottish 2011-12 local government settlement lists only four specific grant schemes, and if police funding is excluded then the other three schemes total only £13 million.⁵

13. Similarly, significant reductions in both the number and value of specific grant schemes have also been seen in England in recent years.⁶

14. The WLGA also commented to us that:

“It is not just a UK issue either. Article 9 of the European charter of local self-government makes reference to the fact that there should be less earmarked funding and more general funding.”⁷

³ Wales Audit Office, *Grants Management in Wales 2011*, Summary, Para 1 and 2

⁴ Wales Audit Office, *Grants Management in Wales 2011*, Paragraphs 1.10 to 1.17 and exhibits 3, 4 and 5

⁵ Wales Audit Office, *Grants Management in Wales 2011*, Para 1.18

⁶ Wales Audit Office, *Grants Management in Wales 2011*, Para 1.19

⁷ RoP, Public Accounts Committee, 5 May 2012, Para 5.

The Scale of grant funding in Wales

15. A 2010 report commissioned by the Welsh Government from PricewaterhouseCoopers: Review of the cost of administering the education system in Wales – Phase 1 (April 2010) stated that the exact number of grants currently in existence is not clear.⁸

16. The Auditor General's report found that the Welsh Government operated around 480 separate existing grant schemes in 2009-2010, which varied in size, value, complexity, delivery models and administrative costs, and were worth around £2 billion a year.⁹ They ranged from one-off individual grants to complex partnership and multiple grant-funded projects.

17. The WLGA told us in oral evidence that the long held view of local government in Wales was:

“that as much funding as possible should come through unhyphenated funding through the revenue support grant. Currently, the revenue support grant is just over £4 billion and the amount of specific grants in 2012-13 is in the order of £820 million.”¹⁰

18. We were concerned by the scale of grant funding in Wales, and the associated administration costs of managing such. Responding to our questions about the scale of grant funding in Wales, the Welsh Government commented that:

“Welsh Ministers... see grants as an important policy tool that allows them to say what they want achieved and know pretty directly whether the grant has achieved those things... It is clear that, if you talk to colleagues in Scotland, where they were very early in dehyphenating everything, one of the concerns they have, which they express in formal meetings, is that they have lost a grip on some of the outcomes they might have

⁸ PricewaterhouseCoopers LLP, 'Review of the cost of administering the education system in Wales – Phase 1'. Commissioned by the Welsh Government. April 2010. Page 36.

⁹ Wales Audit Office, *Grants Management in Wales 2011*, Paras 1.5 to 1.9 and exhibits 1 and 2

¹⁰ RoP, Public Accounts Committee, 5 May 2012, Para 5

wanted to achieve where they were delivering them previously through grants.”¹¹

19. In particular, the Welsh Government advocated that grants could be a particularly effective instrument for enabling exploratory approaches, and ensuring greater certainty of outcomes. The Welsh Government asserted that:

“there are some genuinely sensible reasons as to why you would use specific grants. Where the outcome is not clear and there is an exploratory approach, you want the ability to ring-fence and say, ‘That is what I am giving the money for, and I want to start to measure outcomes around that’. The other two areas are around where take-up is particularly difficult to predict, so you want to be able to ensure that you target the money at where it will be taken up, and, secondly, around where the funding profile is also difficult to predict, and so you want some certainty and information before you decide on the profile so that you know that you will get the outcomes.”¹²

20. This view was supported by evidence from the Wales Council for Voluntary Action (WCVA), which commented that a:

“... lot of the developments, for example around carers support and carers services and their transformation over the last 15 years, were triggered by hypothecated funding from Government at the national level to local authorities. Hypothecated funding has traditionally created opportunities for new models and types of services to be introduced. The third sector gets anxious if there is a move away from hypothecation, because it sees that targeted funding disappearing.”¹³

21. The WCVA acknowledged that hypothecated funding could create tensions between central and local government, but considered that the advantage of hypothecated funding was that it “defines the purpose of funding and the way that that purpose is met is determined locally.”¹⁴

¹¹ RoP, Public Accounts Committee, 31 January 2012, Para 66-67

¹² RoP, Public Accounts Committee, 31 January 2012, Para 80

¹³ RoP, Public Accounts Committee, 29 May 2012, Para 20

¹⁴ RoP, Public Accounts Committee, 29 May 2012, Para 22

22. The Welsh Government's Permanent Secretary also suggested that non-hypothecated services could lead to a decline in the achievement of clear outcomes, particularly for target groups, stating that she could:

“quote a personal example from the health service—again, not in Wales—where a grant that was for deaf people was stopped and, over a period of time, we saw a decline in the quality of service. However, because we still use hypothecated grants, that is why we need an inter-country comparison between us, England and Scotland, as they move very early to de-hypothecation. I have seen no written evidence that they are seeing a deterioration, but if you talk to third sector groups across the UK, you will hear real concern that some of their priorities, which were exercised through grants, no longer get that type of priority.”¹⁵

23. We consider that one of the advantages of grant funding is that central government can more readily ensure that it is targeted at particular groups, including those who may be less capable of engaging in other procurement approaches, or who may be less publicly popular than other groups. However, in response to the question of how non-hypothecated services could deliver specific outcomes for target groups, the WLGA asserted that this was still:

“...possible, even through general funding. Scotland seems to have managed that: enormous amounts of specific grant funding have been moved into the general revenue settlement, and there is a strong performance management framework there based on its programme for government. So, it is possible by keeping a focus on the outcomes... In local government, it could be done through outcome agreements.”¹⁶

24. In our informal evidence gathering on grants management arrangements in Scotland, we heard that a key element in moving to non-hypothecated funding had been the development of outcome agreements between local and central government. The change from hypothecated to non-hypothecated funding had required a cultural shift, with government, both Ministers and civil servants, having to

¹⁵ RoP, Public Accounts Committee, 24 April 2012, Para 182

¹⁶ RoP, Public Accounts Committee, 8 May 2012, Para 182

relinquish a silo-thinking mentality' and move toward greater openness and management at a strategic level.¹⁷

25. However, our informal evidence gathering also suggested mixed opinion on the effectiveness to date of Scotland's outcome agreements. It was noted that outcomes and objectives were sometimes externally stated to be lower than they were internally held to be, and that councils sometimes lacked capacity to effectively monitor their delivery, resulting in them capturing outputs as a substitute.¹⁸

26. The Welsh Government acknowledged that there were arguments for as well as against the use of non-hypothecated funding:

"There are people who previously had hypothecated grants who all argue that if you put money into an unhypothecated fund, you lose the focus on your particular care group. There is another view that states that if you have non-hypothecated resources, because you have a larger pot of money to pool, you get more bang for your bucks. I have never seen a study that has said which of the two is right."¹⁹

27. The Welsh Government advised us that one of the objectives of its Grants Management project was to look "at whether the number of grants can be streamlined and reduced."²⁰

28. We consider that the number of grants in Wales fundamentally needs to be reduced, but also recognise the value of grants, and consider them to be a valuable mechanism for delivering Ministerial objectives. We note the value of grants- including small grants- to recipient bodies and are conscious that a blanket approach to removing them could risk key outcomes being lost.

29. We therefore welcome the Welsh Government's commitment to carefully review its grant funding streams on an individual case-by-case basis and determine whether grants remain the most suitable mechanism for funding the provision of services. When asked how

¹⁷ Informal evidence gathering on grants management arrangements in Scotland, para 4.

¹⁸ Informal evidence gathering on grants management arrangements in Scotland, paras 15 & 16.

¹⁹ RoP, Public Accounts Committee, 24 April 2012, Para 175

²⁰ RoP, Public Accounts Committee, 24 April 2012, Para 151

many grants had been reduced, the Welsh Government advised us that:

“...the number of grants has been reduced slightly... we are down to about 460 grants [schemes] at the moment from the 480 noted in the auditor general’s report.”²¹

30. While we welcome the principle of the Welsh Government’s work to review its grant schemes, and recognise there are risks in reviewing too quickly, we are very concerned that the pace of this review needs to rapidly increase.

We recommend that the Welsh Government ensures that all grants have been reviewed as part of the Grants Management Programme, to ensure that they are the most effective means of delivering Ministerial objectives by 31 December 2013.

31. We consider that outcome agreements can be a viable mechanism for ensuring that key objectives are still delivered when funding is transferred from grants to the non-hypothecated funding forms, including Revenue Support Grant, but that such agreements have to be robust. It is only if such agreements are meaningful and appropriately monitored, that the Welsh Government can ensure vulnerable groups will have outcomes safeguarded when funding is non-hypothecated.

Determining forms of procurement in Wales

32. The Welsh Government emphasised to us that the role of its Grants Management Project was not solely to reduce the number of grants, commenting that:

“...if Ministers want to prioritise something, they will take a legitimate decision to put the money in through grants. The grants management scheme is one of the strands, but what matters here... is not whether we have a large number of grants—that is an expression of political will—but whether we manage each of them effectively, whether we mitigate risk in each one of those, and whether we have systems to ensure that we are using grants appropriately in terms of legislation, regularity and all those sorts of things. So, I think that the number of grants, which I believe we should be reducing, is a

²¹ RoP, Public Accounts Committee, 24 April 2012, Para 154

second-order issue to the responsibility of the principal accounting officer, which is that, whether we have 100, 1,000 or 1 million grants, we manage each of them effectively.”²²

33. We concur with, and endorse, these guiding principles, which helpfully differentiate between policy decisions resulting in the numbers of grant schemes in Wales, and the execution of such decisions, which determine how effectively such schemes are managed.

34. We also note that concerns were also expressed about the use of other methods for procuring services- rather than grants- from the voluntary sector. In its written evidence, the WCVA expressed strong concerns that:

“...a move to procurement as a reaction to a perceived over-use of grants can have a negative effect on the third sector. We have been urging Ministers to ‘rebalance’ their approach; we believe that grants can be an effective and efficient funding mechanism and where procurement *is* used we suggest that a preferable approach is that of collaborative commissioning as set out in the Welsh Government’s *Fulfilled Lives, Supportive Communities* Commissioning Framework Guidance and Good Practice document.”²³

35. The WCVA considered that procurement methods could favour large organisations over smaller organisations, regardless of any local knowledge or contacts the latter might have because:

“We hear from local organisations about the disadvantages that smaller organisations feel in the face of large UK third sector and private sector organisations that have bidding departments. If you are operating on that scale, you might have a procurement department whose job it is to put together bids to meet contract deadlines. That would clearly disadvantage a smaller organisation that simply does not have that critical mass and capacity.”²⁴

²² RoP, Public Accounts Committee, 24 April 2012, Para 16

²³ WCVA, Grants Management in Wales, PAC(4) 09 12 (p1), Para 4

²⁴ RoP, Public Accounts Committee, 29 May 2012, Para 32

36. The WCVA also advocated that a grants management relationship could be more dynamic, and reactive to changing events, than a procurement relationship:

“...because it is possible for a public body to enter into a contract and then to be tied into its commitments to its provider on the basis of a contract that was put together at a particular moment in time. There are lots of examples of Governments finding that contracts have become much more expensive because they had not planned for everything at the outset and not everything was specified. A good grants management relationship can be more dynamic, because the scope of funding can change as part of that joint management arrangement.”²⁵

37. The WCVA also clarified that of the grant schemes considered in the Auditor General’s report, “only about 20 to 30 apply to the third sector,”²⁶ but that in total the voluntary sector receives- from local government and other sources- “thousands of grants.”²⁷ The WCVA suggested that:

“...there needs to be a clearer distinction between that which is appropriate to be procured—whether that is the type of good or service, or the size—and the use of grant aid, where you want greater flexibility and where it is more likely to produce the appropriate, though complex, services, or innovation or flexibility.”²⁸

38. The WCVA also noted that the European Commission had provided an indication of monetary thresholds, by which to determine whether state aid concerns necessitated that procurement represented a more effective process than grants, commenting that it:

“...is proposing to increase the threshold to €0.5 million for health services, social services and education services. It will introduce changes so that the full scale of European

²⁵ RoP, Public Accounts Committee, 29 May 2012, Para 3

²⁶ RoP, Public Accounts Committee, 29 May 2012, Para 3

²⁷ RoP, Public Accounts Committee, 29 May 2012, Para 14

²⁸ RoP, Public Accounts Committee, 29 May 2012, Para 29

procurement law will not apply to services of less than €0.5 million. For us, that is a reasonable threshold.”²⁹

39. In the event that this threshold is raised, we believe the Welsh Government will need to carefully consider the implications of such for its use of grants as a procurement mechanism.

40. The WLGA commented that in its role as a provider (rather than recipient) of funding, local government had:

“...an ongoing dialogue with the third sector on whether it is appropriate to use grants or procurement. They both raise very different issues and there is good guidance from the National Audit Office, which helps to inform those local decisions about whether it is better to make grants or procurement-type funding choices.”³⁰

41. The WCVA expressed support for collaborative commissioning, whereby:

“...you work out the service that you want and then bring potential voluntary and third sector organisations together and work with them to work out who will deliver what and then fund it. That seems to me to be a fairly sensible way of going about that, because, as we said in the paper, we are keen on the concept of commissioning as something that is collaborative and that involves users and organisations to determine what is to be delivered, and not confusing that with the funding mechanism that sits below that, which is the ‘how’.”³¹

42. Notably, during our informal evidence gathering on grants management arrangements in Scotland, it was recommended that we separate out our consideration of grants to local government, from grants to the voluntary sector, because of the significantly different sizes of grants involved, and the different nature of the voluntary sector from local government.³²

²⁹ RoP, Public Accounts Committee, 29 May 2012, Para 55

³⁰ RoP, Public Accounts Committee, 8 May 2012, Para 37. The National Audit Office guidance referred to is ‘Successful Commissioning guide and toolkit.’

³¹ RoP, Public Accounts Committee, 29 May 2012, Para 92

³² Informal evidence gathering on grants management arrangements in Scotland, Para 9

43. We consider that the Welsh Government's Grants Management Project should ensure that the most appropriate procurement methods are utilised for delivering Ministerial objectives. On occasion there is clearly merit in large-scale procurement exercises, but it is also clear that such exercises can sometimes exclude smaller organisations, which lack the procurement departments to compete in such. This is particularly problematic if those smaller organisations are actually the best placed to deliver particular services, because of their local contacts or understanding of a sector.

44. We are also concerned that much of the evidence we heard in our inquiry suggests that the policy landscape in Wales has primarily focussed on one approach to grant funding and one approach to commissioning.

45. Rather than simply look at a 'one-size-fits-all' approach to grants or commissioning arrangements we consider that the Welsh Government should seek to use the most appropriate and proportionate procurement methods for delivering Ministerial objectives. These are not limited to 'grants' and 'commissioning' but rather are a wider spectrum, including:

- grants which organisations are assumed to be 'entitled' to (without need for bids);
- competitive grants (i.e. with need for bids);
- conditional grants;
- grants with limited conditions;
- collaborative commissioning;
- competitive tendering;
- loans; and
- other investment forms.

46. In determining the most appropriate investment forms, we believe that the Welsh Government should consider the nature of potential partners. A local authority, for example, with a bespoke procurement team is very different to a small voluntary sector organisation which is made up of a few volunteers. We believe that while actively seeking to reduce its overall number of grants- particularly those provided to local government- it would be perfectly reasonable for the Welsh Government to actively and simultaneously promote a more

widespread use of grants for the voluntary sector as an alternative to other procurement methods.

47. We believe that in different situations, different frameworks and approaches to funding will be appropriate. Wherever possible, effort should be undertaken to avoid local organisations being excluded from providing services.

48. We consider that the Welsh Government should consider a wide range of methods for providing funding, and select the most appropriate to the situation and the particular objectives that are intended to be delivered. We recommend that the Welsh Government reviews the wide range of mechanisms possible for providing funding, with a view to providing guidance for both itself and others.

We recommend that the Welsh Government considers the wide spectrum of funding options when reviewing the effectiveness of existing grants.

We recommend that the Welsh Government should provide guidance to local authorities, to ensure they consider this wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.

Complexity of large numbers of grants

49. The Auditor General's report details that there are clear indications that the range and complexity of grant schemes in Wales makes it difficult for applicants to navigate their way through the various conditions of funding.³³

50. The Welsh Government's evidence illustrated this complexity:

“Many of the grants in Wales are delivered by intermediate bodies or other bodies. We do not keep a repository of them, partly because grants change over time. If you were to ask today how many grants we have, I could tell you, but that might be a very different figure from what it would have been three or four months ago, because numbers will come down, there will be other priorities that mean that the decision will be taken

³³ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.1

after a policy assessment that the best way to allocate the money is through a grant. Therefore, it is a moveable feast. It is not the case that there is a number of grants that stays constant; it changes over time.”³⁴

51. The Welsh Government noted that it did not seek to signpost third sector applicants to grants, but rather:

“...we give funding to the Wales Council for Voluntary Action to act as a source to help individuals to find what resources are available and also to help them to complete the applications and bid for the money available.”³⁵

52. We are concerned that it will sometimes be difficult for any organisation to accurately signpost individuals and other bodies to appropriate grants, if the Welsh Government itself does not keep a repository of the total grants in Wales that are provided by itself and intermediate bodies.

Protocol with local government

53. In support of the 2004-05 local government revenue funding settlement, the Welsh Government and the Welsh Local Government Association (WLGA) agreed a ‘Protocol’ for specific grants. A mutual objective was to keep the number, value and duration of specific grants to a minimum.³⁶

54. Since the Protocol was developed, the Welsh Government has continued to consider annually which of its specific grants might transfer into the general revenue support settlement for each local authority. However, between 2005-06 and 2009-10, only a modest (and decreasing) number of relatively small grant schemes were actually transferred.³⁷

55. The Welsh Government advised in oral evidence that it was planning to:

“...develop a pilot project with a series of local authorities, so that we can understand, from what they are trying to achieve

³⁴ RoP, Public Accounts Committee, 24 April 2012, Para 163

³⁵ RoP, Public Accounts Committee, 24 April 2012, Para 165

³⁶ Wales Audit Office, *Grants Management in Wales 2011*, Para 1.13

³⁷ Wales Audit Office, *Grants Management in Wales 2011*, Para 1.15 and Exhibit 4

with their local government protocol and the make-up of our overall grant profile, how we can have better consolidation.”³⁸

56. We welcome the Welsh Government’s intention to develop this pilot project, and consider that it could usefully provide a written update on its evaluation of the pilot once it has been completed.

57. We consider that an obstacle in the transfer of grants to the general revenue support settlement is that when such transfers occur there will be winners and losers amongst local authorities. Depending on the level of funding they have previously received, as a result of successfully - or unsuccessfully - applying for grants, some local authorities will inevitably be more, or less, in favour of particular transfers. One solution to this obstacle was suggested by the informal evidence we heard on Scotland’s approach to grants management, whereby local authorities had largely moved to a budget which was equal to what they had previously received. This meant that some authorities which had previously been more successful in applying for grant funding did better in their un-hypothecated budget than others.³⁹ Another solution is the development and agreement of clear, robust outcome agreements on what local authorities will deliver with increased - or reduced - overall funding.

We recommend that the Welsh Government considers good practice elsewhere in the UK in addressing practical challenges over the transfer of specific grants into the general revenue support settlement.

Administration costs of grants to the Welsh Government

58. The Auditor General’s report states that grants’ administration costs represent at least 10 per cent of the total funds awarded on some schemes, and that funders are increasingly conscious of the need to reduce administration costs. For example, the UK Government’s Lottery Minister recently announced that both English and UK-wide Lottery distributors would be required to cut their Lottery Grant administration costs to just five per cent. Given the economies of scale that are achievable through fewer, larger, simpler grant schemes, the Auditor General’s report suggests that it is reasonable

³⁸ RoP, Public Accounts Committee, 31 January 2012, Para 73

³⁹ Note of informal evidence gathering on grants management arrangements in Scotland.

that the Welsh Government should seek to identify efficiencies on a larger scale.⁴⁰

59. The Welsh Government concurred in oral evidence that:

“If there are lots of small grants, the administration cost will be high as a general proportion of the total cost, so there are surely some discussions we can have about pooling those sorts of things.”⁴¹

60. Notably, the Welsh Government’s Business Case for its Grants Management Project states that just 21 of its grant schemes already account for some 67 % of the total spend recorded.⁴² The Welsh Government also stated in evidence that it was committed to driving down the administration costs of grants, commenting on the Big Lottery’s target of no more than 5% of funding going to administration:

“We would like to be more ambitious than the 5% target, but there is absolutely no reason why 5% could not be an interim figure. However, the task for us is to always drive it down. Money spent on the administration of a grant is money that is not going to the intended recipients of the grant. I believe that the task of the principal accounting officer is to get as much money as we can out to deliver for citizens and that is the imperative of everything that we are trying to do, that is, to reduce the cost.”⁴³

61. We welcome the Welsh Government’s desire to be ambitious in driving down the costs of administration. However, with the Auditor General’s report indicating that such costs currently represent around 10% of grant funding, we consider that there would be value in the Welsh Government adopting an initial target of no more than 5% of total grant funding going towards administration. We consider that more ambitious targets could then be adopted once the Welsh Government’s grants have a collective administration cost of below 5%.

⁴⁰ Wales Audit Office, *Grants Management in Wales 2011*, Paras 1.22 to 1.27 and Exhibit 6

⁴¹ RoP, Public Accounts Committee, 31 January 2012, Para 74

⁴² Wales Audit Office, *Grants Management in Wales 2011*, Para 1.8

⁴³ RoP, Public Accounts Committee, 24 April 2012, Para 186

62. However, we also recognise that efforts to make administration more efficient should not be at the expense of managing grants effectively to deliver outcomes. Indeed, the Welsh Government noted that:

“The simple view is that grants under £1 million are probably not worth having, because such a high proportion would go on administration. However, when we went through them, in some cases it was almost the opposite of that. Sometimes, it is the small grants that are very good at delivering the tangible outcomes that Ministers want. Therefore, we had to move away from something that just talked about scale and whether it was worth the administration.”⁴⁴

63. The WCVA concurred with this assessment, commenting that they:

“... did not think that there should be a minimum size... because some communities can do wonders with £50 or £100. That can make more of a difference than a huge grant.”⁴⁵

64. We concur that small grants can sometimes have a significant outcome that represents very high value for money. We believe that in driving down the overall administration costs of its grant schemes, the Welsh Government must not automatically eliminate grant schemes under a certain level of funding. Equally, it may not be appropriate to seek to drive down administration costs by pooling grants if organisations are not in a position to deliver across the range of pooled activities. The evidence of our inquiry highlights the value for money that such small grants can sometimes represent in delivering outcomes.

We recommend that the Welsh Government should adopt a target of no more than 5% of its overall grant funding going towards administration of grants.

65. We also understand that some organisations receiving grants have sometimes reached the end of a financial year without knowing if such funding will continue. To some extent, such uncertainty can reflect a lack of feedback to organisations on how effectively their

⁴⁴ RoP, Public Accounts Committee, 31 January 2012, Para 75

⁴⁵ RoP, Public Accounts Committee, 29 May 2012, Para 44

funder considers them to be delivering against desired objectives. More effective monitoring of such grants – as considered in the next chapter- can therefore play a key role in addressing such uncertainties.

66. Nevertheless, we consider that it is imperative that organisations have a clear understanding at least three months in advance of the end of their grant whether such funding will continue. We are aware that guidance on such issues is available through the Welsh Government’s Code of Practice for funding the Third Sector,⁴⁶ but are concerned that this is not always strictly applied.

67. We also note that recent changes in employment law can result in greater costs in terms of redundancies, if funding comes to an end. This does not prohibit the conclusion of grants, but it does place a greater focus on the responsibility of grant managers to avoid the issuing of redundancy notices to staff by grant-funded bodies being necessitated purely by a lack of timely communication.

We recommend that the Welsh Government ensures that managers make timely decisions on continuing or ending grant funding, and must abide by its Code of Practice for funding the third Sector.

We recommend that the Welsh Government publish an annual grants management report. This should include progress towards its target for administration costs and details of any non-compliance with its Code of Practice for funding the third Sector.

Administration costs of grants to their recipients

68. We also took evidence on the administrative costs of grants to their recipients. For example, the WLGA commented that although it was sometimes difficult to accurately identify what specific grants cost in terms of their administration to local government:

“...over the years, a number of estimates have been made, ranging from anywhere between 5% and 10%, which would put the cost of administering local government specific grants somewhere in the region of £40 million to £80 million.”⁴⁷

⁴⁶ Welsh Government, Code of Practice for funding the 3rd Sector, January 2009.

⁴⁷ RoP, Public Accounts Committee, 8 May 2012, Para 6

69. The WCVA estimated that grants management costs were “between 7% and 10% per scheme” but implied concern that these could be overshadowed by the “cost of procurement... we understand that a full-time procurement officer can only do about four large-scale procurements a year.”⁴⁸ The WCVA suggested that a key issue in administering and monitoring grants was that these costs were kept proportional:

“What is needed is proportionality in the monitoring and everything else. If you have to fill out a 15-page application for £50 and have all your policies and all the rest of it in place, that might be disproportionate to the amount being sought. So, you need it to be proportionate. Also, you need to be able to take risks. When we were running a grant scheme that was giving out a lot of very small grants, we did a one in 10 check, and we rarely found that the money had not been spent on what had been applied for, but we could not say that 100% for every one—the cost of doing that would have been disproportionate to the outcome.”⁴⁹

70. Similarly, the WCVA stated that:

“You could think in terms of the small grants that you might issue to a community group that would have a fairly simple application process and a fairly light touch, but a common sense monitoring arrangement. You might then look at more significant services, where the grant is paying the staff providing services for people and you would expect there to be a higher level of application and monitoring there.”⁵⁰

71. The WCVA also commented, in relation to the current need for a business case to be made for receiving advance payments on a grant that, the degree of this test should be proportionate, and as:

“We believe that as this ‘business case’ will be identical for most organisations, it should be possible to apply a simple universal test which would ensure consistency and fairness, and avoid increasing administrative burdens on both Welsh Government officials and grant recipients. The following

⁴⁸ RoP, Public Accounts Committee, 8 May 2012, Para 27

⁴⁹ RoP, Public Accounts Committee, 29 May 2012, Para 45

⁵⁰ RoP, Public Accounts Committee, 29 May 2012, Para 56

straightforward test can therefore be used. If payment of a grant in arrears would reduce an organisation's freely available reserves to less than six months normal running costs (based on recent accounts), grants will be paid in advance."⁵¹

72. Similar comments were made during our informal evidence gathering on grants management arrangements in Scotland, where it was suggested that there was a balance to be struck between public money sitting for months in a voluntary organisation's bank account generating interest, and being paid three months in arrears (and therefore requiring voluntary sectors to divert income from other funding areas to make up the shortfall, or lose staff).⁵²

We recommend that the Welsh Government develops a transparent, proportionate and consistent business test for determining whether to make advance payments of grants to organisations.

73. When asked about the administration costs of organisations unsuccessfully applying for grants, the WLGA commented:

"It is difficult to know what the potential cost might be without knowing how many applications are going in. You could certainly envisage the scenario where, for a lot of the smaller grants, and for a lot of grants that are about building capacity in public services — I am thinking about some of the European social fund-type of grants — a great deal of effort goes into making those applications. I cannot remember the exact details, off the top of my head, but I think that I have seen a few ESF grant applications where the application itself has run to 10 to 15 pages in length. I am not sure what proportion of those applications is unsuccessful, but a lot of time and effort goes into submitting claims for those types of grants. The same applies to the invest-to-save-type of grant."⁵³

74. The WCVA suggested that such administration costs could be minimised by use of a:

⁵¹ RoP, Public Accounts Committee, 29 May 2012, Para 67

⁵² Note of informal evidence gathering on grants management arrangements in Scotland, Para 12

⁵³ RoP, Public Accounts Committee, 8 May 2012, Para 11

“two-stage application, whereby the first stage is simple in that you just present the idea, so that you are not necessarily spending a lot of time on it. If you are going to be rejected, that happens at a fairly early stage, so if you are going to invest a lot more time in it, you will have got through that first stage.”⁵⁴

75. We are concerned that the administrative costs for recipients of grants, and of applying for grants, should not be forgotten, and that effort must be undertaken to continuously drive them down.

76. We consider that proportionate mechanisms should be adopted for applying for grants. For example, where larger grants are being applied for, we consider it would be appropriate for a two-stage application process to be utilised, consisting of:

- Phase 1: simple presentation of idea;
- Phase 2: more detailed and robust application.

77. We believe this would avoid significant amounts of work being undertaken in applying for funding on the basis of ideas that are fundamentally unsuited to the intended objectives of a grant.

78. By contrast, where much smaller grants are being applied for, they might be awarded on the basis of just phase 1.

79. We consider that the Welsh Government should take action to ensure that its administration processes in managing grants (including both initial application and monitoring) are proportionate to the monetary value of such grants (and any other associated risks). We anticipate that this would include the introduction of proportionate mechanisms for applying for grants, such as the use - where appropriate - of a two stage process in applying for larger grants. The WLGA told us that the Welsh Government had developed:

“...standard terms and conditions for specific grants projects, and if you have a more consistent and standardised approach, you are certainly well on the way to better value for money and more efficiency in grants administration.”⁵⁵

80. However, the WCVA considered that:

⁵⁴ RoP, Public Accounts Committee, 29 May 2012, Para 50

⁵⁵ RoP, Public Accounts Committee, 8 May 2012, Para 102

“Consistency, good practice and all those things are fine, but it is probably quite difficult to take a one-size-fits-all approach to grants worth millions of pounds to the private sector on the one hand and grants to small voluntary organisations on the other. If they are trying to produce one set of conditions for all that, it will cause us a few problems down the road.”⁵⁶

81. We concur with the WCVA’s comments, and consider there to be a middle road between having a unique set of terms and conditions for every grant or other procurement, and a single set of terms and conditions. We therefore welcome the Welsh Government’s development of standard terms and conditions for specific projects as an initial starting point. We consider that a range of standardised terms and conditions should usefully be developed, to ensure that they are appropriate and proportionate to the type of procurement undertaken.

We recommend that the Welsh Government accelerates its development of a range of standardised terms and conditions to particular types of procurement processes.

82. The Welsh Government noted that for schemes or ideas where there was an underlying idea of benefit, the Welsh European Funding Office had also tried:

“...to work alongside people to help them to navigate their way through the complexity. That is slightly different. I suppose that the jargon for that is ‘co-creation’, where you are working to help people to achieve their objectives. There is a danger with that because you must still be objective and must not have bias creeping into decision making, but it is a different way of doing things and it has been very successful.”⁵⁷

83. We consider that there is considerable merit in the principle of the Welsh Government providing a single point of contact for advice on applications for funding (including- but not limited to- grants).

We recommend that the Welsh Government establishes a single-point of contact for advice on funding applications (including, but not limited to, grants).

⁵⁶ RoP, Public Accounts Committee, 29 May 2012, Para 100 & 102

⁵⁷ RoP, Public Accounts Committee, 24 April 2012, Para 228

2. Weaknesses in Grants Management

84. Since 2005, the Auditor General has published 18 national reports⁵⁸ on schemes, programmes or projects where significant public investments have been made through specific grants. All highlight the damaging consequences of poor grants management, which include wasted funding, missed opportunities and damaged reputations.⁵⁹

Common weaknesses in grants management

85. A number of common weaknesses have emerged from these studies, including:

- failures to consider adequately the financial viability, capacity and capability of recipients;
- clarity of criteria and objectives have been lacking;
- failures to adequately assess and mitigate risks;
- weaknesses in on-going monitoring; and
- failures to act on lessons learned when designing new schemes.

86. These issues have continued to recur after publication of the relevant audit reports, suggesting a failure to learn from experience.⁶⁰

87. The Auditor General's reports have often identified a failure by funders to:

- define outcome objectives clearly;
- identify the resources needed for their delivery; and
- satisfy themselves as to how the programme or project will deliver those objectives.

88. The Auditor General's *Grants Management in Wales 2011* report demonstrates from a number of high profile case studies that grant funders have often failed to ensure that outcomes for citizens are both clear and measurable.⁶¹

⁵⁸ Wales Audit Office, *Grants Management in Wales 2011*, Appendix 2

⁵⁹ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.9, and the five Case Studies on pages 20 – 22

⁶⁰ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.10 to 2.26

⁶¹ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.13 to 2.17

Monitoring of grants

89. The Wales Audit Office has identified a repeating pattern of concerns by applicants and recipients about the way grant schemes are administered by the Welsh Government.

90. The Auditor General's *Grants Management in Wales 2011* report gives evidence of repeated requests by recipients for simpler, less ambiguous and more consistent requests for information. Applicants and recipients also want better-aligned timetables for grant funding schemes.⁶²

91. Concurring with this evidence, the WLGA commented that:

“Results-based accountability is not rocket-science. It basically asks three main questions about an authority's or a government's own performance accountability and about citizen outcomes. It asks, ‘How much did you do?’, ‘How well did you do it?’, and ‘Who is better off because of it?’”⁶³

92. The WLGA also asserted that the Welsh Government could:

“...get a firmer grip on outcomes without having all the bureaucracy in the monitoring and evaluation of specific grants that will tend to concentrate on the first question, which is to do with how much you have done, how much money you have ploughed in and so on—there will be a concentration on outputs, which does not tell you much about what you are trying to achieve with citizens.”⁶⁴

93. The Welsh Government advised us that they do seek to agree objectives at the beginning of its funding relationships, and then monitor the delivery of such outcomes:

“At the start of a relationship between the Welsh Government and a funder, we agree what outcomes we are looking for and on an award letter. Part of the award letter should include the performance that we expect from the organisation. So, that is built into the original dialogue, before we get into a funding situation, and we will talk through what the objectives are and

⁶² Wales Audit Office, *Grants Management in Wales 2011*, Para 2.3 to 2.8

⁶³ RoP, Public Accounts Committee, 5 May 2012, Para 26

⁶⁴ RoP, Public Accounts Committee, 5 May 2012, Para 27

what we expect to see. Once the money starts to go through, we will expect that dialogue to continue and for some metrics to come back about the performance of that organisation against the award letter, and we will monitor that over the period of the award to ensure that we are achieving the objectives and the outcomes originally intended when we set up the arrangement.”⁶⁵

94. We are concerned that in the current economic climate, it is more important than ever to effectively and proportionately monitor the delivery of outcomes resulting from public funding. We anticipate that we will take further evidence on the issue of monitoring grant funding in due course, and will make specific recommendations on this issue in a final Grants Management report.

Qualification of grant claims from local authorities

95. The Auditor General’s *Grants Management in Wales 2011* report shows that there has been a steady increase since 2005-06 in the percentage of grant claims that are qualified by auditors and / or adjusted.⁶⁶

96. There is also very considerable variation in the levels of grant claims that are qualified or adjusted across the 22 Welsh unitary authorities. Over half of councils had more than a quarter of their grant claims for 2009-10 qualified and / or adjusted, with one council having 60 per cent of its claims adjusted or qualified. In contrast, at four councils the qualification rate was less than 10 per cent, with one council having a perfect record for 2009-10.⁶⁷

97. Commenting on these variations, the WLGA noted that some local authorities’ positive performances were:

“...down to the experience of officers who are filling in grant claims or to the fact that some authorities will have dedicated officers working on grants administration. Some just have a more rigorous application of existing processes. However... the auditor general’s report underlines the point that it is really

⁶⁵ RoP, Public Accounts Committee, 24 April 2012, Para 211

⁶⁶ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.28 to 2.29 and Exhibit 7

⁶⁷ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.30 and Exhibit 8

down to funders and recipients to follow up on qualification matters.”⁶⁸

98. The Welsh Government recognised that it had a significant role in addressing such variations, commenting that when there were continually a high number of qualifications in some local authorities:

“It says as much about us because, unless we are saying that that is unacceptable, no-one will change their behaviour. Clearly, we have not been as forthright in those conversations as we might have been... there is a political choice to come so that, if an authority goes above a certain level, we just would not give it the money.”⁶⁹

99. The Welsh Government also noted that because four councils had qualifications at under 10 per cent:

“The performance at the best end of this gives us something for people to aim. Ultimately, when you look at those sorts of things, you begin to wonder whether we should not pay resources if there are repeated errors, but that is a political decision and we are some way away from that.”⁷⁰

100. In response to our questions about what the WLGA was doing to improve local authorities performance in reducing errors, the WLGA acknowledged:

“We have not really addressed this issue. On the back of this report and the series of workshops coming up over the summer, we will be working with authorities to improve performance in this area.”⁷¹

101. We were extremely disappointed to hear that the WLGA had not previously taken action to address poor performance by local authorities in terms of qualified claims and returns. We consider that the WLGA should seek to share best practice on the application of grant claims and returns to minimise qualifications. We also consider that the WLGA should actively support local authorities in the upper

⁶⁸ RoP, Public Accounts Committee, 24 April 2012, Para 59

⁶⁹ RoP, Public Accounts Committee, 24 April 2012, Para 234

⁷⁰ RoP, Public Accounts Committee, 24 April 2012, Para 236

⁷¹ RoP, Public Accounts Committee, 5 May 2012, Para 68

quartile of qualification rates, to help this quartile reduce the number of qualifications on their claims and returns.

102. When we asked whether the Welsh Government had sought to address poor performance in terms of qualified claims and returns in its dialogue with local government, the WLGA stated that it had: “not heard anything to suggest that... we have not had any discussions with anyone on that.”⁷²

We recommend that the Welsh Government holds to account local authorities which have had high rates of grants claims being qualified or adjusted. As part of this, the Welsh Government might consider withholding funding from local authorities if the frequency of qualifications on grant claims does not improve.

103. The WLGA commented in oral evidence that one option to look at for improving performance in this area could be to look at shared services.⁷³ The WLGA noted that such shared approaches required local authorities to get “the right governance structure in place and having the right legal advice on the most appropriate governance structure.”⁷⁴

104. We consider that a regional approach to bids could potentially help to improve the qualification rates of bids by local authorities, if the better performing local authorities take a lead on such. We consider that local authorities who are in the quartile with the highest rates of grant claims and returns being qualified should not lead on such regional approaches. A regional approach must not result in a levelling out of performance, but rather must result in an overall reduction in the qualification of grant claims.

We recommend that the Welsh Government engages in dialogue with the WLGA towards enabling a reduction in the frequency of grant claims by local authorities being qualified. This should include the WLGA:

- actively sharing best practice;
- supporting poorly performing authorities; and

⁷² RoP, Public Accounts Committee, 5 May 2012, Para 76

⁷³ RoP, Public Accounts Committee, 5 May 2012, Para 79

⁷⁴ RoP, Public Accounts Committee, 8 May 2012, Para 95

- **ensuring that those authorities (particularly the quartile of authorities with the highest rates of qualified grant claims and returns) do not lead on regional grant claims.**

105. Notably, in its written evidence, the WLGA advocated that the qualification process itself should be re-evaluated to reduce costs, commenting that:

“...much of the work involved in grant certification is repetitious and unnecessary. Far greater reliance should be placed on the internal control systems in place.”⁷⁵

106. The WLGA commented that:

“...if you look at the scale of the issue, the gross value of adjustments in 2009-10 was £2 million, whereas the cost of auditing the grants or doing the grant certification work was over £2 million. It is a question of scale. Local authorities are responsible for over £5 billion of expenditure and they are identifying £2 million of adjustments. So, yes, there are issues that need to be addressed, particularly in the variability, but, overall, the scale of it needs to be borne in mind as well.”⁷⁶

107. We consider there to be some merit in the WLGA’s argument to re-evaluate the qualification process itself, and place greater onus on internal control systems in a proportionate fashion. However, we would have much greater sympathy for this argument if local authorities’ qualification rates were at a lower (and more consistent) level. We believe there are currently too high a percentage of claims that have to be qualified for us to consider it appropriate- at the current time- to move away from the existing qualifications process.

Failure to follow up and monitor previously erroneous claims

108. The Auditor General’s *Grants Management in Wales 2011* report explains that a key cause of an apparent complacency, on the part of some grant recipients, is that grant funders in Wales often fail to follow up erroneous claims. It warns that public funds may be being misdirected, with a consequent weakening of their intended impact. It

⁷⁵ WLGA, *Grants Management in Wales*, PAC(4) 07 12(p1), Para 11

⁷⁶ RoP, Public Accounts Committee, 8 May 2012, Para 91

also highlights that public confidence in the way taxpayers' money is being spent could be weakened by further high-profile cases.⁷⁷

109. The report states that even when there have been long-standing failings in monitoring, or when auditors and other third parties have raised concerns (for example, in relation to *Plas Madoc*, or the *Ffynone and Cilgwyn woodlands*), monitoring information has been very weak.⁷⁸

110. The report details that even where there is clear evidence of failings in relation to grants management, there have been widespread failures on the part of grant funders to intervene, either to support a failing project or to recover misspent funds.⁷⁹

111. The Welsh Government considered that it was important to set failings in its grant management in context, with the Permanent Secretary noting that while she had “no idea as to how many grant recipients there are... tens of thousands of people have had a grant and things have worked pretty well.”⁸⁰

112. However, the Welsh Government acknowledged in oral evidence that:

“If you look at the grants programme, it is clear that, sometimes—and this is a big historical thing—we have not necessarily been sufficiently robust in ensuring that organisations have all the standards we would expect.”⁸¹

113. Nevertheless, the Welsh Government considered that with the introduction of its grants management project such issues were now being addressed. It commented that “we are now in a much more robust and certain world because of the work that we have put into the grants management project.”⁸² In particular, the Welsh Government commented that it was vital to train staff to recognise the importance of good governance, commenting:

⁷⁷ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.32 to 2.35 and Exhibit 9

⁷⁸ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.22 to 2.25 and case studies 3 and 5

⁷⁹ Wales Audit Office, *Grants Management in Wales 2011*, Para 2.34 to 2.38

⁸⁰ RoP, Public Accounts Committee, 24 April 2012, Para 199

⁸¹ RoP, Public Accounts Committee, 31 January 2012, Para 58

⁸² RoP, Public Accounts Committee, 24 April 2012, Para 193

“You have to somehow attract people and persuade them that this is not about bureaucracy - it is almost the opposite of bureaucracy, because when you have good governance, you can take risks. Risk without good governance is what goes wrong. Risk with good governance allows you and unleashes you.”⁸³

114. We concur with the Welsh Government’s observation that good governance does not entail avoidance of risk, but rather enables it to be utilised as a valuable opportunity. By contrast, risk in the absence of good governance can be extremely dangerous. The WCVA concurred that there was a need for the Welsh Government, and other funders, to

“...be interested in and look at the governance of an organisation. There is some talk about having kite marks or accreditation of governance, and there may be a gap there. The issue is how you ensure that people actually take up the guidance and operate good governance. The only danger of creating a new regulatory regime and everything that means is that we could make life too complicated for trustees - remember that, at the end of the day, trustees are people like you and me and are volunteers.”⁸⁴

115. We consider that there may be merit in the Welsh Government exploring the concept of having kite marks or accreditation of governance. For example, all third sector organisations above a certain size could be required to demonstrate that they have conducted a self-assessment against the WCVA’s Governance Code of Practice. We noted that the WCVA advised us that it was producing:

“...a little card, which is a computer card. It has our good governance code of practice for the third sector and it has a guide, which has been our best-selling publication for many years, ‘Faith and Hope don’t run charities (trustees do)’. We are giving these out to everyone. People are being asked and encouraged to assess their governance against this code.”⁸⁵

⁸³ RoP, Public Accounts Committee, 24 April 2012, Para 222

⁸⁴ RoP, Public Accounts Committee, 29 May 2012, Para 75

⁸⁵ RoP, Public Accounts Committee, 29 May 2012, Para 73

116. We consider this to be a very worthwhile innovation. The WCVA also noted that it already offered a lot of support to trustees as well as to staff in terms of good governance and how to run a charity:

“All of that help and support is available through us and through the county voluntary councils... We provide project and business planning courses, particularly in relation to European projects, which are often the bigger resourced projects. There are well-established accredited courses available on project planning and project management.”⁸⁶

117. We welcome the actions already being undertaken by the Welsh Government and WCVA to improve governance arrangements. We consider that another measure that could be undertaken would be to encourage more organisations to participate in the National Fraud Initiative (NFI) - recognising that such participation does include some financial costs. While participation in the NFI, and follow up of identified concerns, is clearly not a panacea to ensuring probity and good governance we believe it could help to highlight matters relevant to good governance in relation to the management of public funding.

118. We recognise that a requirement for organisations to participate in the NFI would also need to be proportionate to circumstances, considering:

- the size of the organisation;
- the size of the funding it would receive;
- issues around the timing and duration of the funding (bearing in mind that the NFI is run once every two years).

We recommend that, taking into account the need for proportionality and proper procurement processes, the Welsh Government should include in its terms and conditions for grants and other forms of funding, a requirement that recipient organisations participate in the National Fraud Initiative.

119. The WCVA also offered a means by which the Welsh Government could determine when its relationship with organisations needed to be more closely monitored, commenting that:

⁸⁶ RoP, Public Accounts Committee, 29 May 2012, Para 60 & 63

“A sign of problems is when you have a significant number of trustees resigning; that is a warning sign... There is quite a lot of evidence that, when people express their concerns, particularly if they are trustees, their concerns are not taken as seriously as they should be.”⁸⁷

120. We understand that currently there is no requirement for recipients of grant funding to notify the Welsh Government of changes in their trustees. We consider that it may be appropriate for the Welsh Government to develop a proportionate requirement for recipients of such funding to notify it of changes to their trustees. We anticipate that we will take further evidence on this issue, and make any appropriate recommendations in our final Grants Management report.

121. The Welsh Government indicated that it was seeking to encourage whistleblowing.

“We are getting more whistleblowing internally, which is a good thing. It is not a sign of failure - you will whistleblow if you believe that someone will take action... This is work in progress, because I do not think that we have the answer to it, but I am absolutely sure that there is a nugget of gold in there, and we have to find a proportionate way of looking at governance, because that is what it is about - people, leadership and culture. With the best will in the world, we will never know about that unless we are responsive to the outside world.”⁸⁸

122. We anticipate that we will take further evidence on the issue of whistleblowing, and make any appropriate recommendations in our final Grants Management report.

⁸⁷ RoP, Public Accounts Committee, 29 May 2012, Para 84

⁸⁸ RoP, Public Accounts Committee, 29 May 2012, Para 219

3. The Welsh Government's Grants Management project

123. The Auditor General's report states that the business case for the Grants Management Project, which details many of the weaknesses and issues previously identified by the Wales Audit Office, was approved by the Welsh Government in September 2010.⁸⁹

124. The Welsh Government's Permanent Secretary suggested that many of the issues identified by the Auditor General's report were in the process of being addressed by the Grants Management Project. She stated:

"I am really glad that when you look at the recommendations of the auditor general's report and map them against the grants management project, which of course was set up well before the report, they are very synchronous. So, it really reinforces the work that we have been doing internally to improve our standards, and I particularly like that in an auditor general report."⁹⁰

125. The Welsh Government detailed the various purposes of the Grants Management Project:

"We are trying to achieve six things with the grants management project, which I will cover very briefly. The first is to make sure that we get better value for money. That is, if we choose a grant as a funding stream, that we get value for money from that. The second is to ensure that we can maximise the impact of the funding in order to ensure that we get the return on the investment that we are looking for. The third is to ensure that we have consistency, good control and good governance for the end-to-end process—from the original thought that suggests that something might be a grant scheme through to evaluating whether we have what we need from that particular funding stream. The fourth relates to providing expertise to the organisation to do that thinking... The fifth relates to having better data and information so that you can make some informed choices, whether based on cost or

⁸⁹ Wales Audit Office, *Grants Management in Wales 2011*, Para 3.12 to 3.18

⁹⁰ RoP, Public Accounts Committee, 31 January 2012, Para 65

outcomes. The final point is about the system in which those data are held... we would expect to see the introduction of an IT system.”⁹¹

126. The Welsh Government detailed that the Grants Management project would provide training to grants managers and other internal staff, to provide a better understanding of objectives, targets, and effective initial arrangements. The Welsh Government stated that it wanted:

“...to make sure that grants managers understand what clear objectives and targets look like, that there is clarity around terms and conditions, and that we have effective and regular monitoring within the Welsh Government to ensure that, over time, the reasons why we gave the money were still translating into making a difference.”⁹²

127. However, the Welsh Government also recognised that such training would need to be ongoing:

“There is no quick silver bullet to this; it is about continuously training and educating 2,000 people, which is a big undertaking to keep people up to the levels and the standards.”⁹³

128. We welcome the Welsh Government’s intention to enable the provision of on-going training to grants managers. We consider that the Grants Management Project should also monitor how effectively such training is put into practice.

129. The WLGA detailed that local government was generally supportive of the approach taken by the Welsh Government towards streamlining its system of grants: “especially on the grants management project and the moves towards having a centre of excellence on grant management.”⁹⁴

130. However, the WCVA expressed concern about the method by which the need for consistency in grant giving was apparently being

⁹¹ RoP, Public Accounts Committee, 31 January 2012, Para 87-88

⁹² RoP, Public Accounts Committee, 24 April 2012, Para 195

⁹³ RoP, Public Accounts Committee, 24 April 2012, Para 202

⁹⁴ RoP, Public Accounts Committee, 5 May 2012, Para 37

interpreted, commenting that the Grants Management Project did not consult on what it was doing as part of the scheme:

“The Government has a code of practice for funding, and if you are introducing significant changes, whatever you call them, you have a requirement to consult. That did not happen.”⁹⁵

131. We were concerned to learn that the Welsh Government’s Grants Management Project appeared to have initially undertaken limited consultation in introducing changes to the grants process. We consider that when changes are being planned - including those recommended in this report - the Welsh Government should first undertake an appropriate degree of consultation. We were pleased to hear that this situation appears to have improved.

132. In its business case for the grants management project, the Welsh Government estimated that improved processes and standardisation of administrative arrangements for grants to local government could generate on-going internal savings of around £3 million annually from 2013-14.

133. However, the Auditor General considered this savings projection to be unambitious, as it represents a reduction of only 5% in the Welsh Government’s current grants administrative costs.⁹⁶ We share the Auditor General’s concern.

We recommend that the Welsh Government enables the ongoing provision of accredited training for grants managers. As part of this, we recommend that the Welsh Government monitors the effectiveness with which such training will be put into practice by grants managers.

⁹⁵ RoP, Public Accounts Committee, 29 May 2012, Para 100 & 102

⁹⁶ Wales Audit Office, *Grants Management in Wales 2011*, Para 1.26

4. Grants management in sustainable waste management

134. The Auditor General published his report *Public Participation in Waste Recycling* on 16 February 2012. In a public briefing to the Committee, the Auditor General suggested that it might wish to seek assurances from the Welsh Government regarding the management of its waste management grant funding.⁹⁷

135. The Auditor General's report notes that between 2000-01 and 2009-10, the Welsh Government invested some £360 million of specific grants for local authority waste services. This specific funding is in addition to the revenue support grant that local authorities can determine how to prioritise across its local services, including waste services. Overall, in 2009-10, the Welsh Government provided around £230 million, or about 85 per cent of the total cost of local authority waste services. Council taxation and some small contributions from income and charging provided the remaining £44 million.⁹⁸

136. The Auditor General's report also notes that the Welsh Government has not undertaken robust assessments of whether local authorities have used that central funding to provide value for money or meet strategic objectives. In particular, the report notes that the Welsh Government has not undertaken detailed scrutiny of its spending on local authority waste services since the introduction of Sustainable Waste Management Grant. Nor has the Welsh Government formally tested the alignment of local authority recycling services with national strategy. The report concludes that the Welsh Government should have ensured better stewardship and governance, by guiding expenditure towards the objectives in the national strategy and by closely monitoring value for money. The report also concludes that the Welsh Government has not convinced all local authorities that its plans for collection of recyclable wastes are appropriate.⁹⁹

137. We were particularly concerned - in the wider context of grants management - to learn that the Welsh Government had not undertaken detailed scrutiny of its spending on local authority waste services since the introduction of Sustainable Waste Management Grant. Given that a

⁹⁷ RoP, Public Accounts Committee, 21 February 2012

⁹⁸ Wales Audit Office, *Public Participation in Waste Recycling*, Summary, Para 21

⁹⁹ Wales Audit Office, *Public Participation in Waste Recycling*, Paras 1.28-1.59

wide range of different grants are provided by the Welsh Government, we believe it is particularly important that they are consistently aligned with its overarching strategic objectives.

138. In response to a number of written questions on these issues, the Welsh Government detailed that it had worked with local authorities, the WLGA, and the Wales Audit Office to develop financial data that benchmarked the costs of local authority recycling services. The Government noted that this data enabled identification of a “six-fold variation between local authorities in the cost of household collections of dry recyclates.”¹⁰⁰ While we recognise that differences between local authorities may reflect the stage they are at in reconfiguring their recycling services, the extent of the variation identified by this benchmarking work suggests there are significant opportunities for many local authorities to reduce costs.

139. The Welsh Government asserted that such financial benchmarking was part of its action to develop a robust data base against which to assess local authority performance. The Welsh Government also stated that:

“Local Authorities are meeting Welsh Government strategic objective on recycling having met and surpassed the 40% recycling target set out in the initial Welsh Government waste strategy in 2002 and being collectively well on target to meet the first of the new statutory recycling targets.”¹⁰¹

140. However, the Welsh Government’s response did not appear to directly address our question of why the Welsh Government had apparently not undertaken assessments of the value for money achieved with its grant funding for waste management. In subsequent correspondence, our Committee Chair commented that the Welsh Government’s initial response suggested that the Welsh Government may be satisfied simply on the basis that local authorities are meeting Welsh Government strategic objectives, particularly in terms of recycling rate targets.¹⁰²

¹⁰⁰ Welsh Government, Public Participation in Waste Recycling, Correspondence, 14 March 2012.

¹⁰¹ Welsh Government, Public Participation in Waste Recycling, Correspondence, 14 March 2012.

¹⁰² Committee Chair, Grants Management, Correspondence, 9 May 2012

141. The Auditor General's report also found that there was historically little obvious steer for local authorities from the Welsh Government regarding the choices they had made, so long as performance improved.

We recommend that the Welsh Government ensures that funding provided by its grants is used to support outcomes consistent with its strategic policy objectives.

Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=2455>

<i>31 January 2012</i>	<i>Welsh Government</i>
Dame Gillian Morgan	Permanent Secretary to the Welsh Government
Michael Hearty	Director General for strategic planning for Finance and Performance
Arwel Thomas	Head of Corporate Governance
<i>24 April 2012</i>	<i>Welsh Government</i>
Dame Gillian Morgan	Permanent Secretary to the Welsh Government
Michael Hearty	Director General for strategic planning for Finance and Performance
Arwel Thomas	Head of Corporate Governance
<i>8 May 2012</i>	<i>Welsh Local Government Association</i>
Jon Rae	Director of Resources
Mari Thomas	Policy Officer
<i>29 May 2012</i>	<i>Welsh Council for Voluntary Action</i>
<i>Graham Benfield</i>	<i>Chief Executive Welsh Council for Voluntary Action</i>
<i>Phil Jarrold</i>	<i>Deputy Chief Executive Welsh Council Voluntary Action</i>

List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=2455>

<i>Organisation</i>	<i>Reference</i>
Welsh Local Government Association	PAC(4) 07-12 Paper 1
Welsh Council for Voluntary Action	PAC(4) 09-12 Paper 1