

Welsh Government Response to the Public Accounts Committee Report; Grants Management in Wales – Interim Report

We welcome the findings of the report and offer the following response to the fifteen recommendations contained within it.

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.

Response: Accepted.

The Grants Management Programme (GMP) has reviewed all grants that were live in 2011/12. The reviews have included the areas for improvement and have identified best practice to be shared. The review process has also considered whether the funding mechanism currently being used is the most appropriate way of delivering Ministerial objectives. The initial reviews are now complete and high level reports, including recommendations for improvements, have been issued to individual departments. Progress in implementing the recommendations is being monitored by the GMP and is reported to senior departmental officials and the relevant Minister.

The GMP has also developed a process where all proposed new grants are reviewed to ensure that the processes are compliant with issued guidance and the most effective means of delivering Ministerial objectives. This is a mandatory process which must be undertaken before the grant can be entered on to the finance system. The reviews will be an ongoing feature of the Welsh Government's management of grants.

Recommendation 2:

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

Response: Accepted.

The current review of grants by the GMP has included an assessment of whether the current funding mechanism is the most appropriate in the circumstances. The GMP has provided a range of advice on the spectrum of funding options available as part of this process. The review of new grants also includes consideration of alternative funding options and identifies the most effective and compliant funding mechanism to deliver Ministerial objectives. The focus of this work is to maximise the achievement of the best value for money.

The Welsh Government is ensuring emphasis is placed on triennial evaluations of the effectiveness of existing grant schemes. The GMP will ensure that the possibility of using alternative funding options is included in the evaluation process. Once concluded, the relevant Minister will review the evaluation and determine any subsequent actions.

Recommendation 3:

Response: Accepted.

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.

Working through the Welsh Local Government Association (WLGA) the Welsh Government will ensure that local authorities are provided with guidance aimed at ensuring that the most appropriate funding mechanism is utilised in pursuit of the delivery of desired objectives and outcomes.

The WLGA intend to work with the Wales Audit Office (WAO) on their good practice events and other public service partners such as the Wales Council for Voluntary Action (WCVA) on the appropriateness of grant funding compared to other mechanisms. This work will commence with immediate effect, with the aim to complete it by April 2013.

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.

Response: Accepted.

Taking account of Welsh Ministers priorities, the Welsh Government will continue to consider good practice elsewhere in the UK in order to address practical challenges over the transfer of specific grants into the general revenue support settlement. Specific enquiries will be undertaken to ascertain the experience and learning gained by counterparts in the Scottish Government in achieving the best balance between hypothecated and un-hypothecated grants.

In "A Compact for Change between the Welsh Government and Welsh local government" agreed by Cabinet in November 2011, the Welsh Government committed to "seek to reduce the number of specific grants and hypothecated funding". As part of the provisional local government settlement announced recently on 16 October 2012, seven specific grants have been transferred into

the settlement for 2013-14 amounting to over £91million of funding previously administered through specific grants.

The Grants Protocol, which sets out the approach to reducing the number of specific grants, requires that every grant has an exit strategy. The Welsh Government's Reform Policy Steering Group (RPSG) agreed to conduct an exercise to review the exit strategies for all hypothecated grants. The review commences in Autumn 2012. The information gathered from this review will then be considered collectively by the RPSG and will form the basis of collective advice to Ministers on the effective use of grants to support the wider public service reform agenda in advance of the next settlement.

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.

Response: Accepted

The Welsh Government accepts that a reduction of administration costs is appropriate for grants management across the organisation in order to ensure that maximum proportion of funding is spent on the delivery of services. The GMP will work closely with grant managers to agree by December 2012 a clear definition of administration costs. This will take account of the findings and conclusions of a review commissioned by HM Treasury on grant administration costs. The actual cost of administration of grants will be base-lined in line with this definition and the GMP will work with the grant managers to minimise these costs across the organisation. A target of 5% is agreed as an appropriate average covering the whole spectrum of grants. Progress in achieving this target will be set once the baseline has been agreed.

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.

Response: Accepted.

The Welsh Government understands it needs to make more timely decisions on continuing or ending grant funding. This requirement will be included in guidance and in the mandatory training being implemented for grant managers across the organisation.

The Welsh Government will ensure that grant managers abide by its Code of Practice for funding the Third Sector. The importance of the Code of Practice has been recently highlighted by intranet communications to all staff. The

GMP will ensure that the Code of Practice will be observed in all decisions relating to the development, amendment and completion of grant funding.

We are engaging with the sector on the operation of the Code of Practice through the Finance and Compliance Sub Committee of the Third Sector Partnership Council (TSPC).

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.

Response: Accepted.

The Welsh Government accepts the need for the development of an annual report on grants management. However it does not currently have an IT system that would be able to collect and collate all the information required. However, a central grant management IT system is planned as part of the GMP. The implementation of this Customer Relationship Management (CRM) system will provide the Welsh Government with the necessary management information that will enable the recommended reports to be produced.

The Welsh Government will publish its first annual grants management report in early Autumn 2013 following discussions with the Wales Audit Office.

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.

Response: Accepted.

The Grants Centre of Excellence reviews of all grant schemes have highlighted an inconsistency in the treatment of payments in advance. It has worked closely with the Finance and Compliance Committee of the TSPC to develop a payment in advance template for third sector organisations. This template is easy to complete and provides a consistent business test to enable the Welsh Government to determine whether there is a need for payment in advance. This template has already been implemented across the Welsh Government and its use will be reviewed in six months time to determine whether any issues have arisen. Any required amendments will be discussed and agreed with the Grants Centre of Excellence and the Third Sector Partnership Finance sub committee prior to implementation.

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

Response: Accepted.

The Welsh Government has already developed standard terms and conditions for both grant award letters and procurement contracts taking advice from State Aids and Legal Services colleagues. We accept that the standard terms and conditions are not appropriate for all funding programmes and there needs to be a degree of flexibility in the application of these conditions. The standard terms and conditions for funding provide a degree of flexibility for managers to ensure that they can be amended to suit the particular circumstances of the funding.

The standard award letter with associated terms and conditions has been implemented for grants awarded or renewed in 2012/13. The letter has been discussed in detail with the Third Sector Partnership Finance sub committee and amended to reflect their comments. The award letter will be used as standard for 2013/14 grant funding, ensuring that the format and main conditions are the same for all organisations receiving grant funding from the Welsh Government.

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).

Response: Accepted.

The Welsh Government has established the Grants Centre of Excellence, part of the GMP, as a single point of contact for our staff on all funding apart from procurement. Value Wales continues to be our single point of contact for procurement activities, both internally and externally.

We have identified the Grants Centre of Excellence (CoE) as the single point of contact on grants for external organisations. It will provide advice to external organisations and assist them to navigate through the complexity of funding and to advise on the most appropriate Welsh Government official who can assist with more detailed queries. The CoE will remain as a central function after completion of the GMP and will continue to provide this support in the long term.

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.

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.*

Response: Both recommendations accepted.

In a dialogue with the Wales Audit Office, the WLGA and individual local authorities, the Welsh Government will track the incidence of qualified or adjusted grant claims. As part of this the Welsh Government will review its grant certification requirements and instructions in order to ensure that they remain appropriate. By December 2012 the Welsh Government will complete a proposed new framework for grants certification for implementation with effect from April 2013

Working with the WAO the Welsh Government will also track patterns of grant certificate qualifications and ensure that appropriate corrective action is taken. This would include consideration of suspension or recovery of grants where the Welsh Government does not consider that the responses of individual local authorities are adequate.

The Welsh Government will work closely with the WLGA in order to achieve a reduction in the frequency of qualified grant claims. The proposed new framework will include agreed targets and metrics designed for this purpose and will incorporate criteria for eligibility for leading on regional grant claims.

The WLGA will identify good practice where it exists and use the Good Practice Wales web portal to disseminate case studies.

The WLGA will also work with CIPFA to update the *Delivering Good Governance in Local Government* publication and identify suitable training on grant management for local government officers.

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.

Response: Accepted

The National Fraud Initiative (NFI) in Wales is run in collaboration with NFI exercises in England Scotland and Northern Ireland to enable data to be matched across national boundaries. The Welsh Government itself has been fully committed to participation in the NFI since its inception and remains fully engaged with this important counter fraud facility run by the Auditor General in Wales. We accept the principle of relevant funding recipient organisations participating in the National Fraud Initiative (NFI) as rollout of the NFI is extended by the Auditor General.

In the 2010-11 exercise 43 Welsh public sector bodies participated in the NFI 2010-11. These included the following mandatory participants:

- Local Authorities
- Police Authorities
- Fire Authorities
- NHS Bodies
- The Probation Trust

In addition to this the Welsh Government and Cardiff University participated in the NFI on a voluntary basis, together with the WAO and other audit suppliers contracted by the Auditor General.

The Auditor General has indicated that he wishes to encourage participation in NFI by other public bodies in Wales and where it will be beneficial and proportionate to private sector organisations. The Welsh Government will work closely with the Auditor General to encourage further voluntary participation in the NFI by organisations which he prioritises. A new 'point of application' facility is being introduced in to the NFI from October 2012 and, in particular, the Auditor General is keen for all universities in Wales to participate through this new facility. The Welsh Government, in conjunction with the Auditor General and the Higher Education Funding Council for Wales, will encourage participation by all Welsh Universities.

The Welsh Government is also finalising the wording of a reserve power to be included in its standard terms and conditions for grants to require grant recipients, when invited to do so, to participate in the NFI or other counter fraud activities identified by the Welsh Government.

The NFI is not the only counter fraud data tool available to the Welsh Government. It is an active participant in the Cabinet Office led counter fraud

initiatives and is currently evaluating whether to engage with other data matching tools being developed and trialled by Whitehall departments.

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.

Response: Accepted.

The Welsh Government is already progressing the training of grant managers which will include an element of certification. All grant managers will need to attend the training and pass a test to confirm their ability to undertake the grant manager role. The training is currently being developed as a core activity of the GMP. Initial training is due to start in November 2012 with core training due to be completed by the end of this financial year. The completion of the required training by current and future grant managers will be mandatory.

Following completion of the training, the CoE will undertake spot checking of grant programmes to ensure that the training has had a positive impact on the management of grants.

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.

Response: Accepted.

The Welsh Government has developed a policy gateway which ensures that any policy developed has clear outcomes and objectives. The policy gateway means that the implementation of the policy is considered at an early stage and, where grant funding is deemed appropriate, that funding is used to support appropriate outcomes and this is clearly set out in grant offer letters.

We will ensure that all grant funding is evaluated at regular intervals at the individual project monitoring stage prior to payment of claims and at programme level at three year intervals. The CoE will undertake regular reviews to ensure that policy outcomes are measured and recorded. Where policy outcomes are no longer being achieved by grant funding the CoE will work with the grant managers to ensure that the funding programme is amended or closed in line with appropriate codes of practice. This will be an ongoing activity.