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Cardiff Bay
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Dear Chair

GRANTS MANAGEMENT IN WALES – THE WELSH GOVERNMENT’S RESPONSE TO THE COMMITTEE’S INTERIM REPORT

The Clerk’s letter of 6 November 2012 requested my advice on the response from the Welsh Government to the Committee’s interim report ‘Grants Management in Wales’. Although the Welsh Government’s overall response to the Committee’s recommendations is positive, there are several issues that would benefit from further clarification or exploration in more detail. The Committee’s planned evidence session on 3 December, while it will focus on the Wales Audit Office’s recent report on *The Welsh Government’s relationship with the All Wales Ethnic Minority Association (AWEMA)*, will nevertheless provide a timely opportunity for the Committee to take up some of these issues arising from the Welsh Government’s response to the Committee’s interim report.

Observations on the Welsh Government’s responses to the Committee’s recommendations

In its response, the Welsh Government has indicated that it accepts all fifteen of the Committee’s recommendations. Where appropriate, the Welsh Government has also indicated a timescale for action, which will help the Committee to monitor whether the expected progress is being made.

Recommendations 1, 2 and 3

The Committee wanted the Welsh Government’s review of its entire portfolio of grants to proceed much more quickly, with completion by the end of 2013. It also wanted the Welsh Government to provide guidance for its staff and others, especially at local authorities, on the most appropriate funding option for obtaining its desired outcomes in particular circumstances.

In its response, the Welsh Government confirms that all of the grant schemes which were 'live' in 2011-12 have been subject to an initial review, which included consideration of whether grant funding was the most appropriate way of delivering Ministerial objectives. Proposed new grant schemes will also now be subject to a similar mandatory review before any payments begin.

The Welsh Government intends to review the effectiveness of all of its grant schemes every three years. It also intends to start immediate work with the Welsh Local Government Association, the Wales Council for Voluntary Action and my staff on developing guidance on the appropriateness of various funding options. It aims to complete this work by April 2013.

However, the Committee may wish to seek further information on:

- the nature of the findings and recommendations from those initial reviews of existing grant schemes;
- how the Welsh Government will monitor the progress of each Department in implementing the recommendations made during those initial reviews; and
- the extent to which the Welsh Government's engagement with external stakeholders, particularly the Wales Council for Voluntary Action, is allaying their concerns about any moves away from funding via grants.

Recommendation 4

The Committee welcomed the Welsh Government's intended pilot project with some local authorities for 'better consolidation' of grants into the general revenue support settlement. The Committee was interested in two possible solutions to overcome potential problems with such transfers:

- (i) moving to budgets equal to previous funding levels; and
- (ii) introduction of clear and robust outcome agreements based on new funding levels.

The Welsh Government has accepted the Committee's recommendation to consider good practice on this process from elsewhere in the UK. It has recently made some further progress on its Protocol commitment to reduce the number of specific grants to local government. Annexed to this letter is an update of Exhibits 4 and 5 in my November 2011 report on *Grants Management in Wales*, showing the total values of the transferred schemes for each year from 2005-06 to 2013-14. This shows that the Department for Education and Skills is responsible for the majority of the further progress that has been achieved.

It is also encouraging that the Welsh Government has undertaken to review the 'exit strategies' for all of its current hypothecated grants, so that Ministers will have collective advice on how grants can support the wider public service reform agenda ahead of the next local government settlement for 2014-15.

Recommendation 5

The Welsh Government agrees with the Committee's conclusion that it needs to reduce its grant administration costs to maximise the funds available for service delivery. It has now adopted the target of an average scheme administration cost of 5%, which my report noted was already being used by the Lottery funders in England.

The definition of 'administration costs' will be critical to assessing performance against the 5% target, and in particular the decision as to whether this will include management activities (such as the design of grant programmes, appraisal of applications, monitoring, evaluation and intervention) alongside the more routine administration tasks (such as issuing application forms and processing payments). My report viewed grants administration as including management activities, and my staff will be holding further discussions with the Welsh Government to assist them in their development of an unambiguous definition of costs. The Welsh Government has also accepted that its definition of these costs will need to be benchmarked against the results of a review of grant administration costs that had previously been commissioned by HM Treasury.

Recommendation 6

In response to the Committee's concern that the Welsh Government has not strictly complied with the *Code of Practice for funding the Third Sector* (the Code), the Welsh Government has committed to raising staff awareness of the Code. Code requirements will be observed when grants are designed or revised.

However, I note that the Welsh Government's response does not explicitly acknowledge the Committee's wish that the annual report on grants management should detail any instances of non-compliance with the Code. My staff will be liaising with the Welsh Government to ensure that this is addressed.

Recommendation 7

The Welsh Government has fully accepted that it should compile and publish an annual grants management report, although the content of this will develop over time because, as the Welsh Government has noted, it will be unable to compile all of the necessary information until a new grant management IT system is installed and operational.

My staff will provide advice and support to the Welsh Government as it develops the structure and content of the new annual report.

Recommendations 8 and 9

The Welsh Government states that it has implemented a new process to decide on a case-by-case basis whether third sector organisations should be 'paid in advance'. Its terms and conditions for grants and contracts are now reasonably constant. These arrangements were developed in conjunction with the Third Sector Partnership Council and the payment system will be reviewed by the Welsh Government in six months' time.

In its forthcoming evidence sessions, the Committee may wish to explore:

- how the Welsh Government is training and supporting its staff in applying these new processes; and
- what work is being done within the Welsh Government to bring about more consistency with the approaches taken by other funders (in accordance with the second and third recommendations of my November 2011 report).

Recommendation 10

The Welsh Government intends that its Grants Centre of Excellence will become a single point of contact on grants for external enquirers, as well as for its own staff.

To complement this, I would suggest that the Welsh Government should develop its public website, which would surely be one of the first places where enquirers would look for information.

Recommendations 11 and 12

The Welsh Government accepts both recommendations and explains that a new 'framework' for grants certification is being developed now ready for implementation in April 2013. The Welsh Government will also be working closely with the Welsh Local Government Association to achieve a reduction in the frequency of qualified grant claims.

Recommendation 13

The Welsh Government has rightly adopted a proportionate response to the Committee's recommendation that grant recipient bodies should participate in the National Fraud Initiative (NFI), and has also agreed to include a reserve power to require data to be submitted.

There would be little benefit in many grant recipients participating in the general exercise, but a new reserve power to require participation in a specific and relevant future NFI exercise is most welcome. I am also pleased to note the Welsh Government's commitment to work with me to extend NFI participation to other organisations in Wales.

Recommendation 14

The Committee may wish to ask the Welsh Government how it is developing its training for grants managers, and how the Centre of Excellence will carry out its planned spot-checks of how Departmental staff are operating their grant programmes.

Recommendation 15

While the Welsh Government accepts that grants should support outcomes consistent with its strategic policy objectives, its response suggests that little more needs to change in this regard. The Centre of Excellence will review whether policy outcomes are measured and recorded, and will assist grant managers to amend (or close) their programmes accordingly.

Whilst acknowledging that considerable attention is being given to strengthening due diligence work, I think there is a risk that the 'impact agenda' may to some extent be overlooked. Recommendation 6 of my Grants Management report stressed that project outcomes need to be clearly defined and agreed in writing with recipients before funds are released. This remains a vital lesson from many of the nineteen reports on grants which the Wales Audit Office has published since 2005.

These issues could potentially be explored with the Welsh Government at the Committee's next evidence session, specifically in relation to the successor arrangements for AWEMA's WEFO-funded projects and arrangements for future equalities funding.

I hope that this advice is helpful to the Committee as it finalises its work on this important topic.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Annex

**Update to Exhibits 4 and 5 of the Wales Audit Office's
Grants Management in Wales report**

**Specific grants absorbed into annual Revenue Support Grant or other
 non-specific Welsh Government grant schemes between 2005 and 2014**

Year	Schemes absorbed into non-specific grant funding	Total (£ million)
2005-06	Children First - first phase: £14 million Music Development Fund: £1 million Abolition of Residential Allowances: £24.8 million	39.8
2006-07	Children First - second phase: £15 million Learning Disabilities Grant: £30 million Capacity Grant: £20 million Carers' Grant: £6 million Additional revenue funding for schools: £20 million	91.0
2007-08	Children First - third phase	16.0
2008-09	None	0
2009-10	None	0
2010-11	Schools Special Grant (£9m) School Energy costs (£2m) Older people strategy (£1.7m) Fairer charging (£10m) Mental health carers grant (£4m)	26.7
2011-12	Cymorth (partial: £5.5m) Child family law court fees (£2.6m) Children and Young Persons Act 2008 (£2.5m)	10.6
2012-13	Mental Capacity Act 2005 Deprivation of liberty safeguards	0.7
2013-14 (NB: scheme values for 2013-14 are approximate)	Learning Disability Resettlement (£33m) Special Educational Needs post-16 (£28m) Free school breakfasts (£15m) Local Government Borrowing Initiative (£8m) School counselling (£4m) Appetite for Life (£2m) Blue Badge Scheme (£0.4m)	90.4
TOTAL		£275.2m