



Llywodraeth Cymru
Welsh Government

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2013 Welsh Government Annual Report on Grants Management

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Foreword from the Permanent Secretary

The Welsh Government uses grants as a key means by which to achieve its policy objectives and a significant proportion of our total budget supports grant funding. Having good grants management arrangements is therefore extremely important to the Welsh Government.

In the past, there have been a few high-profile instances where our grants have not been managed properly and we have rightly come under considerable scrutiny. We have introduced measures to ensure that past mistakes are not repeated and this first annual grants management report sets out the action we have taken. The report is a public statement of our commitment to continue to improve grant funding arrangements in Wales.

The challenges associated with administering grant funding are significant and complex. We currently administer approximately 435 separate funding programmes, which vary from a few hundred to millions of pounds. Funding programmes, activities and receiving bodies vary and no two grants are the same. Consequently, we need to have measures in place that are proportionate to the risks involved yet maintain consistency in our approach.

Whilst it is universally understood that the Welsh Government is accountable for the public purse, we must also consider the needs of those seeking funding. Grant applicants must be assured that the information they are asked to provide is relevant and necessary to the decision-making process and have confidence that their applications will be appraised in a fair and consistent manner. I believe the steps we have put in place will help provide these assurances.

I am grateful to the Public Accounts Committee for its continued interest in improving grants management. With its help we have been able to focus on the detail of our grants improvement programme and develop our relationships with stakeholders and partners. I am pleased with the progress that has been made towards addressing issues identified previously by the Wales Audit Office and the Public Accounts Committee, but I know that there is still some work to do to embed these principles and practice across the Welsh Government.

This first annual report provides details of the current grants administered by the Welsh Government and sets out what has been achieved over the past 18 months to help improve standards of administration. The improvement work undertaken provides us with a strong foundation on which to build and details of the actions we are undertaking next are also included in this report. Our approach is to respond positively to changing policy needs and to support Ministers in delivering their programme for Government. Looking forward, future work will include consideration of the outcome of the work of the Commission on Public Service Governance and Delivery. In all this work, I am determined that our grants management should be as consistent, robust and well managed as possible.



Sir Derek Jones
Permanent Secretary to the Welsh Government

SECTION 1: INTRODUCTION AND BACKGROUND

Introduction

1.0 The Annual Grants Management Report provides an overview of the current grant funding provided by the Welsh Government and gives an update on what has been achieved since the introduction of a programme to improve standards of our management of grants.

1.1 This report is a direct consequence of the Public Accounts Committee (PAC) recommendation for a comprehensive report on Welsh Government grant activities¹. In Section 5, key themes are covered that have been identified by Wales Audit Office (WAO), in the PAC sessions and its interim and final reports on grants management. Progress against specific recommendations by the WAO and PAC is provided in the annexes.

1.2 In September 2010, the Grants Management Project (GMP) was established to implement improvements to grants management across the Welsh Government. The decision to initiate the project was as a result of Welsh Government recognising that grants management was not undertaken proportionately and consistently across the organisation. The project was also established to review and address issues that had been highlighted in some high profile cases where grants had been provided to organisations where questions about their management or viability had been brought to the attention of the Welsh Government.

1.3 The aim of the project was to provide a robust system for managing and monitoring grants that was fit for purpose, but also to support officials involved in the delivery of grants by providing guidance, training and sharing best practice. The initial step was the creation of the Grants Centre of Excellence, an internally facing team set up to standardise procedures and provide guidance, expertise and knowledge to support the grant processes.

1.4 The Grants Centre of Excellence is currently working with officials from senior management through to grant practitioners by providing awareness sessions and online training. As the project proceeds and improvements are implemented, the role of the Grants Centre of Excellence will evolve from a guiding hand to one of monitoring and ensuring compliance.

1.5 In the four years that the project has been in place, there have been notable improvements in the systems and processes:

- establishment of the Grants Centre of Excellence to provide advice, expert support and guidance for all non-procured funding;
- minimum standards for the management of grant funding;
- improved training for grant officials;
- spot checks of grants to ensure compliance with minimum standards;
- improved sharing of corporate intelligence via the existing IT system; and,

¹ Public Accounts Committee Report – Grant Management in Wales - Interim Report – August 2012

- standardisation of the Award Letter.

1.6 Welsh Government's assessment of the risk associated with hypothecated grant administration has decreased from 'high risk' to 'medium risk', following the introduction of improvements. Whilst there will always be a level of risk associated with the provision of grant funding, the Welsh Government aims to reduce risk further, by undertaking the activities highlighted in this report.

Background

1.7 Grants are an important vehicle to deliver Welsh Government's priorities as laid out in the Programme for Government. They enable funded organisations to provide specific services to the people of Wales. Grants both initiate and sustain significant levels of economic and social activity. They also represent a significant investment of taxpayers' money, with some £13.2bn being invested in this way annually.

1.8 The Welsh Government has adopted the following high-level definition of 'grant' to accommodate the breadth of different payment types made: all non-procured payments to an external organisation or individual for activities, which are linked to delivering Welsh Government policy objectives and the discharge of its statutory obligations.

1.9 Grants can be sub-divided into hypothecated and unhypothecated grants. Hypothecated grants are for a specific purpose and are awarded to organisations to deliver specific policy objectives. Unhypothecated grants are mainly provided by the Welsh Government to deliver statutory obligations; largely to Local Authorities and the NHS. Unhypothecated grants can be used by the recipient organisation in whatever manner it wishes to meet local objectives and services, subject to the delivery of its statutory responsibilities.

SECTION 2: FUNDING FROM THE WELSH GOVERNMENT

2.0 This section provides an overview of Welsh Government grant funding including an overall perspective on grants, a breakdown of grants to the sectors and information on Structural Funds provided by the Welsh European Funding Office (WEFO).

i. The Overall Picture

2.1 The Welsh Government currently operates around 435 separate schemes which have provided around £39.9bn of funding over the 3 years to March 2013 (see Figure 1). Due to the dynamic nature of grants, the number of schemes operating at any point in time can vary considerably. The schemes currently in operation provide approximately 20,000 individual offers of grant per annum.

2.2 The figures within this report are derived from a combination of data provided by the Welsh Government’s e-Grants (the grant payment system), departmental and financial systems. The financial figures are the total level of grant funding provided by the Welsh Government departments, including European funding. No distinction is made between revenue and capital expenditure.

Figure 1: Total Welsh Government Grant Funding by Financial Year

	2010/11	2011/12	2012/13
Level of grant provided (£bn)	13.6	13.1	13.2
No. of grant offers per year	29,774	24,443	20,172
Approx. no. of schemes per year	517	456	435

Source: Welsh Government Finance System based on nominal codes and e-Grants system

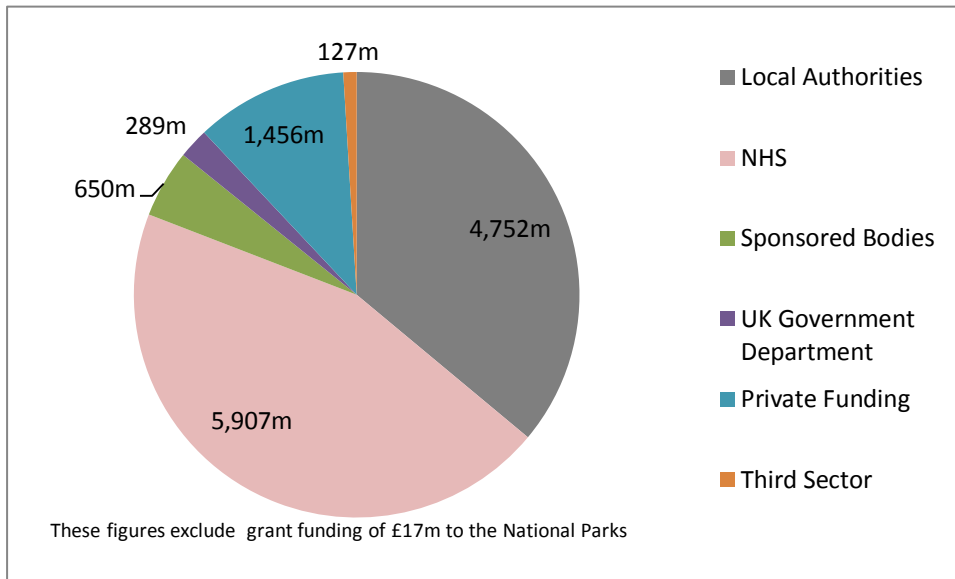
2.3 Included in Figure 1, and throughout this report, is the funding passed on to third parties by the Welsh Government, which originates from grant funding from WEFO. Direct funding from WEFO to external grant recipients is, however, excluded from this report. These Structural Funds are worth over £1.8bn for the seven year European Union (EU) funding period from 2007 to 2013 inclusive and are administered through WEFO.

2.4 With the difficult economic climate that has been evident over recent years, the trend shown in Figure 1 indicates the continued Ministerial commitment to grants as an important vehicle to deliver Welsh Government’s priorities as laid out in the Programme for Government. However, Figure 1 demonstrates significant reductions in the number of schemes (15.9%) and the number of grant offers (32.2%) over the last three years. This is due to the commitment from the Welsh Government to reduce the number of grants provided. This reduction has come about due to an increase in collaborative working between Local Authorities resulting in schemes issuing 4 or 5 award letters instead of 22 and through the duration of grant funding

being increased rather than offered on an annual basis. This trend is important in the context of the Welsh Government’s objective to reduce grant administration costs.

2.5 The Welsh Government provides grants to three main sectors, which are public (local government, the National Health Service (NHS), Government Departments and sponsored bodies), private and Third Sector (voluntary organisations, social enterprises, community organisations etc.).

Figure 2: Total Welsh Government Grants for 2012/13 by Sector



Source: Welsh Government Finance System based on nominal codes

2.6 The majority of public-sector grant funding is through unhypothecated grants to both local government and the NHS. Hypothecated grants are also provided to these bodies, as well as to UK Government Departments to support specific UK objectives. In addition, funding is provided for organisations collectively known as Welsh Government Sponsored Bodies (WGSB), which are non-departmental public sector bodies directly funded by the Welsh Government to deliver policy, services and statutory requirements.

2.7 The private sector funding category includes both funding to business and to Higher and Further Educational Institutions (HEI & FEI). Further grant funding for education is included in the public sector, sponsored body category, where the Higher Education Funding Council for Wales (HEFCW) provides a significant proportion of funding to HEIs. Funding for schools is included under Local Authorities. Further details on funding education are provided in paragraphs 2.33 to 2.36.

2.8 The Third Sector is defined as independent, non-governmental bodies, established voluntarily by citizens, who are motivated by the desire to further social, cultural or environmental objectives and are committed to reinvesting their surpluses into their objectives. The sector includes not-for-profit organisations, voluntary organisations, charities and housing associations. Funding to the Third Sector is

usually hypothecated grant for specific activities. Further detail is provided in paragraphs 2.37 to 2.51.

ii. Public Sector

2.9 Overall public sector grant funding includes Local Authorities, the NHS, UK Government Departments, WGSBs and National Parks. The grants provided to this sector are approximately 90% of the total grant spent by the Welsh Government. The majority of this is unhypothecated grant used by Local Authorities and the NHS to provide services; this accounted for £8.4bn in 2012/13. The remaining £3.7bn in 2012/13 was provided under hypothecated schemes to deliver specific projects and activities associated with the delivery of ministerial policies. Of the hypothecated grants to Local Authorities and NHS, a proportion of the funding was passed on to third party organisations (including the Third Sector).

Figure 3: Welsh Government Total Grant Funding to the Public Sector by Financial Year

	2010/2011	2011/2012	2012/2013
Level of grant provided (£bn)	12.1	11.7	11.6
Level of grant to Local Authorities (£bn)	4.9	4.6	4.8
Level of grant to NHS (£bn)	6.0	5.9	5.9
% of total grant funding in Wales	89%	89%	88%

Source: Welsh Government Finance System

2.10 Whilst the level of funding to the public sector has decreased slightly over the three year period, the percentage of total grant funding remains relatively constant.

Local Authorities

2.11 A large proportion of grant funding in Wales is given to Local Authorities as unhypothecated grant under a combination of Revenue Support Grant (RSG), general capital grant and redistributed non-domestic rates. Around £4.8bn was distributed in this way in 2012/13.

2.12 In 2012/13, Local Authorities had access to more than £735m provided by more than 50 hypothecated grants. Examples include 21st Century Schools grant, the Better Schools Fund, Learning Disability Strategy, grants to promote joint working in schools and funding to support pupils from ethnic minority backgrounds.

2.13 The Welsh Government is committed to reducing the number of hypothecated grant schemes provided to Local Authorities. Wherever possible the funding for specific activities is transferred into the RSG which enables Local Authorities to determine local priorities and to use the funding as appropriate. This also eliminates the administration costs associated with specific grants for both the Local Authority and the Welsh Government. However, specific grants are still required where the

implementation and delivery of specific Ministerial priorities need to be undertaken by Local Authorities. This enables outcomes to be measured against the specific policies.

Figure 4: Welsh Government Grant Funding to Local Authorities by Financial Year

	2010/11	2011/12	2012/13
Level of grant provided (£m)	4,899	4,627	4,752
Level of unhypothecated grant (£m)	4,051	4,008	4,017
Level of hypothecated grant (£m)	848	619	735
% Hypothecated grant	17%	13%	15%

Source: Welsh Government Finance System based on nominal codes and the Unitary Authority element of the Revenue Support Grant settlement.

2.14 The percentage of hypothecated grants increased slightly in 2012/13 in comparison with the previous year due largely to an increase in specific projects for educational activities, where priority was given to funding for raising educational standards in schools. Hypothecated grants include the Pupil Deprivation Grant and School Effectiveness Grant. These are the Welsh Government's principal means of providing support for measures to achieve its three national priorities for schools: improving standards in literacy; improving standards in numeracy; and reducing the impact of poverty on educational attainment.

2.15 Concerns were raised by the PAC at its evidence session on 8 May 2012 about the audit certifications and qualifications associated with specific grant schemes providing funding to Local Authorities. The WAO report of November 2011 provided a breakdown of qualification by Local Authority. Following the release of the report, the Welsh Government has worked closely with the WAO to ensure the effectiveness of the audit certification work undertaken by the WAO. Copies of audit certificates are provided to the Welsh Government in order to ensure that appropriate consideration of the detail of qualifications has been made and appropriate action taken where required.

2.16 The importance of audit certification has been highlighted within the Welsh Government via an awareness session held by the WAO in March 2013. Grant managers providing hypothecated grants to Local Authorities and the NHS were asked to attend. The session highlighted the importance of audit certification, why qualifications might be made on the certificate and what actions should be considered.

2.17 Officials from the Welsh Government have also worked with the Welsh Local Government Association (WLGA) to provide support to Local Authorities to improve grants management. The Welsh Government has helped the WLGA to continue to promote and disseminate good practice on its dedicated grants management

webpage. In parallel, the WLGA is working with the WAO on its good practice events and other public service partners such as the Welsh Council for Voluntary Action (WCVA) on the appropriateness of grant funding compared with other mechanisms.

2.18 Whilst the programme to improve Local Authorities' grants management is ongoing, the Welsh Government will continue to track the incidence of qualified or adjusted grant claims. Working with the WAO, Welsh Government will ensure that appropriate corrective action is taken. This includes consideration of suspension or recovery of grants where the Welsh Government does not consider that the responses of individual Local Authorities is adequate.

NHS

2.19 The Welsh Government's Department for Health and Social Services is responsible for exercising strategic leadership for, and management of, the NHS in Wales and is responsible for the overall stewardship of NHS funds. Direct delivery of services is provided via seven Local Health Boards and three NHS Trusts. The key responsibilities of the department are to promote, protect and improve the health and well-being of everyone in Wales, ensuring high standards of safety and quality, and paying particular attention to reducing health inequalities.

2.20 Funding the NHS in Wales covers the running costs for staff, services and accommodation, together with the capital funding for individual projects. Funding also covers payments to independent contractors such as doctors, dentists, pharmacists and optometrists.

2.21 Revenue funding is primarily issued as unhypothecated expenditure and is agreed at the start of the financial year and drawn down as required each month by NHS organisations. The majority of capital funding is agreed as part of the All-Wales Capital Programme, which is also unhypothecated, however an element is also issued as discretionary, hypothecated funding.

Figure 5: Welsh Government Grant Funding of NHS by Financial Year

	2010/11	2011/12	2012/13
Level of grant provided (£m)	5,961	5,914	5,907
Level of unhypothecated grant (£m)	5,411	5,535	5,575
Level of hypothecated grant (£m)	550	379	332
% Hypothecated grant	9.2%	6.4%	5.6%

Source: Welsh Government Finance System based on nominal codes and the NHS Settlement.

2.22 Whilst grant funding to the NHS has remained level over the three year period, there has been a reduction in hypothecated grants to the NHS. This has resulted in decreased administration costs.

UK Government Departments

2.23 Where Welsh Government Ministerial priorities are aligned with wider UK Government priorities, then the Welsh Government provides hypothecated grants to UK Government departments. This funding is then utilised to ensure increased value for money in delivery of key policies.

2.24 For example, as part of the International Education Programme the Welsh Government has a Memorandum of Understanding with the Department for Business, Innovation and Skills and the other devolved administrations on delivering the UK China Partnerships in Education Programme (UKCPIE) and another for delivering the UK India Education Research Initiative (UKIERI). Whilst the level of grant provided to the Department for Business, Innovation and Skills is negotiated for the UKCPIE programme, the UKIERI programme is paid on a Barnett formula basis directly to the British Council in India. Figure 6 shows a decrease of funding provided over the three year period due to increased pressure on budgets.

Figure 6: Welsh Government Grant Funding of UK Government Departments by Financial Year

	2010/2011	2011/2012	2012/2013
Level of grant provided (£m)	466	452	289

Source: Welsh Government Finance System based on nominal codes

Welsh Government Sponsored Bodies (WGSBs)

2.25 The Welsh Government provides funding for various bodies collectively known as WGSBs. Each has its own constitution, governance and management structure including a Principal Accounting Officer, and is funded to deliver the objectives for the particular year as set out in the body’s annual remit letter provided by the Welsh Government. These include Sport Wales, Arts Council for Wales, Natural Resources Wales, National Library of Wales, National Museum Wales and Royal Commission on the Ancient and Historical Monuments of Wales. Figure 7 provides details of the funding provided by year. Some £2,076m has been provided to these bodies over the period 2010/11 to 2012/13. An increase in the value of hypothecated grants during the period is a consequence of Welsh Government being focused on specific deliverables associated with Programme for Government where WGSB’s are taking the lead. A decrease in funding is due to increased pressure on budgets.

Figure 7: Welsh Government Grant Funding to WGSBs by Financial Year

	2010/2011	2011/2012	2012/2013
Level of grant provided (£m)	752	675	651
'Grant in aid' core grant (£m)	656	563	530
Hypothecated grants (£m)	96	112	121

Source: Welsh Government Finance System based on nominal codes

iii. Private Sector

2.26 The private sector consists of funding to businesses and direct funding from the Welsh Government to FEIs and HEIs.

Funding to Business

2.27 Grant funding to business covers a wide range of activities including business funding, training, tourism, business start-ups and research, development and innovation. This type of funding is used for developing the economy of Wales by enabling businesses to undertake projects that create or safeguard jobs. Grants can also be used to attract businesses into Wales. A few examples of some of the schemes that are offered are highlighted in the following paragraphs.

2.28 Business funding is currently provided through the Welsh Government sector teams via the Wales Economic Growth Fund (WEGF). The first tranche of WEGF, issued in 2012, has provided £31.5m of grants. The second tranche of this scheme is currently in operation.

2.29 Through the Tourism Investment Support Scheme some £10.4m has been invested in tourism upgrading and new capacity projects, over the three years to 2012/2013.

2.30 Research, Development and Innovation Grants (part European funded see paragraph 2.3) totalling over £20m have been paid over the last three years, specifically to businesses looking to innovate on the world stage.

2.31 The Redundancy Action Scheme (ReAct) (part European funded see paragraph 2.3) helps people affected by redundancy gain new skills and encourages recruiting employers to employ a redundant worker. Funding of £18.9m has been provided via this scheme to employers over the three years to 2012/2013.

Figure 8: Welsh Government Grant Funding to Businesses by Financial Year

	2010/11	2011/12	2012/13
Level of grant provided (£m)	434	431	582

Source: Welsh Government Finance System and e-Grants payment system

2.32 There has been a significant increase in funding to businesses in 2012/13; this is mainly due to the Welsh Government's priority to increase economic development and jobs within Wales.

Educational Institutions

2.33 Funding to support the education sector is complex. The majority of funding to the education sector, particularly schools, is distributed through RSG which is paid directly to Local Authorities. Hypothecated funding for schools is also provided to Local Authorities. Meanwhile, the majority of the grant funding for the higher education sector is paid to the Higher Education Funding Council for Wales (HEFCW). The funding provided to schools and HEFCW is included in the public sector category detailed previously.

2.34 Whilst there is considerable grant funding for education via the public sector, as detailed above, all additional hypothecated funding for HEIs and FEIs is classified as funding to the private sector. The core funding to FEI has been set for three years and uses a formula calculation based on a number of variables.

2.35 The demand-led statutory student support funding for Higher & Further Education learners is delivered by the Student Loans Company (SLC). The SLC is funded by the Welsh Government by payment of a monthly claim, which is based on part actuals/part forecasts, to ensure SLC has sufficient available funds to administer government funded fee-related loans and grants directly to students, universities and colleges for Welsh students.

2.36 Additional hypothecated grants are also provided to FEIs and HEIs to deliver specific projects or activities. These grants include Sêr Cymru which is a £50m scheme to enhance and build on the research capacity in Wales, to attract world leading scientists and their teams, and to support the establishment of three National Research Networks.

Figure 9: Welsh Government Direct Grant Funding to Further and Higher Education by Financial Year

	2010/2011	2011/2012	2012/2013
Level of grant provided (£m)	914	865	874

Source: Welsh Government e-Grants payment system

iv. Third Sector

2.37 The Welsh Government recognises that the Third Sector (voluntary organisations, social enterprises, community organisations etc.) has a very important part to play in helping it achieve its objectives under its Programme for Government. Grants awarded to this sector must comply with the Code of Practice for Funding the Third Sector (January 2009). That document, and the way in which the sector is funded, is currently under review. An updated version of the Code of Practice and a new strategy directed at matching the strategic key priorities of the Government will be released in early 2014.

2.38 The Welsh Government provides four types of grant funding to the Third Sector:

- strategic core funding of national organisations;
- specific programme funding at national levels;
- support to partnerships or national (all-Wales) intermediary bodies in order for them to support specific projects at a local level; and,
- start-up funding for national organisations or networks or through intermediaries, for local organisations.

2.39 The initial assessment of grant funding to the Third Sector indicated that £127m was provided in 2012/13 (Figure 2). These figures were based on the finance codes (nominal codes) associated with grants provided to the Third Sector through the payment system. However, following further analysis by the Third Sector Unit and the finance team, the way that Third Sector organisations are identified in the finance system has been reviewed and revised. Organisations such as charitable schools and some not-for-profit companies have been re-categorised from private sector to Third Sector. The categorisation of the organisations has been agreed with the WCVA. Funding can be tracked more accurately through this revised system and therefore these changes have resulted in a more detailed breakdown of grant funding to the Third Sector. Reports recently made available indicate that the actual level of grant funding following the re-categorisation for the last three financial years to the Third Sector is as shown in Figure 10.

Figure 10: Welsh Government Grant Funding to the Third Sector by Financial Year

	2010/11	2011/12	2012/13
Level of grant provided (£m)	350	303	265

Source: Welsh Government Finance System based on organisation name

2.40 The reported reduction in funding reflects a wide range of issues and circumstances across many Welsh Government departments due to the overall economic situation rather than any concerted policy or process. The reduction in UK Government funding for Wales has inevitably impacted on Welsh Government funding across the board to public, private and the Third Sector. Changes include project funding coming to a natural end; agreed reductions in continuing funding (for example, core funding for Third Sector infrastructure bodies was reduced by 8%); and savings achieved through procurement processes. The Welsh Government will work with the Third Sector Partnership Council Funding and Compliance Sub Committee to monitor this situation over the coming year and report on the overall comparisons in our next annual report on grants management.

2.41 There is a duty upon the Welsh Government under its Code of Practice for Funding the Third Sector (2009) to ensure that decisions to provide grant funding or not, is advised to the recipient Third Sector organisation by 31 December prior to the commencement of each financial year unless, in exceptional circumstances, notice has already been given of an alternative timescale.

2.42 The identification of breaches of the Code relies on the reporting of instances where the Code has not been complied with via the Third Sector Partnership Council's (TSPC) Funding and Compliance Sub-Committee, or directly from Third Sector organisations. There were no identified breaches reported to the Sub-Committee for the financial year 2011/2012. It has been recognised that the best practice set out in the Code has not always been implemented, and that there was therefore a need for clearer guidance and improvements to the procedures around, for example, notification of funding alongside a more proactive approach to achieving the standards and commitments set out in the Code.

2.43 Whilst the existing Code of Practice covers the years referred to in this report, the new Code of Practice – which is currently the subject of further consultation with the TSPC – will be more robust on this issue. The draft revised Code includes a commitment to improved clarification in the way in which the Code itself is monitored. In the spirit of this proposed commitment, information on compliance with the new Code is now being gathered pro-actively.

2.44 The Welsh Government is now working to this new standard, which will be reflected in the new Code of Practice. Welsh Government will continue to develop a range of monitoring tools to assess future compliance with the Code. Further improvements are anticipated once the new Code of Practice comes into operation.

2.45 Through discussions with the Funding and Compliance Sub-Committee of the TSPC, it has been agreed that proactive monitoring of compliance with the Code will be an additional fundamental principle of the revised Code of Practice for Funding the Third Sector in Wales. There is a commitment to address non-compliance and where there is non-compliance, an explanation of the circumstances will be provided to the Funding and Compliance Sub-Committee and action will be taken where appropriate. This function is being undertaken by Welsh Government's Third Sector Team and involves direct engagement with all grant funding departments to ascertain, via information contained in detailed returns, whether each has complied with the Code.

2.46 Random sampling of grant recipients is also to be undertaken to monitor compliance with the Code; 10% of the approximately 900 Third Sector organisations funded per year is being sampled by the Third Sector Team. This exercise is separate from the spot checks that the Grants Centre of Excellence is undertaking. The information gathered will also be used to further inform the content of future grants annual reports.

2.47 This proactive approach will mean that identifying breaches of the Code will be much less reliant on grant recipients reporting concerns or making formal complaints. Further consideration will also be given to other mechanisms for testing compliance with the Code, such as making provision for grant recipients to raise concerns anonymously.

2.48 The consultation also included proposals to strengthen local compacts, between the Third Sector and Local Authorities, which improved guidance and monitoring forms an important part. Such guidance will provide an opportunity to

highlight the revised Code as a good practice model which Local Authorities and other public sector partners should consider adopting for their own use.

2.49 Where a clear financial reason is established, payment of grants can be made in advance to Third Sector organisations. A payment in advance template has been developed by the Grants Centre of Excellence in conjunction with the Funding and Compliance sub-committee of the TSPC. The template is completed by Third Sector organisations and is assessed by grant managers under advice from the Grants Centre of Excellence. This enables those organisations that have not built up reserves to be paid in advance in line with Welsh Government policy.

2.50 The Payment in Advance Template has been used in relation to a number of grants across the Welsh Government. No issues have arisen with the template in relation to the revenue support Welsh Government provides for core funding. In terms of capital support, the approach adopted is to consider requests for payment in advance on a project-by-project basis and only assisting where genuine need can be proven.

2.51 This template will continue to be reviewed regularly by the Welsh Government to ensure that it remains fit for purpose. Any problems associated with the template will be reported in future editions of this annual report and also to the Funding and Compliance sub-committee of the TSPC. Any changes to the template will be discussed and agreed with the sub-committee prior to implementation.

v. Structural Funds

2.52 Although the management of structural funds is not within the remit of the Grants Management Project, the Grants Centre of Excellence has worked closely with colleagues in WEFO to ensure that the good practice being developed by the Grants Centre of Excellence is shared. This ensures that appropriate and consistent processes are built in to WEFO procedures and controls.

SECTION 3: GRANTS MANAGEMENT IMPROVEMENTS

3.0 This section details the improvements that have been made in grants management within the Welsh Government since the introduction of the Grants Management Project (GMP) and the establishment of the Grants Centre of Excellence, as part of the GMP. There are six key improvement areas that have been focused on:

- (i) support for Grant Officials;
- (ii) compliance;
- (iii) training;
- (iv) communication;
- (v) collaboration; and,
- (vi) IT system.

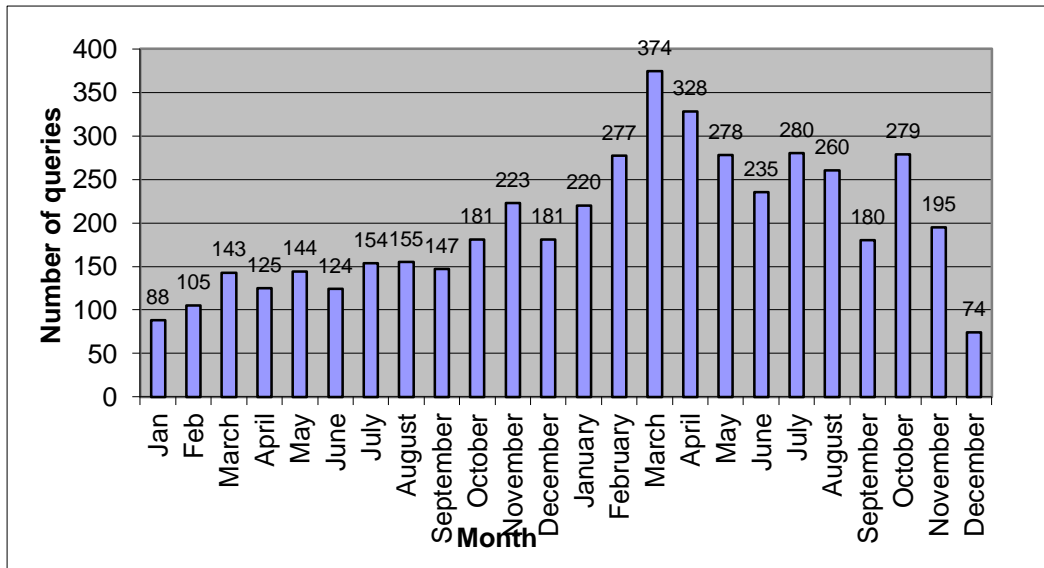
(i) Support for Grant Officials

3.1 The Grants Centre of Excellence currently consists of 10 expert personnel with an annual cost of £470k, however, as it moves into business-as-usual this will reduce to 5 experts with an annual cost of £187k. The support established by the Centre for grant officials includes developing processes, guidance and help to embed consistency in grant management, whilst ensuring proportionality.

Helpdesk

3.2 The Grants Centre of Excellence is the first point of contact for queries on whether a proposed activity should be funded through grant or procurement. Procurement matters are referred to the Welsh Government's Value Wales Division with all grant issues being handled by the Grants Centre of Excellence team. The support available from the Grants Centre of Excellence has been widely advertised, which has resulted in a significant number of requests for advice being received. Figure 11 shows the high number of monthly queries that have been responded to. Feedback from those using the Helpdesk suggests that this support is well received.

Figure 11: Queries handled by the Grants Centre of Excellence in 2012 and 2013



Source: Grants Centre of Excellence Queries Log

3.3 The Grants Centre of Excellence has recently become the first point of contact for any grant related concerns from external organisations. The Centre acts as a point of contact to provide advice and guidance or to direct the query to the appropriate department. An internal escalation process has also been implemented to ensure that issues and concerns are appropriately communicated and resolved.

Minimum Standards

3.4 At the inception of the Grants Centre of Excellence, a decision was made to review all current grants within the Welsh Government. The review is detailed later in this report (paragraph 3.14). In order to undertake the review of grants in a consistent way, minimum standards were developed against which grants could be assessed. The standards represent an agreed approach to grants management, which accommodate relevant law, policy and good practice. They provide a framework for the development, implementation and processing of any new grant and they are mandatory. These standards have subsequently been published and shared with WLGA, WCVA and the Cabinet Office for further dissemination.

Standard Award Letter Template

3.5 A standard award letter template was developed in 2012 to provide a level of consistency across grant funding agreements. The use of the template became mandatory for hypothecated grants from April 2013. Over 95% of award letters now utilise this template. The remaining 5% relate to complex and very low value grants, where the use of the template would be inappropriate.

3.6 The award letter template is only issued following a discussion between grant officials and the Grants Centre of Excellence. Furthermore, completed award letters

are also checked by the Centre in Welsh or English prior to issue to ensure accuracy, compliance and that proportionality has been considered.

3.7 The award letter template is reviewed annually with legal colleagues and any revisions made are notified to officials via the Welsh Government intranet. The template has also been shared with the Cabinet Office as an example of best practice which can be adapted to meet UK Government grant requirements.

Guidance

3.8 Overarching guidance has been developed which provides comprehensive advice on the various stages of a grant life cycle. The guidance includes templates and checklists which can be amended to meet individual grant requirements. It has recently been reviewed and updated and is available to officials on the grants intranet pages.

3.9 The standards and associated guidance require that a proportionate assessment of risk is undertaken for all external bodies receiving public funding. Proportionality and materiality must be considered at all times when assessing risk. Guidance on risk has been finalised and risk training will be provided for officials to ensure that appropriate processes are applied consistently.

Administration Costs

3.10 The Welsh Government has made a commitment to the PAC to reduce administration costs associated with grant funding, both for the Welsh Government and grant recipients. Since the PAC sessions in May 2012, the Welsh Government has consulted with the Big Lottery, WAO and the Cabinet Office as to the most appropriate way to measure and subsequently reduce administration costs.

3.11 The Welsh Government and UK Government departments are not solely focussed on the delivery of grants; this work is part of a much wider role relating to the development and implementation of policy. In the circumstances it is difficult to separate the cost of the development of policy, grants management processes and associated administration costs relating to grants. Consequently, the Cabinet Office has been unable to baseline administration costs for grants across UK Government departments in a consistent manner and the Welsh Government has similarly been unable to baseline for the reasons indicated above. Taking these points into account, the Welsh Government has adopted the following approach to reducing administration costs:

- increasing the duration of the grant. Grant recipients who are regularly funded can (where budgets allow) now apply for funding for a number of years, where previously they have needed to apply for funding annually. This approach reduces the administration costs for both the Welsh Government and the recipient, whilst giving the recipient increased certainty of funding;
- encouraging consortium working. The Welsh Government encourages consideration of collaborative working including whether an activity can be provided by a consortium rather than single organisations. Where adopted,

the approach reduces internal administration costs with award letters being issued to consortia leads only rather than individual organisations;

- combining grant schemes awards into one letter. Policy divisions are encouraged to issue one letter per organisation to cover a number of grant schemes rather than issue separate award letters;
- a commitment to move from hypothecated to unhypothecated grants for Local Authorities. The Welsh Government is committed to consider moving hypothecated grants into the main unhypothecated RSG wherever appropriate. This approach will ultimately reduce both internal and external administration costs.

3.12 The Grants Centre of Excellence has worked with numerous grant managers to implement these principles and their uptake will be recorded and their impact measured in order to demonstrate a reduction in administration costs.

Case Study – Guidance for Grant Officers

Wales European Collaboration Fund (WECF) grant programme

The WECF awards small grants of £1,000 to £10,000. A review of the programme, processes and administration documentation was undertaken.

Following advice and guidance provided by the Grants Centre of Excellence including consideration of proportionality, the separation of duties and using written guidance/templates, the programme has been changed and simplified in a number of ways:

- The nature of awards has been changed from repayable to non-repayable. The relatively small sums involved and the cost of processing/administration was likely to exceed the sums reclaimed;
- a standard assessment template was introduced. Proportionate due diligence checks replaced full detailed financial appraisal; and,
- a linked payment/monitoring process was introduced.

The guidance given and the reassurance on proportionality considerations, enabled the new administration team to simplify the programme and processes, resulting in a more efficient programme and subsequent administration cost savings for both applicants and the Welsh Government.

(ii) Compliance

3.13 Minimum standards have been developed and are mandatory. Compliance with these has been tested during the 2011/12 review of grants and subsequently via spot checks by the Grants Centre of Excellence.

Grants Review 2011/12

3.14 A review of all grant schemes was undertaken in 2011/12. The review process involved officials from every grant scheme completing a questionnaire, which was then assessed by the Grants Centre of Excellence against the minimum standards.

3.15 The review considered whether grant funding was the best mechanism for each of these schemes and advised if an alternative funding route, for example procurement or loan, was more appropriate. Where it was identified that the funding should have been provided via another mechanism it was recommended that the alternative should be used at the end of the current grant award period. Almost ten percent of the grants reviewed were advised to consider procurement as a more appropriate funding mechanism.

3.16 The Grants Centre of Excellence assessed each funding programme to determine whether it was compliant and met the minimum standards. Areas for improvement were identified where the funding programme did not comply or meet the necessary standards. An action plan was agreed with the relevant official to rectify any weaknesses within an appropriate timescale. Departmental reports were subsequently produced, initially providing details on the grants reviewed and the weaknesses identified, and subsequently detailing progress against the action plans. All of the action plans have been completed and all weaknesses identified have been rectified. New grant schemes are subject to the same level of assessment as that undertaken during the review.

Spot Checks

3.17 Spot checks have been implemented to ensure continued compliance with the minimum standards. These involve the random checking of grant scheme documentation (for example, an award letter or the application mechanism used) of selected Welsh Government schemes. Currently 15 grants are checked each month and this will rise to 20 per month by the end of 2013/14.

3.18 The Grants Centre of Excellence reviews selected documentation against the grants minimum standards. Feedback is provided within five working days; those who do not reach the minimum standards are provided with support to improve their processes. Where major concerns are raised, an in-depth review of the activities is undertaken; concerns identified are resolved through the internal escalation process.

(iii) Training

3.19 A training needs analysis was undertaken in June 2012 to inform the future training requirements of officials administering Welsh Government grants. A questionnaire was used to assess the need and demand for grants training. Overall, 47% of respondents had received training on e-Grants (Welsh Government's grants payment system) and just over 70% of respondents had not had any other formal grants training. The key learning method identified was on-the-job training delivered

by line managers/peers and the majority of respondents suggested that there was a need for additional, more formal grants training.

3.20 Initial training on key grant functions was provided electronically to maximise learning opportunities. This ensured that relevant officials were quickly appraised of key grants management activities. User understanding of the information conveyed was established through end-of-module tests. This initial computer based training will be expanded upon and learning consolidated through face-to-face training where specific grant functions are considered in more depth.

3.21 The e-Grants computer based training has been made mandatory for any official requiring access to the e-Grants system, with completion of the training being required before access is permitted.

3.22 Three computer based training modules have been developed and implemented:

- **Grants for Relevant Senior Officers:** aimed at officials who are responsible for the delivery of grant funding programmes. It provides a high level overview of the grants management processes, identifying key areas of relevance to senior managers. The module is mandatory for all officials who have overall responsibility for specific grant programmes (Relevant Senior Officers). The training was launched on the intranet in December 2012 and since then over 280 officials have successfully completed the training. In general the training has been very well received, with excellent feedback. It has significantly raised the profile of grants and the processes that must be adopted by senior officials of the Welsh Government.
- **e-Grants for Certifiers and Authorisers:** aimed at officials who utilise the e-Grants payment system. The e-Grants system is used to make the great majority of payments for grants. Previously all officials in the Welsh Government were provided with certifier access to the e-Grants system, which enabled them to enter claims for grants payments. However, authoriser status was only provided to those officials who had delegated authority to approve grant payments.

A number of changes have been made to the e-Grants system to improve its reporting capability. Training was therefore developed to minimise inconsistencies in the use of the e-Grants system which could ultimately impact on the accuracy of reports. The training was released on the intranet to all officials in March 2013. To date over 1,100 officials have successfully undertaken this training. Any official requiring certifier or authoriser access on e-Grants is required to pass this training first.

- **Grants for Grant Managers:** is aimed at officials who are responsible for the day-to-day management of grants (Grant Managers). The training consists of three modules and is mandatory for all Grant Managers and optional for all other officials. The level of detail included in this training is much greater than in the overview provided in the

Relevant Senior Officers training. An 80% pass rate is required for each module and officials who successfully complete all 3 modules are given certified status.

This training was released in June 2013. Over 480 grant managers have successfully undertaken the training. This has given a proportion of grant managers confidence that they are undertaking the correct processes whilst others have asked the Grants Centre of Excellence for further support in improving their processes.

Other Training

3.23 A programme of training on Structural Funds for project sponsors and for internal staff is being run by WEFO in anticipation of the new round of funding programmes. This covers the content of the new programmes, changes to the way projects are selected and changes to the management and control of projects under the regulations for the next round of funding.

3.24 The WLGA is developing a range of training programmes for Local Authorities via the Chartered Institute of Public Finance and Accountancy (CIPFA). The training will be delivered to Local Authorities in a number of ways including regional events and themed sessions in early 2014. The Welsh Government will support the development of the training to ensure that Welsh Government processes, procedures and policies are given due consideration.

(iv) Communication

Internal Communication

3.25 The Welsh Government recognises that internal communication between its departments has sometimes been uncoordinated both in terms of sharing corporate intelligence and best practice. The establishment of the Grants Centre of Excellence has resulted in it becoming standard practice for the Centre to engage with officials to maximise information sharing within and across departments. In a recent letter to grant managers throughout the Welsh Government, the Permanent Secretary highlighted the need for grants to be managed in a compliant and consistent manner with officials taking due responsibility for funding provided via grants.

Grants Awareness Sessions

3.26 The Grants Centre of Excellence arranged and hosted a programme of awareness sessions about grants management across Wales in March 2013. The sessions were aimed primarily at officials dealing with grants and highlighted the changes being implemented to grants management explaining why they had been introduced, what was expected of officials to bring about the improvements and provided an opportunity to share best practice and any concerns. All sessions were introduced by senior managers and included a video message from the Permanent Secretary on the importance of grants management and compliance.

3.27 Originally seven sessions were scheduled, however, due to high demand; an additional three sessions were arranged. They were held at seven different locations in Wales, hosting a total of 245 attendees. Over 93% of attendees rated the sessions as either excellent or good.

3.28 A second series of sessions was held across Wales in November 2013. The sessions were aimed at all officials working on grants and were a follow-up to the awareness sessions held earlier in the year. Their aim was to highlight the importance of good grants management and the potential impact if this was not undertaken.

3.29 Sessions were once again hosted by the Head of the Grants Centre of Excellence and introduced by a senior manager. The focus of each session was a case study exercise where attendees were asked to discuss and identify errors in grants processes, identify what should have been done differently and what the potential implications would be for the Welsh Government. The importance of carrying out grant processes properly was reiterated by informing attendees of real life instances where errors, similar to those in the case studies, had been made and resulted in financial loss and reputational damage for the Welsh Government.

3.30 Each session also included the key information that grant managers need to be aware of, a section on the due diligence pages to highlight the importance of sharing information across the Welsh Government, as well as an opportunity for attendees to ask questions. Twelve sessions were held over nine different locations in Wales, with a total of 368 staff attending the sessions.

3.31 The feedback was positive and demonstrated that attendees found these sessions beneficial. The group case study exercise was particularly well received as attendees felt it was an effective way of underlining the importance of carrying out grant processes correctly and the severity of the consequences if processes are not followed.

External Communication

3.32 The role of the Grants Centre of Excellence has evolved from purely an internal facing team to being both internal and external facing. As the focus has changed, the Centre is now advertised as the primary contact on the Wales.gov.uk website, should there be any query or concern with the administration of a grant or grant scheme.

3.33 The Grants Centre of Excellence has actively engaged with funding recipients to publicise its role as the single point of contact for advice on applications for funding. This enhanced engagement has included revising and improving the Welsh Government's public website pages on grant funding.

(v) Collaboration

3.34 The Welsh Government is the principal provider of grant funding in Wales. As such it is well placed to share intelligence with other funding providers about any organisation it has grant funded. Where either tangible or intangible concerns arise

regarding an organisation or an individual, which could have an impact on external organisations that also provide grant funding, then information will be shared. For example, with relevant partner bodies such as the WCVA, WLGA to enable them to make an informed decision on the risks associated with their funding of organisations.

3.35 This existing informal process will provide the basis for the development and agreement of formal terms of engagement, which are currently under discussion at a Good Governance Group and which are due to be agreed by the end of 2013/14.

3.36 The Welsh Government is working collaboratively to implement the PAC's recommendations and improve grant practices more widely. It has engaged with the WAO, WCVA and WLGA on a range of policy and practice issues including the development of comprehensive guidance for Local Authorities on the different funding allocation methods available. Engagement with these organisations will continue to support them with their grants management improvement activities.

(vi) IT system

3.37 The Welsh Government has acknowledged the limitations of its existing overall management information and corporate data available to support decision making on grants. The systems used to process grant payments already interface with the Welsh Government finance system, however, there is limited visibility of data between systems and across the Welsh Government. This has led to the development of local systems to provide added assurance and for reporting purposes.

3.38 These issues were highlighted in the November 2011 WAO report, Grants Management in Wales, which recommended that funders should develop systems that ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments. This was further underlined through the PAC inquiry into Grants Management in Wales. The final report published in June 2013 recommended that "Welsh Government sets out timescales for the introduction of a central grants management IT system".

3.39 The Welsh Government accepts that the introduction of a comprehensive, central grants management IT system would help provide management data to inform decisions on grant funding. Work is therefore underway to give due consideration to identifying the optimum solution and how it should be implemented. A business case has been prepared and a decision is expected on this shortly.

3.40 Whilst a decision is awaited on the central grants IT solution, some tactical enhancements to the existing e-Grants system have been implemented to provide better management information across the Welsh Government. These are:

- **New Summary Reports:** provide a wide view of all active grants schemes. They give a better understanding of the value and volume of grant offers and payments made across the Welsh Government, comparing recent history with current year activity.

- **Due Diligence:** a new corporate information sharing area has been developed and implemented on the Welsh Government finance portal. This facilitates the sharing of information about an organisation and provides a point of contact for officials seeking further details. Links are also made to the Welsh Government's finance system to highlight any organisations/individuals that have been blocked for payments. The facility prompts officials to seek further information before awarding a grant or processing a claim.

SECTION 4 – NEXT STEPS FOR GRANTS MANAGEMENT

4.1 The Welsh Government is committed to making its grants management processes as efficient and effective as possible. Whilst significant progress has been made, work is continuing to embed these fully across the organisation so as to ensure that any risks associated with this work are managed to a minimum.

4.2 The following activities are planned to develop grant management arrangements over the next 12 months:

- **enhanced information on Grant Personnel in e-Grants** - key officials responsible for each grant scheme will be identified and the grant scheme set-up process will be amended to hold this information;
- **improved financial information from e-Grants** - a new method of simplifying the selection of the appropriate finance code is being developed, which will reduce the risk of miscoding;
- **grants training** - comprehensive training on key aspects of grants administration will be delivered across Wales;
- **compliance with minimum standards** - to be further encouraged and measured through responses to queries and spot checks;
- **communication exercises** - new awareness sessions and intranet articles to communicate changes and best practice;
- **measuring reductions in administration costs** - changes to grants programmes that result in reduction of administration costs will be recorded and their impacts measured;
- **decision reached on establishing a central grants management IT system.**

4.3 The changes to the e-Grants system together with training and communication activities will ensure that officials are better informed of the processes they need to undertake to improve grants management. This, together with the necessary enforcement activities undertaken by the Grants Centre of Excellence, will help to embed further improvements in grants management across the Welsh Government. Progress against these activities will be reported in the next Annual Grants Management Report.

SECTION 5 – KEY THEMES IN THE WAO AND PAC REPORTS

5.0 The three reports on grants management in Wales² made specific recommendations on how to improve the way the Welsh Government manages grants in Wales. This section of the annual report provides a brief summary of the actions taken in response to the key themes from the WAO and PAC reports. The specific recommendations, responses and progress are included in the Annexes to this report. In total, 41 recommendations were made. The latest position is that action has now been completed for 37 of these and work on the remaining recommendations is ongoing.

Review of All Grant Schemes Administered by the Welsh Government

5.1 All grants in existence in the year 2011/2012 were reviewed by the Grants Centre of Excellence against minimum standards. The reviews took approximately one year to complete and resulted in identification of best practice and action plans where weaknesses were identified. Guidance for grant managers and the minimum standards have been revised to incorporate best practice identified in this review. Where weaknesses were identified, the Grants Centre of Excellence has monitored and reviewed the associated action plans and ensured that weaknesses have been rectified.

5.2 All new grant schemes introduced since the review have been subject to a robust vetting process, which includes consideration of whether a funding intervention is required and, where it is, whether grant funding is the most appropriate vehicle for that purpose.

Local Authorities

5.3 The WAO report in November 2011 focussed on grants management across the public sector and not purely on the management of grants by Welsh Government. Local Authorities were criticised for their management of grants and the number of audit qualifications entered against claims to the Welsh Government. The Welsh Government has worked closely with the WLGA to resolve the issues identified in the reports.

5.4 Welsh Government is working in conjunction with the WAO and the WLGA with regard to training and sharing of expertise relating to funding mechanisms and minimum standards and is in discussions with CIPFA concerning the provision of training on grants management to the wider public sector in Wales. The latter will help reduce the number of qualifications from the WAO in relation to the auditing of grant claims. The Welsh Government is committed to assisting the WLGA in reducing the frequency of such qualifications.

² WAO Report – Grants Management in Wales– November 2011, PAC Interim Report – Grants Management in Wales –August 2012, PAC Final Report – Grants Management in Wales –June 2013

Grants Management Improvements

5.5 The Welsh Government continues to consider best practice from around the UK and seeks, via its Grants Management Project, to provide the best value for the Welsh pound. One of the issues specific to this is the reduction of administration costs. Whilst it has proven impossible to baseline the costs incurred due to a variety of reasons, the overall cost of grants administration is expected to fall due to initiatives aimed at the amalgamation of schemes and the transfer of Local Authority hypothecated schemes into unhypothecated RSG.

5.6 The introduction of the standard Award Letter template has ensured that a uniform approach has been provided across the Welsh Government. The use of this template has taken forward cultural change with emphasis being placed on grants delivering policy objectives; the template specifically states what will be achieved.

5.7 With the establishment of the Grants Centre of Excellence, the Welsh Government has established a first point of contact for advice on funding applications. Should grant funding be the required route, then appropriate advice is given by the Grants Centre of Excellence however, should the funding be better suited to procurement, then the matter is passed onto Value Wales.

5.8 The Welsh Government has worked closely with, and will continue to engage with, the grants project in the Cabinet Office. This has included the sharing of best practice and training modules developed by the Grants Centre of Excellence.

Third Sector

5.9 The Welsh Government appreciates that the Third Sector makes a substantial contribution to providing services to the people of Wales. As funding to the Third Sector is essential to the delivery of key policies, the Welsh Government accepts that specific considerations must be made due to the nature of the sector. The Welsh Government has recently undertaken a consultation on the Code of Practice for the Third Sector and how it interacts with the sector. Although this consultation has been completed, the revised Third Sector Scheme and Code of Practice will not be issued until early 2014. The revised Code of Practice will require the Welsh Government to be more proactive in monitoring its compliance with the Code.

5.10 The Welsh Government remains committed to working with the Third Sector Partnership Council and has developed the Payment in Advance template in conjunction with its Funding and Compliance sub-committee. The Payment in Advance template allows Third Sector organisations to demonstrate the need for payment in advance in a consistent manner. The Welsh Government will monitor any concerns relating to the Payment in Advance template and any non-compliance with the Code of Practice.

Training and Compliance

5.11 The Grants Management Project was introduced to improve the standard of grants management. As a consequence, the project has developed and implemented detailed processes and procedures across the Welsh Government.

These developments have been supported by a host of communication activities, development of minimum standards, training for grants officials and spot checks to ensure compliance.

5.12 Going forward, the Grants Centre of Excellence will concentrate on the delivery of very specific face-to-face training and focussed working with grant managers to ensure the required cultural changes are made. This will ultimately ensure improved grants management through the embedding and implementation of minimum standards in a compliant and consistent manner.

Collaborative Working

5.13 The Welsh Government recognises that it is not the only grant funder in Wales. Working with other funders and organisations can bring significant benefits to both the Welsh Government and funded organisations. Since the publication of the WAO and PAC reports, the Welsh Government has engaged with a number of funding organisations including WCVA, WLGA, Arts Council of Wales and Big Lottery. This collaborative working has resulted in the agreement to prepare terms of reference for information sharing.

Management Information and Reporting

5.14 The Grants Management Project has made significant improvements to the e-Grants payment system, which has enabled improved reporting and increased consistency across the Welsh Government. Additional enhancements will be undertaken before the end of the 2013/14 financial year which will further improve the reporting capability of the system. The Welsh Government is currently considering possible next steps in establishing a definitive source of information on grants management.

ANNEX 1

WAO Report - Grants Management in Wales – Recommendations and Progress - November 2011

Recommendation 1

We recommend that funders should look to simplify their grants portfolio more rapidly, by combining schemes where this is appropriate, in order to realise efficiencies in administration cost and in the hidden costs to the public purse borne by unsuccessful applicants.

Progress

This is an ongoing and continual process. The Welsh Government has simplified its grants portfolio by significantly reducing the number of grant schemes and offers of grant made. Over the last three financial years schemes have been reduced by 16% and offers by 14%.

Status

Ongoing.

Recommendation 2

We recommend that funders should develop systems to ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments and, where possible, with other funders.

Progress

The Welsh Government has taken steps to improve the consistency across its departments by introducing minimum standards for all grants' processes. The approach has been shared with other key funders including WCVA, WLGA to help improve consistency of grants management across Wales. Mandatory training for Welsh Government staff administering grants has been introduced and was fully rolled out in June 2013. This will be supplemented by more detailed training, which will be rolled out from January 2014. The training modules will also be shared as appropriate with other key organisations offering funding as it is developed during 2014.

Status

Complete.

Recommendation 3

We recommend that funders should work with other funders to learn from experience, develop complementary schemes and co-ordinate bidding timetables.

Progress

A Good Governance Group has been established with WAO, WCVA, WLGA, Big Lottery and the Charity Commission, to help facilitate learning and provide a focus for good practice.

Status

Complete

Recommendation 4

We recommend that funders should work singly and together to improve the clarity and accessibility of grant related information to bidders and encourage appropriate community involvement.

Progress

The Welsh Government has an active programme of work to help improve the clarity and accessibility of grant information for bidders. It has redesigned its internet pages on grants to provide greater clarity. Through the refreshed Third Sector Scheme and Code of Practice the Welsh Government is seeking to encourage increased community involvement. Following the recent consultation on the Welsh Government's relationship with the Third Sector, work is continuing to revitalise the Third Sector Partnership Council and increase awareness of its activities. The Minister for Finance also holds regular meetings with Third Sector representatives, at which community involvement and benefits feature prominently in discussions.

Status

Complete.

Recommendation 5

We recommend that funders should ensure that risks relating to bidders' viability capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery.

Progress

The Welsh Government has set minimum standards of initial and ongoing due diligence to be undertaken for all grants. It has also developed a due diligence IT system that enables the sharing of corporate information across all departments. A requirement for the regular monitoring of projects has been established and this will follow the conditions detailed in a new standard award letter.

Status

Complete.

Recommendation 6

We recommend that funders should ensure that project outcomes and standards of project and financial management are clearly defined and agreed in writing with recipients before releasing funds.

Progress

The Welsh Government's new standard award letter template for grants ensures that specific outcomes, targets and requirements are included within all award letters. The grant recipient must accept the terms and conditions prior to any payment being made, thus making the terms of the grant clear to all parties.

Status

Complete.

Recommendation 7

We recommend that funders should consider the relative merits of approaches other than grant funding, such as procurement, loans and investments, before committing to a new or continued grant scheme as the most appropriate mechanism for achieving the stated objectives.

Progress

The Welsh Government's Grants Centre of Excellence reviews all new grant scheme proposals. As part of this review, consideration is given to the type of funding proposed and alternatives to grant will be recommended where these are considered more appropriate.

Status

Complete.

Recommendation 8

We recommend that funders should take robust action when grants have been overpaid or misused, by suspending funding where necessary, recovering appropriate sums and, where funding is continued, strengthening requirements on recipients and monitoring arrangements before releasing further funding.

Progress

The Welsh Government has learnt lessons from the All Wales Ethnic Minority Association (AWEMA) and other situations and new and significantly more robust grant management arrangements have been established. These include taking appropriate action such as the suspension of payments, where a breach of grant conditions is identified.

Status

Complete

ANNEX 2

PAC – Grants Management in Wales - Interim Report – Recommendations and Progress - August 2012

The Welsh Government accepted all of the recommendations made in this report.

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.

Latest Progress

All the grants provided by the Welsh Government for the 2011/2012 financial year have been reviewed and a final report on compliance and findings has been issued to senior management. All new grants are now approved by the Grants Centre of Excellence before entry onto the grants payment system.

Status

Complete.

Recommendation 2

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

Latest Progress

In the review of 2011/2012 grants, part of the process included an assessment of whether alternative funding mechanisms were suitable. Appropriate action was recommended and implemented as required. All new grant scheme proposals are reviewed by the Grants Centre of Excellence and, where it is considered that an alternative funding mechanism should be used, appropriate action is taken. Alternative funding mechanisms include loans, procurement and repayable grant funding.

Status

Complete

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.

Latest Progress

The Welsh Government has shared its grants guidance with the WLGA which is encouraging its wider adoption by local government in Wales.

The WLGA is working with the WAO on its good practice events and other public service partners such as the WCVA on the appropriateness of grant funding compared with other mechanisms. The WLGA has commissioned CIPFA to design

and deliver a programme of training on grants administration and management. The programme will comprise of a comprehensive series of modules which are aligned to roles and functions within a local authority's operation of a full grants process. The training will be delivered through a series of regional workshops across Wales complemented with specific 1:1 organisation training where appropriate. The training will be open to include organisations outside the local authority in receipt of grants, helping to build understanding and improvements in the whole process. The training will be developed and delivered in March 2014.

Status

Complete.

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.

Latest Progress

Specific enquiries to the Scottish Government have concluded that the Welsh Government's existing approach of addressing the transfer issues through the partnership arrangements are consistent with the approach in Scotland.

The Welsh Government's Reform Policy Steering Group (RPSG) commissioned an exercise in autumn 2012 to review the exit strategies for all hypothecated grants. The information gathered from the exercise commissioned by RPSG was used to brief the Minister for Local Government and Government Business on the position on specific grants and to inform Ministers' discussion on the 2014-15 Budget and Local Government Settlement. The Local Government Settlement for 2014-15 reflected a transfer of £40 million of funding previously provided as specific grants into the settlement. A further review of funding flexibilities in partnership with Local Government has also been announced.

Status

Complete.

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.

Latest Progress

The Welsh Government will reduce administration costs through a number of activities including collaborative working (both internally and externally), increasing the duration of grants and transferring hypothecated grants for Local Authorities into the unhypothecated RSG (see paragraphs 3.10 to 3.12).

The Grants Centre of Excellence will measure the impact of these activities and the associated reduction in administration costs and will report progress in the next annual report on grants management.

Status

Complete.

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.

Latest Progress

The Code of Practice for Funding the Third Sector has been fully revised in collaboration with a wide range of stakeholders. This process has been overseen by the Funding and Compliance Sub Committee of the TSPC. The revised Code, which will now be formally annexed to the revised Third Sector Scheme, reinforces the need for timely decisions and states clearly that the Welsh Government will be proactive in ensuring that Grant Managers comply with this requirement.

The Welsh Government has put processes and procedures in place to check and monitor compliance with the Code of Practice. Any non-compliance will be reported to the Funding and Compliance Sub-Committee of the TSPC and recorded in the Welsh Government's Annual Report on Grants Management.

The need for compliance with the Code of Practice will be reinforced in the face-to-face training on funding the Third Sector which is currently being developed by the Grants Centre of Excellence.

Status

Complete.

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.

Latest Progress

First annual report published.

Status

Complete

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.

Latest Progress

A template for determining the need for payment in advance has been developed in conjunction with the Funding and Compliance Sub-Committee of the TSPC. This template is used by all grants schemes within the Welsh Government that provide funding to the Third Sector. Payment in advance is only made where the need for this has been demonstrated and validated.

Status

Complete

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.

Latest Progress

The Welsh Government has developed and implemented standard terms and conditions for both grant funding and procurement.

Status

Complete.

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).

Latest Progress

The Grants Centre of Excellence has been established as a single point of contact for advice on funding applications (including grants) both internally and externally. Direct public access to the Centre is available through the Welsh Government's redesigned internet pages on grants.

Status

Complete.

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.

Latest Progress

The Welsh Government has tracked the incidence of qualified or adjusted grant claims within local authorities. The Welsh Government has reviewed its grant certification requirements and instructions in order to ensure that they remain appropriate. A revised audit certification format has been developed in conjunction with the WAO, which has made non-compliance more obvious.

The WAO has given a training session to Welsh Government officials on the importance of audit certification and processes involved. Over 30 officials attended the session. The training included the relevance of qualifications and the action required by the Welsh Government when qualifications appear on audit certificates.

The Welsh Government has worked closely with the WLGA in order to achieve a reduction in the frequency of qualified grant claims. The WLGA has also identified good practice and has developed an internet page on grants, which further promotes best practice and signposts the support and help available to practitioners.

The WLGA is working with CIPFA to develop and deliver suitable training on grants management for local government officers.

Status

Complete.

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.

Latest Progress

Response combined with Recommendation 11. See progress detailed above.

Status

Complete.

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.

Latest Progress

The Welsh Government's standard award letter template has been revised to include the requirement for grant recipients to participate in the National Fraud Initiative (NFI) or other counter fraud activities when invited to do so. The Welsh Government continues to work closely with the WAO to increase the range of publicly funded bodies which are included within the NFI. Recent discussions have considered the scope of involving Welsh Government sponsored bodies and the further and higher education institutions.

Status

Complete.

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.

Latest Progress

The Welsh Government has established and provided a wide range of training modules for Grant Managers, including computer based training and face-to-face training activities. E-learning modules have been developed for senior staff and grant managers on grant processes and procedures, and for users of the grants IT system regarding the importance of correct and compliant use. Over 2000 staff received grants training as a result. The Grants Centre of Excellence has now started delivering face-to-face training across six offices in Wales to expand and develop information contained in the e-learning modules. Training delivery on Application Forms, Monitoring, and Evaluation started in January 2014. Demand for the training has been very good; for the first tranche of training, 18 of the 25 events programmed exceeded capacity requiring additional modules to be arranged. Development of face-to-face modules on Working with the Third Sector, Minimum Standards, Risk Assessments and Funding Agreements are under development delivery for which will start in March 2014.

The effectiveness and completion rate of each module is being monitored closely to help assess any requirement for future improvements to the training.

Status

Complete.

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.

Latest Progress

The Welsh Government's standard award letter template requires outputs and outcomes to be clearly defined at the approval stage and included in schedules of the letter. These deliverables require monitoring throughout the duration of the grant and grant managers are required to evaluate the effectiveness of the funding against policy objectives at both the individual funding and the grant programme levels.

Status

Complete.

ANNEX 3

PAC – Grants Management in Wales – Final Report – Recommendations and Progress – June 2013

The Welsh Government accepted all of the recommendations made in this report.

Recommendation 1

We recommend that the Welsh Government publicly sets out in an annual grants report:

- how individual grants were reviewed in its Grants Management Review;
- which alternative funding options were considered;
- what rationale was used to determine the most effective funding options in each case;
- how it will continue to monitor the progress of each Department in implementing the recommendations of its review; and
- how it evaluates the effectiveness of external organisations (whether they are an umbrella body representing a sector, or distributing funds as the lead sponsor of a project) in managing the distribution of funds to other organisations

Latest Progress

This annual report includes all of the key information recommended by the PAC.

Status

Complete.

Recommendation 2

We recommend that the Welsh Government engages in dialogue with the Wales Audit Office, WCVA and WLGA in its development of clear guidance for Local Authorities, to ensure that they consider a wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.

Latest Progress

The Welsh Government is working in conjunction with the WLGA with regard to training and sharing of experience relating to funding mechanisms and minimum standards. It has provided minimum standards and guidance to WLGA to take this recommendation forward and enable it to disseminate good practice. The WLGA website provides guidance on different funding allocation methods and the revised

Code of Practice for Funding the Third Sector in Wales includes a new section on commissioning and models of funding as well as advice for officials and potential applicants of funding.

Status

Complete.

Recommendation 3

We recommend that the Welsh Government proactively investigates whether there have been breaches in the Code of Practice for funding the Third Sector, and details such instances in its annual grants management report. We expect that the Welsh Government would publish its first such annual report by December 2013 at the latest.

Latest Progress

The Welsh Government has strengthened processes and procedures to access and monitor compliance with the Code of Practice which include spot checks of grant processes and proactive involvement with the development of grants to the Third Sector. Future progress with this activity will be included in future annual reports.

Status

Complete.

Recommendation 4

We recommend that the Welsh Government ensures that any problems associated with its payment-in-advance-template are reported in its annual grant report and also to the Funding and Compliance Committee.

Latest Progress

An update on the use of the Payment in Advance template is included in this annual report, however, the position remains as previously reported with no issues concerning its use having been reported to the Welsh Government.

Status

Complete.

Recommendation 5

We recommend that the Welsh Government takes action to enhance and publicise the role of the Grants Centre of Excellence as a single point of contact for advice on applications for funding. We expect this to include development of its public website.

Latest Progress

The Welsh Government has continued to enhance and publicise the role of the Grants Centre of Excellence both internally and externally. It has actively engaged with funding recipients to publicise its role as the single point of contact for advice on applications for funding. This enhanced engagement has included revising and improving the Welsh Government's public website pages on grant funding. The revised pages were launched in late 2013 and can be found at:

<http://wales.gov.uk/funding/grants/?lang=en>

Status

Complete.

Recommendation 6

We recommend that the Welsh Government sets out timescales for the introduction of a central grants management IT system, and the implementation of a Customer Relationship Management system.

Latest Progress

An options appraisal has been completed, which recommended SAP Grantor as the preferred solution. In order to deliver the full range of requirements this software will need to be implemented within the wider Welsh Government finance and procurement SAP solution. A business case for the development is in place and an investment decision including the timetable will be made in the first quarter of 2014. In the meantime, short-term enhancements to the existing e-Grants payment system are being undertaken.

In addition, functionality to share due diligence has been developed and released using the current systems and the coverage of management information for grants is being improved with the transfer of more of Welsh Government grant schemes onto the e-Grants system in the period leading up to the end of the financial year.

Status

Action instigated and ongoing.

Recommendation 7

We recommend that the Welsh Government details in its annual grants management report an update on its progress in:

- implementing the recommendations of this report, our interim report and the Wales Audit Office's Grants Management 2011 report.
- changing its cultural approach to managing grants, to ensure that the Welsh Government acts as a single organisation in its relationships with external recipients of public funding.

Latest Progress

An update on Welsh Government's progress in responding to the recommendations is contained in this report.

Status

Complete.

Recommendation 8

We recommend that the Welsh Government makes progress toward concluding its dialogue with the Big Lottery Fund, Charity Commission, WCVA and other appropriate bodies to develop, produce and implement terms of engagement for contact between different providers of publicly funded grants.

Latest Progress

Draft terms of engagement have been developed, discussed by the Good Governance Group and will be finalised in early 2014. This work is on schedule for completion by April 2014.

Status

Ongoing.

Recommendation 9

We recommend that in conjunction with its development of a customer relationship management system the Welsh Government develops a clear, proportionate framework with which to determine the risks involved in providing public funding to individual external bodies.

Latest Progress

Minimum standards for grants management are in place, which emphasise the need for proportionality. These minimum standards include the need to assess risk. Guidance on risk has been developed and issued to officials and risk training is being developed for roll-out in early 2014.

Status

Ongoing.

Recommendation 10

We recommend that the Welsh Government develops a mechanism for escalating its monitoring arrangements, in response to specific concerns arising around financial irregularities or governance issues, including when an organisation is given the benefit of the doubt.

Latest Progress

The Welsh Government has developed guidance. This includes the need for accurate and appropriate record keeping, coupled with monitoring processes that are suited to the situation which has given cause for concern. The new due diligence process, which was introduced in October 2013, also enables efficient sharing of information about external bodies.

Occasionally the Welsh Government identifies, or is notified of, tangible concerns regarding an organisation or individual. Where this could impact on other external organisations that provide grant funding, then the information will be shared with relevant partner bodies, e.g. WCVA, WLGA.

Ongoing spot checks will ensure departments' compliance with guidance and procedures. Any concerns identified through the process are resolved through the internal escalation process managed by the Grants Centre of Excellence.

Status

Complete.

Recommendation 11

We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding to notify the Welsh Government of any

significant changes in their trustees (for example the resignation of a Chair or a third or more of trustees), a significant lapse of constitutionally required meetings, or a resignation of external auditors, with a proportionate explanation for such changes.

Latest Progress

The Welsh Government has developed guidance to help officials understand what action to take when they are notified of changes in trustees of funded bodies.

Status

Complete.

Recommendation 12

We recommend that the Welsh Government proportionately considers the implications of potential warning signs in grants management - such as significant changes in an organisations' trustees, a lapse in constitutionally required meetings or a resignation of external auditors - gathering further information as required (for example, using exit interviews).

Latest Progress

As for Recommendation 11 above, the changes to the Notification Events Schedule within the standard award letter template enables the Welsh Government to investigate matters which come to its attention and, if appropriate, to terminate grant funding. Likewise the guidance mentioned above covers these eventualities.

Status

Complete.

Recommendation 13

We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding to notify the Welsh Government of any instances where there is a breach of that organisation's governing document regarding meetings of trustees, with a proportionate explanation for such.

Progress

As covered by the response to Recommendation 11.

Status

Complete.

Recommendation 14

We recommend that the Welsh Government includes in its requirements of external funding (including grant funding), detail on the proportionate accountability and responsibility of trustees. We expect this to include detail on:

- the particular circumstances in which a concern about an organisation's governance should be brought to the Welsh Government's attention;
- the appropriate mechanism for expressing concern about an organisation's governance to the Welsh Government.

Latest Progress

Welsh Government has produced information on the standard award letter template, which has been included on the grant funding pages of its public website. This sets out the responsibilities of Welsh Government and of funded bodies and refers to the circumstances and mechanisms for raising concerns about an organisation's use of public money and its governance arrangements.

The Welsh Government guidance now describes the scenarios which would typically result in a formal notification as explained in the previous response.

Status

Complete.

Recommendation 15

We recommend that the Welsh Government recognise that while using an umbrella body can offer benefits, any aspect of poor-management in one of them will lead to increased risks and potentially serious repercussions for other organisations that rely on support (financial or otherwise) from these organisations. When using an umbrella body the Welsh Government should clearly and publicly state the rationale for using it.

Latest Progress

In an oral statement on 12 November 2013, the Minister for Communities and Tackling Poverty set out proposals arising from the recent consultation. He reaffirmed Welsh Government support for an integrated Third Sector infrastructure in Wales, including WCVA, County Voluntary Councils (CVCs) and Volunteer Centres but proposed that a regional dimension should be introduced to their work during 2014. These proposals are now being taken forward through discussion with the TSPC and the infrastructure bodies themselves. This work will include further consideration of the relationship between the infrastructure bodies and more specialist umbrella bodies. An internal, cross-departmental group has also been formed within Welsh Government to keep Third Sector issues under review and ensure that the relationship between infrastructure and umbrella bodies is understood more widely.

Status

Complete.

Recommendation 16

We recommend that the Welsh Government evaluate the effectiveness of the training it has introduced for Grant Managers.

Latest Progress

The effectiveness of the training provided to grant managers through the Grants Centre of Excellence training modules has been, and will continue to be, evaluated. Further detail on progress is provided in this report (paragraphs 3.19 to 3.24).

Status

Complete.

Recommendation 17

We recommend that as a system of good practice, the Welsh Government should give serious consideration to disclosing the narrative of a report to external parties, so that it can be checked for factual accuracies, should it be required to undertake a similar review.

Latest Progress

Appropriate processes have been implemented to ensure compliance with this recommendation with the narrative of draft reports now being shared.

Status

Complete.

Recommendation 18

We recommend that the Welsh Government clearly and explicitly articulates its rationale for termination of, or a substantial cut in, funding to any organisation which has a grant, prior to that organisation's funding being terminated (or substantially cut). We anticipate that this rationale would normally only be provided to the organisation concerned.

Latest Progress

Appropriate processes have been implemented to ensure compliance with this recommendation.

Status

Complete.