# 2014 Welsh Government Annual Report on Grants Management

## Contents

## Foreword from the Permanent Secretary

Grant funding is an essential vehicle to deliver Welsh Government priorities as laid out in the Programme for Government. It enables funded organisations to provide specific services whilst both initiating and sustaining significant levels of economic and social activity. A substantial amount of money is invested in grants and I am committed to continue to put appropriate, effective grants management arrangements in place so that everyone can have confidence in our processes.

A significant effort has been invested in improving our internal processes. This has included support to Welsh Government officials who are responsible for managing grants. These improvements have happened over several years and include the establishment of the Grants Centre of Excellence which aims to provide consistent and practical support to grant managers who administer the 400 or so funding programmes that are in operation at any given time. A range of training, guidance and templates have been developed and are available for officials to use.  The management reporting derived from our IT systems has been improved and as a result we now have the ability to share key information across the Welsh Government's divisions. Awareness of the key issues has also improved.

We are trying to achieve a balance so that appropriate measures are in place to mitigate the risks associated with grant funding, while avoiding over-bureaucratic and unmanageable systems which can be difficult to operate and burdensome to all. We have certainly made a considerable amount of progress, but there is no complacency and we have a clear understanding that more can be done. Our challenge in the years ahead is to build on the good work thus far so that it is applied and embedded consistently by grant managers across the Welsh Government. I would like to put on record that I am grateful to the Public Accounts Committee and to the Wales Audit Office for their continued interest in this topic and we will continue working with them to improve our grants management.

**Sir Derek Jones**
**Permanent Secretary to the Welsh Government**

## SECTION 1:  INTRODUCTION

1.0.    This second Annual Report sets out what has been achieved over the last 12 months to improve grants management standards and outlines future improvements that are planned. The challenges associated with administering grant funding remain significant and complex.

1.1.    The report provides information on funding provided directly from the Welsh Government and also from the Welsh European Funding Office (WEFO). WEFO is designated as the Managing Authority for Structural Funds in Wales: European Social Fund (ESF) and the European Regional Development Fund (ERDF).  Whilst it is a part of the Welsh Government, WEFO acts on behalf of the European Commission in delivering the operational programmes agreed with the Commission to further the development of growth and jobs in Wales. WEFO has overall coordination responsibility for management and control issues for the EU funded programmes. While processes and systems used by WEFO and the rest of the Welsh Government are aligned wherever appropriate, there remain some differences arising from the different regulatory regimes. Accordingly, this report deals with WEFO separately where appropriate.

1.2.    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 the Welsh Government's policy objectives and the discharge of its statutory obligations.

1.3.    Welsh Government grants can be sub-divided into hypothecated and unhypothecated grants.  Hypothecated grants are given for a specific purpose and are awarded to organisations to deliver specific Welsh Government 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.  For the purposes of this report, the financial analysis has focused on hypothecated funding as unhypothecated funding is subject to numerous other reports and scrutiny.

## SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS

2.0.    This section describes the improvements that have been made in grants management within the Welsh Government since last year's Annual Report.

### (i)    WELSH GOVERNMENT IMPROVEMENTS

2.1.    The Grants Centre of Excellence continues to provide advice to grant managers across all of the Welsh Government. WEFO works closely with the Grants Centre of Excellence.  The particular requirements of EU funding mean that it is not always possible to align WEFO processes and controls completely with those of the rest of the Welsh Government, but a number of modifications were made in the year to WEFO's standard grant offer letter and to due diligence processes to bring them into line with the Grants Centre of Excellence guidance.

2.2.    There are six key improvement areas that have been focused on in grants management within the Welsh Government :

- (a)    Guidance and Support for Grant Officials;
- (b)    IT System;
- (c)    Training;
- (d)    Working with Others;
- (e)    Measuring Compliance; and
- (f)    Understanding Administration Costs.

### (a)    Guidance and Support for Grant Officials

2.3.    Support remains available to grant managers across the Welsh Government which promotes continuous improvement by maintaining and developing grants processes and standards. The Minimum Standards for grant funding, which represent an agreed approach to grants management, continue to be embedded across grant programmes. The standard award letter template provides consistency for grants across the Welsh Government and overarching grants guidance is also available to officials to support them in their day to day roles.

2.4.    Direct support through the Grants Centre of Excellence is still often the first point of contact for officials seeking advice; approximately 2,500 internal queries are dealt with annually. The Grants Centre of Excellence is also the first point of contact for any grant-related concerns from external organisations.

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**Case Study : Gypsy and Traveller Sites Capital Grant**

The Gypsy and Traveller Sites Capital Grant provides grant funding to refurbish existing or develop new Local Authority sites across Wales.

In 2012, the grant was assessed to understand the lack of applications received during previous years from Local Authorities. Feedback indicated the application process was over-complicated, too long and time consuming to complete and needed to be simplified.

Following advice from the Grants Centre of Excellence, officials have

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implemented the following changes :

- reduction in the number of forms to complete - a simple 2 to 3 page business proposal ensures that the criteria set out in the grant specific guidance notes is met;
- an improved streamlined 'panel assessment' template allows more consistency in the scoring of bids; and
- standard award letter used as opposed to tailored versions.

The changes implemented by grant officials have resulted in a more efficient and effective grant programme which has improved the grant processes for both Local Authorities and the Welsh Government. This has significantly increased the number of applications received for this funding.

## (b)    IT system

2.5.    The Welsh Government has previously acknowledged the limitations of its overall management information and corporate data available to support decision making on grants. As a result of the Public Accounts Committee (PAC) recommendations, a number of measures have been put in place to address these concerns.

2.6.    Significant work has been undertaken on defining IT requirements and various options have been appraised to identify the best possible solutions to support the grant processes. However, due to the Welsh Government's complex requirements and the niche nature of grant software, there remains a significant level of risk attached to implementing a new IT system at this time. It has been agreed that grants improvements will continue to focus on further embedding the good practice of grants processes and procedures across the Welsh Government, supported by tactical improvements to the existing IT system rather than the implementation of a brand new IT system.

2.7.    Work has been undertaken to develop comprehensive management information reports from the current e-Grants system. These reports provide 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.

2.8.    Financial reports have also been developed which show information based on the Welsh Government's financial structure, including commitment and grant accruals by Ministerial portfolio, which provide improved visibility for officials. Further search facilities have been introduced which allow officials to view grant information across the whole of the Welsh Government, assisting information sharing and reducing duplication.

2.9.    The due diligence system remains available for use by officials across the Welsh Government to share information about organisations and/or individuals whilst providing a point of contact for officials seeking further details.  A new due diligence enquiry has been introduced which provides a comprehensive view of the information the Welsh Government holds on an organisation/individual. This view provides Customer Relationship Management (CRM) style capability to the IT system.

2.10. As a further enhancement to the IT system, PayGrants has been developed through the rebranding and enhancement to the existing e-Grants payments system. PayGrants has improved menus which reflect some of the grants processes (award letter through to payment) and incorporates the due diligence system. This system also includes links to training records to confirm appropriate training has been undertaken before access to the IT system is given.

2.11. Enhanced reporting, over and above what is currently available in e-Grants, is also included in PayGrants, this includes improved visibility of grant scheme data. PayGrants is in the process of a phased implementation which includes face to face training to allow officials to understand and use the system correctly and be aware of the implications of inputting information incorrectly. This work is being undertaken as part of the wider work the Grants Team is implementing as part of the cultural change process.

## (c)   Training

<u>Internal Training</u>

2.12. Training is a key tool to improve grants management skills and practices across the Welsh Government. The training courses that are available facilitate officials' awareness of the procedures that need to be met effectively and efficiently to deliver grant programmes. Three computer based training (CBT) courses remain in place and are available for officials to undertake:

- grants for Relevant Senior Officers CBT: a high level overview of the grants management processes;

- grants for Grant Managers CBT:  aimed at officials who are responsible for the day-to-day management of grants;

- e-Grants for Certifiers and Authorisers CBT:  aimed at officials who use the e-Grants payment system and is mandatory for any official requiring access to the system.

2.13. Face to face training sessions for officials continue to be made available across the different Welsh Government offices in Wales. These interactive courses are held as group based sessions and offer practical training sessions on grant management processes. The courses include:

- developing an application form;
- appraisal;
- monitoring;
- evaluation;
- understanding Risk;
- working with the Third Sector;
- the Due Diligence pages.

2.14. Further work is in hand to develop additional training modules and these will be made available as required.

2.15. All aspects of the training are reviewed and updated to ensure that they meet the needs of the business. Officials are able to provide feedback at the end of the courses and this feedback is then used to further enhance the content of the training. Feedback has been positive and has demonstrated that officials welcome the ongoing support, advice, guidance and training that continues to be implemented.

External Training

2.16. The Welsh Local Government Association (WLGA) has developed a range of training programmes for Local Authorities via the Chartered Institute of Public Finance and Accountancy (CIPFA). The training has been delivered to Local Authorities through regional events and themed sessions. The training sessions were held in June across Wales aimed at improving good practice and how to manage grants in general. Welsh Government officials were on hand to help answer any queries.

2.17. The Welsh Government and Wales Audit Office (WAO) have delivered training to Local Authorities focussing on the Welsh Government's expectations of Local Authorities in receipt of grant funding. The training covered common themes such as governance arrangements and audit procedures with a focus on assisting Local Authorities to understand how they can improve their own procedures to make both the grant and audit processes as streamlined and compliant as possible. Five courses across Wales have been held with approximately 200 attendees with positive feedback given.

**(d) Working with Others**

UK Cabinet Office

2.18. Regular meetings continue to be held between the Welsh Government and colleagues in the Cabinet Office. The Cabinet Office has been keen to learn from the work that has already been done in Wales in improving grant management processes. The Welsh Government continues to share key information with the Cabinet Office. This has included the computer based training which was developed by the Welsh Government and the Cabinet Office has subsequently rolled out across the UK Government.

Good Governance Group

2.19. 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.

2.20. The Good Governance Group is made up of key grant funders including the Big Lottery Fund, Charity Commission, WCVA, WLGA and other appropriate bodies. The group is chaired by the Welsh Government and its purpose is to discuss and share best practice and information on external bodies and individuals. If a particular concern or issue has been raised about a body it enables the group to make

informed decisions. Not all information that is discussed will result in a withdrawal of funding from a particular organisation but may act as an early warning system for each group member to consider the impact of the information and if appropriate action is needed to mitigate that risk.

2.21. One of the issues which the Public Accounts Committee raised with the Permanent Secretary at his evidence session in June 2014 was a concern that the group should meet more regularly. In response to this concern, the terms of engagement of the group have subsequently been reviewed with a focus on sharing best practice and regular meetings have been established; the first meeting was held in October 2014 with further meetings planned every four months. The group is now chaired by the Director of Governance of the Welsh Government.

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**Case Study : Sharing Information**

There have been a number of cases where financial and governance concerns about organisations have come to the attention of officials. In some cases these have included possible fraud. The involvement of the Grants Centre of Excellence and sharing of information on organisations through the effective use of the Due Diligence pages has enabled these concerns to be highlighted and communicated to relevant parties.

For example, a third sector organisation had been awarded funding from Welsh Government, however a subsequent review of their finances highlighted significant concerns. The organisation was kept under review and when their financial position deteriorated further and it became apparent that the organisation no longer had the capacity to meet the terms and conditions of the grant, the funding was withdrawn. As a result of reviewing the information on the Due Diligence pages, an official in another part of Welsh Government was alerted to the concerns about the organisation, and the funding that had been awarded was also withdrawn.

Sharing of information through the Due Diligence pages and the Good Governance Group has enabled officials to make informed decisions about funding. This has also empowered officials to act effectively and efficiently to investigate any concerns they may have and to withhold or withdraw funding as appropriate.

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Local Authority Qualifications

2.22. The Wales Audit Office has in the past been critical of Local Authorities' grants management and the number of audit qualifications entered against claims to the Welsh Government. The Welsh Government has consequently carried out a review concentrating on the factors leading to the issue of qualifications. The review has highlighted a number of issues including:

- the current process that the Welsh Government uses to identify which grants require audit;
- the content of the audit instructions provided to WAO;
- follow-up action undertaken by grant managers; and
- visibility of audit findings across the Welsh Government.

2.23.  A number of recommendations are now being considered with the aim to reduce the number of qualifications issued and improve value for money.

## (e)    Measuring Compliance

Welsh Government Grant Health Checks (Spot Checks)

2.24.  The spot check process was first implemented to reinforce both continued compliance with the Minimum Standards and provide help to grant managers where improvement was needed. Initially the process was aimed at looking at a specific piece of documentation associated with the internal processes in implementing a grant scheme, e.g. desk instructions. This process was never intended to be directed against a particular organisation or body nor was it as detailed or as in depth as an internal audit process. These arrangements were developed to support grant managers in improving processes not from a need to record failures.

2.25.  The Public Accounts Committee has asked for information on the value of grants identified as non-compliant, in addition to rates of compliance, to be included in this report. For the 19 months to the end of June 2014, over 250 requests had been made to grant managers to provide various items of internal documentation. 11 documents had been recorded as a fail. Examples of failures include desk instructions not being comprehensive and out of date award letter templates being used instead of the most up to date version available. The total value of the grants associated with the failed documents amounts to £8,384,598. The failure of the internal documentation is not associated with the funded body or the work they undertake; the spot checks did not indicate that the grant was incorrectly awarded or that the funded body was incorrectly utilising the grant funding, or that the funding was in any way at risk. Nevertheless, it is important to identify and correct such short-comings, which is what the spot checks make possible.

2.26.  The process of how spot checks are undertaken and recorded has recently been reviewed as there was some confusion around the nature of the checks. The process has been renamed "Grant Health Checks" to avoid confusion over the nature of the activity and to maintain a distinction between these checks and WEFO spot checks; WEFO spot checks include assessments of external organisations' compliance.

2.27.  The new process remains based upon open dialogue with grant managers. Support and encouragement is provided to align internal documentation with best practice, both current and emerging. Under the new Grant Health Check process which commenced in September 2014 evidence is still provided by grant managers but the checks look at the documentation used in one part of the funding life cycle such as the grants application process or the review of a group of related activities, such as the use of the payment system. These health checks will produce a more robust understanding of the grant processes and procedures undertaken by grant managers.

WEFO Verifications (Spot checks)

2.28.  WEFO undertakes management verifications (spot checks) to ensure that the expenditure declared to the European Commission is accurate, that the products or

services have been delivered in accordance with the approval decision, that the applications for reimbursement by the beneficiary are correct and that the operations and expenditure comply with community and national rules.

2.29. The error rate for the 2007-2013 programmes measures the total value of irregular expenditure which is reported to the European Commission as a percentage of total certified eligible expenditure claimed by projects. The percentage error for all operational programmes is 0.73%, which is broken down by operational programme as below:

**Figure 1: Total Expenditure Declared Against Total Irregularities Reported to the European Commission**

| Programme | Declared Expenditure (€) | Irregular Expenditure (€) | % Error Rate |
|---|---|---|---|
| ERDF Competitiveness | 95,578,430 | 1,266,377 | 1.32 |
| ESF Competitiveness | 106,627,244 | 355,084 | 0.33 |
| ERDF Convergence | 1,258,786,784 | 11,004,009 | 0.87 |
| ESF Convergence | 809,508,919 | 3,922,214 | 0.48 |
| **Total** | **2,270,501,377** | **16,547,684** | **0.73** |

Source: WEFO finance system

2.30. WEFO has further strengthened management verifications for the 2007-2013 programmes by revising the scope of the sample selected, taking into account risks identified at individual sponsor level and ensuring a minimum 10% coverage. WEFO has recruited additional members of staff to undertake these verifications and arranged for the Welsh Government's Head of Counter Fraud to deliver specialist training to management verification staff, covering key topics to help prevent and detect errors, for example; fraud indicators, conflicts of interest risk, due diligence checks, and specific case studies looking at the authenticity of invoice documents.

Code of Practice for Funding the Third Sector

2.31. A new Third Sector Scheme and Code of Practice for Funding the Third Sector was published in January 2014.

2.32. The new Code sets out the 17 principles which underpin the relationship between the Welsh Government and the Third Sector to enable a healthy funding relationship. Each Principle is important to achieving success and covers key issues such as Timely Decisions (IV), Diversity (XIV), Good Governance (XVI), Early and Constructive Dialogue (III), Fair Funding Levels (VI) and Payments (X). Principle IV refers to the notification of future funding at least three months prior to the expiry of an existing funding agreement.

2.33. The new Code encourages a more open relationship between the Welsh Government and the Sector with proactive self-reporting of any instances where any of the principles of the Code have not been met. This differs from the previous custom and practice which was dependent upon problems being notified to the Finance & Compliance Sub-Committee of the Third Sector Partnership Council by the Third Sector organisation affected.

2.34. The Welsh Government's grant managers have been required to provide information in respect of adherence to the Principles set out in the Code, in particular that of timely notification of funding. A small number of instances were reported where the requirements of Principle IV were not met. The incidences were grant specific and not concentrated in any particular area.

2.35. In most of the instances where grant programmes were apparently non-compliant with Principle IV, the grant managers were in discussion or negotiation with the Third Sector organisations concerned in relation to the grant, in line with Principle III of the Code of Practice on early and constructive dialogue. Further work is needed to ensure that the process of self-reporting is sufficiently robust and that other grant programmes are compliant with Principle IV.

2.36. A strong focus on considering compliance with Principle IV is helpful to promote the Code to grant managers. However, it is important that this focus does not lead to the other 16 Principles as a whole being treated as unimportant, given that they cover other key issues such Diversity (XIV) and Good Governance (XVI). There is also scope for complaints to arise around other principles such as Early and Constructive Dialogue (III); Fair Funding Levels (VI); or Payments (X).

2.37. Some of the action being taken to assess the overall adoption of the Principles includes: Centre of Excellence and Third Sector Unit working with grant managers to raise awareness of the issues that can result from late notification of funding; of the grant schemes identified as not having met Principle IV to clarify the reasons and to focus on how this could be avoided in future rounds of funding; good practice will be identified and shared through training on funding the Third Sector; developing a rolling programme to test grant schemes, particularly in relation to compliance with Principle IV of the Code.

2.38. As well as training and guidance other approaches are being explored to draw attention to compliance with the Code, such as the use on the Welsh Government intranet of a countdown clock in November/December; indicating on a daily basis the time remaining to notify Third Sector organisation of future funding decisions.

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**Case Study : Section 64 Mental Health Grant**

The Section 64 mental health grant scheme provides funding to national Third Sector organisations operating in the field of mental health. Historically there was significant variation – in terms of substance and quality - in the submission of applications and progress reports.

In recognition of this, officials undertook a fundamental review of the entire grant funding approach.

To promote consistency, officials developed templates to ensure the submission of complete and accurate information, and the development of SMART targets. A series of workshops were rolled out to the organisations to set out new monitoring, reporting and governance arrangements. The result was greater clarity, improved understanding (by grant recipients of Welsh Government requirements) and concise, precise and relevant progress reports.

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In the spirit of continuous improvement, mental health service users were actively involved in the assessment of 2015-18 applications. This innovative development ensures organisations are working to meet not just Welsh Government policy but also the needs and aspirations of service users and carers.

National Fraud Initiative 2014

2.39. The National Fraud Initiative (NFI) is a data matching exercise run by the Audit Commission and the Wales Audit Office. NFI takes place every 2 years and, since its inception in 1996, has identified fraud and overpayments totalling £26 million in Wales and £1.17 billion across the UK.

2.40. The Welsh Government is once again participating in the NFI to proactively demonstrate its commitment to identifying fraud and error within the public sector. The Welsh Government has submitted information from its payroll and supplier payment systems, including grant recipients, to the Audit Commission and this will be matched against a variety of information provided by other organisations.

2.41. The Welsh Government standard grant award template includes a general clause which informs funded bodies they must participate in such fraud prevention initiatives. In response to PAC's concerns about lack of consistency in the requirement to ensure funded bodies participate in such initiatives, WEFO is currently amending the award letter used for the next round of funding to incorporate this wording.

**(f)    Understanding Administration Costs**

2.42. The Welsh Government has previously stated how difficult it is to separate out the administration costs associated with grant funding. Grants are often implemented as a part of the wider development and implementation of policy and it is difficult to separate the cost of the development of policy, grants management processes and associated administration costs. Similarly the Cabinet Office has also been unable to baseline administration costs for grants across UK Government Departments in a consistent manner.

2.43. In response to PAC concerns regarding administration costs, a number of grants have now been reviewed. These included large and small grants to private and third sector bodies and some grants to individuals.

2.44. While recognising that grants differ greatly in nature and scale, the findings nevertheless demonstrated significant variation in the level of administration costs. Administration costs per grant award ranged from £45 to £13,843 which, when considered as a percentage of the amount of grant funding provided, varied from 0.27% to 77.5%.

2.45. End to end processes should be proportionate and appropriate for the specific grant programme. However, there is always a minimum 'baseline' process that has to be followed, whatever the level of grant funding. These standard baseline

processes include activities relating to the application process, appraisal, due diligence, approval procedures, funding agreements, payment and monitoring processes. For some grant programmes these processes may be undertaken with a 'light touch', where the level of risk and grant amounts are low. However, percentages of administration costs for a small grant will always be higher than for a large grant, because of the need to always undertake the baseline processes.

2.46.  For example, in two of the grant awards reviewed for a grant programme dealing with small grants to individuals, the administration costs were the same, at just £45. For the larger grant award of £996, this equates to just 4.55% of the grant award, whereas for the smaller grant award of £58, this equates to 77.5%

2.47.  It can be clearly seen from this example that the level of grant has a significant effect on the percentage of administration costs. The only way to achieve an accurate picture of administration costs against every grant programme within the Welsh Government would be to review every single grant award as the administration costs vary significantly, even within the same grant programme. Given that approximately 18,000 grant offers are made per year by the Welsh Government, this exercise would be a costly and impractical exercise. However, the Welsh Government remains committed to reducing administration costs for grants management. Improvements in reducing administration costs and bureaucracy will be implemented as part of the ongoing work undertaken by the Grants Project.

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**Case Study : Papurau Bro**

The Papurau Bro programme awards small grants to support the production and distribution costs of Welsh medium community newspapers. On the advice of the Grants Centre of Excellence, it was recommended that the grant programme was changed to three year funding awards rather than issued annually.

The change from annual to three year funding resulted in a reduction in overall administration of the programme. This meant less administration work on appraising applications, preparing award letters etc, with cost savings over the three years totalling £10,707.

For the period April 2013 to March 2016, 51 grant awards were made totalling £261,030. The savings made equate to £209.95 per grant award and 4.1% of the total grant awarded over the three years.

The change also resulted in cost savings for the applicants, who only had to prepare one grant application, rather than three over the period.

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## (ii)    WEFO IMPROVEMENTS

Responses to Wales Audit Office Reports

2.48.  WEFO has been applying the lessons learned from a number of WAO reports as discussed with the PAC on 12 June 2014. Addressing most of these recommendations is part of the preparation for the 2014 – 2020 funding round and

careful consideration has been given to each recommendation. For example, guidance on the application process, including just what will be required of each submission, has been available since May 2014, and this helps guide potential beneficiaries to an indication of how long an application might take, depending on its complexity and novelty. WEFO priorities have been made clear through the establishment of the Economic Prioritisation Framework and the early publication of the draft operational programmes, which are well ahead of those in other UK administrations.

2.49. The European Commission has now approved all the Operational Programmes for 2014 – 2020. Wales was the first administration in the UK to have its programmes approved and among the first across the European Union. The Minister for Finance and Government Business has already announced the first project approval for Aberystwyth University, and there is a strong pipeline of other projects close behind. WEFO have been able to get ahead of other administrations by working with potential beneficiaries on draft programmes, application processes and guidance, minimising the risk of having to rework our preparations when the programmes were finally approved.

2.50. In some areas there have been constraints on the level of detail that can be provided. For example, the Commission completed the detailed regulations on Simplified Cost Options only in October 2014. Simplified Cost Options have an impact on the way some projects are developed and, in some respects, WEFO will need to continue to develop these options for some time yet. However, on the whole, progress on strategic projects with potential beneficiaries is developing well so they can be considered for approval very quickly after Commission approval of the UK Partnership Agreement and Welsh Operational Programmes.

Business Processes and Systems

2.51. PPIMS (Programme and Project Management Information System) is a comprehensive, web-based integrated IT application used by WEFO to administer Structural Funds in Wales. The system is tailored to the particular requirements of EU funded programmes, and helps maintain discipline in the application of business processes. The Commission regularly refers other administrations in Europe to Wales as a reference site.

2.52. The look and feel of WEFO On-line (the externally facing aspect of PPIMS) has been refreshed and the navigation has been improved following user feedback. The folder structure for document filing has been changed to reduce the complexity of recording and retaining documents.

2.53. WEFO have made numerous modifications in PPIMS to internal processes, including:

- improving the way in which sponsors can submit evidence to support the transaction lists that accompany each claim to WEFO;
- improvements to the Issues & Actions functionality, making closer links to risk identification and management and giving improved visibility;

- simplification of the Re-evaluation functionality (which allows projects to be re-appraised and altered during their lifetime), making the process quicker for customers and making maintenance of a clear audit trail easier.

<u>Training</u>

2.54.  Training and support is continually being provided to WEFO staff and beneficiaries. In preparation for the new programmes, delivery of a series of training modules is under way, covering the application process for the new funding round, including:

- the need for a clear business case to support the proposed intervention;
- the delivery of outcomes;
- Commission requirements on monitoring and reporting;
- preparing for successful audits;
- document retention, and
- quality control.

2.55. Internally, the Welsh Government's Corporate Governance team has delivered training on risk management and on fraud awareness to WEFO staff, and WEFO's Business Change team has kept staff up to date with each business process improvement as it is implemented.

<u>Project Reviews</u>

2.56.  All operations are subject to regular project reviews.  WEFO is constantly considering how this can best be done, especially moving into the closing stages of the 2007 – 2013 programmes, and the challenge of bringing the projects on plan and to budget becomes more acute, in order to maximise the impact of the programmes as a whole. Revised guidance was produced for all WEFO officials that have responsibility for due diligence and the delivery of outcomes. Whilst this is not new, the guidance reiterates again the importance of formal review meetings.

<u>Document Control</u>

2.57.  In response to audit recommendations on the location and classification of documents, and to update guidance from the Commission records management and document retention, WEFO has streamlined the processes for metadata (information about project performance associated with each claim to WEFO) and revised guidance has been provided to officials and to beneficiaries (project sponsors).

**SECTION 3: FUNDING**

3.0.    This section gives an overall perspective and a breakdown of grants given to the different sectors detailing funding directly from the Welsh Government (3(i)) and funding from WEFO (3(ii)).

**(i)    FUNDING FROM THE WELSH GOVERNMENT**

3.1.    Last year's Annual Report highlighted difficulties in the way that funding by each sector was reported. Whilst the overall total figure for grant funding was accurate there were concerns that the sector figures might not be accurate.

3.2.    A significant amount of work has been undertaken to improve the reporting functionality of the Welsh Government's finance system. As part of this work, nearly 64,000 organisations have been reviewed and an appropriate industry key assigned to each organisation. This work has enabled the system to automatically allocate appropriate finance codes to all expenditure. This has improved the consistency of reporting by removing the possibility of individual human error in the categorisation of grant funding.

3.3.    The changes have made a significant improvement to the accuracy of the Welsh Government's management information and ultimately reporting capability, but the process of improvement is ongoing. Whilst a considerable amount of time and effort have been invested to implement these changes, there are still a number of modifications that are outstanding. The remaining changes will be implemented in the 2014/15 and 2015/16 financial years.

3.4.    The 2013/14 figures within this year's report are based on industry keys and are not directly comparable with the figures in last year's Annual Report which were based on nominal codes. The improvements being made to the reporting capacity will enable the Welsh Government to continue to refine its use of financial data.

3.5.    Figure 2 shows the trends associated with the overall grant management funding by the Welsh Government including both hypothecated and unhypothecated grants.

**Figure 2: Total Welsh Government Grant Funding by Financial Year**

| | 2011/12 | 2012/13 | 2013/14 | % Change 2012/13 to 2013/14 |
|---|---|---|---|---|
| Level of grant provided (£bn) | 13.1 | 13.2 | 13.6 | 3.0% ⬆ |
| Approx. no. of programmes per year | 456 | 435 | 400 | 8.0% ⬇ |
| Approx. no. of grant offers per year | 24,400 | 20,200 | 18,400 | 8.9% ⬇ |

Source: Welsh Government Finance System and e-Grants system

3.6.    Representing a very large proportion of our overall annual budget for 2013/14, the Welsh Government operated around 400 separate grant programmes providing

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£13.6 billion of funding to organisations in Wales. Due to the dynamic nature of grants, the number of programmes operating at any point in time can vary considerably. The programmes currently in operation provide approximately 18,400 individual offers of grant per annum. Continued reductions in the number of programmes (8.0%) and the number of grant offers (8.9%) over the last year are demonstrated. This trend is due to a number of activities including reducing the number of grants provided and an increase in collaborative working between Local Authorities and the wider community. This trend is important in the context of the Welsh Government's objective to reduce grant administration costs.

3.7.    Of this overall total, over £11.2bn is unhypothecated funding to Local Authorities, NHS and Welsh Government Sponsored Bodies (WGSBs) which is used to deliver priorities determined locally, subject to their statutory obligations. As unhypothecated funding to these organisations is subject to numerous other reports and scrutiny, this funding is not the focus of this section of the Report. The remaining section of the Report concentrates on hypothecated funding, i.e. grant schemes of the kind which have been subject to most management difficulties in recent years.

3.8.    Welsh Government directly manages funding from the European Commission via the Regional Development Plan and the European Fisheries Fund; these are included in the hypothecated expenditure.  Also included in the hypothecated expenditure is the European funding provided through WEFO which is passed on to third parties by the Welsh Government. However, grants provided directly by WEFO are covered in paragraphs 3.22 to 3.28 of this report.

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

**Public Sector**

3.10.  Hypothecated grant funding is provided to Local Authorities, the NHS, Central Government and Public Corporations, WGSBs and education.

Local Authorities

3.11. The Welsh Government remains committed to reducing the number of hypothecated grant schemes provided to Local Authorities.  Wherever possible the funding for specific activities is transferred into the unhypothecated Revenue Support Grant which enables Local Authorities to determine local priorities and to use the funding as appropriate.  This 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. In 2013/14, the Welsh Government provided £546m as hypothecated grants to Local Authorities. Examples of hypothecated grants include Families First Programme, 21st Century Schools and Major Repairs Allowance Grant.

NHS

3.12. 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 the overall stewardship of NHS funds.   The vast majority of the NHS funding is provided as unhypothecated grant-in-aid which enables the NHS to deliver its statutory obligations and meet local priorities. A relatively small amount of hypothecated grant funding (£22m in 2013/14) is also provided to the NHS to enable it to deliver specific activities to meet Welsh Government policy objectives. As part of the reporting improvements described in the earlier part of this section, we are continuing to identify hypothecated funding to health related organisations, and hence might expect funding allocated to this category to increase in coming years. Examples of hypothecated grants to the NHS include grants to support Research and Development activities, and support for the training of Health Visitors linked to the Flying Start Programme.

 Central Government & Public Corporations

3.13.  The Welsh Government funds a number of organisations that are linked to Central Government or are Public Corporations such as Department for Work and Pensions, General Teaching Council for Wales, Department for Health, HM Prison Service, Wales Audit Office and the Older People Commissioner for Wales. In 2013/14 £340m of hypothecated funding was provided to these organisations to support activities being undertaken within Wales whilst delivering value for money in taking forward key policies.

Welsh Government Sponsored Bodies (WGSBs)

3.14. The Welsh Government provides funding for various bodies collectively known as WGSBs.  These include Sport Wales, Arts Council for Wales, Natural Resources Wales and Higher Education Funding Council for Wales (HEFCW). In 2013/14, the Welsh Government provided £19m as hypothecated grants to WGSB's which include the Ecosystem Resilience Fund, Flood Protection and Fly Tipping Grant.

Funding to Education

3.15.  Hypothecated grant funding is not paid just directly to schools, colleges and higher education establishments but also indirectly via the third sector, private organisations and Local Authorities which are covered under the relevant sections within this report.  Whilst the exact expenditure provided by Local Authorities on education is not separately quantified it is included under the Local Authorities category (paragraph 3.11). Hypothecated grants direct to schools, colleges and universities to deliver specific policy objectives is separately quantified and amounted to £489m in 2013/14.

**Private Sector**

3.16.  In the 2013 Annual Report, the private sector category was based on one nominal code which was manually divided into two parts; funding to businesses and

funding to education. This was due to the Welsh Government finance system not differentiating between businesses and education when analysing expenditure using nominal codes. The individual figures reported for businesses and education were calculated using data from a number of systems therefore the accuracy of the figures had limited assurance.

3.17. The reconfiguration of the accounting structure and the move to industry key reporting has enabled the Welsh Government to identify the funding provided to the private sector in terms of businesses. Hence, for this and future Annual Reports this private sector analysis focusses on purely funding to businesses; funding for education is provided in paragraph 3.15.

3.18. Grant funding to businesses is aimed at improving the economy and covers a wide range of activities including business start-ups, regeneration, energy saving initiatives, training and tourism. Grant funding of £827m in 2013/14 was provided to this sector which demonstrates the Welsh Government's commitment to support businesses to increase economic growth within Wales.

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**Case Study : SMARTCymru Grant for Research and Development**

Research and development has been highlighted by the Welsh Government as a method of improving economic growth within the Welsh economy. As a consequence the Welsh Government has developed the SMARTCymru grant to provide funding to companies based in Wales to undertake research and development projects. Without the availability of this grant, the amount of research undertaken by companies in Wales would be significantly reduced, adversely impacting on the success and growth of these organisations.

Since 2012, SMARTCymru has grant funded the Sure Chill Company to undertake research and development into refrigeration technology for vaccines. Grant funding totalling over £290,000 has been provided which helped the company to secure Bill & Melinda Gates Foundation funding.

Sure Chill technology offers unrivalled cooling capability for vaccines, without the risk of freezing, particularly where power supplies are poor, intermittent or non-existent. Since completing the development, Sure Chill has built approximately 1,500 refrigerators in its workshop in Wales, shipping them to more than 40 countries for clients such as Unicef. The company has also signed a licensing deal with a large Indian manufacturer to make medical refrigerators at a new plant under construction near Mumbai.

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**Third Sector**

3.19. 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 Welsh Government recognises that the Third Sector has a very important part to play in helping it achieve its objectives under its Programme for Government. The Welsh Government provides hypothecated grant funding to the Third Sector.

3.20.  The reported reduction in grant funding to the Third Sector (£303m, £265m and £240m over the last three financial years respectively), reflects a range of circumstances across many Welsh Government departments.  The overall economic situation and the reduction in UK Government funding for Wales have inevitably impacted on funding across all sectors.  Overall funding figures for the Third Sector, inclusive of procurement, are however anticipated to demonstrate a continued commitment to fund the Third Sector across the Welsh Government.  Figures covering the totality of Third Sector funding will be published in the Annual Report on the Third Sector Scheme.

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**Case Study : Volunteering in Wales Fund**

In 2013/14, the Welsh Government provided £1.13m to Wales Council for Voluntary Action to administer the Volunteering in Wales Fund.  The Fund operates as the primary support scheme for organisations wishing to develop projects which provide good quality volunteering opportunities across Wales.

Overall the Fund supported projects which generated over 5,000 new volunteers, who contributed over 467,000 hours of volunteer time. 13% of volunteers supported went on to further education or subsequently secured employment.

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### (ii)    FUNDING FROM WEFO

3.21.  This section deals with funding provided direct to organisations from WEFO.

3.22.  The European Commission sets the policy and priorities for the funding it provides to Wales.  There is some scope for negotiation within these priorities, and WEFO has been able to secure considerable movement in the Commission's initial positions on various points in setting the operational programmes for 2014 - 2020. This includes, for example, support for certain road schemes and on intervention rates; all these areas will have more flexibility than was originally proposed aligning the programmes with the Welsh Government's priorities.

3.23.  Due to the nature of WEFO funded projects being collaborative in nature, the vast majority of projects consist of a lead organisation (sponsor) and a number of partners from a number of sectors. Figure 3 details WEFO's 2013/14 commitment and spend allocated against the sector of the lead sponsor. Finance Wales' JEREMIE projects are included in the "Other Public" sector category.

**Figure 3: EU Grant Commitment and Spend by Sector for 2013/14 Financial Year**

| Sector | Commitment (£m) | Spend (£m) |
|---|---|---|
| Higher & Further Education | 62.5 | 58.0 |
| Local Government | 74.8 | 61.2 |
| Private | 3.5 | 4.7 |
| Other Public | 17.1 | 16.0 |
| Third | 16.8 | 20.0 |
| Welsh Government | 201.6 | 182.9 |
| **Total** | **376.3** | **342.8** |

Source: WEFO 31/08/2014

3.24.  The majority of the funding is allocated to the Welsh Government to deliver Welsh Government priorities. The transfer of this funding from the Welsh Government to third parties is subject to scrutiny from both WEFO and the Grants Centre of Excellence. The grant funding that is provided to third parties by the Welsh Government using WEFO funds is already included in the financial data previously reported for the relevant sector.

3.25.  In many cases, the lead sponsor for a project is not the body that delivers the project.  Having a public sector lead sponsor allows for the particular skillset needed for EU funded projects to be supported effectively, and allows for the actual delivery to be procured.  This is essential for the private sector engagement as, without a transparent procurement exercise, the delivery body would have no scope for making a profit and would have little incentive to engage in the projects.  Across the programmes, approximately 60% by value of the contracts procured go to the private sector with a further 17% going to the third sector.

3.26.  For most of 2014, European Regional Development Fund (ERDF) payments to Wales by Europe have been interrupted while issues raised in their audit of Welsh Audit Authority were addressed. The key issue revolved around the sampling methodology used by the Audit Authority; the Commission has required retrospective application of guidance issued in 2013 across the years 2011 to 2013. There were also audits this year by Europe who looked at the European Social Fund (ESF) in 2013.

3.27.  Due to the number of changes required as a result of the additional audit work and in order to reduce duplication in the next round, a number of changes to the way the audits are undertaken have been brought forward. This includes the expansion of the scope of checks by the WEFO payments team. The Commission has been satisfied with the changes to the Audit Authority (EFAT) and the Managing Authority (WEFO) process, and the interruption was lifted in October 2014.

## SECTION 4 – NEXT STEPS FOR GRANTS MANAGEMENT

4.0.    The Welsh Government and WEFO continue to be committed to making grants management processes as efficient and effective as possible.  Progress against future activities will be reported in the next Annual Report on Grants Management.

### (i)    WELSH GOVERNMENT NEXT STEPS

4.1.    The following activities are planned:

- **Grants Reviews –** detailed grant reviews will be undertaken to gain further understanding of the grants processes undertaken by officials. The reviews will aim to embed cultural change and implement best practice through streamlining grants processes to ensure they are proportionate and compliant;

- **Communication Exercises –** as lessons are learnt from the reviews there will be a number of awareness sessions and internet articles to disseminate areas for improvement and best practice;

- **PayGrants IT System –** this improved IT system will be rolled out on a phased basis to cover the grants that have been appraised in the review process. This will include practical training to ensure correct use of the system;

- **Grants Training –** comprehensive face to face training will be delivered on key aspects of grants processes across Wales to enable officials to understand and implement best practice;

- **Anti-Fraud Initiative** – the Welsh Government will commission the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide counter-fraud training for key officials in order to increase understanding of this complex area;

- **Grant Health Checks –** the revised process will consider the internal documentation of 20 grants per month with support being provided to implement improvements where necessary; and

- **New Ways of Working -** the opportunities for other innovative ways of making the provision of grants more streamlined and cost effective by making best use of innovative technology will be explored, for example through the use of payment cards.

### (ii)    WEFO NEXT STEPS

4.2.    The following activities are planned:

- **Integration –** WEFO are working closely with the Welsh Government to integrate the delivery of all the European funds (European Regional

Development Fund, European Social Fund, Rural Development Plan and European Fisheries Fund) which will be known collectively as European Structural and Investment (ESI) funds. This includes the establishment of a single programme monitoring committee and the utilisation of one IT platform for the programme;

- **Management Controls –** improvements will focus on embedding changes that have been prepared for the new funding round that will include implementing any technical changes required by the regulations for 2014 – 2020;

- **Simplification –** Simplified Cost Options as encouraged by the European Commission are being applied in 2014 – 2020 and WEFO have aligned as much of the business process, guidance rules etc as possible across EU funds, working with stakeholder groups and overseen by a single Programme Monitoring Committee; and

- **eCohesion –** the eCohesion Policy introduced by the European Commission requires  all exchanges of information between all interested parties to be solely by means of electronic data exchange systems. This will be achieved through enhancements to the WEFO payment and monitoring system currently in place.