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Llywodraeth Cymru  
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Nick Ramsay AM  
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Cardiff Bay  
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Dear Nick,

Thank you for your letter dated 04 April following the Public Accounts Committee session scrutinising the Welsh Government Grants Management Report 2016. First, I would like to thank the Committee for its agreement to the alignment of future grants management reports with the publication of the Annual Accounts.

Second, please find enclosed my response to the follow-up questions provided by the Clerk after the session. Where appropriate I have tried to set these within the context of the discussion at the session, or material covered in earlier grants management reports.

I would also like to take this opportunity to reiterate the commitments I made during the session. These were the introduction of the National Fraud Database; the development and introduction of minimum standards for our due diligence work; and commissioning an external review of the Welsh Government's counter-fraud provision. I look forward to updating the Committee on progress in future reports and scrutiny sessions.

Yours

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

## **Welsh Government Grants Management Report 2016**

### **Follow-up questions and responses**

#### **1. Grants and tendering thresholds**

The Committee asked me a number of questions about procurement levels and about bodies being asked to compete for grant funding.

Often, there is a clear distinction between whether the Welsh Government procures the provision of 'goods and services' and the award of grant funding to support the delivery of policy objectives by external organisations. There are well defined processes and constraints set down by European legislation, Public Contract Regulations and the Welsh Government's own internal processes which help to determine the most appropriate route.

These decisions can be complex, with a range of considerations including potential State Aid, VAT and legal implications that need to be taken into account. Officials from each of the Welsh Government expert services teams provide advice to policy colleagues to support them in their decision making.

As a broad rule of thumb, when the Welsh Government is commissioning goods or services for itself (such as a road scheme or buying stationary) this would have to be treated as a procurement. Where we are funding activities to be undertaken by organisations outside the Welsh Government which further our wider policy objectives, this can usually be achieved through grant funding. The Grants Centre of Excellence works closely with procurement colleagues and supports officials in determining the most appropriate approach.

Once a decision has been taken to award a grant then there are a number of ways this can be achieved, including through the use of a competitive grant process (which is what I think the Committee had in mind in part of the discussion). This would be where bodies are invited to submit what are effectively bids for the funding, based on their estimated costs and the outcomes which they think they will be able to achieve. As we discussed in the Committee, while I appreciate that a requirement to bid, either for initial funding or a renewal of funding, will add to the costs and overheads for the bodies concerned, it also allows us to have more assurance that we are getting value for money in the award of the grant, and opens the process up to other potential recipients who may otherwise be excluded.



The Centre of Excellence has produced a wide range of guidance, including on the use of competitive grant schemes, which is available to officials across the organisation.

The Welsh Government's Code of Practice for Funding the Third Sector, incorporated as an annex to the Third Sector Scheme, sets out the principles that underpin Welsh Government funding for the Third Sector. The guidance provides advice on routes to funding. Welsh Government Sponsored Bodies are expected to comply with the principles of the Code through their funding agreements.

There is no de minimis level or threshold that relates to the award of grants by the Welsh Government. The £25k advertisement threshold applies to procurement activities only. I agreed to consider the appropriateness of the current £25k threshold for advertising tenders. The Wales Procurement Policy Statement requires that public contracts over £25k are advertised on the *sell2wales* website. This is part of our commitment to ensure that contracts are open and accessible to all suppliers, either directly or through the supply chain. This focus on driving up visibility of lower value contracts has helped increase the proportion of Welsh public sector procurement expenditure won by Wales based suppliers from a baseline of 35% to over 50%. The Welsh Government regularly reviews practices further afield to ensure that our approach is consistent with best practice. Overall, given the positive results, I think that this is still the right limit for Wales at the moment but we will continue to keep the position under review.

## **2. Tendering thresholds and Value for Money**

The Committee asked about the relationship between tendering thresholds and value for money considerations. When planning a procurement of any value, the first option to be considered is whether there is an existing framework available. Making use of existing frameworks, such as those awarded by the National Procurement Service for example, avoids the cost and time of conducting a separate procurement exercise and also delivers the objectives of the Wales Procurement Policy Statement. It also safeguards compliance as these arrangements have been tendered in an open, transparent and fair way in line with the Public Contract Regulations.

Where an existing framework is not available, Welsh Government procurement processes require that at least three written quotes are sought for purchases above £5,000. Purchases above £25,000 are subject to a formal tender process and are advertised on *sell2wales*.

Tender outcomes are benchmarked prior to the award of a contract against, for example, industry indicators or previous contracts to provide assurance on levels of savings and wider value for money considerations.



### 3. Split and value of hypothecated grants to Local Authorities, Health and the Third Sector in 2015-16

I was asked to provide more information about this subject. I hope that this table will be helpful to the Committee:

Sector	No of schemes	Value (m)
Local Authority	129	£1,339
Health	25	£14
Central Government and Public Corporations	30	£37
Welsh Government Sponsored Bodies	13	£53
Funding to Education	52	£448
Private Sector	140	£676
Third Sector	123	£248

### 4. Administration Savings

The Committee asked me about a commitment made in last year's scrutiny session that the Welsh Government would report back in this year's report on progress with administration savings in relation to grants. I apologised for this being omitted from the report and said that I would include the information in this letter.

In response to interest from the previous Committee in administration costs, the Welsh Government undertook some analysis of a sample of grant schemes in 2014. This work included a mix of large and small grants to private and third sector bodies and some grants to individuals. The results of this analysis were published in the 2014 Grants Annual Report. The work demonstrated significant variations in the level of administration costs across the range of grants sampled. It also highlighted to us the difficulties of accurately assessing the costs of administering grants since in most cases staff undertook this function alongside other tasks and therefore isolating the discrete time spent on grant administration proved very hard to do.

However, since this initial analysis work was completed, work to drive more efficient administration of grants was undertaken as part of my predecessor's *Preparing for the Future* programme which looked at streamlining and improving processes in the organisation in a number of areas. In particular, the Business and Common Corporate Workstream of *Preparing for the Future* considered the extent to which the 'centralisation' of grants administration work had the potential to improve the quality of administration and release staff resource savings. It was concluded that centralisation of administration should be implemented at a Group level in the first instance.



Each of the four business Groups within the Welsh Government was tasked with reviewing their own grants processes with a view to each producing a detailed proposal for implementing improvements. Groups will be required to include an analysis of resource savings anticipated to result from their plan.

The Grants Centre of Excellence has been asked to take on the responsibility for the oversight and coordination of these plans. The plans will be reviewed by the Centre of Excellence over the summer; a commentary on the plans will be included in the interim grants management report published alongside this year's Annual Accounts. Implementation of the plans will take place in the coming twelve months. The Welsh Government will be able to report on the outcomes of the work and the savings achieved in the 2017/18 Annual Report.

Groups will also be able to share lessons learned through the Grants Working Group, which will be placing a greater emphasis in the coming year on supporting reductions in administration costs.

The lessons learned from this work will be used to determine whether the transition to a single administrative function can deliver even greater efficiencies in the way we manage grants.

## **5. Communities First – Redundancy Terms**

The Committee asked me about the arrangements for redundancies which might arise out of the termination of the Communities First Programme.

The phased closure of the Communities First programme, together with the mitigation measures announced by the Cabinet Secretary for Communities and Children, should allow time for the redeployment of many staff. Guidance covering the 2017-18 transitional year was issued to Lead Delivery Bodies (LDBs) in March 2017 and sets out the position on redundancies, where these are unavoidable.

Communities First is a Welsh Government programme delivered by LDBs as the grant recipient body. Communities First staff are employed directly by the LDB, and as such, any redundancy terms would be based on those of the LDB employer and not the Welsh Government. In the main, LDBs are Local Authorities with a small number who are third sector organisations.

Local Authority LDBs may provide financial support to Third Sector organisations from their 2017-18 funding allocations for statutory redundancy costs in certain circumstances. These are where a third sector organisation is sustainable in the longer term but their future would be put at risk if it had to make one-off statutory redundancy payments as a result of the closure of the Communities First programme. Any such redundancy payments should be subject to due diligence and be compliant with employment law and the local authority's own internal procedures.

While we appreciate that the closure of the programme is likely to lead to uncertainty for some of the individuals who might be affected, the Welsh Government does not expect to make any redundancy payments direct to Lead Delivery Bodies (LDBs) or third sector organisations which deliver on their behalf, except through the Communities First grant.