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Llywodraeth Cymru  
Welsh Government

Darren Millar AM  
Chair of the Public Accounts Committee  
Cardiff Bay  
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13 July 2012

Dear Darren

### **Grants Management**

I am replying to your letter of 9 May to Gillian Morgan about Grants Management, following on from the evidence session held by your Committee on 24 April 2012. I am sorry that we have not been able to respond earlier.

The text in **APPENDIX 1** takes your questions in turn and provides you with a detailed response to each of the questions that the Committee put to us.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Richards', written in a cursive style.

**David Richards**

## Weaknesses in Grants Management

### 1. Given the report's findings, can you inform the Committee what you have done to improve your arrangements for monitoring and intervention?

The importance of effective monitoring of grant funding has been highlighted to grant managers across the Welsh Government (WG). The Grants Management Project (GMP) has recently undertaken an exercise to benchmark all grants across the Welsh Government. This benchmarking has involved the GMP talking to all grant managers about the processes and procedures they have in place in order to identify areas of weakness against a set of minimum standards. One of the key areas highlighted was the need to ensure that effective monitoring of grant funding was undertaken. The GMP team has worked with the individual grant managers to ensure that the monitoring processes implemented are appropriate and effective. On a case by case basis, the GMP is assisting and advising grant managers to ensure that where issues are identified by the grant manager that appropriate advice and support is provided to limit risk to both the WG and the grant recipient.

The GMP is also implementing a detailed training programme which will ensure that grant managers are well trained and fully understand the need for effective monitoring and, importantly, what intervention can be undertaken when issues in project delivery are identified. This training will be mandatory for all grant managers and will include an accreditation process to ensure that grant managers fully understand their responsibility in terms of grant funding. This training programme is due to start in September 2012. In the meantime, the GMP will continue to provide advice to grant managers to ensure that they are managing the awarding and monitoring of grant funding in an appropriate and consistent way and undertake appropriate intervention action when this is deemed necessary..

### 2. In what circumstances do you recover misspent funds or terminate funding? I would be grateful if you could advise the Committee both in general terms on the frequency with which funds have been recovered, and any specific examples you can provide on when misspent funds have, and have not, been recovered.

The Welsh Government generally recovers misspent funds in all cases where evidence is available that grants have not been used for the purpose(s) for which they were originally provided. The recovery or reclaim of grants is a regular monthly activity and is usually prompted by any of the following factors:-

- Grants expended on activities which are deemed to be ineligible. This would be triggered by grants managers checking expenditure claims against eligible expenditure as set out in grant offer letters.
- Grant funding underspent compared to the original estimates which underpinned the funding allocation
- Evidence of potentially fraudulent activities (usually undertaken in dialogue and collaboration with police authorities)

During 2011-12 the Welsh Government recovered grants amounting to a total of £60.4m. Whilst this would initially appear to be a very significant amount it represents only 0.44% of the total funding which the Welsh Government allocates on an annual basis. This level of recovery would be in respect of funds both misspent or under-spent – we do not separately identify the different reasons for grant recovery.

Some examples of recent recoveries are as follows:-

- a) A total of **£33,300** recovered, through the courts via the Proceeds of Crime Act, from 2 individuals who had been convicted in connection with fraud at the Plas Madoc Communities First project
- b) **£135,809** recovered from a local authority in relation to a Community Equipment Capital Grant which has been running since 2006. This recovery was identified following audit of the 2010/11 grant programme.
- c) Recovery of **£110,000** from an intermediary funding body due to its failure to adequately monitor the expenditure of a Substance Misuse Action Fund grant by a charity. An individual at the charity committed an apparent fraud and is subject to an ongoing criminal action. The Welsh Government recovered the whole of the allocated funding from the intermediary body.
- d) Recovery of **£37,979.72** from a local authority in respect of an under spend on Post 16 SEN Out of County Provision. The Welsh Government's Local Authority conditions of funding state that unspent funding is subject to reclaim.

### 3 *What support can the Welsh Government give when projects are in danger of failing?*

The Welsh Government has a number of mechanisms in place to support projects, depending on the reason behind the project failing. The Welsh Government can provide both expertise and financial assistance but it must ensure that any intervention does not result in the WG taking responsibility for the direct management of the project nor in increasing the financial risk to the WG. The risk associated with providing further funding must also be considered as a financial intervention may result in further loss to the WG.

At the planning stage the grant manager would try to mitigate any risks at the outset and would introduce non-standard processes which would ensure that areas of concerns are included within the monitoring processes and are identified as soon as possible. This would usually involve detailed discussions with the grant recipient in order to gain a full understanding of the problems being encountered. Through the implementation of effective monitoring processes the grant manager should become aware of issues and concerns relating to the project long before it fails. Depending on the nature of the project, the grant manager may re-profile funding or agree to changes in the project plan which could bring the project back on track. If further funding is required, the grant manager must assess the risks associated with the delivery of the project and the potential impacts both of funding being withheld or further funding being provided.

## Grants Management in Waste Recycling

### 4 What action has the Welsh Government taken to ensure that its waste management grant funding is used to support outcomes consistent with national waste policy?

Since 2010 'Towards Zero Waste' has been the overarching waste strategy document for Wales, which sets key strategic priorities for waste and resource management in Wales. More detailed policy is set out in subsidiary sector plans, including the Municipal Sector Plan and associated Collections Blueprint. Prior to this, national waste policy was set out in 'Wise about Waste'.

Specific grant funding through the Sustainable Waste Management Grant (SWMG) started in 2001 and since then has been used to support national waste policies as set out in 'Wise about Waste' (2002 – 2010) and 'Towards Zero Waste' (2010 – present). When SWMG started the national recycling rate for Wales was below 6% and the immediate priority was to increase this in order to meet future Landfill Directive targets. Statutory landfill limitation targets were set for Welsh local authorities in 2004 and the SWMG increased during this time.

The conditions of the SWMG defined eligible expenditure according to criteria that were related to sustainable activities that helped to prevent waste going to landfill, namely: - prevention, reuse and recycling (including composting). The grant conditions thus ensured that expenditure was consistent with national waste policy. Conditions to deliver policy included the ring fencing of the grant to waste prevention/ reuse/recycling/composting and the prohibition of expenditure on residual waste solutions. For example, the SWMG could not be spent on the treatment of residual waste, including the use of mixed material recycling facilities ('dirty' MRFs, where recyclables are removed from residual mixed wastes that have not had any prior sorting).

In addition, once the Welsh Government had identified food waste recycling as a key strategic priority, it secured additional funds to be allocated as a separately identified component of the SWMG. All local authorities were aware that food waste recycling was being prioritised and in addition what their notional allocations of SWMG were for this purpose – and are introducing separate collections of food waste..

### 5 What approach will the Welsh Government adopt with local authorities that plan to use grant funding to achieve the outcomes of national waste policy, but in a way that the Welsh Government does not favour? In your answer it would be helpful if you could also provide clarity on an apparent discrepancy raised with Members, whereby private sector businesses enabling co-mingled recycling have apparently been provided with grant funding, when local authorities in the same area are under pressure to persevere with curbside [sic] sorting.

National waste policy as set out in 'Towards Zero Waste' and the Municipal Sector Plan is predicated on the promotion of sustainable development (SD) to achieve sustainable outcomes. These outcomes include a reduction in ecological and carbon footprints which are required in order to contribute towards a Wales where we all live within environmental limits. This is to be achieved by moving towards a zero waste society and the achievement of 'one planet living'.

The SWMG is provided to help local authorities provide infrastructure and services to deliver these national policy outcomes.

The key area of debate that has led to disagreement between the Welsh Government and some local authorities has been around methods of collecting recyclable materials.

The Welsh Government's policy is set out in the Municipal Sector Plan and the associated Collections Blueprint.

During consultation on the Municipal Sector Plan the following question was asked:

*"Do you consider that the Welsh Assembly Government should apply more prescriptive conditions to the provision of the Sustainable Waste Management Grant (SWMG) to ensure that the outcomes in Towards Zero Waste and the objectives proposed in this plan are delivered by Local Authorities? Should the Welsh Assembly Government withhold part of the SWMG from Local Authorities that refuse to provide the type of services deemed by the Welsh Assembly Government to be the most sustainable? Should payment of grant only be made on delivery of results?"*

The local authority response to the consultation was that the Welsh Government should not prescribe how services are delivered, but rather that it rather it should allow local authorities discretion in how they used the SWMG to provide recycling services. The Welsh Government responded to this by agreeing not to be prescriptive about the use of SWMG at that time.

Since this decision and publication of the Municipal Sector Plan in June 2010, the Welsh Government has been working in partnership with Welsh local authorities to (a) provide further evidence to inform the debate on methods of collection and (b) to create the Collaborative Change Programme (CCP) as a vehicle for helping local authorities to meet weight based statutory recycling targets in ways that achieve optimal sustainability outcomes.

Following extensive and data intensive research in partnership with six local authorities, Eunomia Consulting produced a report: "Kerbside Recycling Options: Wales" in which the Welsh Government's preferred approach of kerbside sort collections was shown to deliver better sustainability outcomes than co-mingled collections, with the differences accentuated as recycling levels increased.

Currently, two local authorities are working with the Welsh Government and the Waste and Resources Action Programme (WRAP) to trial a toolkit procured by the Welsh Local Government Association (WLGA). This toolkit is using data provided by the local authorities to model sustainability outcomes (principally environmental and financial) of different approaches to recycling.

The issue of recycling methods is also included as part of a Judicial Review of Defra and the Welsh Ministers by a coalition of non-governmental organisations (NGOs) and reprocessors.

Once the evidence of the CCP modelling and the outcome of the JR are clear the Welsh Government will re-visit issues around the conditions of SWMG.

The Department for Environment and Sustainable Development (DESD) only provides direct funding to local authorities. Some indirect funding may be provided to the private sector via WRAP (who are funded by the Welsh Government). The Department for Business, Enterprise, Technology and Science (BETS) provides funding to support the protection and creation of jobs.

A large recycling facility in North Wales sought BETS grant funding to construct a Materials Recovery Facility (MRF) to sort materials from co-mingled collections. BETS consulted DESH (the predecessor of DESD) and pointed out that the MRF would serve local authorities from across the UK (where co-mingled collections are widespread) and it would not encourage Welsh local authorities to operate co-mingled collections.

Management of the company had consistently confirmed, over a period of years, that kerbside sorted materials were of a higher quality than MRF sorted materials. They

were having to operate against a background of more local authorities switching to co-mingled collections, across the UK. If the MRF were located in Wales it would provide additional employment and would of itself not compromise the Welsh Government's strategy and policy in relation to methods of recycling.

**6 How do you balance the channelling of grant funding towards central policy objectives while at the same time allowing local authorities the freedom to make local choices?**

As explained in response to questions 4 and 5, national waste policy is clearly presented and there is clarity over direction of travel. The SWMG itself lists areas of eligible expenditure, which are general in nature and which allow for considerable flexibility for local authorities.

The only area where there may be a conflict of approach between central policy objectives and local choices might be regarding the preferred method of collecting food waste and dry recyclables – and further work is in hand on this as described above.

**7 How does the Welsh Government know that it has received value for money from the grant funding it has released for waste management?**

Value for money is a key priority for the Welsh Government. In terms of individual local authorities the main indicators of value for money in the early years of the SWMG were the Wales Audit Office (WAO) [and predecessor] benchmarking clubs. As the SWMG has become an established specific grant worth a significant amount, so the Welsh Government became more concerned at the ability of the benchmarking clubs to accurately monitor financial performance.. To address this concern the Welsh Government provided funding to the WLGA to contract with Grant Thornton to assist with developing a financial template to make reporting more accurate. WLGA, WAO and Welsh Government have all worked together to create the opportunity for more accurate and timely reporting of financial data. This data is presented annually to the Ministerial Programme Board on waste. Two rounds of data have been produced showing a wide range of costs per household. The Welsh Government is challenging local authorities to address the issues of consistency, performance and value for money which arise from this and is using the CCP as a vehicle to deliver service improvement.

From a national strategic perspective, the value for money test may be applied to compliance with statutory targets for local authorities. Since 2004 local authorities have been subject to landfill limitation targets under the Landfill Allowances Scheme, which has included financial penalties of £200/tonne for exceeding the landfill limits. In each of the seven years since and for each of the twenty two local authorities the landfill targets have been met. This 100% compliance (and its avoided costs of landfill) has been resourced by the SWMG and is itself an indicator of achieving value for money.

**8 What checks are made [such as scrutiny of financial plans and consideration of opportunities for efficiency savings] before waste management grant funding is released to local authorities?**

The SWMG is paid quarterly in arrears and local authorities complete a quarterly monitoring form showing how much grant has been spent up to that point. Following each financial year the appointed local authority auditors check the validity of spend against the SWMG terms and conditions.

As part of the CCP local authorities are being supported to produce business plans to show how they intend to meet future recovery targets in the most sustainable ways, including the financial implications of this.

**9 What guidance on value for money is offered to local authorities in receipt of grant funding for waste management?**

The Welsh Government has issued guidance in the form of the Municipal Sector Plan and its associated Collections Blueprint. It is the contention of the Welsh Government that if local authorities all follow this guidance then the outcome would be an improvement in the value for money obtained from the SWMG. The benchmarking data reported to MPB supports this contention.

10 How does the Welsh Government determine the annual allocation of Sustainable Waste Management Grant to local authorities? What regard [if any] do you give to previous performance or the relative impact of different councils' proposals on the overall rate of recycling across Wales?

The total SWMG available each year is determined by the level of funding received by the Waste and Resource Efficiency Division. Once a total amount has been determined it is allocated to local authorities on the basis of the Standard Spending Assessment (SSA) formula.

Previous performance and future proposals do not, at this stage, determine levels of SWMG received by individual local authorities. The Welsh Government will keep this situation under review as the lessons from the CCP are learned and will review the basis on which SWMG is allocated in future.