

## **Welsh Government Response to the Report of the National Assembly for Wales Public Accounts Committee on Grant Management in Wales – Final Report**

The Welsh Government appreciates both the time and effort invested by the Public Accounts Committee in their detailed investigations into grants management and values their continued interest in this topic. We welcome the findings of the report and offer the following response to the eighteen recommendations contained within it.

### **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*

### **Response: Accepted**

Welsh Government agrees that an annual report on grants management will provide a useful focal point for publicising its position on grant funding. The first annual report will be published by December 2013.

The report will contain information on the Grants Management Review with reference to the alternative funding allocation methods that were considered and the rationale behind the decisions made. Where it is decided that funding is needed to meet a policy objective, it is standard practice for officials to consider whether a grant or procured approach is the most appropriate funding delivery mechanism. In appropriate circumstances, loans via ‘Invest to Save’ or Finance Wales are also considered as are repayable grants in the form of Repayable Business Finance.

The annual report will also provide information on the monitoring and management of grants throughout Welsh Government. It will detail the measures used to ensure that recommendations from the Grants Management Review are implemented whilst securing assurance that grant funding minimum standards are being complied with.

The annual report will describe the minimum standards which inform the development and delivery of Welsh Government grant programmes and will refer to the ways in which departments evaluate the effectiveness of external bodies managing the distribution of funds on behalf of Government; case study examples will be included where possible to illustrate the impacts of this.

## **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.*

### **Response: Accepted**

Welsh Government is keen to work collaboratively to implement the PAC's recommendations and improve grant practices generally. It has engaged with colleagues from 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 that exist. The Welsh Government will continue to engage with these organisations to further improve grant management activities.

Welsh Government has devised a set of minimum standards and produced a range of guidance which will help the WLGA to continue to take this recommendation forward and disseminate good practice on its dedicated grants management webpage. Further, the guidance will be developed to reflect alternative funding mechanisms such as the 'Invest to Save' loan scheme and dedicated funding from Finance Wales.

Welsh Government is in active dialogue with members of the Funding and Compliance Committee of the Third Sector Partnership Council regarding a fundamental revision of the Code of Practice for Funding the Third Sector in Wales ('the Code'). The revised Code will contain a new section on commissioning and models of funding; it will provide advice for officials and potential applicants on funding options and the processes that should be followed to determine the most appropriate route.

Different funding models have been discussed extensively at two special meetings of the Funding and Compliance Committee set up to discuss Code revisions. At least one further meeting will be held before the revised Code is finalised. Significantly, the Chief Executive of WCVA is a member of the Funding and Compliance Committee and these issues have also been discussed at recent meetings with WCVA. It is important to note however, that Government dialogue with the Third Sector around this topic has not been limited to WCVA, with sessions on grants management and the role of the Grants Centre of Excellence being held for any interested third sector organisations.

Revisions to the Code and promoting understanding of different funding models were both highlighted in the current Welsh Government consultation on its relationship with the Third Sector, which ends on 8 August. The consultation also includes proposals to strengthen Local Compacts between the Third Sector and local authorities, of which improved guidance and monitoring is likely to form 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.

### **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.*

#### **Response: Accepted**

The present Welsh Government consultation on its relationship with the Third Sector includes proposals to strengthen the Code of Practice for Funding the Third Sector. Specifically the consultation documents states that:

"7.10 ...The monitoring and compliance aspects of the Code will be updated and highlighted to ensure that it is an effective working tool.

7.11. We are very clear, in particular, that reinforcing compliance with the Code of Practice will be key to this revision, as will the future monitoring of compliance with the Code."

Accordingly, discussions with the Funding and Compliance Committee referred to in the response to recommendation 2, have considered making proactive monitoring of compliance with the Code a fundamental principle of it. This function will be undertaken by Welsh Government's Third Sector Team and will involve direct engagement with all grant funding departments to ascertain, via information contained in detailed returns, whether each has complied with the Code. Random sampling of grant recipients will also be undertaken to verify this data; ten percent of the approximately 900 third sector organisations funded per year will be sampled. This information will also be used to inform the content of the annual report (which will also be considered by the Funding and Compliance Committee). This proactive stance should 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 new provision for grant recipients to raise concerns anonymously.

The revised Code will include a section that covers the process for reporting non-compliance including any new mechanisms identified within the consultation. The revised Code will be issued by December 2013.

#### **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.*

#### **Response: Accepted**

The payment in advance template is being used across the Welsh Government and no issues around its use have been reported by the third sector, to date. This template will be regularly reviewed by the Welsh Government to ensure that it remains fit for purpose. Any problems associated with the template will be reported in the annual report and also to the Funding and Compliance Committee. Any changes to the template will be discussed and agreed with the Funding and Compliance Committee prior to implementation.

#### **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.*

#### **Response: Accepted**

Welsh Government will continue to enhance and publicise the role of the Grants Centre of Excellence both internally and externally.

The Grants Centre of Excellence has already significantly raised its profile internally and is now the first point of contact for all grant funding queries. This improved relationship with departments has resulted from a range of measures including using the intranet to convey important information on grants and using face- to-face contact with business colleagues as an effective relationship development tool. It is now standard practice for the Grants Centre of Excellence to engage with grants and senior officials to maximise information sharing within and across departments.

The Grants Centre of Excellence will actively engage with funding recipients to publicise its role as the single point of contact for advice on applications for funding. This enhanced engagement will include revising and improving the Government's public website pages on grant funding; the current website pages can be found at

<http://wales.gov.uk/funding/fundgrantareas/grantscentreforexcellence/;jsessionid=C920079A06C84E4F7D40AD5BE594EEBD?lang=en> . This work is being

undertaken currently and is expected to be completed by the end of September 2013.

An update on the external website and engagement with funding recipients will be included in the annual report.

### **Recommendation 6**

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

#### **Response: Accepted**

Welsh Government is finalising an options appraisal for the introduction of a central grants management IT system that will help meet business requirements and resolve concerns raised by the WAO and PAC. The IT system represents a significant investment for the Welsh Government and will provide us with a firm footing for a number of years. The Welsh Government acknowledges that implementation of this system has been delayed, however, the decision as to which system is utilised is critical to ensure that the optimum system is identified. Four different options are currently being explored. A thorough appraisal is necessary to ensure that the chosen system will meet the needs identified through extensive consultation with grants colleagues. The decision process will be ratified via the OGC Gateway process.

The IT system must provide a single platform for all Government grants including the ability to compile and share appropriate corporate intelligence. It is proposed that the system will incorporate Customer Relationship Management type functionality to enable a customer focussed approach to be adopted. The decision about which grants system is to be used will be made by the end of October 2013. The delivery timetable for system development and testing will, to some extent, depend on the option selected. However, the current outline timetable is to complete this phase by June 2014 and to start piloting the new system from October 2014. It is anticipated that the new system will go live around March 2015.

In the meantime enhancements to the existing grants IT system are progressing and implementation of training will promote more accurate data entry and improved reporting; these measures will also support the sharing of key information on grant recipients.

### **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.*

### **Response: Accepted**

An update on Government's progress in responding to the recommendations contained in the three reports mentioned above will be contained in the annual report.

A key mechanism the Welsh Government introduced to develop a consistent approach to grants management is the Grants Management Project. It is accepted however, that it is likely that the cultural change needed to achieve excellence in grants practices across Government is likely to take a number of years. There is evidence of such change is that over 90% of grant offers that utilise an award letter are now issued under a standard award letter representing a significant change in Government's approach to funding agreement development. The remaining 10% of grants using non standard letters will move to the standard award letter at the end of their current funding agreement.

Changes to the way intelligence on funding recipients is shared is being implemented which represents a further positive move towards collaborative working across departments. This has involved the initial development of a central repository of corporate intelligence information, now live, which will be superseded by a more comprehensive system which will enable grant managers to directly link information to an organisation. The enhanced system will enable grant managers to record concerns and decisions, such as the rationale behind an application being declined, and will be put in place by September 2013. Collaborative working of this kind will help reinforce the cultural change needed for departments to act more corporately in the management and administration of grants.

Progress on facilitating cultural change will be included in the annual report on grants management.

### **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.*

### **Response: Accepted**

Welsh Government participates in a good governance group set up by the Big Lottery Fund in conjunction with the WCVA, Charity Commission and a number of third sector umbrella organisations. As agreed with the Big Lottery and WCVA, the Welsh Government will take on responsibility for the group. This group will meet regularly to share good practice and discuss grants

management. The group will develop, produce and implement terms of engagement for contact between different providers of publicly funded grants. This work will commence with immediate effect, with the aim to complete it by April 2014.

The group also shares information on potential applicants or funding recipients that receive funding from a number of sources.

### **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.*

#### **Response: Accepted**

Welsh Government has developed minimum standards for grant funding which represent an agreed approach to grant management which accommodate relevant law, policy and good practice. With regard to grant applications, 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. Guidelines are being finalised and the Grants Management Project will provide risk assessment training for grant officials to ensure that processes are applied and are consistent and appropriate in all cases.

### **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.'*

#### **Response: Accepted**

Welsh Government has developed guidance specifically covering the need for accurate and appropriate record keeping coupled with monitoring processes suited to the situation which has given cause for concern. The new due diligence process that is being implemented will also enable efficient sharing of information about external bodies. The process has developed a central repository of corporate intelligence information, now live, which will be superseded by a more comprehensive system which will enable grant managers to directly link information to an organisation. The more comprehensive system will be put in place by September 2013.

In any circumstance, where concerns are raised regarding corporate governance of a funded body, the Grants Centre of Excellence acts as a

central 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.

Where tangible concerns regarding an organisation or an individual are provided which could have impact on other external organisations that provide grant funding, then the information will be shared with relevant partner bodies, eg WCVA, WLGA. This currently informal process will provide the basis for the development and agreement of the formal terms of engagement reflected in recommendation 8. However, this informal process has already been used successfully for sharing information both internally and externally.

A system of spot checks has been implemented to ensure departments' compliance with guidance and procedures. Any concerns identified through the process are resolved through the internal escalation process.

### **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.*

### **Response: Accepted**

The standard award letter template has been amended to include the requirement for funded bodies to notify 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. These additions to the 'Notification Events' in the award letter will give Welsh Government the opportunity to investigate the matter and, if appropriate, the ability to terminate or withdraw grant funding in a timely manner.

Welsh Government will also develop guidance by September 2013 so that officials understand what action to take when such a notification occurs. The guidance will require intermittent checks at a frequency proportionate to the level of funding and the assessed risk to demonstrate that a funded body has complied with the award letter provisions, especially around the notification events. This will help ensure that external bodies are treated consistently across the Welsh Government.

### **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).*

**Response: Accepted**

Guidance will be revised to raise grant officials' awareness and understanding of the warning signs that could denote problems with individual grants. The guidance will detail the processes that should be followed and the potential impact of such decisions. Grant managers will be required to document that they have considered the circumstances surrounding a notification event and that it has been responded to appropriately and proportionately and communicated effectively.

The guidance will refer grant managers to the Grants Centre of Excellence for further advice and guidance if needed.

**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.*

**Response: Accepted**

As covered by the response to recommendation 11.

**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.*

**Response: Accepted**

The Welsh Government has already undertaken measures aimed at ensuring that trustees are informed that grant funding has been awarded to an organisation. This has included the requirement for two authorised signatures on the award letter and the need for the organisation to confirm that the authorised signatures have received authorisation from the board or trustees to formally accept the grant. The Welsh Government will consider whether further measures are required to raise the profile of the grant funding in conjunction with the governance group identified in recommendation 8.

Welsh Government will produce information on the standard award letter template for inclusion in the grant funding pages of its public website, by October 2013. This will set out the responsibilities of Government and of funded bodies and will refer to the circumstances and mechanisms for raising concerns about an organisation's use of public money and its governance arrangements. The Welsh Government will also have a dialogue with the Charity Commission with regard to the guidance they provide to trustees and how this can be linked to the Welsh Government's public website.

The Welsh Government guidance will describe the scenarios which would typically result in a formal notification to Government. It will emphasise that such action will not necessarily adversely impact on the grant arrangement with the funded body. Situations where Government discovers that a funded body should have notified it of an event but failed to do so, will be subjected to a more rigorous investigation as a result.

### **Recommendation 15**

*We recommend that the Welsh Government recognise that while using 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.*

#### **Response: Accepted**

A useful distinction may be made between 'umbrella' bodies which support particular parts of the Third Sector (e.g. equalities groups or arts organisations) and 'infrastructure' bodies which provide more generic support for the sector. This distinction is implicitly recognised by the report which acknowledges that intermediary bodies such as "councils for voluntary action" may be more effective than umbrella bodies "such as AWEMA" (para. 195). Welsh Government presently provides core funding for infrastructure bodies throughout Wales, principally WCVA, County Voluntary Councils (CVCs) and Volunteer Centres. These bodies work closely together and provide an agreed range of services and support which all voluntary organisations' individual volunteers can access. The role and future funding of this infrastructure is currently subject to consultation, as referred to in recommendation 3.

Umbrella bodies provide specialist knowledge and advice in respect of their various areas of expertise. Many umbrella bodies work closely with the infrastructure bodies and are also represented within structures such as the Third Sector Partnership Council. Welsh Government agrees that in many cases CVCs are the most appropriate and readily accessible bodies for local organisations to turn to, especially where their needs relate to generic issues such as good governance, fundraising and support for volunteers.

Welsh Government traditionally uses umbrella bodies to distribute funding to a large number of smaller third sector organisations as this reduces its administration costs. However, the Welsh Government accepts that this can increase the inherent risks associated with the funding for example a reduced level of due diligence being undertaken by the umbrella body. Where Government uses an umbrella body in future the rationale for using it will be clearly documented.

### **Recommendation 16**

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

#### **Response: Accepted**

Welsh Government has already taken steps to evaluate training delivered since December 2012. Training to date has been computer based and mandatory for officials performing the relevant roles:

- 'An Overview of Grants for Relevant Senior Officers'
- 'e-Grants for Certifiers and Authorisers' (i.e. for staff involved in placing grant claims and approving payments on the payment system), and
- 'Grants for Grant Managers' (3 modules in total).

Formal feedback mechanisms and queries/comments to the Grants Centre of Excellence have been used to inform the on-going review of these modules. It is clear that, in large part, the training has been welcomed by grants officials. A stakeholder questionnaire was issued recently to help secure further feedback on the training and the other improvement mechanisms that have been, and are being, implemented. A system of random spot checks has been introduced to help secure assurance of improvements in grants management and administration as a result of the various improvement measures. Both the findings from the stakeholder questionnaire and the spot checks will be included in the annual report on grants management.

Further face-to-face training is planned for the next financial year to supplement and reinforce learning offered by the computer based approach. The effectiveness of training will be evaluated on a regular basis and references in the annual grants management report.

### **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.*

#### **Response: Accepted**

For the purposes of ensuring factual accuracy, completeness and fair presentation of reports by Internal Audit Services, Welsh Government commits to sharing the narrative of draft reports about organisations to its management prior to finalisation.

### **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.*

### **Response: Accepted**

Where Welsh Government has to terminate or substantially reduce grant funding, it commits to giving the organisation concerned appropriate notice of the change and to clearly set out the rationale behind it. In the case of third sector organisations, the notice period will be at least three months in line with the Code of Practice for Funding the Third Sector, unless exceptional circumstances are reported in line with the Code. The notice period for other organisations will vary depending on the organisation type and the circumstances giving rise to the notice.