



Llywodraeth Cymru
Welsh Government

Welsh Government Annual Report on Grants Management 2016

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

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SECTION 1: INTRODUCTION

- 1.0. The 2016 Annual Report sets out the progress made in the improvement of grants management processes across the Welsh Government. The report also details the funding provided directly from the Welsh Government and the Welsh European Funding Office (WEFO).
- 1.1. The Welsh Government's definition of a grant is "all non-procured payments to external bodies or individuals for activities which are linked to delivering Welsh Government policy objectives or statutory obligations". Grants are divided into two distinct categories. Un-hypothecated grants are those payments provided to local health bodies and local government and account for £11bn of the £13.6bn total. Hypothecated grants represent payments where there are clear deliverables and criteria surrounding the purpose of the grants and account for the remaining £2.6bn of funding. This report concentrates on the latter.
- 1.2. Welsh Government's grant funding supports a broad range of organisations, businesses and projects across the whole of Wales. By providing hypothecated funding to deliver specific activities, there is an identifiable link between payments and deliverables. This includes an ability to control the level of spend during the lifecycle of the grant. Examples of the wide range of hypothecated grants awarded by the Welsh Government include:
 - The supporting people programme. The aim of the programme is to help people find and keep a home and to live as independently as possible. The programme provides vital support to people who find themselves in very difficult circumstances particularly people who are homeless or at risk of becoming homeless. As well as preventing homelessness the programme provides housing related support to a variety of groups including people with learning disabilities, mental health need and women fleeing domestic abuse. This helps reduce demand on other services such as Health and Social Care. Information gathered from local authorities for 2015/16 indicates that over 67,000 people were supported by the Programme.
 - The Efficiency through Technology grant. This was introduced in 2015-16 in order to support discrete projects that focussed on developing or adopting new technology within the NHS and Social Care in Wales. In 2015-16, £5.5m in hypothecated grants were provided to NHS Wales for projects that were chosen as part of a competitive grant call process.
 - SMARTCymru provides grant funding to businesses to enable them to undertake Research, Development & Innovation projects. The aim of SMARTCymru is to increase the capability of Welsh companies to successfully translate research and innovation processes into new and improved commercial products, processes and services. In 2015/16 40

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grants were awarded under the SMARTCymru scheme with a total value of £2.22 million.

- 1.3. The vast majority of grant funding for local government is already provided through un-hypothecated grants. Nevertheless, the Welsh Government continues to look for opportunities to transition any remaining hypothecated grant funding into this wider local government settlement. This reduces the administrative costs for both the Welsh Government and local authorities. Since 2011-12 circa £194m of hypothecated grants have been transferred into the settlement.
- 1.4. During 2015-16 three hypothecated grant schemes with a total value of £13m were transferred to the settlement. To date in 2016-17, one further scheme with a value of £31m has also been transferred to the settlement. Work is ongoing to review all remaining hypothecated grants less than £1 million, as well as specific work on larger grants such as the Single Environment Grant and the Independent Living Fund Grant. The underlying focus on this work is to ensure that we continue to deliver desired outcomes within an agreed funding framework which enables outcomes to be delivered in the most efficient, economic and effective manner.

SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS

(i) Grants Centre of Excellence

- 2.0. The Grants Centre of Excellence was established in 2011 as part of the wider Grants Management project and is responsible for developing and promoting policy and guidance for application across the whole of the Welsh Government in order to improve Grants Management standards. The team leads on improvements in grants management policy, the provision of skills development opportunities and the adoption of good practice, particularly through the improved use of technology. Working collaboratively with departments across the Welsh Government, the Grants Centre of Excellence is driving the delivery of efficient and compliant grants processes. They also provide a first point of contact for any queries within the organisation. During this report period, in excess of 1,500 queries have been handled, in addition to extensive face to face and telephone engagement with grant managers.
- 2.1. During 2016 the Grants Centre of Excellence focussed on six key areas:

- **Communications;**
- **Due Diligence;**

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- **Training;**
- **Governance;**
- **Working with others; and**
- **Measuring compliance.**

a) Communications

- 2.2. Over the last 12 months the team has developed a formal communication strategy informed by feedback from a mapping exercise and customers. This has enabled the Grants Centre of Excellence to better target and improve support and awareness raising through mechanisms such as the community of practice. It has also led to improvements in the on-line presence of the Grants Centre of Excellence including the publication of more concise guidance notes on important subjects such as due diligence.
- 2.3. The newsletter, which highlights improvements, lessons learned and training opportunities was also re-instated and is issued quarterly. The Grants Centre of Excellence engages with the State Aid Unit and with the Governance and Assurance team to ensure that the newsletter is cross-cutting.

b) Due Diligence

- 2.4. Due diligence checks should always be undertaken before awarding funding and we have systems, guidance and training in place to enable staff to share the results of these checks, including where there are concerns regarding an organisation. During 2015-16 the Welsh Government introduced a tool entitled the Due Diligence Hub into the grants management system. This allows Welsh Government officials to share and review corporate knowledge on External Bodies and must be referred to by officials whenever grants are being awarded or payments made. The Due Diligence Hub informs officials of who carried out the most recent due diligence review, when it was completed, the level of funding agreed and contact advice. The Hub is fully operational and extensive training has been made available in a variety of different formats including face to face training, written guidance and drop-in sessions.
- 2.5. A recent review of the activity undertaken during 2016 showed that over 5,000 records were added to the Due Diligence hub. This area continues to be a priority focus and further training and awareness sessions will be made available through 2017.

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c) Training

- 2.6. In previous years there has been an emphasis on the delivery of 'face-to-face' training across the Welsh Government, particularly focussed on the use of the PayGrants system.
- 2.7. More recently, the Grants Centre of Excellence have reviewed all the training materials they provide and have also been offering business specific training to departments on request. The team monitors the training request log and proactively schedules training as required.
- 2.8. The Welsh Government's wider training provider contract was subject to a re-tender at the end of 2016. Future Grants training requirements were fully considered as part of this exercise. Of particular importance will be the continuity of provision of the Computer Based Training (CBT) modules and the transfer to a new host site.
- 2.9. Looking at current demand, the most frequently requested training relates to Due Diligence, use of the Due Diligence Hub and Grant v Procurement considerations. Refreshed training on each of these is currently being developed and will be introduced over the summer. Face-to-face training is also underway on the importance of the award letter and terms and conditions of the funding.

d) Governance

External Assurance Panel

- 2.10. The External Assurance Panel addresses issues or concerns relating to the use of Welsh Government funding raised by internal and external individuals or groups. These concerns relate mainly to how Welsh Government funding has been handled by our delivery partners and beneficiaries of our grant schemes.
- 2.11. The panel comprises senior officials from across Welsh Government providing expertise from their respective areas and is chaired by the Director of Governance. The Panel has supported staff in dealing effectively with concerns and to identify issues across the Welsh Government so that lessons are shared and learned. It assists officials by providing a consistent, proportionate and appropriate response to concerns raised.

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Good Governance Group

2.12. The Good Governance Group is made up of key grant funders and other bodies, including the Big Lottery, Charity Commission, Wales Council for Voluntary Action (WCVA) and Welsh Local Government Association (WLGA). The group has continued to operate during 2016. The Group is now chaired by the Welsh Government Director of Finance. The group operates effectively as a virtual forum for sharing information and issues. In addition, the group meets periodically to share expertise on specific subject areas including counter fraud.

Grants Working Group

2.13. The Grants Working Group is made up of representatives from across Welsh Government and helps inform the development of grant related policy and to help with the adoption of good practice. This not only allows the Grants Centre of Excellence to have direct links with each department but ensure common issues are raised and discussed. The Group meets on an ad hoc basis but are often asked to share their views on particular aspects of grant management such as grant scheme set up issues or end of year payments.

Counter-Fraud

2.14. The Welsh Government takes the issue of potential fraud very seriously. While the instances of fraud are small when compared with the overall package of funding given, this does not detract from the significance of any fraud against Welsh Government and we are striving to learn and improve from these instances. Seven new investigations were opened in 2015-16 by the Welsh Government's Head of Counter Fraud.

2.15. The Head of Counter Fraud for Welsh Government has, during the past 12 months, highlighted to the Welsh Government's Audit and Risk Committees areas of governance and internal control that need to be improved to assist in the prevention of fraud. Areas for attention include ensuring pre-conditions for grants are appropriate and effective, and applied or enforced sufficiently before payments are made. In line with these recommendations, the Grants Centre of Excellence has been focusing on improving staff awareness and skills in due diligence and grant monitoring work.

2.16. The Welsh Government is currently considering ways it can support the governing boards of funded bodies to discharge their own counter-fraud responsibilities.

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- 2.17. The annual review of Welsh Government's standard grant award letter and terms and conditions is under way. This aims to ensure we are continually improving our processes and procedures and includes input from officials across Welsh Government including Internal Audit, Legal Services, Grant Managers and Grant Centre of Excellence. All grant schemes must be supported by a suitable funding agreement which sets out the role and responsibilities of Welsh Government and the external body. The standard award letter and terms and conditions have been tested robustly by recent cases. As a result we have identified a need to strengthen, and make more explicit, the clauses covering rights of access to inspect, and retention of records.
- 2.18. Policy areas within Welsh Government have conducted lessons learnt reviews and engaged with the Head of Counter Fraud to learn, identify and improve due diligence and internal controls. Further consideration has been given to preventative measures to deter fraud and enhance the attention given to identifying fraud risks, reducing the risk with controls at a variety of levels and regularly reviewing and recording these in Fraud and Corruption risk assessments.

e) Working with Others

UK Government

- 2.19. During 2016 there has been active engagement with UK Government, the Cabinet Office and the Ministry of Justice in particular. The Welsh Government has been able to share information about development of grant systems and steps taken to improve governance and due diligence.
- 2.20. Offers of job shadowing have been made and are being pursued. It is important that mutual good practice is shared and initiatives such as this are an excellent mechanism for achieving this.

Devolved Administrations

- 2.21. In 2017, developing engagement with other devolved administrations will be a priority.

f) Measuring Compliance for the Third Sector

- 2.22. As in previous years, the Third Sector Unit, with the support of the Grants Centre of Excellence, has tested compliance with the requirements of The Code of Practice for Funding the Third Sector. Three of the seventeen

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principles are tested each year, along with a fourth standing principle 'Timely Decisions'.

2.23. For 2016-17 the three additional principles tested were:

- (iii) Early and Constructive Dialogue
- (x) Payments
- (xvi) Good Governance and Due Diligence

2.24. The results of the compliance testing exercise were reported to the Third Sector Partnership Council Funding and Compliance sub committee in October 2016.

2.25. Of the 43 grant managers who responded, one instance of non-compliance with principle (iv) Timely Decisions was identified, in view of the award of funding being later than the organisation had envisaged. Upon further examination, it was clear that the non-compliance was mitigated by clear channels of communication with the grant applicant and no formal complaint was received. No further action was recommended. This is regarded as an exceptional breach, rather than a systemic issue.

2.26. No formal complaints were brought to Welsh Government's attention relating to funding offered or terminated for 2016/17.

(ii) Local Authority Audit Certification

2.27. As detailed in the 2014 Welsh Government Annual Report on Grant Management, the Welsh Government has been reviewing the way grant funding to Local Authorities is audited by the Wales Audit Office (WAO). Welsh Government, Welsh Local Government Association (WLGA) and WAO have undertaken a joint high level review of the current process and identified considerable scope to improve both assurance and value for money by refocusing audit rationale and reducing the burden on all involved.

2.28. As a part of the review, a number of quick wins were identified that would be of benefit to Local Authorities and were implemented for the 2014-15 audits undertaken in autumn 2015, namely:

- A £10,000 de minimis rule for certification reporting purposes, thus reducing the number of 'qualifications' and the extra workload these produce; and
- A redesigned standard report format used by WAO. This provides a short summary of the headline messages, improving the clarity of

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reporting, with details of any significant issues provided within the main body of the report.

- 2.29. In the meantime Welsh Government, Wales Audit Office and the Welsh Local Government Association have continued to discuss how best to refocus the grant certification process. There have been a number of meetings with interested parties, culminating in a draft new process being piloted with Neath Port Talbot and Wrexham Local Authorities for the 2015-16 grant audits. The overall aim is to add more value to the process without adding to the burden or cost for Local Authorities.
- 2.30. The current proposal is to refocus transactional level audits by undertaking a rolling programme of work rather than having to test every grant, every year in all Local Authorities. There will also be an element of output/outcome testing, as informed by specific grant scheme requirements and associated reporting tools.
- 2.31. The lessons learnt from the pilot will be used to hone the process and guidance in the spring of 2017 and these will be shared with all Local Authorities shortly thereafter in sufficient time for the following year's round of audits.

(iii) Wales European Funding Office (WEFO)

Audit Review of Welsh Structural Funds Programme

- 2.32. There were no audits by the European Court of Auditors, the European Commission (DG Regio and DG Employ) or by the European Funds Audit Team (EFAT) during in 2015/16 which had anything less than satisfactory conclusions. WEFO registers all audit issues raised and monitors the work done to address them through its Programme Risk Management Committee.
- 2.33. The error rate reported to the European Commission by EFAT in their 2015 Annual Control Report (ACR) was 1.9%. An "error" in this context means anything that was charged to EU funding which ought not to have been. This could be for any one of a wide range of technical reasons and does not imply fraud or other inappropriate expenditure.
- 2.34. The European Commission has a threshold of 2% above which it requires the cause for errors to be further investigated. In 2015, the last year for which we have data, some 37% of programmes across the EU reported error rates above 2%.

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- 2.35. By the end of March 2017, final claims will have been submitted for the 2007 – 2013 programmes, bringing the total claims up the £1.8bn allocated to Wales at the beginning of the funding round. This funding has driven a total investment of £3.4bn and the programmes have exceeded most of their targets. This includes achieving more than double the targets for helping people into work, gaining qualifications and creating new businesses.
- 2.36. The delivery of the 2014 – 2020 programmes is progressing very well. Over 65% of the expected value of the programmes has been committed to projects across Wales. The projects are up and running and the funds are flowing into Wales. The European Commission's Director General for Regional and Urban Policy told the Cabinet Secretary for Finance and Local Government when they met in March this year that the average level of commitment across the EU stands at just 27%, It is understood that our programmes are amongst the most advanced in the UK.
- 2.37. The ACR has been accepted by the European Commission and they have not required any corrective action. While the error rate was higher than we would like, much of it was due to a change in the auditors' approach to extrapolating errors found in the sample, and no significant underlying issues were identified.
- 2.38. With advice from the National Assembly, the WAO, the Programme Monitoring Committee and project sponsors, WEFO reviewed all its grants management processes in preparation for the 2014 – 2020 funding round. In December 2014 Wales became the first Managing Authority in the UK to start approving projects in the 2014 – 2020 funding round and has remained at a relatively advanced stage of programme implementation ever since.
- 2.39. During 2015/16, WEFO reviewed all its monitoring and control procedures and produced a revised version of its Management and Control Statement (MCS). This formal document sets out all the controls WEFO will apply to ensure that grants paid are made only in support of eligible expenditure and spent on delivering the outputs agreed, and that value for money has been secured.
- 2.40. The MCS for the new funding round was based substantially on the 2007 – 2013 control framework. This acknowledged the recommendation in Dr Guilford's report that we should retain what works well. It also reflects the improvements made during the last round and the strength of the framework now in place. Some modifications were made to reflect changes in the EU regulations, and WEFO has brought forward as much as possible the point at which key items are tested, in order to identify potential issues as soon as possible in the life of each project.

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2.41. The document has been reviewed and approved by EFAT; a number of improvements suggested by them were taken on board during that process. This was the last step in the formal “Designation” of WEFO as the Managing Authority in Wales, clearing the way for claims to be made to the European Commission for 2014 – 2020 funding. The MCS has also been reviewed by European Commission auditors and no issues have been raised. Again, Wales is some way ahead of other UK Managing Authorities in this respect

SECTION 3: FUNDING

This section provides an update on the overall funding and breakdown of grants to the various sectors across Wales. Funding direct from the Welsh Government is covered in section (i) and from WEFO in (ii).

(i) Funding from the Welsh Government

- 3.0. In the past 12 months further work has been undertaken to improve the reporting accuracy of grants data. Most significantly this has included work on aligning nominal codes; those high level codes which describe what Welsh Government money is spent on such as Grants to Local Authorities, with industry keys.
- 3.1. The system of ‘industry keys’ was developed to enable identification of funding to different sectors, following concern at the lack of clarity over the ability to provide a clear picture of funding to the Third Sector.
- 3.2. Figure 1 shows the total amount of grants provided over the last four financial years. These figures are a total of hypothecated and unhypothecated grants and demonstrate a 1% decrease in funding from 2014/15 but a return to parity with 2013/14.

Figure 1: Total Welsh Government Grant Funding by Financial Year

	2012/13	2013/14	2014/15	2015/16	% Change 2014/15 to 2015/16
Grant provided (£bn)	13.2	13.6	13.7	13.6	-1%

Source: Welsh Government Finance System

- 3.3. The number of grant schemes which have made new offers in 2015/16 totals 418, of which 354 are hypothecated and 64 are un-hypothecated. In

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comparison, information on grants issued in 2014/15 indicates that approximately 375 were hypothecated and a further 71 were un-hypothecated.

- 3.4. Figure 2 illustrates the levels of hypothecated grant funding provided to each sector (based on Industry Keys) for the past three financial years:

Figure 2: Hypothecated Grant Funding by Sector and Financial Year

Hypothecated funding £m	2013/14	2014/15	2015/16
Local Authorities	1,339	1,327	1,339
NHS	22	11	14
Central Government and Public Corporations	48	43	37
Welsh Government Sponsored Bodies	19	42	53
Funding to Education	489	412	448
Private Sector	524	614	676
Third Sector	240	208	248

Source: Welsh Government Finance System

(ii) Funding from WEFO

- 3.5. This section covers funding provided directly to organisations by WEFO. By the beginning of 2015/16 project approvals for the 2014 – 2020 funding round were well under way, with the focus being mainly on the key projects that will provide the bulk of the outputs that we have committed to deliver in the Operational Programmes agreed with the European Commission.

Figure 3: EU Grant Spend by Sector for the 2015/16 Financial Year

Sector	£m
Local Authorities	41.1
Higher and Further Education	35.6
Private	2.2
Other Public	2.1
Third	6.5
Welsh Government	184.4
Total	271.9

Source: WEFO 5/8/16

- 3.6. It is important to remember that the payments to the sectors are generally the first step in distributing funds to other sectors (including the private sector), due to the skill sets required and the fact that bodies brought in through

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procurement rather than as sponsors are allowed to make profits as part of their engagement in the project.

SECTION 4: NEXT STEPS FOR GRANTS MANAGEMENT

(i) Welsh Government

- 4.0. Since moving to the Finance Department early in 2016, the focus of the Grants Centre of Excellence has been on driving improvements in good practice and streamlining processes.
- 4.1. This focus will continue, with particular attention being given to further rationalisation of grant schemes to drive efficiency and consistency of process.
- 4.2. During 2016, the Welsh Government carried out an assessment of the benefits to be gained from moving to a shared service approach for the delivery of the transactional aspects of grant administration. This assessment demonstrated that, while there are potentially significant benefits in relation to process efficiencies and knowledge sharing, given the number and significant value of grants across the Welsh Government a staged approach has the potential to reduce the risks associated with such a large step change in the way grants are managed. Therefore, the initial focus will be on developing expertise within a more focused and smaller number of staff within individual groups. The Grants Centre of Excellence will form an integral part of this work, ensuring consistency of approach across the whole organisation. A further update on the timescales for a transition to a single grants administration team for the entirety of the Welsh Government will be provided in the next report.
- 4.3. To simplify the reconciliation of financial information and ease cross referencing of data, it is proposed that for 2017 onwards the timing of the Annual Grants Management Report is aligned with the publication of the Welsh Government Annual Report and Accounts. Assuming this is acceptable to the committee, the Welsh Government will publish an up date to the current report; comprising mainly changes to section 3 – funding, and publish the next full report in July 2018.

(ii) WEFO: Brexit and Next Steps in Grants Management

- 4.4. The Welsh Government recently published a White Paper which outlined Wales' key strategic interests and priorities as the UK prepares to leave the

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EU. It also sets out the main issues which have been identified as vital for Wales including future Finance and Investment.

- 4.5. EU funding is hugely important to Wales in terms of driving economic growth and jobs; it also enables the Welsh Government to leverage additional resources from both public and private sources. The Welsh Government is, therefore, committed to ensuring that replacement funding from UK sources reflects current EU funding for regional economic development in Wales, agriculture and the countryside.
- 4.6. In the meantime the Welsh Government will be seeking to ensure that Wales makes the most of EU funding while it is still available. Both immediately and throughout the next few years, WEFO will be working closely with sponsors to ensure that projects are delivered to plan and that there is a smooth transition to whatever alternative funding arrangements are secured in due course.
- 4.7. If this is to be achieved, everyone involved in EU funded projects needs to recognise that all the usual requirements for effectively managed projects remain in place. Ensuring that people do not lose sight of this will be a major focus of our work.
- 4.8. We anticipate that there may be increased scrutiny of our programmes by the European Commission in the coming years since the prospect of a British exit from the EU undoubtedly raises risks from their point of view. WEFO is confident that its controls are sound and that any increase in audit visits will not become a threat to the overall programme.
- 4.9. As we enter a period of transition to whatever arrangements may follow, WEFO offers a team of experienced project and programme managers with a track record of delivering results in an environment which demands consistently high standards.