



# **Cynulliad Cenedlaethol Cymru** **The National Assembly for Wales**

## **Y Pwyllgor Cyfrifon Cyhoeddus** **The Public Accounts Committee**

**Dydd Mawrth, 8 Mai 2012**  
**Tuesday, 8 May 2012**

### **Cynnwys** **Contents**

Cyflwyniadau, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions

Rheoli Grantiau yng Nghymru: Tystiolaeth gan Gymdeithas Llywodraeth Leol Cymru  
Grants Management in Wales: Evidence from the Welsh Local Government Association

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd  
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,  
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, an English translation of Welsh speeches is included.

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Lindsay Whittle	Plaid Cymru The Party of Wales

**Eraill yn bresennol**  
**Others in attendance**

Jon Rae	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mari Thomas	Swyddog Polisi (Cyllid), CLILC Policy Officer (Finance), WLGA
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**  
**National Assembly for Wales officials in attendance**

Dan Collier	Dirprwy Glerc Deputy Clerk
Tom Jackson	Clerc Clerk

*Dechreuodd y cyfarfod am 9.08 a.m.*  
*The meeting began at 9.08 a.m.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon**  
**Introductions, Apologies and Substitutions**

[1] **Darren Millar:** Good morning and welcome to today's meeting of the Public Accounts Committee. I remind everyone that headsets are available for both translation and sound amplification. There is no need to touch the microphones or any of the electronic equipment at all; it should all work seamlessly. Would everyone ensure that their mobile phones, BlackBerrys, pagers and so on are switched off because they can interfere with the broadcasting and sound equipment? In the event of an emergency, the ushers will guide people to the nearest safe exit.

[2] We have a full house this morning—there are no apologies—so we will move straight on to the next agenda item.

9.09 a.m.

**Rheoli Grantiau yng Nghymru: Tystiolaeth gan Gymdeithas Llywodraeth  
Leol Cymru  
Grants Management in Wales: Evidence from the Welsh Local Government  
Association**

[3] **Darren Millar:** This is the fourth meeting in which we have considered the grants management report that was produced by the Auditor General for Wales and the Wales Audit Office. It is important that we take evidence from the Welsh Local Government Association, given its role in receiving grants and making grant applications. So, I welcome to the table Jon Rae, the director of resources at the WLGA, and Mari Thomas, the policy officer for finance at the WLGA. We also have the auditor general with us and Mike, a member of his team.

[4] We have a copy of the paper that you kindly sent ahead of today's meeting and we have had time to digest that. Do you want to give us an overview of your view of the scale and costs of the use of specific grants? We have not had any evidence on this so far, but you make reference in your paper to the potential costs to unsuccessful applicants and the redundancy costs that are sometimes incurred at the end of grants—costs that are not usually factored into the grant applications. Will you give us an overview of the WLGA's position on hypothecated grant funding and those two particular issues in the report?

[5] **Mr Rae:** Thank you very much, Chair, and thank you for inviting us here this morning. As you are probably aware, it is the long-held view of the WLGA and local government in general that as much funding as possible should come through unhypothecated funding through the revenue support grant. Currently, the revenue support grant is just over £4 billion and the amount of specific grants in 2012-13 is in the order of £820 million. This is not something that only local government in Wales lobbies for. There is reference in the auditor general's report to the fact that, if you look at what has happened in England, you will see that there has been a degree of consolidation of specific grants, although quite a large proportion of education funding is paid out as a dedicated schools grant. In Scotland as well, there have been moves over the past couple of years to put almost £2.5 billion of specific grants into the general revenue settlement. It is not just a UK issue either. Article 9 of the European charter of local self-government makes reference to the fact that there should be less earmarked funding and more general funding.

[6] As we say in our evidence paper, it is difficult to alight on what specific grants cost in terms of bureaucratic overheads. Over the years, a number of estimates have been made, ranging from anywhere between 5% and 10%, which would put the cost of administering local government specific grants somewhere in the region of £40 million to £80 million. I do not want to paint too dark a picture of specific grants because, just this year, the distribution sub-group, which is a sub-group of the partnership council, has been looking at putting many more specific grants into the settlement, so we should recognise the good work that is going on.

[7] I will now cover the two specific points you highlighted at the outset, Chair. On redundancy costs, in times of financial consolidation and since 2008, as we have seen local government funding levelling off and reducing in the case of certain large specific grant schemes, there are two issues relating to redundancy: first, there is no general guidance on

how redundancy should be treated within the standard terms and conditions that tend to be in the Welsh Government specific grant conditions; and, secondly, there is the issue of the late announcement of specific grants. Remember that, for local authorities, the general revenue settlement tends to be announced in late November to early December of the year prior to the financial year in question. The announcements on the funding for specific grants tend to trickle out over a period of up to three months. There have been cases where local authorities have been waiting on the announcement of specific grants right up until the end of March and into the financial year itself—that has actually happened.

9.15 a.m.

[8] **Darren Millar:** In terms of being able to factor in the potential cost of redundancies, is that something that you are able to estimate as a percentage of all the grants? I know that it might be difficult to have specific details, but could you give us any rough ballpark figures in terms of the information that we can have?

[9] **Mr Rae:** Unfortunately, I do not have that information with me, Chair. It might be very difficult to estimate because it will rely on the length of service that those officers have managed to accrue over the course of their careers. Once upon a time, the issue of redundancy might have been a little bit easier because, under the Employment Rights Act 1996, there was a redundancy waiver that could be put into fixed-term contracts, which made fixed-term contracts quite a flexible option if you had a programme that lasted for a fixed number of years. However, under recent regulations made in 2002, which, if my information is correct, are based on an EU directive, such fixed-term contracts cannot now contain a redundancy waiver clause, so there is very little advantage in using fixed-term contracts.

[10] **Darren Millar:** In terms of successful applicants for grants, if there are lots of different grant streams and lots of applications going in, there will be lots of happy people, but there will also be lots of people who submitted an application who will be unhappy at the end of the process. What is the potential cost of that to Wales?

[11] **Mr Rae:** It is difficult to know what the potential cost might be without knowing how many applications are going in. You could certainly envisage the scenario where, for a lot of the smaller grants, and for a lot of grants that are about building capacity in public services—I am thinking about some of the European social fund-type of grants—a great deal of effort goes into making those applications. I cannot remember the exact details, off the top of my head, but I think that I have seen a few ESF grant applications where the application itself has run to 10 to 15 pages in length. I am not sure what proportion of those applications is unsuccessful, but a lot of time and effort goes into submitting claims for those types of grants. The same applies to the invest-to-save-type of grant. In the past, I have seen quite hefty documentation—and quite rightly so. There are a lot of conditions around some of these grants where they are trying to build capacity. Without putting a number on it, which is very difficult to do, it is a big issue. Perhaps it is not so much an issue for a large proportion of grants that we tend to think of in relation to local government, such as the £820 million-worth of grants that I talked about in the beginning, because they tend not to be bid based.

[12] **Darren Millar:** Do you want to come in, Jenny?

[13] **Jenny Rathbone:** I just wish to clarify something. I thought that I heard you say that the European Union no longer allows fixed-term contracts to be entered into without also entering into redundancy obligations. If that is correct, that is madness. If you have a fixed-term contract, or a fixed sum that is coming to an end after a certain period, why on earth would you have a redundancy obligation?

[14] **Mr Rae:** I do not think that the legislation and the regulations state that you cannot

have a fixed-term contract, because you can. There is just no redundancy waiver now in those contracts. I would be quite happy to provide the committee with details on that if you want additional information.

[15] **Darren Miller:** Thank you; that would be helpful. As an alternative to grants, how should the Government be able to achieve its policy objectives through the use of other funding mechanisms? The auditor general has referred to loans, investments and procurement obligations as potential tools in the box. Do you see those as viable alternatives?

[16] **Mr Rae:** Definitely. Again, I go back to our long-held position in local government, which is that all funding should come through the revenue support grant. There are difficulties with that, as came up in the evidence that Dame Gill and Michael Hearty gave on the issue. How do you ensure that local government delivers on the ground what is in the programme for government, for example? One easy way around that is to ensure that outcomes are still being delivered. I think that that is possible, even through general funding. Scotland seems to have managed that: enormous amounts of specific grant funding have been moved into the general revenue settlement, and there is a strong performance management framework there based on its programme for government. So, it is possible by keeping a focus on the outcomes. That can be done. In local government, it could be done through outcome agreements, which are agreements linked to small amounts. Well, I say 'small', but perhaps I should say 'relatively small', because it is a large sum of money: about £30 million. You could use initiatives such as that to monitor outcomes without going into the detailed terms and conditions that tend to be in the average grant document.

[17] **Ms Thomas:** There is an example with the First Steps Improvement Package. The £10 million funding identified for that went straight into the RSG and yet local government is still expected to deliver the outcomes of the policy intention behind that package, namely the £50 cap and that sort of thing. So, there are examples of how it has worked.

[18] **Darren Millar:** There obviously has to be effective monitoring to ensure that they are delivered.

[19] **Mike Hedges:** If it goes into the revenue support grant, there are bound to be winners and losers. The best performers, namely those who do best with the grants and are the best providers, will be losers, and the poorest performers, namely those who are making the least use of the grants, will be winners. Allow me to take you back to the mental health/mental handicap strategy, which came to an end at around 2000-01. When that money was redistributed, those councils that did a lot of work on it, which were mainly the three Glamorgans, were massive losers. Those that did much less on it, which tended to be most of the other councils, were massive winners. The movement of money caused difficulties there. Where local authorities spend less on education, through the indicator-based assessment, if they were still to take that top-slice of 2% or 3% that some authorities do, the amount of money going to schools would reduce. There are advantages to putting it into the RSG, but there would definitely be losers, and some would argue that the better and more successful authorities, or the ones that have provided the most, will all of a sudden have financial problems. I remember from my time as leader of a local authority that when things were put into the RSG, they often seemed to disappear. 'It's in the RSG', you were told, and it was up to you to make your decisions on it, but you did not seem to have the same amount of money at the end.

[20] **Darren Millar:** Do you want to comment on the impact of the RSG funding formula on specific grants?

[21] **Mr Rae:** Certainly. It is a well-made point. We have had recent experience of how difficult it can be to put grants into the revenue support grant. Last year, the Welsh

Government and local government were working to put the learning disabilities resettlement grant into the settlement. For one reason or another—and I think that it was largely due to the fact that the degree of financial turbulence was so large—it did not go into the settlement for 2012-13. We are now working to put that into the settlement for 2013-14. You are absolutely right. It is one of the drawbacks of putting specific grants into the settlement. Historically, you might have a grant like the mental health strategy grant or any one of the learning disabilities grants where the funding tends to have been provided via a reimbursement-type scheme, so a pattern of funding will have arisen historically based on what is actually spent on that purpose.

[22] Of course, one underlying principle of the revenue settlement is that you do not reimburse local authorities for the amount spent, for quite obvious reasons. It is based on a general formula that uses data as opposed to proxy need-to-spend. So, when you have these grants with sometimes quite strange expenditure patterns, and you try to move that on to one of the formulae—and you mentioned the IBA formula in education, or it could be one of the social services formulae—you tend to get this turbulence. For the distribution sub-group that looks at these issues, its strategy on coping with that amount of turbulence is basically to have some kind of stability mechanism in there. In previous years, it has tended to be a floor mechanism whereby, taking the settlement in general, if any authority falls below a threshold that is determined by the Minister for Local Government and Communities, funding will be recycled within the RSG so that no authority goes below that threshold.

[23] **Darren Millar:** Supporting People is perhaps another example.

[24] **Julie Morgan:** Is there a sufficiently robust set-up to measure the outcomes if the money is given directly to local authorities?

[25] **Mr Rae:** There certainly should be, and there has been an interesting development over the past couple of years in public services, not only in Wales but throughout the UK and around the world, with a move towards the more robust measurement of outcomes, especially using methodologies such as results-based accountability to focus on the types of outcomes, especially citizen wellbeing outcomes, that all Governments should be concerned with. That is the type of methodology that is slowly getting traction within the Welsh Government, and there have been areas of good practice out in local government, as well as in Michael Hearty's department within the Welsh Government, and June Milligan's, which have been making good progress with results-based accountability. You can see this type of method being used more and more in some of the grass-roots projects, and being used more strategically by central Government and local government.

[26] Looking at the programme for government, written through it almost like the lettering in a stick of rock you can see the types of approach that results-based accountability brings to good measurement outcomes. Results-based accountability is not rocket-science. It basically asks three main questions about an authority's or a government's own performance accountability and about citizen outcomes. It asks, 'How much did you do?', 'How well did you do it?', and 'Who is better off because of it?'

[27] Talking about local government grants, this type of approach has been built into the outcome agreement initiative, and it is through those types of mechanisms that you could get a firmer grip on outcomes without having all the bureaucracy in the monitoring and evaluation of specific grants that will tend to concentrate on the first question, which is to do with how much you have done, how much money you have ploughed in and so on—there will be a concentration on outputs, which does not tell you much about what you are trying to achieve with citizens.

9.30 a.m.

[28] **Darren Millar:** Of course, the outcome agreements are legal documents, in effect, between the Minister and the local authorities, so the Minister can use sanctions if any issues need to be addressed.

[29] **Aled Roberts:** I agree with Mike about there being turbulence when you move from a specific grants regime to RSG. However, is it not the case that there have been examples of grants not being needs based, with local authorities taking a certain stance towards how much they put in for? For example, with Supporting People, some authorities, including ones in the north, intentionally put a lot of bids in to begin with. There were warnings from officers that, when the grant regime changed, they would be losers. The same may have been the case with mental health in the Glamorgan authorities, when they put a lot of resources in. Is there any evidence now that central Government in Wales is applying more of a needs-based analysis when the grants are approved, rather than the impression that I got at some stages that they needed to make a decision within two weeks and just needed to get the money out of the door?

[30] **Ms Thomas:** There have been instances when they have called people in from local government to talk about the best way of distributing it. There are some examples from the other side of it, as well, in which you are told how, at the end of the day, it will be distributed. Our case has always been to try to pick up, where possible, and follow the formula within the RSG formula. Even if it has to be a specific grant, for whatever reason, we try to pick up the formula so that it is based on the population that will be helped by the measure, and then it is a matter of whether deprivation and sparsity have an impact on the level of costs or the input that you need for that.

[31] **Darren Millar:** I find these discussions interesting, because all the historic grants, whether Supporting People or anything else, have been based on a level of need identified at a point in time. The fact that some local authorities may not have taken advantage of the resources that may have been available through that is an issue. I understand that there are pockets of need elsewhere, but whether those other local authorities should be deprived is a really big issue. Bringing grants under the RSG has to soften the blow somehow to those local authorities that may have performed well in identifying need historically. Do you want to comment very briefly on that? We will then move on.

[32] **Mr Rae:** I was just going to add to what Mari has said. The auditor general's report makes reference to the grants protocol agreed between local government and the Welsh Government, and that has been in operation for a number of years. It clearly sets out that, if you want a specific grant scheme, it should be based on a relative-needs formula. There are many examples of grants, and the clue tends to be in the title of the grant. Whether it is for reimbursement, post-16 special education needs—and we are having some discussions about that grant at the minute—or concessionary fares reimbursement, those types of grants tend to have quite skewed-looking distributions for what we would consider to be relative needs.

[33] **Darren Millar:** We will discuss the protocol in more detail in a few moments.

[34] **Aled Roberts:** I just make the point that when I was a local authority leader, even when the protocol was in place, I still had phone calls to get money out of the door, and that is not the proper way of dealing with financing local authorities.

[35] **Darren Millar:** We will discuss the implications of that in a few moments.

[36] **Jenny Rathbone:** Clearly, this is not a new issue. Could you tell us what suggestions the Welsh Local Government Association has for making the applications and the reporting requirements more streamlined, easier to understand, and free from jargon? What

contributions have you made so far to the Government's grants management partnership group?

[37] **Mr Rae:** You are right. If we are to have a system of specific grants, it needs to be as streamlined as possible. Local government is generally supportive of the type of approach that the Welsh Government has taken, especially on the grants management project and the moves towards having a centre of excellence on grant management. I think that Dame Gill and Michael Hearty talked about the latter when they were here giving evidence. It is important to emphasise—you made this point at the outset, Chair—that local government is both a major funder as well as a grant recipient, and I think that we have a responsibility to ensure that our application processes are as efficient as possible. We have an ongoing dialogue with the third sector on whether it is appropriate to use grants or procurement. They both raise very different issues and there is good guidance from the National Audit Office, which helps to inform those local decisions about whether it is better to make grants or procurement-type funding choices based on the types of arguments that you see and state-aid type issues.

[38] We have a number of workshops planned with the Wales Audit Office, which I think will be held in June. One will be held in north Wales and one in south Wales. In these workshops, we will be raising the issue of more efficient grant funding and the WLGA will be supporting those workshops.

[39] **Jenny Rathbone:** I do not hear any specific proposals coming from you, and that is concerning, because this is a subject on which there has been some debate. For example, the Supporting People grants are now going via local authorities and I have heard from many smaller organisations that are very concerned that they will be locked out of the process because they are not sitting on the partnership boards of local authorities. How will you ensure that small, creative, effective organisations are not locked out of the new system, however it is designed? Surely, innovation and reaching the hard to reach is absolutely the key to the work that grants are supposed to be effective in doing.

[40] **Mr Rae:** I think that you are right. As I have said, there is an ongoing dialogue with the third sector about how these providers are funded. Supporting People is a case in point: there are some major changes afoot, not only in terms of the overall funding but in the governance of Supporting People, which may now be on a regional basis. Recently, the WLGA published a report on how to collaborate better on a regional basis and how to ensure better governance structures, which will, hopefully, support the delivery of initiatives that Supporting People, for example, addresses.

[41] **Jenny Rathbone:** I am not hearing the top-line principles that all local authorities will operate under so that you are dealing with the outliers that are not good at this sort of thing. Is it not one of your roles to show leadership and to say, 'These are the principles upon which all local authorities ought to be shaping their policies'?

[42] **Mr Rae:** Absolutely. Once again, I am sorry if I keep repeating myself, but to come back to the dialogue with the third sector, it really is vital that we give guidance so that local decision making, or local decision makers, know exactly the most appropriate form of funding on the ground, whether grants or procurement. You have talked about the outliers, and it sounds to me as if they may need targeted-type grant funding to build capacity, or to build their capacity to deliver domiciliary-type services, for example, whereas, if you are going down a procurement route, you are assuming that there is an effective market out there and you do not necessarily have to build the capacity of the third sector organisations. So, it is through those types of discussions that we will be showing that kind of leadership. I cannot remember how often our chief executive meets with the third sector, but there is certainly a meeting coming up where these types of issues get discussed.

[43] **Darren Millar:** We need to move on. Julie has the next question.

[44] **Julie Morgan:** We have already referred to the local government protocol. Why has so little progress been made so far in achieving the aims?

[45] **Mr Rae:** The Auditor General's report sets out the type of progress that has been made. It is kind of patchy and is in fits and starts. There have been a number of years where tens of millions of pounds have been put into the revenue support grant, and there were a couple of years where nothing came into it. I suppose, in general, the performance there has been patchy, but, as I said before, I do not want to paint too dark a picture, because there has been quite a lot of discussion in the distribution sub-group this year about the grant that I mentioned before, the learning disabilities resettlement grant, and a number of other grants that have been identified that may come into the settlement for 2013-14. You can see in certain portfolios, for example, that Ministers are slowly realising that, if they want to reduce bureaucracy and put the money into front-line service delivery, then one way of doing that is to put specific grants into the settlement. The Standards and Schools Organisation (Wales) Bill refers to at least a couple of grants—the school breakfast grant and the school counselling grant. The Minister has given a clear sign that he wants those to go into the revenue support grant, and the distribution sub-group is working to support those ministerial aims.

[46] **Julie Morgan:** What are you as an organisation doing to help streamline the process?

[47] **Mr Rae:** In terms of putting specific grants into the revenue support grant?

[48] **Julie Morgan:** Yes. As an organisation, what are you doing to enable that to happen?

[49] **Mr Rae:** We are part of those discussions and we lead on those discussions with the Welsh Government in trying to identify grants that could come into the settlement, and in trying to reach a negotiated settlement around some of those difficult issues that other Members have talked about, in relation to how you deal with the degree of financial turbulence or financial churn. That is where the WLGA tends to have a great input.

[50] **Aled Roberts:** Rydych chi'n dweud eich bod chi'n arwain ar y trafodaethau hynny, felly pa awgrymiadau sydd gennych flwyddyn nesaf ynglŷn â pha grantiau ddylai fynd i mewn i'r grant refeniw?

**Aled Roberts:** You say that you are leading on those discussions, so what suggestions do you have for next year in relation to which grants should go into the revenue grant?

[51] **Ms Thomas:** Y peth cyntaf i'w ddweud, ar ddechrau'r broses, yw gwneud yn siŵr nad yw'r grant yn un penodol a'i fod yn mynd i mewn i'r setliad, fel nad yw'r aflonyddwch y clywsom amdano yn digwydd. Dyna'r peth cyntaf sydd angen ei wneud. Os oes rhai allan yn barod—ac mae llawer—mae angen gweithio gyda'r gwasanaethau o fewn llywodraeth leol, ac o fewn Llywodraeth Cymru, i gael cytundeb i symud ymlaen gyda rhywbeth a datblygu hynny.

**Ms Thomas:** The first thing to say, at the outset of the process, is to ensure that the grant is not a specific grant and that it goes into the settlement, so that the turbulence that has been referred to does not happen. That is the first thing that needs to be done. If there are some out there already—and there are many—we need to work with the services within local government, and within the Welsh Government, to get an agreement to move forward with something and develop that.

[52] **Aled Roberts:** Rydych chi'n dweud bod rhai Gweinidogion yn fwy parod nag eraill i feddwl am symud y grantiau hyn i mewn i'r grant refeniw, felly pa grantiau ydych chi'n cael problemau yn eu cylch? Rydych yn dweud bod cymaint o'r arian hwn yn cael ei wastraffu ar fiwrocratiaeth.

**Aled Roberts:** You say that some Ministers are more willing than others to think about moving these grants into the revenue grant, so which grants are you having problems with? You say that so much of this money is being wasted on bureaucracy.

9.45 a.m.

[53] **Mr Rae:** With regard to questions about the arrangements that we have in place for facilitating this discussion with the whole of the Welsh Government, it has not just been the grants protocol. Every so often, a specific grants issue arises in the policy document of the day. The latest agreement between the Welsh Government and local government around the Simpson compact also makes reference to a broad agreement between the Welsh Government and local government that we will move towards putting more specific grants in the settlement. Those types of overarching agreements tend to give us a little bit more leverage across the whole of the Welsh Government to keep this on the agenda.

[54] **Aled Roberts:** However, if you have an overarching protocol, as Julie said, progress is slow, and, in a previous answer, you said that that was due in part to different portfolios being more reluctant to transfer, which portfolios are you having those difficulties with? We are hearing that between £40 million and £80 million is being wasted, or could be better used by not having to satisfy bureaucratic costs, and you have said that you are leading on those discussions. In which areas would you want to see more progress, therefore?

[55] **Mr Rae:** I am looking at the list of grants, which total £820 million. Without breaking down these grants into ministerial portfolios, it is difficult to make a judgement on what you are asking about. We know that education grants make up about £300 million of those grants. As I have said before, we are making good progress this year with some education grants, so it would almost be churlish to single out a portfolio area where we were not making much progress. In general, these grants tend to be in the big spending areas, such as education and social services. Our strategy has always been to concentrate on those large spending areas.

[56] **Lindsay Whittle:** My question follows on quite nicely from Aled Roberts's question, and is about how these grant application processes are becoming better co-ordinated. For example, what indication is there that the Welsh Government is working with other grant funders to process grants and to put bids together? Can you demonstrate how local government is also working with other grant finders to co-ordinate bids and grants? The words 'work together' are very much in vogue at the moment. Can you give us any evidence that this is happening on both sides—the Welsh Government and local government?

[57] **Mr Rae:** The main thrust of Welsh Government efforts on grants management is the grants management project. Increasingly, there is also good evaluation of not only the types of outcomes for citizens that grants aim to achieve, but also an evaluation of the process of applying for grants. I am thinking of some of the bids that I have seen for European structural funds and Invest to Save, where some good work has been done by social researchers to find out what unsuccessful applicants find worrying about the application process. That gets fed back internally to the Welsh Government. As I have said, a series of workshops is coming up within the next couple of months within which we will be working not only with the Welsh Government, but with the third sector. We are not just a recipient of grants; we distribute a large number of grants.

[58] The type of analysis on pages 24 and 25 of the auditor general's report, where he

looks at the number of grant claims with material adjustments across the 22 authorities, is interesting. You will see from that analysis that there is a wide variation in performance by authorities—at one end of the graph you will see that 60% of one authority's grant claims needed to be adjusted or qualified, while at the other end you will see authorities that needed to make no or very few qualifications or adjustments. One thing that local government needs to do is to take a look at what is happening in those authorities that are performing very well in terms of their grant returns and replicate that good practice.

[59] We know from speaking to colleagues in the Wales Audit Office that some of that performance is down to the experience of officers who are filling in grant claims or to the fact that some authorities will have dedicated officers working on grants administration. Some just have a more rigorous application of existing processes. However, on page 26, the auditor general's report underlines the point that it is really down to funders and recipients to follow up on qualification matters. Indeed, as highlighted in paragraph 2.36, in relation to the qualification of local government grants—although I do not want to point fingers—there were a number of instances of a whole-system failure in relation to the way a funder was treating certain transport grants, and there was a lack of communication between the funder and the grant recipient.

[60] So, those are the types of issues that local government needs to work on to improve the administration of grants from its end. However, as I have said, there are other things happening, such as the grants management project within Welsh Government and our work in dealing with the third sector and other providers in making those funding processes a lot more efficient. This work tends to be based on whether funding is grants based or whether it is a procurement exercise.

[61] **Darren Millar:** Oscar, I think that you have questions on this particular area.

[62] **Mohammad Asghar:** Yes, thank you, Chair. Some of my questions have already been answered. How do you explain the considerable variation in the standards of claim preparation by local authorities, as set out in part 2 of the auditor general's report? When grant-funded projects are in danger of failing, what support is the Welsh Local Government Association able to offer those local authorities?

[63] **Mr Rae:** That wide variation is a source of worry. However, that is a snapshot at any one time. One of the problems with looking at performance is that, sometimes, we tend to take snapshots or tend to be very episodic about it. Another important thing in the auditor general's report is what is happening to grant claims over time. When we look at the data that the auditor general presents on page 24 of his report, we can see that the number of grant claims with material adjustments has fallen from 292 in 2005-06 to about 189 in 2009-10. So, that is a 35% reduction in the number of claims with material adjustments.

[64] Looking at the aggregate level, it is moving in the right direction. It would be interesting to know what the performance of each authority was over time in order to find out whether the sort of chart you see on page 25 represents blips or whether there are systemic reasons for that happening. Again, if there are systemic reasons for that degree of variation, which is a worry, we have to find out what is working in the four authorities that are below 10% and how we can roll out good practice to the authorities that are having difficulties with their performance.

[65] **Darren Millar:** You referred to exhibit 7 on the adjustments and qualifications rates. You very conveniently pointed to the number of grants claimed that have involved qualifications, but you have not looked at the frequency of qualification, which has increased from one in six grant claims to one in four. One in four grant claims in Wales has to be qualified, so it is actually heading in the wrong direction is it not? It is not heading in the right

direction. It is heading in the wrong direction, and the only reason it has gone down is because the number of grants has gone down and the total volume has gone down. So, I do not understand why you are suggesting that that is an improvement. The point we are trying to get at is what exactly the WLGA is doing to minimise and improve that rate, which appears to be going in the wrong direction in terms of the trend. Are you doing anything? Do you monitor it?

[66] **Mr Rae:** I take your point. No, we do not monitor. I think that the point has been made that we have a leadership role here. It seems to me that a great deal of the monitoring is done by the Wales Audit Office in reporting back these sort of data. It is really important information that we need to use. It goes back to my point about finding out what is happening in the authorities that are not having these performance problems and trying to work with them. Again, it is an issue that there is no systematic review of what is working better and why—

[67] **Darren Millar:** Forgive me for interrupting, but what are you doing, for example, to help Blaenau Gwent to reduce its qualifications rate? Some 60% of its claims have to be qualified at the moment.

[68] **Mr Rae:** The fact is that, up until now, we have not really addressed this issue. On the back of this report and the series of workshops coming up over the summer, we will be working with authorities to improve performance in this area.

[69] **Darren Millar:** We have two quick-fire questions from Jenny now.

[70] **Jenny Rathbone:** What is the point of the WLGA unless you are addressing poor practice and distributing information about what is best practice? I do not think that you can dismiss the auditor general's report as a snapshot because the auditor general's report pulls together all the audited accounts of all the grants over a particular year. It is of considerable concern that the WLGA has not been onto this. I am sure that this is not the only year in which you have had this level of disparity between poor management and good management. If the WLGA has a purpose it must be to ensure that those who are struggling are able to understand how the Vale of Glamorgan, Wrexham and Ceredigion are doing it.

[71] **Mr Rae:** I think you are exactly right. I said that the graph in exhibit 8 is a worry, but in one respect it is a source of some comfort because we know that there are authorities that perform well. I am sure that one of the things the WLGA will be doing after speaking with the Wales Audit Office will be trying to identify what is good practice and then going into those authorities that are on the left-hand side of that graph to help improve performance. As I said, that is a leadership role, and both the chief executive and I, as director of resources, will be prominent in that role.

[72] **Darren Millar:** Sorry, let us get this right: this report was published on 29 November 2011 and you are telling me that, to date, there has been no work at all with authorities like Blaenau Gwent to improve or reduce the number of claims that they are making which are qualified.

10.00 a.m.

[73] **Mr Rae:** Not to my knowledge. However, I should say that I have only been in my position for four weeks.

[74] **Darren Millar:** We are not blaming you, Mr Rae; we are simply taking evidence this morning. I call on Aled to speak very quickly, because we need to move on.

[75] **Aled Roberts:** Mae awgrym yn yr adroddiad fod nifer o'r awdurdodau hyn wedi bod yn methu o ran eu perfformiad ers sawl blwyddyn. Mae'r Cadeirydd wedi crybwyll y ffaith y cafodd yr adroddiad hwn ei gyhoeddi ym mis Tachwedd 2011. Yn eich sesiynau chi gyda Llywodraeth Cymru i drafod rheoli grantiau, a ydyw'r Llywodraeth wedi crybwyll y problemau hyn ac wedi gofyn a oes unrhyw beth y gall ei wneud?

**Aled Roberts:** There is a suggestion in the report that a number of these authorities have been failing in terms of their performance for several years. The Chair has mentioned the fact that that this report was published in November 2011. In your sessions with the Welsh Government to discuss grants management, has the Government mentioned these problems and asked whether there is anything that it can do?

[76] **Ms Thomas:** Nid wyf wedi clywed unrhyw beth yn awgrymu hynny. Nid ydym wedi cael unrhyw drafodaethau ag unrhyw un.

**Ms Thomas:** I have not heard anything to suggest that. We have not had any discussions with anyone on that.

[77] **Darren Millar:** We will now turn to Gwyn.

[78] **Gwyn R. Price:** Is it reasonable for the Welsh Government to be expected to rely on local authorities' own financial controls when auditors are finding problems with a substantial proportion of local government grant claims? I know that you have touched on some of this, but it seems to me that the way forward is shared services. I cannot understand why, up until now, you have not pointed this out to these failing authorities because they continually repeat themselves, and nothing seems to be done. So, what is going to be done and when are you going to do it?

[79] **Mr Rae:** First, I should say that I think that you are right. Part of the issue here could be the lack of corporate capacity that could be helped by shared services. Looking at the pattern of some of the claims, there could be a regional aspect to this, where certain authorities share some of that capacity. As I said before, some of those authorities that perform well have their own grants administration officer. It is a matter of whether this is something that could be done on a shared service basis. I think that you are exactly right.

[80] **Darren Millar:** I think that the problem that we have here is that you make a case for the need to ignore the grants qualification, or the qualification of claims process, and for relying on the audited accounts of local authorities as a way forward in order to reduce the cost of qualifying claims. Clearly, there is such a high percentage that have to be qualified that it would seem to suggest that now is certainly not the right time to move away from the qualifications process, would it not?

[81] **Mr Rae:** I do not know. I think that these are two different issues. There is the issue of the qualification of grant claims. Clearly, there are issues related to performance, to which we have alluded. It would be useful to know a little more about these claims and just how material some of them are. I suspect that some of these grant claims are subject to some materiality threshold. We have provided evidence. I have certainly responded to the Wales Audit Office before on the—

[82] **Darren Millar:** I am sorry; may we just go to the exhibits again?

[83] **Mr Rae:** Yes.

[84] **Darren Millar:** According to exhibit 7, the number of grant claims involving qualifications or adjustments over £10,000 was 189 in 2009-10. That seems to me to be pretty material in terms of the volume and the total quantities involved. In paragraph 11 of your paper, you state,

[85] 'Given this level of scrutiny, it is the WLGA's view that much of the work involved in grant certification is repetitious and unnecessary.'

[86] Is it unnecessary, given the significant volume of grants that have been qualified and the total amounts involved in those qualifications? There is a very interesting pie chart at exhibit 9 as to the reasons for grants being qualified. To me, some of those seem to be serious. For example, there was a lack of supporting evidence in 22% of the unqualified claims; 24% of claims were not prepared correctly; there was unapproved or ineligible expenditure in 16%; and in 12% there was a lack of monitoring of third parties. All these are pretty significant reasons to have a claim qualified, are they not?

[87] **Mr Rae:** They certainly are, and if these grant claims were audited or were subject to the scrutiny of some of the internal auditors, the same points would probably be picked up.

[88] **Darren Millar:** However, these are cases where many local authorities have signed off accounts—they are signed, sealed and delivered for external audit with no problem in terms of a clearly unqualified audit. Yet, when the WAO has tested these claims against the criteria, they have been found wanting.

[89] **Mr Rae:** I do not disagree with that, but, for example, in the WLGA's response to the auditor general's consultation on the grants strategy, we argued for a higher threshold on some of the qualification issues.

[90] **Darren Millar:** This is in the items that you list as having been requested. I think that the one that was not accepted—you are quite right—was the limit of £500,000. I understand that it was a Welsh Government, rather than a Wales Audit Office, decision to reject that.

[91] **Ms Thomas:** All these issues for qualifications need to be looked at, but if you look at the scale of the issue, the gross value of adjustments in 2009-10 was £2 million, whereas the cost of auditing the grants or doing the grant certification work was over £2 million. It is a question of scale. Local authorities are responsible for over £5 billion of expenditure and they are identifying £2 million of adjustments. So, yes, there are issues that need to be addressed, particularly in the variability, but, overall, the scale of it needs to be borne in mind as well.

[92] **Darren Millar:** Okay. I understand.

[93] **Mike Hedges:** If a local authority had problems with a number of grants in one year, I would expect its internal audit department to go through them before putting them in the following year. I look to colleagues who were also involved with local authorities. That is the methodology by which you would minimise or try to remove problems. If local authorities are not doing that, it is a bit worrying. If they are doing it, it is even more worrying, because it is not identifying the problem.

[94] **Aled Roberts:** Rydych wedi sôn am y ffaith ein bod yn symud tuag at gaffael rhanbarthol. Mae enghreifftiau yn awr o awdurdodau lleol yn gweithio mewn consortia, er enghraifft ar y fframwaith effeithiolrwydd ysgolion. Beth yw'r manteision a'r anfanteision o ran gweithio mewn consortia? O ystyried eich ateb i'r cwestiwn blaenorol, lle mae awdurdodau mewn gwahanol ranbarthau yn gweithredu arfer da, a oes tystiolaeth mai'r awdurdodau **Aled Roberts:** You have mentioned the fact that we are moving towards regional procurement. There are now examples of local authorities working within consortia, for example on the schools effectiveness framework. What are the pros and cons of working in consortia? Given your response to the previous question, where there is good practice in authorities in different regions, is there evidence that it is those authorities that are leading on regional procurement?

hynny sydd yn arwain ar y caffael rhanbarthol?

[95] **Mr Rae:** First, there are good examples of where local authorities collaborate together and also with others in the public sector on grant applications. You can see this with some European structural fund grants and invest-to-save grants. One of the pitfalls of having any kind of shared approach is getting the right governance structure in place and having the right legal advice on the most appropriate governance structure. That is one area in which the WLGA has led, on the back of the Simpson report and the compact. We have now come to an agreement with the Welsh Government about how we will collaborate in a number of service areas. The WLGA has provided legal advice and, just a fortnight ago, published quite a hefty document that gave some good, solid, comprehensive legal advice on how local authorities should collaborate, and which would be the most appropriate governance structures when they collaborate—from small projects, where an informal type of collaboration might be most appropriate, right through to a joint committee or some special vehicle like a joint company. So, one of the pitfalls is getting the right structure, and we are currently having some discussions with the Welsh Government about what the right structure might be for Supporting People, for example. That is one area where the WLGA has led the way, I think, on trying to pull together some guidance for local authorities.

[96] I am not sure about the latter half of your question, on whether it is the better-performing authorities that tend to collaborate better—

[97] **Aled Roberts:** That was not my question. I asked whether regard had been given to which were the best-performing authorities in deciding who took the lead on grants management within certain regions. If you think of the Vale of Glamorgan and Ceredigion—I will not mention the third authority, due to modesty—as the best-performing authorities in their region, it surely makes sense for them to take a lead on grants management.

[98] **Mr Rae:** Absolutely, which is why I said that exhibit 8 was both worrying and informative at the same time. It gives you a route-map to where best practice may be, and I think that we need to do a lot more to find out what the good practice is. What is it that makes performance so good in certain areas? Then you have to make sure that that is replicated for others in that area.

[99] **Aled Roberts:** Are you not able to confirm today that, in deciding who leads, regard is given to which authority is best at this? Is it just a case of dishing out responsibilities?

[100] **Mr Rae:** You are asking me about a type of collaboration on grants administration to which I do not think much thought has been given so far. You would certainly expect those who led the pack to lead in hosting any kind of shared service where the evidence showed that they performed better.

[101] **Mike Hedges:** We have talked about this earlier, but I will ask the question formally: do you have any evidence that the Welsh Government's grant management project is having a positive impact on outcomes, and whether it is actually providing value for money?

[102] **Mr Rae:** I have not seen any hard evidence so far about the types of outcomes that you are talking about, especially when we are talking about citizen outcomes. They are the most important outcomes, which we should all be aiming for. In terms of value for money and administration, we are picking up the better processes coming out of the Welsh Government, such as standard terms and conditions for specific grants projects, and if you have a more consistent and standardised approach, you are certainly well on the way to better value for money and more efficiency in grants administration.

[103] **Darren Millar:** I have one final question. We have touched on collaboration between local authorities in applying for grants; very often, local authorities might make an application to the Welsh Government that will need to be match-funded from another grant pot somewhere else, such as the Big Lottery Fund or the Heritage Lottery Fund, or whatever else it might be. Is there sufficient co-ordination between those different sorts of grant bodies and the timetabling and profile of grants, to make it easy to access third-party or fourth-party or any other contributions that might need to come in to make things happen in local authorities?

[104] **Ms Thomas:** There is always going to be room for improvement of that sort. It has been particularly difficult in the past. With some of those lessons, the complaints have been heard and addressed. Is there room for it to get better? Yes, I think so.

[105] **Darren Millar:** With regard to the grants management project that the Welsh Government is running, does it have these major third-party funders at the table?

[106] **Ms Thomas:** Not that I am aware of.

[107] **Darren Millar:** That is something for us to explore.

[108] That brings us to the end of this session. We are very grateful for the evidence that you have provided; it is sure to be very useful when we draft our report. You will be provided with a copy of the transcript of today's proceedings—if there is anything that you want to correct in there, please get in touch with our clerks. Thank you.

10.15 a.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd  
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public**

[109] **Darren Millar:** I move that

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).*

[110] I see that there are no objections.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.16 a.m.  
The public part of the meeting ended at 10.16 a.m.*