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WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

# Grants Management in Wales



I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998.

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**Report presented by the Auditor General for Wales to the  
National Assembly for Wales on 29 November 2011**



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## Summary

- 1 Grants are very important in Wales. The Welsh Government and other statutory funders use them as a powerful lever for achieving their policy objectives, enabling local government and the voluntary sector to provide specific services to Welsh people. Grants both initiate and sustain significant economic and social activity and also represent significant investments of time and taxpayers' money.
- 2 Our analysis identified that Wales uses specific grant funding more heavily than other parts of the UK, with a relatively high number of schemes and consequently relatively high administration costs. While it is unclear how many grants are currently being made to or by Welsh public bodies, in September 2011 we knew of over 500 different schemes collectively worth some £2 billion a year. Unlike other UK administrations, the Welsh Government has not removed restrictions on a significant level of grant funding, although it is reducing the number of grant schemes to local government. Administration and management costs are shared between funders and recipients and typically amount to at least 10 per cent of funding.
- 3 It is clearly very important that grants are well planned and managed. Funders want the maximum possible resources directed to project delivery, and they also want to be sure those resources are delivered in a way that achieves real value for money. Perhaps most importantly, the public must be confident that this funding is being administered and spent
- 4 in a fair and transparent way. Consequently, certification of grant claims remains a significant part of the Auditor General's work, complementing and supporting his audits of the accounts of Welsh public bodies. These include the major grant-paying bodies in Wales as well as the recipient bodies, notably the 22 Welsh local authorities.
- 5 Since 2005, the Wales Audit Office has also published major reports on a range of topics related to public grants, and these are listed in [Appendix 2](#). They include studies on major investments from the public purse, such as the Communities First Scheme and capital projects supported by the Arts Council for Wales. Some of these reports have been written in response to serious issues of public concern, such as those raised in connection with the Cymad Cyf scheme and the Plas Madoc Communities First Partnership in Wrexham.
- 6 We bring this range of insight together in this report, to answer the question, '*Are Welsh public sector grants well managed?*'
- 6 Our overall conclusion from our work is that many grants are poorly managed, with funders and recipients failing to learn from past mistakes. However, there is clear evidence of a desire to improve and the Wales Audit Office is well placed to continue supporting them to do so, in part by publication of this report.



- 7** Many grant schemes are overly complex and funders and recipients rarely learn from past failures. The complexities of scheme conditions and the inconsistency between funding timetables, often referred to as the 'funding maze', makes it difficult for applicants to operate effectively to secure funding and deliver their objectives. We are concerned that high profile examples of poor grants management share common and recurring weaknesses. Key weaknesses we have identified have included a failure to adequately consider the viability, capacity and capability of recipients. In many instances, clarity of criteria and objectives has been lacking. We have also noted numerous instances of failure to adequately assess and mitigate risk. Weaknesses in ongoing monitoring also feature prominently in the list of recurring issues. Significantly, funders have failed to act on lessons learned when designing new schemes.
- 8** There is significant variation in the quality of grants management at local authority level and funders rarely tackle poor performance or follow up when claims are qualified. But, while improvement is slow, we see that many funders – and some recipients - are beginning to improve their arrangements for managing grants to achieve better value for money. Most notably, the Welsh Government's Grants Management Project has the potential to facilitate some significant improvements, both in cost savings and process efficiency. Some councils have also improved their grant management arrangements, but others are failing to follow suit.
- 9** While the benefits of adopting other funding mechanisms in some circumstances have long been recognised by funders, specific grant funding has continued to predominate in practice. Recipient concerns may have influenced this, and the third sector especially has concerns that procurement may be a slower process and prohibitively resource intensive. It may well be that in many cases grant funding remains the most appropriate mechanism. Where it is not, funders should ensure they have fully considered the potential impact of a change in funding approach and the need to minimise any unintended consequences. However, it is important that funders and recipients maintain an open-mind as to the best funding approach in each case.

## Recommendations

We recommend that funders should:

- 1** Look to simplify their grants portfolio more rapidly, by combining schemes where this is appropriate, in order to realise efficiencies in administration cost and in the hidden costs to the public purse borne by unsuccessful applicants.
- 2** Develop systems to ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments and, where possible, with other funders.
- 3** Work with other funders to learn from experience, develop complementary schemes and co-ordinate bidding timetables.
- 4** Work singly and together to improve the clarity and accessibility of grant-related information to bidders and encourage appropriate community involvement.

- 5 Ensure that risks relating to bidders' viability, capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery.
- 6 Ensure that project outcomes and standards of project and financial management are clearly defined and agreed in writing with recipients before releasing funding.
- 7 Consider the relative merits of approaches other than grant funding, such as procurement, loans and investments, before committing to a new or continued grant scheme as the most appropriate mechanism for achieving the stated objectives.
- 8 Take robust action when grants have been overpaid or misused, by suspending funding where necessary, recovering appropriate sums and, where funding is continued, strengthening requirements on recipients and monitoring arrangements before releasing further funding.



## Part 1 – Wales uses specific grant funding more heavily than other parts of the UK and the number of schemes and level of administration costs are relatively high

- 1.1** In this report, although other forms of funding are sometimes referred to as ‘grants’, we take ‘grants’ to mean arrangements where the funding body requires its funds to be used for a specific purpose and in accordance with strict controls as set out in its terms and conditions. This type of grant funding is also known as ‘hypothecated grant’ or specific grant. Grants are a key means for the Welsh Government and other statutory funders to deliver their strategic priorities and outcomes. The main emphasis of the report is on specific grants awarded by the Welsh Government, but it also considers the significant specific grants awarded by the Welsh Government’s various sponsored bodies.
- 1.2** We are publishing a separate report on the management of grants under the European Structural Funds, but it is important to note these as another significant source of funding for Wales. In addition to domestic specific grant funding, the current six-year round of European specific grant aid is worth around £3 billion over the period to 2013, when it is likely to be superseded by a new convergence programme. While most projects in this round of funding are led by the Welsh Government, local authorities are important delivery partners on a number of significant projects.
- 1.3** Even before the introduction of devolved government in Wales in 1999, grants were a prominent feature of the funding landscape in the Welsh public sector. Before devolution, the former Welsh Office made extensive use of hypothecation in relation to council funding. But, as [Exhibit 3](#) on page 13 demonstrates, the trend in the last 10 years has been towards significantly increased levels of hypothecation.
- 1.4** The biggest recipients of specific grant funding from the Welsh Government in Wales are the 22 unitary authorities, and most local authority funding comes from the Welsh Government. In 1999-2000, specific revenue grants to local government stood at around £68.4 million with capital grants amounting to £129 million<sup>1</sup>. For 2011-12, these specific grants amounted to £760 million for revenue and to £456 million for capital<sup>2</sup>.

## While it is unclear how many grants are being made to or by Welsh public bodies, in September 2011 we knew of over 500 schemes collectively worth some £2 billion a year

- 1.5** Many grant schemes operate across the private, public and voluntary sectors. These tend to open and close at different times and the schemes themselves often change in character over time. Hence, it is very difficult to determine precisely how many grant schemes are in operation in Wales at any one time.
- 1.6** A 2010 report commissioned by the Welsh Government from PricewaterhouseCoopers: *Review of the cost of administering the education system in Wales – Phase 1 (April 2010)*<sup>3</sup> stated that ‘the exact number of grants currently in existence is not clear’, although the number of schemes operated by the Welsh Government’s Department for Children, Education, Lifelong Learning and Skills (DCELLS) was estimated at 108 for 2006-07. More recently the Business Case for the Welsh Government’s Grants Management Project identified 148 separate education grants.
- 1.7** In the Business Case for the Welsh Government’s Grants Management Project, there is also a collation of information on all of the individual schemes listed on its e-Grant system. Across the various departments of the Welsh Government itself during 2009-10, some 480 individual schemes were operating, together worth over £2 billion a year, as shown in [Exhibit 1](#).

- 1.8** The Welsh Government’s grant schemes vary in size, value, complexity, delivery models and administrative costs. They range from one-off individual grants to complex partnership and multiple grant-funded projects. The Welsh Government’s Business Case document states that just 21 of these grant schemes accounted for some 67 per cent of the total spend recorded. It also refers to a similar exercise in England, which found that 90 per cent of expenditure funded just 12 schemes, with the remaining 10 per cent funding over 550 others.
- 1.9** Our review of the 2010-11 annual reports and accounts of the various public bodies that are directly sponsored by the Welsh Government indicates that they also distribute specific Welsh grant funding to support a wide range of their own schemes [Exhibit 2](#).

## Unlike other UK administrations, the Welsh Government has not removed restrictions on a significant level of local authority grants, although it is reducing the number of grant schemes

- 1.10** As [Exhibit 3](#) illustrates, since the creation of a devolved administration for Wales in 1999, successive Welsh Governments have made increasing use of specific grants as a proportion of overall grant funding provision for local authorities.



## Exhibit 1 - Grant Schemes operated by the Welsh Government, 2009-10

Department	Total Departmental Budget	Number of active grant schemes	Total grant expenditure claim values 2009-10	Grants as % of total Departmental Budget
<b>DCELLS</b> (schools, post 16 education, Cymorth and youth services)	£1,994 million	112 schemes under £1 million 32 schemes between £1 million and £25 million 4 schemes over £25 million  <b>Total 148</b>	£811 million	41%
<b>PSLG</b> (local government, culture, community safety)	£3,421 million	76 schemes under £1 million 14 schemes between £1 million and £25 million 3 schemes over £25 million  <b>Total 93</b>	£236 million	7%
<b>DHSS</b> (health and social services)	£4,994 million	58 schemes under £1 million 23 schemes between £1 million and £25 million 4 schemes over £25 million  <b>Total 85</b>	£263 million	5%
<b>DE&amp;T</b> (technology, innovation, enterprise and transport)	£1,598 million	62 schemes under £1 million 15 schemes between £1 million and £25 million 4 schemes over £25 million  <b>Total 81</b>	£310 million	19%
<b>DESH(SF)</b> (housing, agriculture, waste, flooding and coastal protection and the environment)	£598 million	47 schemes under £1 million 22 schemes between £1 million and £25 million 6 schemes over £25 million  <b>Total 75</b>	£430 million	72%
<b>Total for Welsh Government</b>	<b>£12.6 billion</b>	<b>482 schemes</b>	<b>£2.05 billion</b>	<b>16%</b>

### Note

This analysis is based on the various Welsh Government departmental portfolios that existed to May 2011

Source: Welsh Government Business case for the Grants Management Project

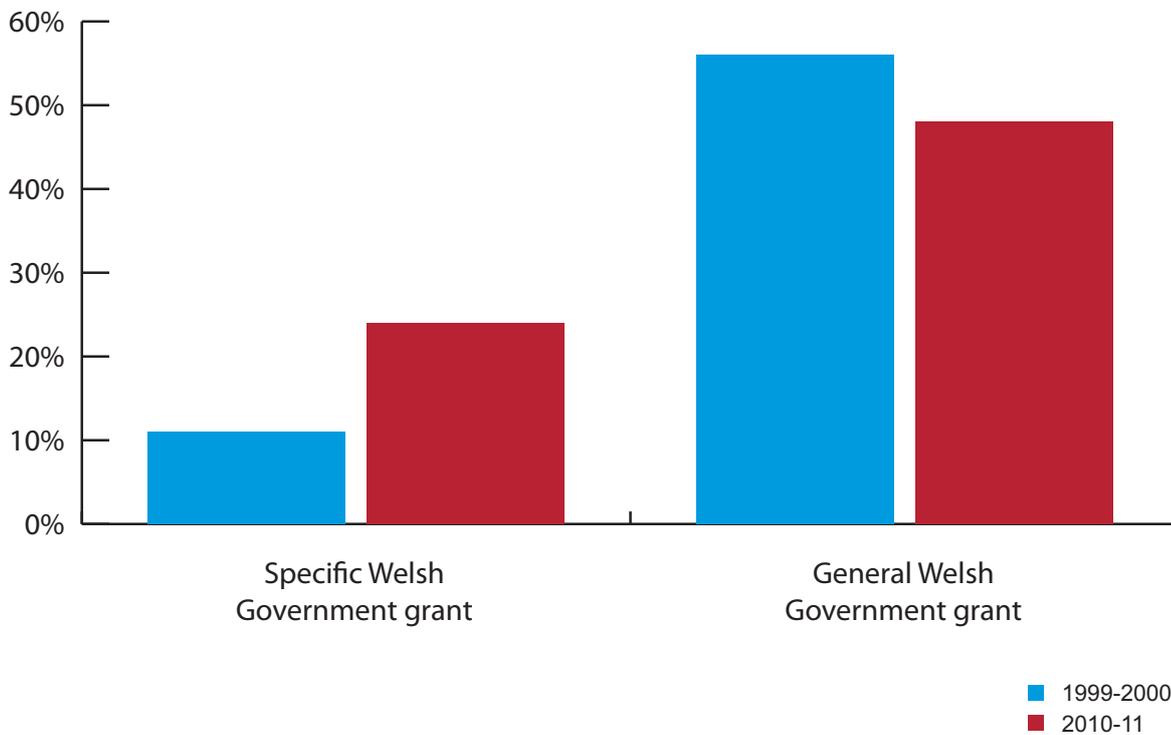
## Exhibit 2 - Examples of the major grant schemes operated by bodies funded by the Welsh Government

<p><b>Higher Education Funding Council for Wales</b> £12 million was distributed under its 'Research Capital Investment Fund'.</p>
<p><b>Arts Council of Wales</b> Distributed around £29 million in annual revenue grants to specific organisations and also under schemes such as 'Arts outside Cardiff' and the 'International Opportunity Fund'; Grants to some 40 individuals ranged from £600-£20,000. Nearly 140 grants were given to arts organisations, with the revenue grants varying from £19,000 to £1,093,000.</p>
<p><b>Sports Council for Wales</b> Awarded £20 million for its partnerships with local government and its programmes for Performance and Excellence, PE and School Sport; Sportsmatch; Let's Walk Cymru; and for people and programme development.</p>
<p><b>Countryside Council for Wales</b> Around £10 million distributed to 13 schemes, principally in support of the Council's 'biodiversity', 'awareness', 'environment for all', 'community strategies' and special initiatives.</p>
<p><b>Welsh Language Board</b> Distributed around £4.7 million in grants to over 50 bodies promoting the use of Welsh, and provided another £2.9 million to Local Education Authorities to promote Welsh-language education.</p>
<p><b>Care Council for Wales</b> Provided just under £5 million for training support and other grants. Of this, just over £3 million was paid to social work students under its 'bursary' scheme.</p>
<p><b>Forestry Commission Wales</b> Distributed just under £5 million under its 'Glastir' scheme for sustainable land management and two schemes for promoting beneficial use of woodlands.</p>

Source: Notes to the bodies' financial accounts for 2010-11



**Exhibit 3 - Comparison of the grants element of Welsh Government funding to local authorities as a percentage of all revenue funding received 1999-2000 and 2010-11**



Source: Wales Audit Office analysis of Welsh Government financial statistics

**1.11** An example of the use of specific grants as a policy lever arises in the field of waste management services, where the Welsh Government provides funding to local authorities under its Sustainable Waste Management Grant (SWMG), in addition to other, non-specific grant funding. The SWMG scheme rules for 2011-12<sup>4</sup> prohibit the use of this funding for *'dirty materials recovery facilities, where recyclables are removed from residual mixed wastes that have not had any prior sorting'*. In essence, this leads local authorities away from roadside collection of unsorted recyclable waste and encourages them to insist that householders pre-sort their recyclable waste into separate containers for collection – an approach deemed by the Welsh Government to be more sustainable.

Conversely, some local authorities fear that mandating this approach may actually reduce householder participation levels in kerbside recycling schemes and jeopardise the achievement of national targets for recycling.

**1.12** In a series of representations to the Welsh Government from the Welsh Local Government Association (WLGA)<sup>5</sup>, local authorities have made clear that they find the increasing use of specific grant funding to be overly restrictive, wishing instead to have the freedom to spend money and arrange services as they think best in the light of locally identified priorities.

- 1.13** In support of the 2004-05 local government revenue funding settlement, the Welsh Government and the WLGA agreed a ‘Protocol’ for specific grants<sup>6</sup>. Their mutual objectives were to:
- a** keep the number, value and duration of specific grants to a minimum;
  - b** achieve as much certainty as possible, and as early as possible in the financial year, about the amount of funding that local authorities could expect to receive by way of specific grants; and
  - c** have a clearly stated exit strategy for every specific grant.
- 1.14** The Protocol set out an ‘entrance test’ for proposed new specific grants and a checklist for a recommended triennial review to consider whether existing specific grants should continue. The aim was to reconcile the needs of the Welsh Government and local government. The Protocol was developed alongside a new system of ‘outcome-focussed’ policy agreements. An Outcome Agreement Grant is paid pro-rata to each local authority according to the level of its success in achieving outcomes agreed in advance with the Welsh Government.
- 1.15** Since the Protocol was developed, the Welsh Government has continued to consider which of its specific grants might transfer into the general settlement. However, between 2005-06 and 2009-10, only a modest (and decreasing) number of relatively small grants were actually transferred, as shown in [Exhibit 47](#).
- 1.16** In November 2009, the Welsh Government announced a new approach to funding local authorities<sup>8</sup>. Its aim was to continue to reduce hypothecation and bureaucracy, while recognising the need for clarity and local discretion and appropriate control for particular cross-sectoral needs and national priorities.
- 1.17** In May 2010 the Welsh Government published *A new understanding between the Welsh Assembly Government and Local Government in Wales*<sup>9</sup> in which it stated:
- “In line with the joint Assembly Government and WLGA Grants protocol the Assembly Government remains committed to reducing the number of specific grants and thereby transferring funding into the Revenue Support Grant at the earliest opportunity”.*
- This certainly appears to have provided some fresh impetus to the reduction in hypothecation, as the last 18 months have seen an increase in the transfers from specific to non-specific funding, as shown in [Exhibit 5](#).
- 1.18** Looking elsewhere within the UK, the Scottish Government introduced a new financial concordat with local government in 2008, which was predicated on Scottish councils agreeing to a council tax freeze<sup>10</sup>. As part of the funding package, the vast majority of ring-fenced grants in Scotland were abolished. Over three years, from 2008-09 to 2010-11, the Scottish Government pledged to cut specific grants from £2.7 billion to just £0.3 billion, accompanied by a dramatic reduction in the reporting burden on individual councils. The Scottish settlement for 2011-12<sup>11</sup> lists only four specific grants, and if police funding is excluded, the other three schemes total only £13 million.



#### Exhibit 4 - Specific grants absorbed into annual Revenue Support Grant or other non-specific Welsh Government grant schemes between 1 April 2005 and 31 March 2010

Year	Schemes absorbed into non-specific grant funding	Total (£ million)
<b>2005-06</b>	Children First - first phase: £14 million Music Development Fund: £1 million Abolition of Residential Allowances: £24.8 million	<b>£39.8 million</b>
<b>2006-07</b>	Children First - second phase: £15 million Learning Disabilities Grant: £30 million Capacity Grant: £20 million Carers' Grant: £6 million Additional revenue funding for schools: £20 million	<b>£91 million</b>
<b>2007-08</b>	Children First - third phase: £16 million	<b>£16 million</b>
<b>2008-09</b>	None	<b>£0</b>
<b>2009-10</b>	None	<b>£0</b>

#### Exhibit 5 - Specific grants absorbed into annual Revenue Support Grant or other non-specific Welsh Government grant schemes since 1 April 2010

Year	Schemes absorbed into non-specific grant funding	Total (£ million)
<b>2010-11</b>	Schools special grant: £9 million Schools Energy costs grant: £2 million Older People Strategy: £1.7 million Fairer charging: £10 million Mental health carers grant: £4 million	<b>£26.7 million</b>
<b>2011-Present</b>	Elements of the Cymorth fund: £5.5 million Child Family Law Court fees: £2.6 million Funding to implement the Children and Young Persons Act 2008: £2.5 million	<b>£10.6 million</b>

**1.19** In England, many initiatives over the last decade have introduced limited flexibilities and freedoms within specific grant regimes as a stimulus to performance improvement. In November 2010, the Comprehensive Spending Review saw the transfer into the general local government funding settlement of over 80 English specific grants, worth in total some £7 billion annually<sup>12</sup>. Some 90 specific grants were therefore reduced to less than 10, excluding those for schools, police and fire authorities. However, some pressure groups have subsequently claimed that grant funding which used to be earmarked for their members' specific needs (such as carers' respite<sup>13</sup> or gypsy travellers) is no longer reaching them. There have also been claims that significant sums formerly ring-fenced for vulnerable people under the 'Supporting People' programme are being diverted for other purposes due to financial pressures with budgets generally<sup>14</sup>.

**1.20** Our work within Wales has also illustrated that there are some risks inherent in any loosening of the controls over the spending of grant funding. The Auditor General's report, *Major transport projects*, published in January 2011, found that the Welsh Government had not set out clearly enough the basis of its involvement in projects funded through its Transport Grant mechanism but delivered by local government. Engagement by Welsh Government officials in these projects was, as a result, inconsistent. The Welsh Government had also not made clear its expectations in terms of local project management arrangements for those schemes funded by the Transport Grant. This was due, in part, to a view that it was not the Welsh Government's place to exercise close control over local authorities' delivery of these projects.

**1.21** In written evidence to the previous Public Accounts Committee earlier this year<sup>15</sup>, the Welsh Government acknowledged that the more limited top-down control exercised in the past had contributed to the increasing costs on the Transport Grant-funded major projects that featured in our report, when compared with early estimates. However, both our report and also the Welsh Government's evidence to the Public Accounts Committee pointed to the actions that had been taken over the previous two years to exercise greater control over the Transport Grant programme and the future delivery of the new Regional Transport Plans.

## **Grant administration and management costs are shared between funders and recipients, and typically amount to at least 10 per cent of funding**

**1.22** While there have been few robust studies into the administration costs of grant schemes, various grant paying bodies have attempted to estimate these in broad-brush terms. **Exhibit 6** shows the considerable variation that exists in the different estimates that we have come across in the course of our work.

**1.23** This range suggests that grants administration costs represent at least 10 per cent of the total funds awarded on some schemes. Funders are increasingly conscious of the need to reduce administration costs<sup>16</sup>. For example, the UK Government's Lottery Minister recently announced that both English and UK-wide Lottery distributors would be required to cut their Lottery Grant administration costs to just five per cent. The Heritage Lottery Fund will have until March 2013 to reduce their costs, while the Big Lottery Fund, Arts Council England and



## Exhibit 6 - Estimated costs of grant scheme administration

<b>Welsh Government</b> (Grants Management Project Business Case)	<b>up to 10%</b> of grant value
<b>Big Lottery Fund</b> (Small Grants Thematic Evaluation Policy Studies Institute) <sup>17</sup>	<b>5% to 25%</b> of grant value
<b>Welsh Local Government Association</b> (Partnership Council meeting July 2010)	<b>5%</b> of grant value

the merged Sport England/ UK Sport will have an extra 12 months to allow for other reforms that involve changes to their income, reorganisation and merger respectively.

**1.24** A wide range of activities contribute to funders' administration costs, including:

- a** establishing criteria and application processes;
- b** developing the mechanism for funding distribution;
- c** scheme promotion;
- d** enquiries and consultations; and
- e** monitoring and evaluation.

**1.25** Grant applicants, for their part, bear costs associated with bid preparation and planning, even if ultimately unsuccessful in their applications. Recipients additionally bear the cost of reporting, accounting, self-monitoring and evaluation. Administration costs of around 10 per cent would mean that, overall, between £60-70 million each year is spent on managing and administering grants to local government in Wales. For Welsh Government grants, for example, the recipient is usually also required to bear the cost of auditors' certification fees. Those costs amount to between 0.5 per cent and one per cent of the value of the grant.

**1.26** It is clear that both funders and recipients have a mutual interest in efficient and effective grants administration. In the Business Case for its Grants Management Project, the Welsh Government estimated that improved processes and standardisation of administrative arrangements for grants to local government could generate ongoing internal savings of around £3 million annually from 2013-14. Some £2 million of this was expected to arise from improved administration and around £1 million from eliminating duplication in the Welsh Government's IT systems. However, we consider that this initial savings projection is unambitious, representing as it does a reduction of no more than five per cent of the current administrative costs.

**1.27** Given the economies of scale that are achievable through fewer, larger, simpler grant schemes, it is reasonable that the Welsh Government should seek to identify efficiencies on a larger scale. Indeed, in the medium term, the Business Case projects a much higher level of overall saving claiming that: *"the scheme will drive through savings conservatively estimated at £31 million"* and that: *"the payback period is over a short time frame"*.

## Part 2 – Many grant schemes are poorly managed, lessons are rarely learned and funders frequently fail to tackle recipients’ poor performance

**2.1** Good grants management is both economical and efficient, and it effectively supports the grant paying body and the grant recipient to achieve the intended outcomes of the grant scheme. However, we have found that grants management in Wales frequently fails to meet these standards. There are indications that the range and complexity of grant schemes in Wales makes it difficult for applicants to navigate their way through the various conditions of funding.

**2.2** Our audit work on grant claims submitted for certification also shows that too often grant funders do not:

- a** recover unspent or improperly spent grant awards; or
- b** robustly follow up issues highlighted as qualifications in auditors’ reports.

### The funding maze makes it difficult for applicants to operate effectively to secure funding and deliver their objectives

**2.3** A Local Government Association Circular *Delivering More for Less: Maximising Value in the Public Sector (2008)*<sup>18</sup> devoted an entire section to the allocation of funding and the urgent need to simplify funding complexities for grant applicants and recipients. It gives the example from England of a Department for Children, Schools and Families’ circular<sup>19</sup> which indicated over 50 members of departmental staff that local authorities should contact in relation to 70 different grants.

**2.4** In Wales, evidence from head teachers and teaching trades unions to the Finance Committee’s ‘Hypothecated Grants Inquiry’ in March 2009 supported this view<sup>20</sup>:

“While such grants provide much needed, and welcome, additional funding to schools, [National Association of Head Teachers Cymru members] have significant concerns about the proliferation of such grants, and the way in which the system is administered:

- i** Grant application processes, and the evaluation and accountability systems attached to them, are hugely bureaucratic to administer.
- ii** Schools are increasingly dependent on specific grants for activities, which should form part of a school’s core funding.
- iii** The uncertain and short term nature of grants makes it difficult for schools to carry out effective and strategic longer term financial planning.”

**2.5** The Department for Children, Education, Life-long Learning and Skills (DCELLS) expenditure map of its 2008-09 programme indicates over 8,000 individuals and organisations to which payments were made by the Department. Many of these payments were in respect of small, low value grants. The Wales Audit Office has identified a repeating pattern of concerns by applicants and recipients about the way grant schemes are administered by the Welsh Government. Our work identifies their need for simpler, less ambiguous and more consistent requests for information. Applicants and recipients also want better-aligned timetables for grant funding schemes. These themes emerged particularly in our work on Arts Council of Wales capital projects.



- 2.6** In our work, we have identified a lack of co-ordination by funders and recipients in relation to crosscutting programmes. Our work on Communities First has shown that improving awareness and co-ordination must be a clear priority for all Government departments as well as for the participating local authorities.
- 2.7** The third sector is also experiencing similar difficulties with the complexities of Welsh Government funding and grants administration. The Welsh Government has responded to this difficulty by commissioning the development of an online grants portal called *Sustainable Funding Cymru*<sup>21</sup>. The portal offers a searchable database of UK funding opportunities, advice and support on raising funds. It claims to provide “*practical advice and guidance to organisations that want to develop an entrepreneurial outlook to funding*”.
- 2.8** Greater clarity and better co-ordination across schemes will be increasingly important as collaborative and partnership working techniques are used to underpin the delivery of an increasing range of services.

## High profile examples of poor grants management share common and recurring weaknesses

- 2.9** Since 2005, the Auditor General has published 18 national reports on schemes, programmes or projects where significant public investments have been made through specific grants. These reports are listed in [Appendix 2](#), and all highlight the damaging consequences of poor grants management, which include wasted funding, missed opportunities and damaged reputations. A number of common weaknesses have emerged from these studies and these are examined below.

### There have been failures to consider adequately the viability, capacity and capability of recipients

- 2.10** One of the most common weaknesses has been the failure by funders properly to assess the viability of grant applicants. Our report on the *Wales Millennium Centre*, for example, highlighted the need for bidders’ viability and capacity to be assessed more thoroughly. Awards of grant and other key financial decisions have not always been based on robust and up to date information. Nor has this information always been sufficiently comprehensive, including material such as audited accounts, management accounts, cash-flow forecasts and business plan forecasts.

**2.11** The capacity and capability of the recipient has not always been sufficiently well examined. Funders have failed to assess potential applicants and their proposed schemes by analysing trends in uptake, market analysis and stakeholder perceptions. Both funders and recipients should use sensitivity analysis on key business case assumptions, to test for vulnerabilities and any uncertainties in financial projections. It is often the case that recipients lack the capacity or skills to develop bids or to manage large projects. There is scope for funders to provide more support to applicants in developing skills to write bids, particularly in areas such as the *Communities First* programme. There is also scope for funders to support applicants in developing wider partnerships or collaborations with other organisations that do have the capacity and relevant skills.

#### Case Study 1 - The Communities First programme

**In July 2009, the Auditor General published a report on Communities First, which highlighted, among other factors, weaknesses in monitoring.**

In spite of a £214 million investment, the Communities First Programme still faced significant risks and challenges eight years after its launch. While the Auditor General's key messages related to the issue of bending mainstream programmes to complement Communities First, his report also identified issues related to the administration of the grant funding. The Welsh Government could not demonstrate the overall impact of the programme in meeting its objectives and although it was improving its ability to measure progress, some weaknesses remained. There were also serious weaknesses in the Welsh Government's planning for and management of Communities First in the programme's early years.

**2.12** Funders have sometimes failed to ensure that experienced and expert staff risk-assess the recipient's financial management capability. Applicants for capital funding have not been required to show compliance with good practice (for example, good practice in construction as identified by the Office of Government Commerce). Finally, and as illustrated by the case of *Cymad Cyf*, public funders have too often failed to share information on weaknesses identified in a recipient's financial management arrangements, even between departments of the same funder.

#### Case Study 2 - Cymad Cyf

**In May 2010, the Auditor General published the report Management of public funding of Cymad Cyf, a report which highlighted the failure by the funder to assess and address weaknesses in the financial management capability of the recipient.**

Cymad Cyf, an enterprise agency based in Gwynedd, went into liquidation in 2009. It received £3.6 million of public funding between 2003 and 2008 and its objectives were closely linked to those of the Leader II European Programme from which it received the bulk of its funding. Some of the funding had to be returned because of a failure to comply with funding conditions. The Auditor General concluded that Cymad did not adequately control some of the public funding that it received, but there was no evidence of fraudulent misuse, and the public bodies mostly managed their funding effectively. However, a key message was that the various Welsh public bodies who provided funding to Cymad had failed to share information effectively amongst themselves about the weaknesses they had identified in Cymad's systems and controls.



## Clarity of criteria and objectives has been lacking

- 2.13** The Auditor General's reports also clearly point to weaknesses in the ways in which objectives are defined by grant funders. Outcomes for citizens are often unclear and difficult to measure. Key examples have included the earlier years of the *Communities First* programme.
- 2.14** There have also been failures to establish the quality standards required under the conditions of the grant. The Auditor General's report on *Capital Investment in Schools* illustrated the requirement for grant schemes for new building projects to set clear criteria for construction, drawing on existing advice and guidance and then updating these as legislation or other requirements change.
- 2.15** The Auditor General's reports have also often identified a commonplace failure to link well-defined outcome objectives with an analysis of what resources are needed and a clear understanding as to how the programme or project will deliver those objectives. We have also identified a lack of clarity on the part of funders with respect to their own contributions towards meeting each element of programme costs. And in relation to capital investment in schools in particular, we identified a failure to set a clear timescale for recipients to deliver the capital works.
- 2.16** There have been instances where outcome indicators have varied between partners delivering the same projects. Such indicators, for example on how the *Communities First* programme was improving outcomes for residents, need to be jointly developed and agreed.

- 2.17** Finally, there were some instances where the specific outcome targets that had been identified were not sufficiently challenging. Without challenging targets, there exists a real risk that good value for money can be compromised. One such example of this weakness in grants management is drawn from the Auditor General's report *Forestry Commission for Wales: Public funding of Ffynone and Cilgwyn Woodlands*, which we published in August 2010.

### Case Study 3 - Ffynone and Cilgwyn Woodlands

Ffynone and Cilgwyn Woodlands are in North Pembrokeshire. In July 2006, Calon yn Tyfu Cyf (Calon), a workers' co-operative, submitted an application to the Forestry Commission for Wales (FCW) under the Commission's Cydcoed grants scheme, to develop the woodlands for community use.

The Auditor General's report concluded that the funding to Calon met the high-level grant scheme conditions, but found that the scheme criteria and procedures for reviewing applications were not sufficiently robust, increasing the risk that this significant public investment might not be safeguarded.

## There have been failures to adequately assess and mitigate risks

- 2.18** As the *Ffynone and Cilgwyn Woodlands* case study above illustrates, there have been instances where public funds have been paid in advance, where recipients have not demonstrated that a project cannot proceed without such payment, and where the risks of advance payment have not been sufficiently well assessed or mitigated. There is a clear risk that without such safeguards, assets that should be secured for community benefit in the long-term could be lost, with consequent adverse implications for the public purse. As the Auditor General's report, *Protecting public money in the LG Projects, Newport* highlighted, funding agreements should

ensure that land and infrastructure (or their value) or 'up-front funding' can be recovered if projects fail to make reasonable progress against targets.

#### Case Study 4 - Protecting public money in the LG Projects, Newport

**The failure to manage risk adequately played a key role in this high profile project, as highlighted in a report published by the Auditor General in March 2007.**

In his report into the public funding of a major inward investment project, the Auditor General found that whilst the projects were properly appraised, the agreed aid package exposed the Welsh Authorities to important risks, not all of which were adequately managed. The Welsh Authorities negotiated an aid package for a project that was bigger than expected, but which had inherent structural risks. The report noted that while the (then) Welsh Office had undertaken appropriate due diligence and obtained the necessary regulatory approvals, there were delays in obtaining the approval of the European Commission, and that its approval was based on cost estimates that could not be fully substantiated. Importantly, the aid package was front loaded with most assistance payable in the early stages of the projects, and the recovery provisions in the legal agreements could also have been stronger in some respects.

**2.19** Good governance and sound financial control are essential, especially at small bodies such as charities and companies limited by guarantee, which are not covered by mainstream public sector audit arrangements. This is exemplified by the Auditor General's report on the *Plas Madoc Communities First* project. Similarly, and as a basic element of sound governance, in his report on *Cymad Cyf* the Auditor General recommended that offer letters should require a grant recipient to inform its funders immediately if any of its officers involved in handling public funds are suspected of fraudulent activity.

**2.20** A clear theme has emerged concerning the need for staff responsible for the oversight of grant funding to have risk management training on a periodic basis. They should be sufficiently skilled to create risk registers for each major project to cover its full life cycle and should then review them at least quarterly. As large capital projects move from construction to their operational phase, funders and recipients have in some instances, failed to identify residual risks, assess their impact and put appropriate plans in place to manage them.

#### Case Study 5 - Plas Madoc Communities First project

**In March 2010, the Auditor General published his report, *Plas Madoc, Communities First* drawing attention to the failure to address a range of serious issues over a number of years.**

Some of the failings at the Plas Madoc Communities First (PMCF) project were identified some years before the concerns of a member of the public prompted an internal audit review and the intervention of the Auditor General. His report concluded that issues had not been addressed for a number of years and that the Welsh Government should have monitored the financial management and governance of Communities First partnerships across Wales more effectively. It also concluded that the Welsh Government should have responded more effectively to specific concerns about PMCF that had been brought to its attention by third parties.

**2.21** It is also clear from the Plas Madoc report, and the fact that the former co-ordinator of the scheme has recently pleaded guilty to nine charges of fraud, that certain specific risks should be considered as inherent in some grant-funded projects delivered in the community. Grant funders have sometimes failed to impress on recipients that they must operate with full regard to the recognised standards for public life and obtain proper value for money for public funds.



## There have been weaknesses in ongoing monitoring

- 2.22** All public bodies have a responsibility to keep proper records and monitoring information. Our work has highlighted, particularly in the report on the *Wales Millennium Centre*, that they should not interpret the Freedom of Information Act as providing any form of justification for a failure to retain important information and records.
- 2.23** We have found that even when there have been long-standing failings in monitoring or when auditors and other third parties have raised concerns, for example in relation to *Plas Madoc*, or the *Ffynone and Cilgwyn woodlands*, monitoring information has been at times very weak.
- 2.24** The level and frequency of monitoring information required should, of course, be proportionate to risk, but it is likely as a minimum to include monthly management accounts, cash-flow forecasts and key business performance indicators. As the *Cymad Cyf* report demonstrated, funders should keep the recipient's financial position under ongoing review to identify possible weaknesses in financial management and thereby allow timely remedial action to be taken.
- 2.25** Performance reporting systems should also focus on the extent to which projects are securing the funder's long-term objectives, rather than simply addressing the immediate achievement of measurable outputs. Identifying appropriate measures of outcomes for citizens, which often result from a complex combination of inputs, can be difficult. But funders have sometimes failed to monitor the measures that they have set.

## Funders have failed to act on lessons learned when designing new schemes

- 2.26** Another common theme from our work has been the consistent failure of funders to view their funding cycle as an opportunity to learn from previous experience in order to strengthen processes and to improve the overall effectiveness of their grant schemes. We found that particularly in the areas of *Capital investment in schools* and in capital funding by bodies such as the Arts Council, funders should be more systematic in their evaluations of the value for money and impact achieved from their capital investments.

## There is significant variation in the quality of grants management at local authority level

- 2.27** As we have seen in various case studies set out in this report, any non-compliance with often-complex terms and conditions may mean that grants must be repaid, fully or in part. Examples of such non-compliance may arise from factors as varied as arithmetical miscalculations, the inclusion of ineligible expenses, the duplication of particular costs or discrepancies in dates.
- 2.28** Auditors conclude whether entries on claims are likely to be fairly stated when they 'certify' them. Where any of the factors described above leads to a claim being inaccurate, the auditor will inform the claimant and request their agreement to a correcting adjustment to the claim. If this agreement is not secured – or some uncertainty remains – the auditor will 'qualify' the claim. Around a quarter of all grant claims by Welsh local authorities were qualified, or else adjusted by a significant amount prior to final submission, following

auditors' work in 2009-10. This compares with around the same proportion of claims that had certification letters in England in 2009-10.

**2.29** Exhibit 7 shows the steady increase in the percentage of claims in relation to Welsh Government grant claims qualified and/or adjusted since 2005-06, although the value of adjustments has decreased by more than 50 per cent over the same period.

**2.30** There is considerable variation in the levels of grant claims that are qualified or adjusted across the 22 Welsh unitary authorities, as shown in Exhibit 8. Over half of councils had more than a quarter of their grant claims for 2009-10 qualified or adjusted, with one council having 60 per cent of its claims adjusted or qualified. In contrast, at four councils the qualification rate is less than 10 per cent, with one council having a perfect record for 2009-10.

**2.31** While we have some evidence to suggest that those councils which dedicate an officer to co-ordinating and improving grants administration see an improvement in their performance in this respect, we have also seen examples where a more rigorous application of existing processes by a council has achieved similar results.

**2.32** As shown in Exhibit 9, there are a wide range of reasons why qualification of grant claims is found to be necessary. The most common weaknesses are incorrect preparation of the claim itself and a lack of supporting evidence, which together accounted for nearly half of the 290 qualification issues identified for 2009-10. Amongst other important factors are the inclusion of unapproved or ineligible expenditure, inadequate monitoring of third parties and careless purchasing.

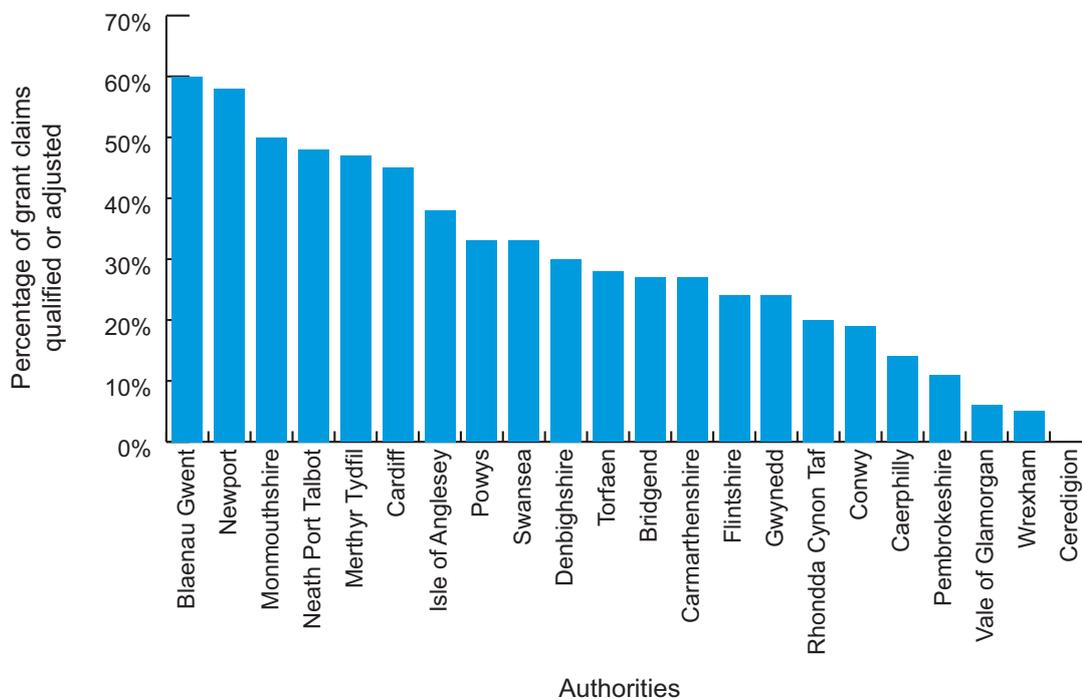
#### Exhibit 7 - Adjustments and qualifications of local government claims, 2005-06 to 2009-10

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Frequency of qualification and/or major adjustment</b>	1 in 6 claims	1 in 5 claims	1 in 4 claims	1 in 4 claims	1 in 4 claims
<b>Gross value of adjustments</b>	£5.0 million	£4.0 million	£3.8 million	£1.3 million	£2.0 million
<b>Number of grant claims involving qualifications, or adjustments over £10,000</b>	292	275	312	201	189

Source: Wales Audit Office grants data from copies of certified claims and returns at March 2011



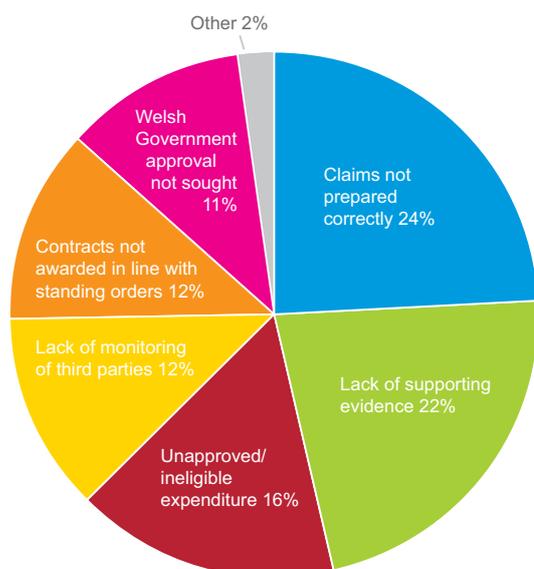
### Exhibit 8 - Percentage of grant claims adjusted or qualified for 2009-10, by council



Source: Wales Audit Office grants data (March 2011) from copies of certified claims and returns

### Exhibit 9 - Reasons for qualifications of local authority claims

290 qualification issues analysed from the 230 qualification letters issued during 2009-10 (mainly for 2008-09 claims)



Source: Wales Audit Office grants data from copies of certified claims and returns

**2.33** It is also apparent that most councils are failing to take advantage of the considerable body of guidance and support that is available to help them improve the accuracy and efficiency of their grants administration. One key factor, which is explored in more detail in the following section, appears to be the lack of real incentives for grant recipients to increase the accuracy of their grant claim submissions, particularly given that funders so rarely act even in response to qualified claims.

## **Funders rarely tackle poor performance robustly or follow up when claims are qualified**

**2.34** The impact of the auditor's work can only be maximised if both funders and recipients follow-up all qualification matters effectively. After receiving qualification letters, funders should follow a robust process to ensure overpayments are recovered and weaknesses in claims are addressed. Firstly, they should recover overpayments and, in more serious cases, consider suspending any future payments until issues are satisfactorily addressed. Funders should require the recipient to provide any missing documents and information and seek confirmation as to whether the recipient has improved its procedures to prevent a reoccurrence. Importantly, funders should also share wider implications internally (for example, between relevant departments of the Welsh Government) and with other public funders of the grant recipient.

**2.35** Our work to audit grant claims, as well as the Auditor General's value for money studies into aspects of major grant-funded projects, has led us to the clear conclusion that public bodies in Wales that give grants often fail to follow up erroneous claims. There is a clear risk here that public funds may be being misdirected with a consequent weakening of their intended impact. There is also a risk that public confidence in the way taxpayers' money is being spent could be weakened by further high profile cases such as those discussed earlier in this report.

**2.36** Many of the issues that lead to qualification and/or adjustment of grant claims are of long standing. A qualification letter issued by the auditor in December 2009 reminded the Welsh Government that it needed to agree a council's balances for Free Concessionary Travel Grant for the years prior to 2007-08. In its administration of the Road Maintenance Grant, the Welsh Government has repeatedly failed to respond to authorities' requests to approve road works and similarly failed to respond to auditors' qualification letters reporting expenditure on schemes that were additional to the original programme. Partly because of this lack of response by the funder, one council spent some £219,000 on works that were outside of the original approval.



- 2.37** As **Exhibit 7** indicates, in 2009-10 some £2 million of auditor adjustments to grant claims by local authorities were required in relation to key Welsh Government grant schemes, with one in four claims requiring adjustment, one in thirteen of which are significant. The effect of such widespread adjustments is to make it more difficult for local authorities to plan their finances to support project delivery with any degree of certainty.
- 2.38** There is, however, no doubt that the certification of grant claims acts as an effective check on inaccurate claims. When the Drug and Alcohol Treatment Grant was introduced almost a decade ago, the Audit Commission certified the claims by the former health authorities. From 2002-03, however, that grant scheme was replaced by the Substance Misuse Action Fund, which was directed to Community Safety Partnerships. New terms and conditions were set, requiring local authorities to operate adequate financial controls, and no auditor certification arrangements were required. Subsequently, and at the Welsh Government's request, certification arrangements were reinstated in 2007. Across Wales, nearly one third of the authorities' claims for that year were found by auditors to be inaccurate and were qualified.

## Part 3 – While improvement and the introduction of alternatives to grant funding is slow, funders and some recipients are beginning to improve their arrangements

**3.1** This report has shown that weaknesses in relation to the efficiency and effectiveness of grant management in Wales are founded in a number of key areas, and we examine the responses of funders and recipients to these issues in this part of the report. However, several recurring issues have emerged from our work which apply to all funders and recipients, and these are summarised below.

### Improvement is slow

**3.2** Auditors report any significant risks on grants to audited bodies within the Annual Audit Letter (or equivalent) and in other periodic reports dealing specifically with grant certification issues. In recent years, our reports to the Welsh Government and its sponsored bodies have repeatedly noted instances where it was unclear how grants fitted into policies and strategies. There have also been a number of instances where grant schemes of longer standing had not been reviewed against more current needs and circumstances. We have also reported, on more than one occasion, on the unsuitability of timetables for bidding rounds and grant claim submissions. Perhaps the most commonly recurring weakness is that performance targets are too often poorly defined and fail to focus on outcomes. This means that it is difficult to arrive at a robust evaluation of value for money.

### There is more scope for public bodies to make use of funding mechanisms other than specific grants to achieve their outcomes

**3.3** There is a spectrum of options available to public bodies as they seek to secure their policy and spending objectives. This spectrum ranges from specific grant funding, through mechanisms such as loans, to straightforward purchasing of goods or services. Our view is that there has been an overreliance on grant funding as the default mechanism and it is encouraging to see funders, including the Welsh Government becoming increasingly aware of the need to tailor funding mechanisms to purpose. However, whatever mechanism is used, the focus must be on securing value for money and well-defined outcomes.

**3.4** Whilst they can choose to award non-specific grants, public bodies can also opt to procure goods or services via contractual arrangements, to offer loans (which are repayable and thus potentially can be reinvested in similar projects), or they can choose to invest in projects, essentially taking a direct stake in the outcome of the project or, where applicable, becoming a shareholder in the recipient company.



- 3.5** Because a grant is technically a gift or donation, the funder has no implicit right to receive anything in return, and instead usually attaches various general or specific terms and conditions as to how the grant is to be spent and any claims submitted. The Auditor General regularly receives correspondence raising concerns about the way in which grants are directed to providers of goods and services, including allegations of favouritism and/or commercial disadvantage from other potential service providers. In some cases the justification for making a grant payment, rather than adopting a procurement route, is unsupported by documentary evidence.
- 3.6** Conversely, a contract is a legally enforceable agreement between the commissioner and the other party where the other party agrees to provide services in return for payment. In general terms, a contract will be more enforceable than a grant agreement. In addition, all public procurement in the UK is governed by the European Union Treaty (including State Aids regulations) and European Procurement Directives.
- 3.7** In 2008, the Controller and Auditor General for New Zealand published a good practice guide “Public sector purchases, grants and gifts: Managing funding arrangements with external parties”. **Appendix 3**, while not fully applicable to the Welsh context, provides a useful overview of the different categories of funding arrangements and relationships.
- 3.8** Recognising that the criteria for choosing a particular funding mechanism are complex, and the importance of making the right choice, the Welsh Government has established a rapid response team. Part of the team’s role is to advise the relevant Accounting Officer on the most appropriate funding mechanism for any new proposal. The team provides advice with a view to achieving best possible value for money; complying with legislative requirements and relevant policies and agreements; and maximising the likely achievement of Welsh Government objectives.
- 3.9** This initiative is at a very early stage but appears to support the objectives of the Grants Management Project and has the potential to provide timely and joined-up support to decision-making.
- 3.10** High-profile factory closures such as those at the Bosch plant in Miskin and the LG factory in Newport have highlighted the natural inclination of firms, and in particular inward investors, to follow the most generous government finance package.
- 3.11** However, there are signs of greater use of loans to stimulate investment, which may serve to mitigate these risks. One example is the JEREMIE project administered by Finance Wales, which combines European Investment Bank finance with funding from the European Regional Development Fund to encourage investment in small and medium-sized businesses. Recipients pay off the loans as they grow and that initial tranche of funding can then be reinvested by Finance Wales in other projects, to secure further benefits. Similarly the online grants portal, called Sustainable Funding Cymru, claims to provide *“practical advice and guidance to organisations that want to develop an entrepreneurial outlook to funding”*.

## The Welsh Government and other funders are now improving their arrangements for managing grants to achieve better value for money

### The Welsh Government has introduced some positive changes

- 3.12** The Welsh Government has recently introduced new arrangements for supporting the management of its business that are intended to enable greater cross-departmental working in relation to grants management and provide an effective and sustainable grants management framework. Importantly, it has also established the 'Grants Management Project'.
- 3.13** The Business Case for the Grants Management Project, which itself refers to many of the weaknesses and issues previously identified by the Wales Audit Office, was approved by the Welsh Government in September 2010. It states that the project's aims are to deliver:
- a** better processes, procedures and tools to support the appropriate award, monitoring and management of grants;
  - b** better information to improve and support planning, implementation and decision making at corporate, departmental and scheme level;
  - c** a consistent governance and regulatory framework to better control resources to guard against misuse of funds; and
  - d** an efficient and professional grants management framework.
- 3.14** As part of the project, the Welsh Government has also created a Centre of Excellence Team, to support staff dealing with grants in individual departments. This Team has an important role in sharing best practice and expertise across all departments of the Welsh Government, and in standardising grants management processes. Plans are also in place for a new corporate IT system to manage all future Welsh Government grant schemes and projects, and to establish a 'grants gateway' process. The new IT system is scheduled to be operational in 2013, and the Welsh Government expects it to provide an accurate picture both of grants expenditure across the organisation, and also the specific outcomes from those various grants.
- 3.15** There are other examples of initiatives by the Welsh Government to improve the effectiveness of hypothecated funding. In 2009, it launched a new 'Invest to Save Fund', which involved a portfolio of repayable investments rather than a simple grant<sup>22</sup>. The aim was to create a sustainable fund, as all repayments generated from a share of the future savings achieved are to be recycled into the funding of new activities. Initially, some £20 million was made available for this new scheme, which is supporting 46 projects to improve efficiency, promote joint working including the development of shared services arrangements, and to improve care for patients or vulnerable people.
- 3.16** Following the 2009-10 Welsh Government review of education funding, the Education Minister began a 'Front Line Resources' review with the aim of streamlining the funding system and reducing unnecessary bureaucracy<sup>23</sup>. The review team has several working groups and one has a focus on grants and policy. In June 2011,



it published the report *Frontline Resources Review - One Year On*. Recommendations set out in the report included:

- a** fewer separate DCELLS grant schemes for local authorities;
- b** moving to simplified, formula-based funding delivery, which takes account of the new consortia model; and
- c** a new, integrated grant scheme to support the School Effectiveness Framework.

**3.17** In the Education Minister's response to the recommendations, he stated: *'in respect of the School Effectiveness Framework composite grant, 85% of the funding should go directly to school bank accounts'*. He also stated that there was to be a *'presumption that there would not be a 'bidding' process for revenue funding held by DCELLS and others unless there is an exceptional and compelling reason to do so (for example to comply with European funding requirements)'*.

**3.18** This simplification of grant schemes is by no means confined to education. One of the largest and most cross-cutting schemes, Supporting People, will see two funding streams, Supporting People Revenue Grant, and Supporting People Grant, unified under revised processes for allocation and distribution<sup>24</sup>. Furthermore, there will be a greater focus on securing tangible outcomes, robust evaluation and new mechanisms to better estimate the value for money obtained.

### Other funders have introduced positive changes

**3.19** The Sports Council for Wales is developing a 'Team Wales' approach to its grant funding regime<sup>25</sup>. The Council wants to see genuine and sustainable partnerships across the public, private and voluntary sectors become the norm. By acting increasingly as an enabler and advisor, the Council hopes to add value to the work of its partners by helping them to find joint solutions and by improving links at both local and national levels. The Sports Council's 'Team Wales' approach is intended to lead to better grant making by improving relationships with those who receive grants and by stimulating greater collaboration.

**3.20** The Welsh Language Board's scheme for promoting the Welsh language is moving towards 'outcomes-based funding', acting on advice from the Big Lottery Fund<sup>26</sup>. The Board's aim is to cut unnecessary bureaucracy and save time, whilst also improving the quality of the information collected on the impacts of its funding. New ways of monitoring being introduced by the Board include some of those used by 'Children in Need' for obtaining qualitative information, such as measuring changes in people's feelings towards the Welsh language by using one-to-one interviews and video diaries. The Board is also recommending use of the 'Prove It!' monitoring scheme, which is a popular and simple set of toolkits used widely within the voluntary sector for proving outcomes and assessing the impact of project work<sup>27</sup>.

**3.21** One example of a flexible approach would be the Heritage Lottery Fund decision to change some of its procedures in response to the economic challenges facing many of its grant applicants. It has raised its annual allocation for major projects from £20 million to £30 million and also removed its bidding deadline, so that applicants can work to timetables which best suit their own projects. This allows applicants much greater flexibility to secure support from partners and to work more effectively with other funders. Whilst value for money is still of vital importance, the Heritage Lottery Fund now encourages applicants to ask for what they really need to deliver their projects, rather than under-bidding in the hope of improving their chances of receiving a grant at all. In August 2008, the Heritage Lottery Fund stated publicly that: *'in the current climate HLF would rather be asked for a little more at the outset than see major projects falter later due to pressures on other sources of funding'*<sup>28</sup>.

### **Some councils have improved their grant management arrangements, but others are failing to do so**

**3.22** Three Welsh authorities (Ceredigion, the Vale of Glamorgan and Wrexham) now have their grants qualified only rarely. For Welsh Government grants, two of them had just one claim qualified for 2009-10 funding and one had none qualified.

**3.23** Carmarthenshire County Council has appointed a Grants Compliance Officer to help it improve its processes for grants management and provide support for its project managers and other staff. The Council now has a 'one stop shop' for expert advice and better claim compilation. Investment in a funding database has helped fundraising and improved project management as the database allows for full and interactive tracking of grants and projects. Improved collaboration between departments means not only that the Council's funding bids are better in quality, but also that the risk of duplication of effort by competing managers is avoided.

**3.24** There are also examples of clusters of public bodies, led by councils, coming together to improve their approach to grant funding. 'Artsconnect' in South-East Wales is a project where seven authorities are creating a shared arts service supported by a far more cohesive funding package<sup>29</sup>. In South-West Wales, regional funding fairs bring together four local authorities and their respective councils of voluntary associations. By working together, around 1,200 delegates at these events are able to benefit from grants funding advice, face-to-face surgeries and workshops.

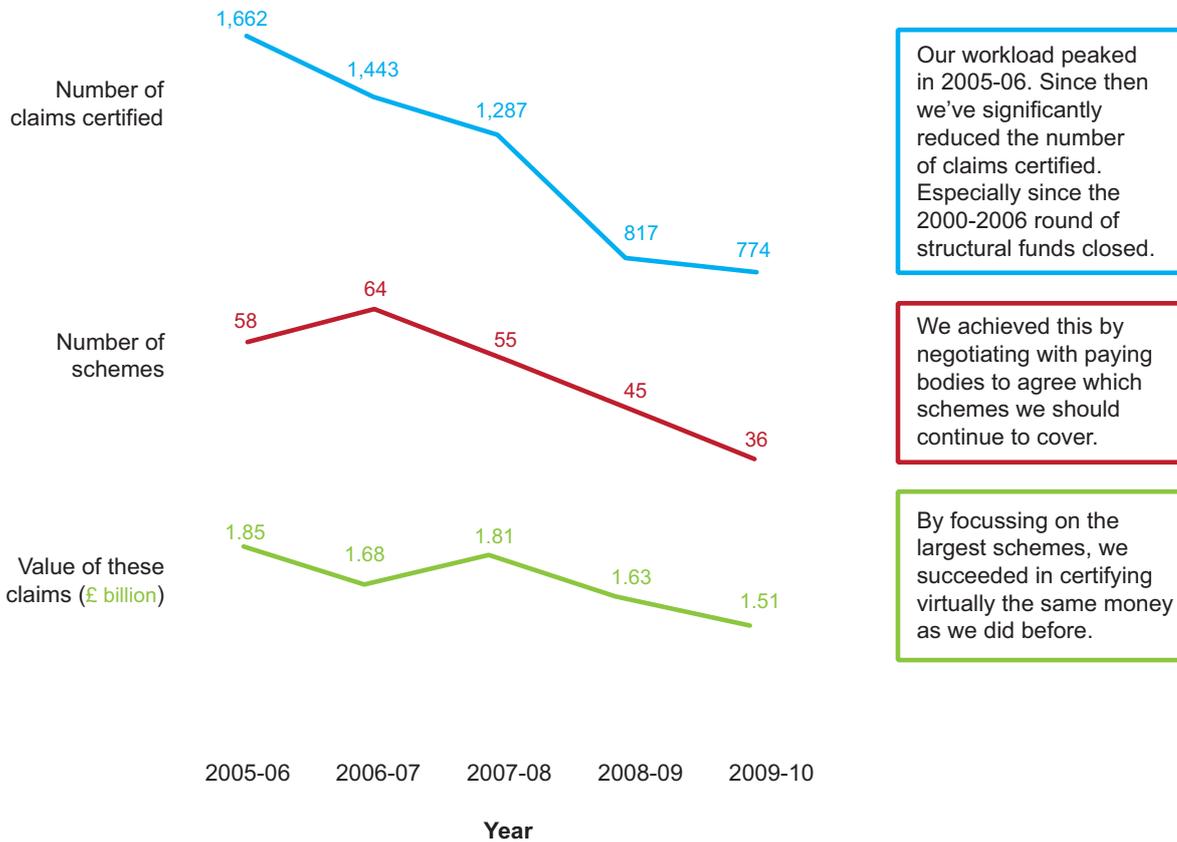


## Appendix 1 – The Wales Audit Office Grants Strategy

- 1** The Auditor General is required under the Public Audit (Wales) Act 2004 and, more specifically, by Schedule 8 of the Government of Wales Act 2006, to make certification arrangements for grant claims and returns if requested to do so by a relevant funder or recipient body.
- 2** The Welsh Government currently allocates over £600 million to local government annually under various grant schemes, many of which are subject to certification by the Auditor General. He also provides certification in respect of grant funding from other sources. For example, the Department of Work and Pensions provides Welsh local government with a further £250 million, and another £250 million comes from European Structural Funds via the Welsh European Funding Office (WEFO).
- 3** Auditor certification provides a direct and valuable assurance to both paying and receiving bodies and also, indirectly, to taxpayers and users of public services. Certification also aids the identification and dissemination of good practice in grants management and administration, which can lead to reductions in processing costs and other service improvements. The cost of certification is proportionate and average fees represent less than 0.2 per cent of claim values.
- 4** Monitoring can be demanding. Specifying, collecting, analysing and reporting project information incurs costs through delays and staff time. As public funders can be risk-averse, they are often tempted to set excessive monitoring requirements. The UK Government and the National Audit Office issued the following advice:

*‘Funding bodies should seek to minimise the monitoring and inspection burden on the recipients of funds to a level proportionate to the level of funding and risk, and which maintains proper control of public monies’.*  
HM Treasury, National Audit Office, Office of Government Commerce (2006).
- 5** The National Audit Office also set out practical guidance on how to apply proportionate monitoring in 2009. It encouraged funders and recipients to discuss monitoring requirements at an early stage and use existing systems and reports, such as annual reports and accounts, when possible.
- 6** During 2009-10, the Auditor General made certification arrangements for 36 schemes, involving 774 claims. It has been his policy for some years to achieve greater impact by certifying an increasingly smaller number of schemes whilst concentrating on those of the highest value.
- 7** **Exhibit 10** summarises how this has been achieved.

## Exhibit 10 - Certification of grant claims – a five-year trend analysis



**8** The grants management expertise of the Wales Audit Office is widely recognised in the accountancy profession. We played a significant role in developing the new framework on the audit of government grants, published by the Institute of Chartered Accountants in England and Wales. A copy of this Technical Release, AAF 01/10, is available on our Grants Good Practice Exchange. The framework aims to improve understanding of what auditors can do when asked to certify claims. It will bring greater consistency in grant reporting.

**9** In February this year, the Auditor General wrote to all of the public bodies across Wales whose grant claims he certifies, to set out his strategy to achieve:

- a** a clear direction for all aspects of grants certification work;
- b** a more efficient and cost-effective approach to grant certification; and
- c** better integration of grants certification with his other financial and performance audit work.



- 10 There will be greater flexibility:** the Grants Strategy describes a flexible approach, which allows for the certification of grant schemes that have different or novel ways of working.
- 11 Certification will be proportionate to risk:** auditors will certify schemes only when there exists a clear justification to do so, rather than simply as a matter of course. Where it is possible to do so without an unacceptable level of risk the current 'de minimis' threshold (the level at which we will certify a claim) will initially be increased from £50,000 to £100,000 for claims. The 'de-minimis' principle will be applied 'intelligently' with the de-minimis level being reviewed for each scheme annually.
- 12** Our future work programme will better reflect risk and we will encourage funders to consider whether our auditors' work is necessary for their schemes, as alternatives such as regular contact and monitoring, or use of internal audit might be more suitable if risks and complexities are low.
- 13 We will continue to test claims robustly but seek new ways to do this:** the Strategy makes it clear that the Wales Audit Office will subject all claims to an appropriate level of substantive testing, irrespective of the quality of internal control. However, the instructions and guidance that the Auditor General issues to those responsible for certifying grant claims will in future require them to consider recipients' internal controls, alongside any relevant work undertaken by internal auditors.
- 14 We are improving reporting and exploring options for certifying non-financial outcomes:** it is not yet feasible to report on non-financial matters when certifying claims but the Wales Audit Office is discussing with the paying bodies how it might be possible to introduce the independent certification of some non-financial project outcomes.
- 15 Auditors will now also report on overall performance in relation to grants at each local authority:** at the request of the Welsh Government, we have developed a new way to give a Wales-wide view on Strategic Regeneration Area grants. This product helps identify key risks and inform future audit work and is expected to lead to significant cost savings. We will develop other value-added products on grants management as and when appropriate.
- 16 We will engage earlier and more effectively with scheme designers:** historically the Wales Audit Office has only been contacted by paying bodies in relation to how grant schemes that have already been designed should be certified (in order to obtain the necessary assurances that grant money has been appropriately spent). The new approach is to actively review schemes at an earlier stage, where possible as early as policy development.
- 17** By engaging with the paying departments and the Welsh Government's Centre of Excellence at an earlier stage, the Wales Audit Office is providing valuable advice and guidance in developing new schemes (to ensure they are robustly constructed to support the achievement of the scheme's objectives in the most efficient and effective manner). The result is a reduced level of qualifications and adjustments and a greater degree of certainty to support financial planning and management.
- 18** Early indications suggest that this new approach is valuable to the managers and administrators of new schemes, who are often under pressure to launch them quickly and make early payments to service providers.

- 19** **We will support improvement through sharing good practice:** we launched our Grants Management Good Practice Guide in April 2008. This web-based guide is unique as it brings together the perspectives of funders, bidders and recipients and auditors/reporting accountants. It advises on all stages of a grant's lifecycle - right from an initial idea, through to the funding award, project delivery, claims processing, and final evaluation and exit/succession arrangements.
- 20** To complement the Guide, we held 'shared learning' seminars across Wales. Practitioners from the private and voluntary sectors joined those from the public sector, giving all the opportunity to share frustrations and find common solutions. Over 150 delegates attended, bringing with them close to 1,000 years of collective grants experience.



## Appendix 2 – The Auditor General’s published reports on grant-related matters

August 2005:	Regeneration: A simpler approach for Wales
June 2005:	The collapse of Antur Dwyryd-Llŷn Ltd
November 2005:	Funding for the National Botanic Garden of Wales
February 2006:	Administration of Grants for Education Support and Training (GEST) and the Better Schools Fund
March 2006:	Work-Based Learning
March 2007:	Protecting public money in the LG Projects, Newport
September 2007:	Delivering the Home Energy Conservation Act in Wales
November 2007:	Tir Gofal
January 2008:	The Arts Council of Wales - Supporting Major Capital Projects
October 2008:	Funding for the Wales Millennium Centre
November 2008:	Operations of the Forestry Commission Wales
July 2009:	Communities First
October 2009:	Work Based Learning Follow-up Report
March 2010:	Plas Madoc Communities First
May 2010:	The management of public funding by Cymad Cyf
July 2010:	Capital Investment in Schools
August 2010:	Forestry Commission Wales: Public Funding of Ffynone and Cilgwyn Woodlands
January 2011:	Major Transport Projects

## Appendix 3 - Features of different funding arrangements

Taken from 'Public sector purchases, grants and gifts: managing funding arrangements with external parties' Office of the Auditor General, Wellington, New Zealand, June 2008.

Type of funding relationship	Minor conventional purchase	Major conventional purchase	Minor relational purchase	Major relational purchase
<b>Features that indicate this type of relationship</b>	Legally enforceable obligations to deliver. Likely to be an effective market. Low or moderate value. May be unplanned or once-only purchase.	Legally enforceable obligations to deliver. Likely to be an effective market. High value. High risk. Possibly long term. May have alliancing or partnership characteristics.	Legally enforceable obligations to deliver. May not be an effective market. May be a long-term relationship between the parties, even if specific contract is limited. Provider may be highly specialised.	Legally enforceable obligations to deliver. May not be an effective market. Likely to be a long term and substantial relationship between the parties. Critical supplies or services. High risk. May have alliancing or partnership characteristics.
<b>Common examples</b>	Consumables, such as stationery. Once-only professional or consultancy services.	Capital assets. IT systems. Major consultancy services.	Policy advice or peer review services from an advocacy group. Specialist professional advice. Research. Minor health services.	Residential care services. Major research programme. Ongoing professional advice.
<b>General expectations: planning stage</b>	Any planning, decisions, and approvals follow the entity's policies and procedures.	Formal planning and project systems put in place to manage the contract process. Suitably skilled staff assigned. Legal advice on process and contract as needed.	Any planning, decisions, and approvals follow the entity's policies and procedures. A key person assigned to manage the particular funding arrangement. Early liaison between the key person and any others in the public entity involved in managing the relationship with the external party.	Planning, decisions, and approvals at a level appropriate to the scale of the contract. Suitably skilled staff assigned. Early liaison between the key person and any others in the public entity involved in managing the relationship with the external party. Legal advice on process and contract as needed. Assessment of risks and relationship context.
<b>General expectations: selection stage</b>	Selection process may vary (direct negotiation, quotations, preferred suppliers, closed tenders) but will involve periodic reference to the market. May be standard form contracts, or little negotiation of terms. Documentation of agreement.	Competitive selection process (preferably open tender). Formal processes with procedural safeguards. Negotiation of specific and detailed terms and conditions. Full formal documentation of contract.	Selection process may be limited if no effective market, or if urgent and specialist goods or services needed. May be no negotiation of terms, or use of standard form contracts. Documentation of agreement, possibly through an exchange of letters.	Selection process more likely to involve direct negotiation than competitive systems. If no effective market, may use other approaches to determine price (for example, open book, benchmarking components, or independent peer review). Clear documentation of agreement and what is being funded.
<b>General expectations: monitoring stage</b>	Possibly periodic payments, dependent on performance. Monitoring through normal office systems for processing receipts and invoices.	Systematic oversight. Comprehensive reporting. Payments dependent on performance.	Payments dependent on performance.	Systematic oversight. Reporting requirements tailored to situation. Periodic payments, dependent on performance. For long-term contracts, periodic review to ensure that the rationale for the arrangements continues to apply.
<b>General expectations: review stage</b>	Periodic review of satisfaction with suppliers.	Programmed review well before contract expires.	Periodic review of purchasing experience and satisfaction. Periodic discussion with external party about mutual needs and satisfaction.	Programmed or regular review to check the purpose still relevant, satisfaction of both parties, price, and any other issues.
<b>Sources of guidance</b>	<i>Procurement guidance for public entities</i> <i>Principles to underpin management by public entities of funding to non-government organisations</i> <i>Mandatory Rules for Procurement by Departments.</i>	<i>Procurement guidance for public entities</i> <i>Principles to underpin management by public entities of funding to non-government organisations</i> <i>Achieving public sector outcomes with private sector partners</i> <i>Mandatory Rules for Procurement by Departments.</i>	<i>Procurement guidance for public entities</i> <i>Principles to underpin management by public entities of funding to non-government organisations</i> <i>Mandatory Rules for Procurement by Departments.</i>	<i>Procurement guidance for public entities</i> <i>Principles to underpin management by public entities of funding to non-government organisations</i> <i>Achieving public sector outcomes with private sector partners</i> <i>Mandatory Rules for Procurement by Departments.</i>

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### Basic principles

Accountability • Openness • Value for money • Lawfulness • Fairness • Integrity

Conditional grant	Grant with limited conditions	Gift or donation
<p>Supports a “public good” activity, organisation, or project.</p> <p>Limited ability to legally enforce performance.</p> <p>Funding is staged; tranches released as milestones achieved.</p> <p>Significant conditions attached (for example, commitment of other funders, procedural checks).</p> <p>Often not a commercial body.</p>	<p>Supports a “public good” activity, organisation, or project.</p> <p>Limited ability to legally enforce performance.</p> <p>Any obligations likely to be around process and reporting.</p> <p>Unlikely to be a commercial body.</p> <p>May involve a relationship with another government.</p>	<p>No obligations attached.</p> <p>Usually very low value.</p> <p>Unlikely to be a commercial body.</p>
<p>Support for major development projects (for example, a community facility).</p> <p>Research grants.</p> <p>Ongoing support for a public interest activity or organisation.</p>	<p>Foreign aid.</p> <p>Environmental grant.</p> <p>Minor research.</p> <p>Support for specific purpose initiatives (for example, setting up a website for a community group).</p>	<p>Business gifts.</p> <p>Gifts to build relationships.</p> <p>Cultural courtesies.</p> <p>Marketing and public relations giveaways.</p> <p>Koha.</p>
<p>Process to check that purpose aligns with entity’s business or functions.</p> <p>Organisational policy and business planning to develop systems and criteria for considering applications or requests.</p>	<p>Process to check that purpose aligns with entity’s business or functions.</p> <p>Organisational policy and business planning to develop systems and criteria for considering applications or requests.</p>	<p>Authorised in accordance with entity’s policies.</p>
<p>Systematic process for considering applications or requests against criteria.</p> <p>Specific assessment of the basis for the amount of the grant sought.</p> <p>Clear documentation of terms of the grant and what is being funded.</p> <p>Clear and appropriate conditions set to manage risk and ensure suitable accountability.</p>	<p>Systematic process for considering applications or requests against criteria.</p> <p>Specific assessment of the basis for the amount of the grant sought.</p> <p>Clear documentation of terms of the grant and what is being funded.</p> <p>Some clear and appropriate conditions set to manage risk and ensure suitable accountability.</p>	<p>No application process.</p> <p>Voluntary.</p> <p>May be a tangible gift, or money, or time.</p>
<p>Regular reporting or other checks (at an appropriate level) to assess progress and whether further funds should be released, to enable funder to assess success.</p> <p>Payment may be in advance of delivery/performance but could be in stages to manage risk.</p>	<p>Payment may be in advance of delivery/performance but could be in stages to manage risk.</p> <p>Possibly some ongoing reporting or monitoring arrangements, depending on risk, scale, and nature of the relationship, to enable funder to assess success.</p>	<p>No reporting by recipient.</p>
<p>Full reporting of achievements against the purpose of the grant.</p>	<p>Some reporting of achievements against the purpose of the grant.</p>	<p>Recording through normal office systems for minor expenditure.</p>
<p><i>Principles to underpin management by public entities of funding to non-government organisations</i></p>	<p><i>Principles to underpin management by public entities of funding to non-government organisations</i></p>	<p><i>Controlling sensitive expenditure: Guidelines for public entities</i></p>



## Appendix 4 – References to other published material used in this report

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- 2 'Final Local Government Revenue and Capital Settlement 2011-12', Welsh Government, February 2011. List of annual grants for Wales.
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- 25 Sports Council for Wales, 'A vision for sport in Wales'. January 2011. Pages 18-19.
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- 28 Heritage Lottery Fund news releases. 2 August 2010 and 4 November 2010.
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## Appendix 5 – Related reading on the topic of grants management

### Wales-specific

*'Managing Welsh Public Money'*, Welsh Government. (Annex 5.1 covers grants to third parties).

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Cabinet Office-funded website for grants, contracts and loans (NCVO England)

[www.grantcraft.org](http://www.grantcraft.org)

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[www.fundernetwork.org.uk](http://www.fundernetwork.org.uk)

Knowledge management for charitable funders

[www.proveandimprove.org](http://www.proveandimprove.org)

A quality and impact toolkit for social enterprises - Charities Evaluation Services

[www.tsrc.ac.uk](http://www.tsrc.ac.uk)

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