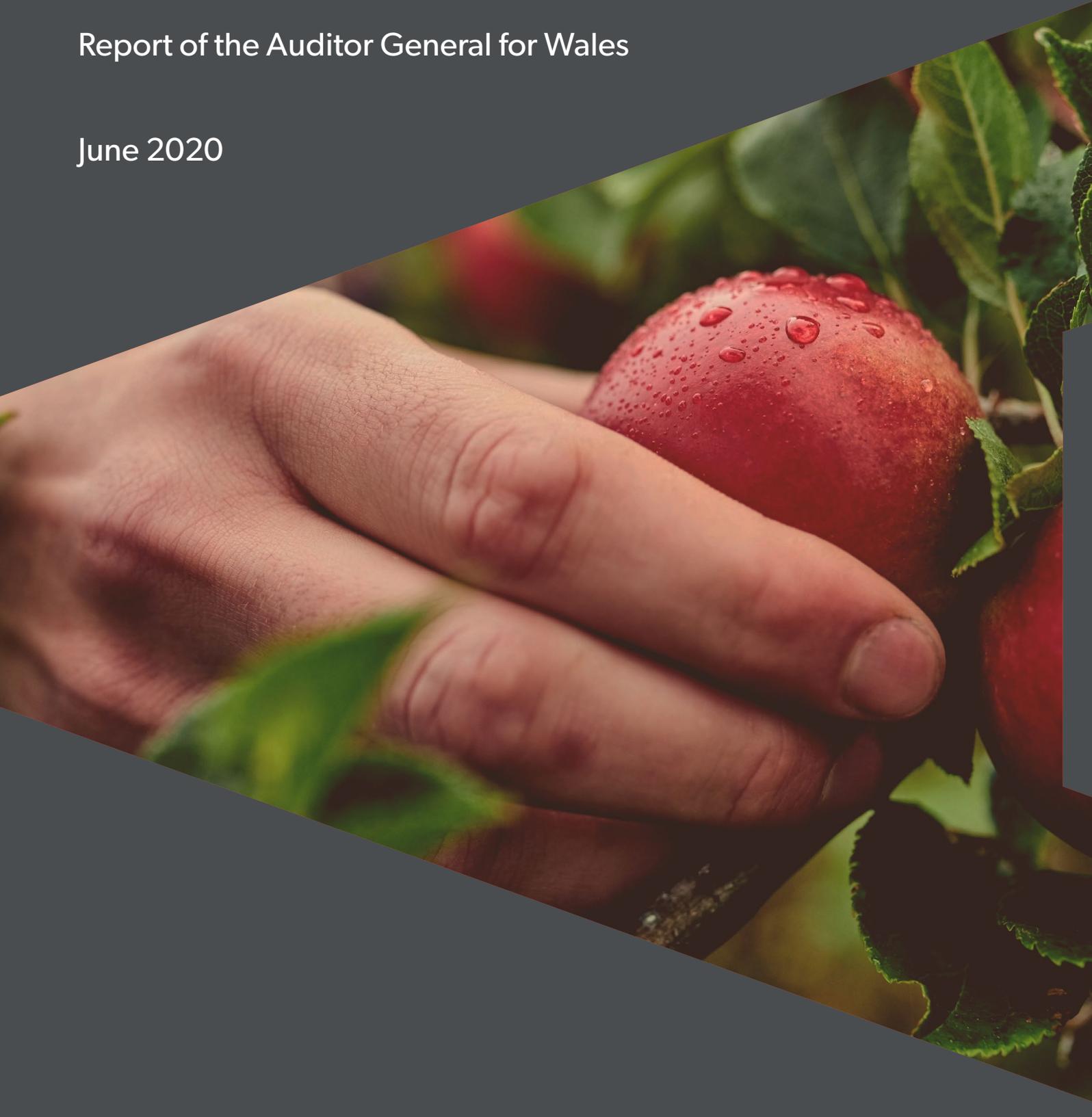


Ensuring Value for Money from Rural Development Grants Made Without Competition

Report of the Auditor General for Wales

June 2020



This report has been prepared for presentation to the National Assembly under the Public Audit (Wales) Act 2004.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

The Welsh Government awarded £53 million of rural development funds without ensuring the grants would deliver value for money

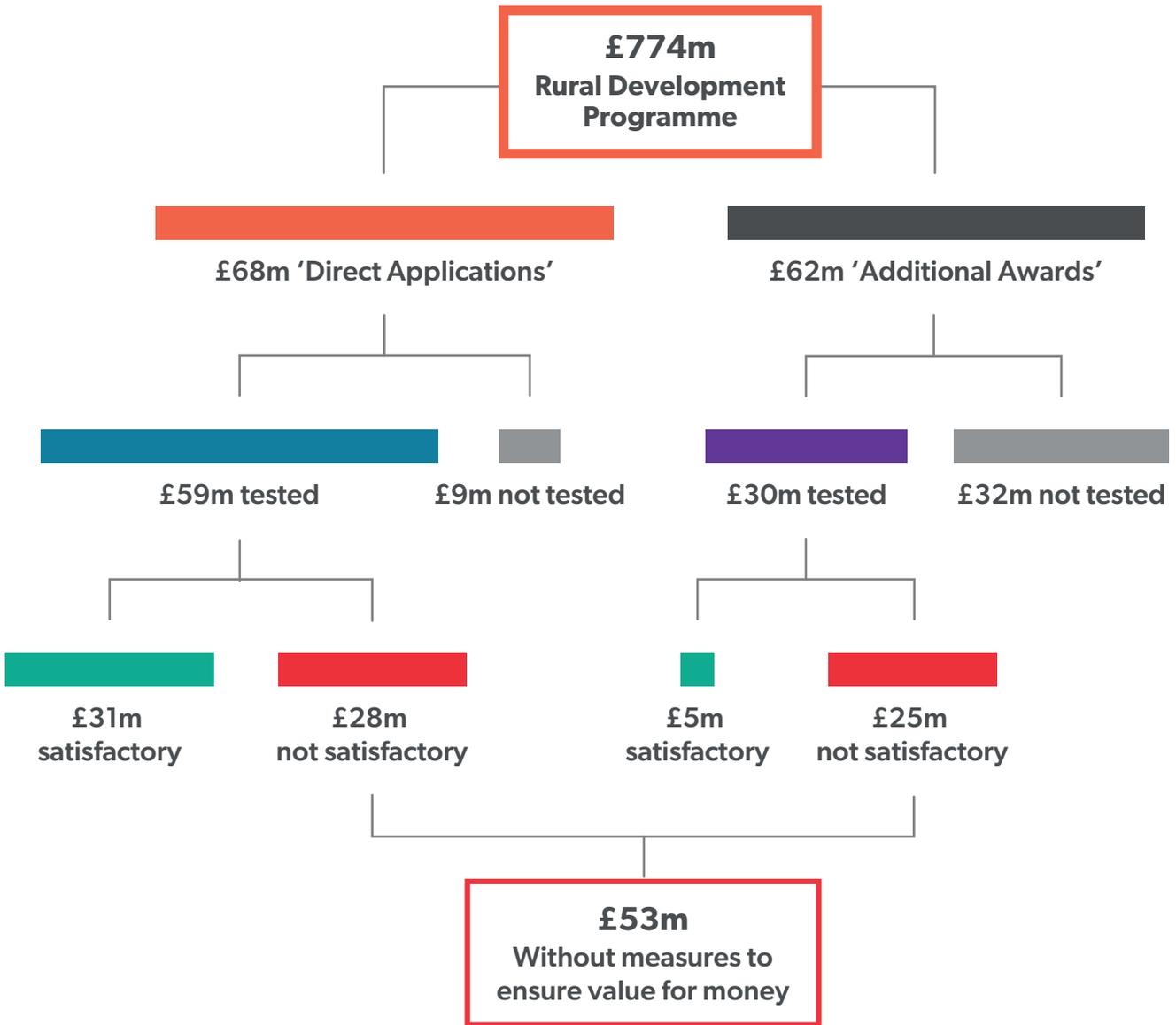
- 1 The Welsh Government's £774 million Rural Communities, Rural Development Programme 2014 – 2020 (the programme) comprises around £522 million of European¹ and £252 million of domestic funds². The programme aims to promote strong, sustainable rural economic growth and community-led development in Wales. It supports projects within the food, farming and forestry industries to improve productivity, diversity and efficiency.
- 2 Two separate teams within the Welsh Government's Economy Skills and Natural Resources Group manage the funds and run the programme:
 - the 'Managing Authority' is responsible for setting the direction and priorities for the Rural Development Programme within the framework of European Commission Regulations; and
 - the Rural Payments Wales Division, known as the 'Paying Agency', administers the funds.
- 3 To 31 August 2019, the Welsh Government has awarded grants totalling £598 million from the programme. The Welsh Government generally makes grants of Rural Development Programme money to new projects following processes involving open competition between applicants; which helps to ensure that the best projects receive the funds. However, the Welsh Government granted £68 million through 'direct applications'. In this process, officials invited known individuals or organisations to apply without any competition.

1 We present amounts in GB Pounds throughout; applying the Welsh Government's current Pound / Euro conversion rate where appropriate.

2 The European Agricultural Fund for Rural Development (EAFRD) provides funding for supporting Welsh farmers, the countryside and rural communities under the European Union's Common Agricultural Policy (CAP).

- 4 We reviewed a £59 million sample comprising the largest of these direct applications to see if, in the absence of competition, the Welsh Government had taken appropriate alternative measures to secure value for money. For £28 million of grant awards made between January 2016 and January 2019, we found they had not (**Exhibit 1**).
- 5 As a minimum, we would usually expect a decision by the Welsh Government to give more money to an existing project to be informed by an evaluation of its success, whether or not the original award had been subject to competition. To date, in the 2014 – 2020 programme, the Welsh Government has given £62 million of additional funding to existing projects. We tested £30 million of this and found that the Welsh Government had not taken any measures to ensure value for money for additional awards made between February 2017 and July 2018, totalling £25 million (see **Exhibit 1**).

Exhibit 1 – we found that the Welsh Government had not done enough to ensure value for money from £53 million of the Rural Development Programme funding awards we checked, representing £28 million of direct applications and £25 million of additional awards



Source: Wales Audit Office

6 Overall, we found that key aspects of the design, operation and oversight of the Welsh Government's controls over the programme were not effective enough to secure value for money. In particular, the Welsh Government:

- adopted an approach of granting funds without competition, without substituting alternative ways to ensure value for money;
- invited funding applications from selected bodies without documenting why they were selected;
- made individual grant awards without demonstrating enough consideration of value for money;
- gave additional funds to existing projects without first checking their success; and
- exercised insufficient programme and project oversight.

We focused on the Welsh Government's processes and controls for grants awarded between January 2016 and January 2019. We did not review the actual projects that received the funds. Information about our test sample and audit methods is included at **Appendix 1**.

7 Given the issues that we identified with £28 million of the direct application grant awards (**paragraphs 3 and 4**) and with £25 million of the additional awards (**paragraph 5**), we have therefore concluded that between January 2016 and January 2019, the Welsh Government awarded £53 million of rural development funds without ensuring the grants would deliver value for money.



Recommendations

Recommendations

In addition to ensuring full compliance with regulations, the Welsh Government also needs robust controls to ensure that its Rural Development grants are well-governed and deliver value for money, particularly where awards are made without competition.

In reviewing its controls, the Managing Authority should engage with the Grants Centre of Excellence and with other grant-awarding teams within the Welsh Government to compare experiences, share information and adopt good practice.

We therefore recommend the following to the Welsh Government:

R1 Enhancing the Scheme of Delegation

The Welsh Government's Scheme of Delegation should be enhanced to include an escalation procedure, based on project risk factor assessments, in addition to the existing financial authorisation thresholds.

R2 Strengthening controls to ensure appropriate separation of duties

Where project decisions are necessarily made by the same person, the Welsh Government should put formal management oversight controls in place to provide timely and appropriate review and challenge.

Recommendations

R3 Documenting judgements, actions and decisions

Decisions taken by Welsh Government officials, and the reasons for those decisions, need to be appropriately recorded: to demonstrate compliance with controls;

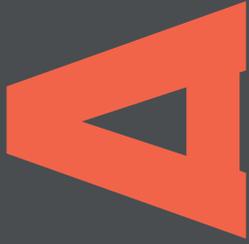
- to provide evidence that the Welsh Government's duties under the Well-Being of Future Generations (Wales) Act 2015 are being appropriately discharged;
- to enable internal and external review of decisions; and
- to help protect officials from the risk of alleged mismanagement / misconduct.

R4 Awarding additional funding to existing projects

Before awarding additional funds to existing projects being delivered by third parties, the Welsh Government should properly evaluate the delivery track record of each project.

R5 Budgeting for phased or staged projects

Where projects are being delivered in stages or over several financial years, the Welsh Government should enhance the transparency of its project budgeting and expenditure forecasts so that funding commitments can more readily be met as they arise, without jeopardising wider portfolio delivery.

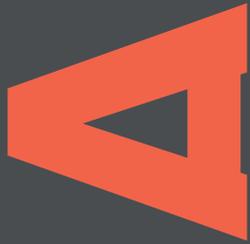


**The Welsh Government
adopted an approach of
granting funds without
using competition or
other ways of ensuring
value for money**

01

- 1.1 Open competition is the usual way to ensure that only better project proposals are approved for funding, providing some assurance of value for money from grant awards. Where competition is not applied, alternative controls to ensure that grant awards deliver value for money can include:
 - effective processes for selecting projects and robust scrutiny of those decisions;
 - specifying more rigorous grant conditions, requiring the recipient to deliver the project in particular ways or to achieve more clearly defined objectives; and
 - increased reporting by the recipient, or enhanced monitoring and evaluation by the Welsh Government, to ensure grant conditions are complied with and outcomes are delivered.
- 1.2 Within the Welsh Government, the Managing Authority is responsible for setting the direction and priorities for the Rural Development Programme within the framework of European Commission Regulations.
- 1.3 The Managing Authority decided to permit awards without competition, based on its own interpretation of the European Commission Regulations, but without considering the risk to value for money. Had it done so, then following its decision, a control framework should have been implemented to mitigate this risk. Advice on doing so could have been sought from other Welsh Government departments. However, we found no evidence of any communication with other Welsh Government grant awarding functions to identify best practice.
- 1.4 We also found no evidence that officials informed the relevant Minister as per the Welsh Government's own requirements³. Information provided to the Minister should include an explanation of the reasons for making the decision and should also identify its implications, including any associated risks.

3 Managing Welsh Public Money: <https://gov.wales/managing-welsh-public-money>, identifies that decisions that are potentially 'novel, contentious or repercussive' should be approved by a Minister.



**Applications for
funding were invited
from selected
bodies without
robust justification**

02

2.1 Generally, the Welsh Government awards Rural Development Programme grants to individual projects following either:

- advertised ‘expression of interest’ windows, in which potential projects are invited to compete for a finite pot of funding, followed by detailed application and appraisal processes (see **paragraph 3.1**); or
- open public procurement processes, in which potential suppliers are invited to submit competing tenders against a project specification.

Both of these processes, which are described more fully at **Appendix 2**, involve open competition.

2.2 However, we found that the Welsh Government had also awarded £68 million of grants through a process which it has categorised as ‘direct applications’. This process permitted officials to invite known individuals or organisations to apply for funding directly, without any competition (see **Appendix 2** for further details). There is no legal or procedural reason why the Welsh Government could not have used either the expression of interest method or the public procurement processes instead.

2.3 Welsh Government officials told us they opted to make grants via direct applications because they believed that they already knew who could best deliver these particular projects. We checked £59 million of these awards (87% of the total) to test:

- whether the reasons for not applying competition to each project were justified;
- if each decision not to apply competition was appropriately reviewed;
- how officials decided who to approach;
- that a procedure was in place to escalate awarding decisions for review by more senior officials when competition was not applied;
- whether there was effective scrutiny or supervision of officials’ awarding decisions; and
- if the Welsh Government had done anything instead of exposure to competition to ensure value for money.

- 2.4 Within our £59 million sample of funds awarded, we found no issues in respect of £31 million. (Some £24 million of this was awarded by the Welsh Government to intermediate bodies making grants on its behalf, which then in turn applied competition when selecting projects for support). However, the Welsh Government was unable to provide us with any evidence that it had taken the above steps (see **paragraph 2.3**) to ensure value for money from the remaining £28 million⁴.
- 2.5 We also found one instance where the Welsh Government had advertised a potential project at £0.5 million, but then made an initial award of £21 million (see **Case Study 1**).

4 Representing 47 per cent of our test sample and 41 per cent of the total amount of direct applications.

Case study 1: A domestically-funded activity was advertised at £0.5 million but three respondents were finally awarded £21 million of rural development funding, without further competition

Project A illustrates:

- inadequate documentation to support the decision to directly approach the potential applicants; and
- inadequate procedures for considering whether other organisations could have delivered the same project with greater economy, efficiency or effectiveness.

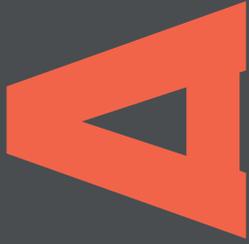
The Welsh Government directly invited three organisations to apply collectively for £21 million from the Programme, without using either public procurement or expression of interest processes:

- the Welsh Government posted a 'speculative notice' on the Sell2Wales website to gauge potential interest in delivering an activity with an indicative value of just £0.5 million, funded by a domestic grant.
- 12 organisations indicated an interest. The Welsh Government graded their initial proposals but was unable to provide any evidence to us that explained the scores it had given them.
- the Welsh Government engaged the three highest scoring organisations to develop projects that they could deliver collaboratively.
- the Welsh Government then invited each of the organisations to directly apply for rural development funding to deliver the collaborative project that they had themselves developed.
- the Welsh Government appraised these applications, accepted the project, and then awarded grants to the three applicants which totalled £21 million.

Case study 1: A domestically-funded activity was advertised at £0.5 million but three respondents were finally awarded £21 million of rural development funding, without further competition

The initial speculative notice for £0.5 million of domestic grant was not an effective analysis of market competition to deliver a collaborative £21 million rural development project. It was therefore ineffective, either as an analysis of the potential applicant market, or as evidence of an open and fair procurement process.

The final project was not subject to any additional competitive process, despite its scale and value differing very significantly from that advertised in the initial speculative notice.



Management of individual grant awards did not demonstrate enough consideration of value for money

03

- 3.1 For all Rural Development Programme grant applications, the applicants are required to demonstrate why the funding is needed and how they have calculated the costs that they propose to incur. Welsh Government officials within the Scheme Management Unit⁵ then assess this information using a three-stage appraisal process. These stages are:
 - risk assessment;
 - eligibility check; and
 - selection criteria appraisal.
- 3.2 These processes are applied to all applications, whether following an expression of interest or a direct application. Teams within the Welsh Government with specific financial, policy and technical expertise also provide input into the risk assessment and selection criteria stages.
- 3.3 The selection criteria appraisal requires officials to rate project applications against nine criteria. For project applications to be successful, scores of 'medium' or 'high' must be awarded against all nine. These criteria include value for money. However, the Scheme Management Unit had not issued instructions to officials on assessing all three aspects of value for money: economy, efficiency and effectiveness. Instead, we found that the appraisal checklist used by Welsh Government officials focused only on cost.
- 3.4 We identified that appraisals of how projects will deliver value for money were weak because officials did not:
 - check the accuracy of information supplied by project applicants;
 - scrutinise whether the costs and activities proposed by applicants demonstrated value for money; or
 - appropriately record evidence to support their judgements that the proposed costs were reasonable.
- 3.5 Funding a large, complex or lengthy project in phases can provide a level of control over value for money. This is because a project that does not deliver its expected outcomes during the initial phase or phases can be cancelled or revised before any further funding for subsequent phases is provided.

5 When the projects we reviewed were approved, the Scheme Management Unit was part of the 'Managing Authority.' Now it is part of the 'Paying Agency'. Both of these sections are within the Welsh Government's Economy Skills and Natural Resources Group (see also **Paragraphs 2 and 5.1 to 5.9**).

- 3.6 Splitting project funding into phases frequently requires financial commitments that extend beyond the budget period when the initial decision to fund was made. However, if funding to complete a project is not earmarked in subsequent budgets, there is a risk that funds will be unavailable when needed, so an otherwise successful project may not be completed, and money spent on the initial phase may be wasted. An added complexity is that the Rural Development Programme is demand-led, which increases the challenges in forecasting future funding requirements.
- 3.7 The Well-being of Future Generations (Wales) Act 2015 requires decisions to be made with due regard to their future impact, as well as to value for money in the present. However, currently the Welsh Government does not budget for funding of later stages of a project where it is phased. The initial award of funding considers only the first or pilot phase and there is no mechanism through which funding for a project in future years can be earmarked. Instead, the Welsh Government secures funding for projects from each year's budget as the need arises.
- 3.8 We found examples of projects where substantial amounts of funding were required for the second phase. Because these funds were not earmarked from the outset and were not available within the Rural Development Programme when needed, money to complete the projects had instead to be sought from other Welsh Government budgets, potentially at the expense of other activities (see **Case Study 2**).
- 3.9 This reactive approach to budget allocation exposes Welsh Government to the risk that otherwise successful projects might be cancelled due to an absence of available funds. At the programme and project levels, the Welsh Government needs to be able to demonstrate explicit consideration of both value for money and the sustainable development principle within the Well-being of Future Generations (Wales) Act 2015.

Case study 2: Project B: the funding implications of phased delivery

Project B illustrates that:

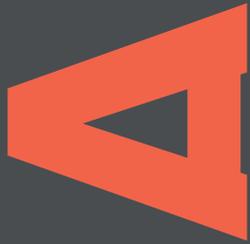
- **benefits dependent upon delivering all project phases may not be realised, due to short-term budgeting that only identifies funds for the initial phases.**
- **if, after the initial phase, the whole project is not completed and outcomes not achieved, the first stage funding award may not represent good value for money.**

Project B's application for funding indicated the intention that the initial project would be followed by a second phase, requiring approximately £10 million of further funding.

However, when project B subsequently submitted its re-evaluation application for phase 2 funding, the programme finance team did not have £10 million earmarked and readily available in its budget for that financial year.

To find the £10 million required, the Welsh Government had to reallocate funds from budgets elsewhere, presumably creating an opportunity cost for other Ministerial priorities.

If the first phase was successful, there was a significant risk that the Welsh Government may have been unable to find funds for the second phase of Project B, which would have compromised the value of funding already provided for the first phase.



**Additional funds were
awarded to existing
projects without first
checking their success**

04

- 4.1 Additional awards can be made to existing projects either because they are a phased project (see also **paragraphs 3.5 to 3.9**), or because they are re-evaluated. A re-evaluation occurs because the scope or costs change. Significant changes should be treated as a new project. To date, £62 million of additional funding has been awarded to existing projects within the 2014-20 programme.
- 4.2 Welsh Government officials monitor progress throughout the lifetime of a project in the following ways:
 - via grant recipient reports, which show progress against projected spend and performance indicators; and
 - via independent reports, which evaluate whether project objectives have been delivered and the wider outcomes achieved.
- 4.3 However, we found that these reports are not reviewed when determining whether to approve project extensions or re-evaluations.
- 4.4 We tested £30 million of additional awards (48% of the total) to see if any alternative checks of project success had been undertaken instead. We focused on those awards where there had been either:
 - a large award value change; and/or
 - a significant percentage change to the original award.
- 4.5 For £25 million (83% of the £30 million tested, we found that the Welsh Government could not provide any evidence that it had considered project success to date or taken any other measures to ensure value for money when awarding additional funding (see **Case Study 3**). We also found that £4 million of additional funds were given to projects where the initial awards were not subject to any competition and without any other measures to ensure value for money from the additional funds (see **paragraphs 2.1 to 2.4**).

Case study 3: Project C: project extension

Project C illustrates:

- **insufficient evaluation of project success to date, prior to the award of additional funding; and**
- **poor documentation of judgements supporting the decision to award future funding.**

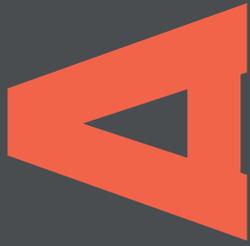
Project C received funding for delivering the first phase of a phased project (£700,000). Subsequently, project C submitted a project re-evaluation to increase this award to cover additional staff costs (£920,000) that would be incurred preparing for the second phase. However, funding for the second phase had not been guaranteed.

Officials agreed to increase the funding for phase one:

- without evaluating phase one project delivery to that point; and
- without recognising that value for money from the additional amount depended upon approving a separate application for £13 million of funding for phase two. [Note: the second phase funding was approved subsequently.]

- 4.6 We were satisfied that there were appropriate measures in place to ensure the remainder of our audit test sample, approximately £5 million, would deliver value for money.

- 4.7 The Welsh Government's instructions to officials awarding rural development funds require them to check if the Due Diligence Hub, maintained by the Welsh Government's Grants Centre of Excellence, holds any information on the applicant. Such information would typically include:
- previous rural development fund awards;
 - any other Welsh Government grants awarded; and
 - individual or company financial information.
- 4.8 However, we found little evidence of information being exchanged between the Grants Centre of Excellence and the rural development teams responsible for making funding awards.



**Programme and
project oversight were
insufficiently robust**

05

5.1 For the schemes that we have reviewed, the Scheme Management Unit (see **Exhibit 2** for the structure) manages:

- project appraisal and approval;
- claim processing;
- verification and monitoring; and
- project re-evaluation.

Exhibit 2 – structure of the Managing Authority and Scheme Management Unit



Source: Welsh Government

- 5.2 Our review of funding awards identified the following control weaknesses within the Scheme Management Unit:
- no independent mechanism for reviewing decisions;
 - poor separation of duties; and
 - no, or limited, file documentation to support decisions.
- 5.3 During 2019, a new Head of the Scheme Management Unit took up post and the Welsh Government has recently established an independent investment panel to review funding awards to all projects over £100,000.
- 5.4 However, when the awards that we reviewed were made, the Welsh Government did not have any independent mechanism for reviewing applications for Rural Development funding. At that time, individual Scheme Management Unit officials had wide discretion to award significant amounts, with limited oversight of their decisions, even if the project was deemed to be risky.
- 5.5 Within the Scheme Management Unit, the Priority Controller invited specific organisations to apply for funding and was also responsible for approving funding applications from them. We saw no evidence that these decisions to were actually subject to review or management oversight (see **Case Study 4**).⁶
- 5.6 We found several projects where, without their decisions being reviewed and challenged, the same officials were directly involved throughout the different project stages:
- design;
 - invitation;
 - appraisal; and
 - approval.

6 The Auditor General's report on Managing the Impact of Brexit on the Rural Development Programme for Wales published in November 2018, previously identified the need to strengthen oversight and risk management of the overall Rural Development Programme (pages 24-28). <http://www.audit.wales/publication/managing-impact-brexit-rural-development-programme-wales>

Case study 4: Project D: officials' involvement

Project D illustrates:

- **inadequate controls over Welsh Government officials' involvement in project design;**
- **officials' decisions to approach potential applicants were not overseen or reviewed; and**
- **no controls to ensure effective separation of duties where an official within the Unit is involved both in project development and also in funding decisions on the same project.**

A Scheme Management Unit official approached an organisation with a proposal for a project to apply a successful scientific concept to a different sector, for which the organisation would receive rural development funding. The official's decision to approach the organisation was not subject to any review.

The project proposal was further developed by the organisation, with technical input and support from the official. Once the proposal was ready, the official invited the organisation to submit a direct application for funding. The same official then approved the funding application. The same official had been directly involved throughout the application and evaluation processes but we found no evidence that their subsequent decision to approve funding had been overseen or reviewed.

- 5.7 We also found that officials involved in the project invitation and approval process were closely involved with project sponsors. Good practice would be to apply an appropriate control framework to the different stages of the project. The control framework should ensure either:
- separation of duties so that different officials are responsible for various stages; or
 - robust supervision of officials involved in managing multiple stages, and management review of their decisions.
- 5.8 Throughout our review, we found significant weaknesses in record keeping:
- little documentation providing the rationale for approaching specific individuals (see **paragraphs 2.3 to 2.4**);
 - poor project appraisal documentation, including consideration of how each project would deliver value for money (**paragraph 3.4**);
 - no documented assessment of project delivery before granting additional funds (**paragraph 4.4**); and
 - no documentation to justify key decisions to depart from competitive procurement / selection processes (**paragraphs 1.3 to 1.4**).
- 5.9 Good record-keeping facilitates good governance and risk management, and aids both internal and external review. For £53 million of the funds that we audited, the absence of effective controls and adequate documentation does not enable us to provide public assurance that the Welsh Government's funding decisions would deliver value for money.



Appendices

- 1 Audit Methods
- 2 Expression of interest windows, public procurement, and direct applications

1 Audit Methods

The Wales Audit Office's financial audit work on the Welsh Government's Agricultural Funds account, together with previous work on the overall management of the Rural Development Programme (RDP), had identified significant concerns about the Welsh Government's management of EU EAFRD funding, specifically in relation to meeting competition requirements.

The Auditor General for Wales therefore decided to examine what steps the Welsh Government had taken to ensure that it could demonstrate that such awards of EU funding, along with the accompanying match-funding from its own budgets, represented good value for money.

We undertook detailed sample testing of RDP funding awards in relation to direct applications (£59 million) and project extensions (£30 million) made between January 2016 and January 2019. Our test samples included significant recipients and large projects. However, we did not directly review individual project delivery or the actions of funding recipients, focussing our audit work instead on how the Welsh Government designed and operated its value for money control framework. Therefore, we have not named in this report the projects that received funds.

In addition to audit checks and tests of processes and controls, we reviewed documents, analysed data and conducted interviews with Welsh Government officials. We also liaised with colleagues in Welsh Government Internal Audit to avoid duplicating their programme of work. The study team worked closely with Wales Audit Office financial audit colleagues regarding provisions, contingent liabilities, accounting treatments, narrative disclosures and the regularity of payments that are relevant to our audit opinions over the Welsh Government's resource accounts and the Agricultural Funds EAFRD accounts.

Before publishing this Report, we fact-checked our key findings with Welsh Government officials and gave them the right to reply.

2 Expression of interest windows, public procurement, and direct applications

Not all methods for inviting project proposals involve a competitive process

There are three routes through which project proposals can be invited by the Welsh Government. These are:

1. An expression of interest and application process;
2. Public procurement; and
3. Direct application.

1. Expression of interest and application process

Welsh Government open an expression of interest window for a scheme or group of schemes and invited project proposals. The window has a set budget restricting the number of projects that can be supported.

Once proposals are received, they are assessed and awarded a score based on criteria established for the scheme. All proposals are ranked based on these scores. Welsh Government set a score threshold based on the budget available in the window. Projects above the threshold are invited to the next stage and those below the threshold are rejected. Projects progressed are invited to submit a full application.

The ranking of projects within the window demonstrates consideration of value for money on the basis that it is a competitive process. Projects scoring more highly are more likely to demonstrate the potential for delivering value for money and are progressed while projects which demonstrate less potential to deliver value for money will be scored lower and rejected.

2. Public procurement

Where the Welsh Government is clear on the type of project it wants to be delivered it will use Public Procurement to find a supplier. It calls for tenders through advertising on Sell2Wales and the procurement process is overseen by the internal Welsh Government procurement team.

All tenders are assessed in liaison with the procurement team based on defined appraisal criteria, and the highest scoring tender is awarded the contract.

3. Direct applications

In some cases, the Welsh Government has invited parties to bypass the expression of interest stage and directly submit an application. In these circumstances the application is not competitively assessed because it is not considered as part of an expression of interest window.



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