



Llywodraeth Cymru
Welsh Government

Welsh Government Annual Report on Grants Management

2017–2018

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

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SECTION 1: INTRODUCTION

1.0 The Welsh Government's Annual Report on Grants Management sets out the progress made across the Welsh Government for the period 1st April 2017 to 31st March 2018. For the first time, the full report has been prepared to align with the publication of the Welsh Government Annual Accounts.

1.1 The Welsh Government's definition of a grant is "all non-procured payments to external bodies or individuals for activities which are linked to delivering Welsh Government policy objectives or statutory obligations". Grants are divided in to two distinct categories. Un-hypothecated grants are those payments provided to local health bodies and local government and account for £11.5Bn of the £14.3Bn total paid in grants for 2017-18. Hypothecated grants represent payments where there are clear deliverables and criteria surrounding the purpose of the grants and account for the remaining £2.8Bn of funding. As in previous years, this report concentrates on the latter.

SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS

(i) Grants Centre of Excellence

2.0 The Grants Centre of Excellence was established in 2011 and has led on the development of grants management policy and skills and the adoption and embedding of best practice across the organisation. The team is available to provide direct support, guidance and training to grant Officials throughout the life cycle of a grant scheme/offer. Over the 2017/2018 period in excess of 1,637 email queries have been resolved as well as the provision of extensive face to face and telephone support provided to grant managers.

2.1 The team has continued to successfully deliver a range of policy and support related activities including a key update to the standard Award Letter Template and operation of the Due Diligence Hub, whilst ensuring Grants Minimum Standards are adhered to and grants guidance and training material remains relevant and fit for purpose.

2.2 As a result of the Improving Efficiency Board the team is currently working towards the development of a central Due Diligence Function, a Grants Assurance Panel and ensuring greater consistency and compliance for transactional activities. It is also exploring the feasibility of introducing an online application process. Further details of deliverables being led by the Improving Efficiency Board can be found in Section 4 of this report.

Communications

2.3 The 2018-19 Communications Strategy is being developed, a key aim of reflecting the priorities and actions agreed by the Improving Efficiency Board. Over the 2016-17 period the team delivered a number of activities outlined in the 2016-17 strategy. This includes:

- Issue of three Grants Bulletins, covering Hints and Tips such as 'Do's and Don'ts' on Award letter good practice, reminders of activities needing to be undertaken such as notifying 3rd Sector organisations of funding intentions in line with the Code of Practice and the importance of timely and accurate use of PayGrants.
- Undertook fourteen Award Letter 'Hot Shot' sessions and Drop In Clinics across Wales.
- Introducing new innovations to the grants management process to improve compliance and assurance, including the National Fraud Database and a Governance and Assurance statement as part of the Award letter.

2.4 An external stakeholder survey is scheduled for June 2018, in accordance with the commitment made to Public Accounts Committee to follow up with a further survey three years after the original survey was completed.

Due Diligence

2.5 The Due Diligence Hub ('the Hub') is used by officials to share information with colleagues to assist in decision making processes, aiming to ensure that funding is awarded only to external bodies that are fit to receive public money. Both the Public Accounts Committee and the Wales Audit Office have expressed support for the use of the Hub by Welsh Government staff to guard against fraud, loss of Welsh public money and reputational damage.

2.6 The Hub is well established and used by staff across Welsh Government. Circa. 5,300 records were created in 2017/18 with over 360 staff involved in undertaking due diligence activity.

2.7 During this reporting period, and in response to a commitment made to the Public Accounts Committee in 2017, Due Diligence Minimum Standards were produced. They comprise refreshed guidance and new checklists and set out the standards to be met in awarding Welsh Government funds.

National Fraud Database

2.8 During 2017, the Welsh Government became a subscribing member to the National Fraud Database (NFD) which allows access to fraudulent activity reported

by members, including banks, other financial institutions and certain public sector bodies.

2.9 The system is now actively being used within Welsh Government and there are currently over 90 staff, primarily grant managers, using it to enhance their due diligence processes. The Counter-Fraud Unit is also liaising with other parts of the organisation, procurement, debt management and WEFO to identify areas that would benefit from using the system.

Review of Counter Fraud Provisions

2.10 The Permanent Secretary commissioned an external review of the Welsh Government's counter-fraud capability, to assure herself and seek advice on whether our approach to combatting fraud in, and against, the Welsh Government is sufficient and effective within the resources available and to identify any alternative options for better delivery of Counter Fraud arrangements.

2.11 The review was undertaken by the Government Internal Audit Agency (GIAA) which has reviewed the Counter-Fraud Unit's functions, policies and working practices and assessed our performance against the benchmark of the UK Government's *Counter Fraud Framework Standards for Leadership, Management & Strategy*.

2.12 Overall, the Welsh Government counter-fraud unit was assessed as high-performing, delivering more than its resources would suggest possible by utilising an expert investigator as the Unit Head, working effectively through positive relationships with Welsh Police Forces and by leveraging additional investigation resource from elsewhere in the Welsh Government including Internal Audit. Nevertheless, the review identified mainly counter-fraud awareness and training and proactive counter-fraud work and risk assessment – which could be strengthened.

Working with others

2.13 Over the past twelve months the Centre of Excellence team have built a strong relationship with colleagues across UK Government. Welsh Government representatives have actively participated in the Grants Best Practice group facilitated by the Cabinet Office, sharing the progress achieved in Wales over the last few years including Minimum Standards and template legal documentation such as the standard grant award letter. These have been used to support the introduction of a Grants Centre of Excellence within the Cabinet Office.

2.14 In July 2017 the team hosted a successful visit from grant official colleagues from the Ministry of Justice. The visit demonstrated to colleagues how the Centre of Excellence operates, as they are interested in introducing a similar concept. In the

coming twelve months it is the intention of the team to share more ideas and information with other devolved administrations.

Training

2.15 During this reporting period training has predominantly been delivered on request. The Centre of Excellence team delivered a programme of Hot Shot sessions covering the Grant Award letter which included information on changes and additions to the template, for example the Assurance Statement. As the work of the Improving Efficiency Board progresses, a refreshed training programme will be developed.

(ii) Wales European Funding Office (WEFO)

Audit Review of Welsh Structural Funds Programme

2.16 During the period, there were no new audits by the European Court of Auditors or the European Commission (DG Regio and DG Empl) on the WEFO Programmes. The EC Auditors had started a review across the member states during the previous year into the monitoring processes in place by countries to record the outputs of Operations (Grants) and programmes. WEFO was one of the Managing Authorities selected for inclusion in the review. The report was issued during this year and the results were very positive with WEFO named by the EC in subsequent conferences as an example of good practice.

2.17 The European Funds Audit Team (EFAT), part of Welsh Governments Corporate Governance and Assurance Division, has undertaken a number of systems reviews of the programmes with generally positive results. These reviews are part of their review of the Annual Accounts and contribute toward their Annual Control Report (ACR).

2.18 EFAT Annual Control Reports are issued each January covering the Accounts for the previous EC Funding year which runs July to June. The last report, issued in January 2018 covered the accounts to June 2017. The key indicator in these reports is the error rate which represents the amount of irregular spending identified during their reviews as a percentage of the sample tested.

2.19 The error rate reported for this period was 0.05%. The EC have a threshold of 2% for this error rate and should the ACR indicate a rate at or over 2% then sanctions are imposed on the programmes. An “error” in this context means anything that was charged to EU funding which ought not to have been. This could be for any one of a wide range of technical reasons and does not imply fraud or other inappropriate expenditure.

2.20 This exceptional error rate of 0.05% has been achieved by changes to WEFO's approach to checking claims; we have brought some checks in house, allowing us to weight our checking towards the beginning of each project and enabling a focus on key areas of risk. This helps to flush out any potentially significant issues before they become something that is hard to change or wind back.

2.21 During the period, WEFO submitted the final Closure packs for the 2007 – 2013 Programme to the European Commission. Over the life of the programme £1.8bn of funding was claimed resulting in a total investment of £3.4 bn. The closure packs are in the process of being received by the EC and to date only minor queries have been raised by their Auditors.

2.22 WEFO registers all audit issues raised and monitors the work done to address them through its Programme Risk Management Committee.

2.23 The 2014 – 2020 programme is making good progress with 71% of the programme committed. Delivery is at roughly the same level as in the same period in the last programme. This can only be a rough guide, given that the programmes are quite different from one funding round to the next, but it is reassuring to know that the Welsh Government considerably exceeded its programme targets in the last round compared with from a similar point seven years ago.

2.24 The European Commission holds a formal annual review of progress in programmes in a joint meeting with other UK administrations. Across the ERDF and ESF, they made it clear that they were very pleased with progress in Wales, which was not the case for the UK as a whole.

2.25 WEFO has recently reviewed its Management and Control Systems document and this has been accepted by EFAT.

(iii) Grants Alignment – Flexible Funding

2.26 Over the past twelve months the Welsh Government has made good progress in reviewing existing grant schemes, with a particular focus on improving outcomes and reducing the administrative burden on the grant recipients.

2.27 An example of this is the Flexible Funding project, which supports and promotes joint planning and commissioning and more effective use of funding in pursuit of the constituent programme aims and objectives. The extra freedom also allows for a more strategic approach to delivering for the most vulnerable in society.

2.28 The project has aligned a number of existing funding programmes aimed at supporting vulnerable people or communities which have been established over the years by Welsh Government. Whilst these are aimed at tackling different issues such as domestic abuse, supporting families, housing related support or workless households, they also have a great deal in common as although each programme is underpinned by a specific grant, they all seek to prevent or mitigate disadvantage, facilitate early intervention, provide support and to build resilience in individuals and communities.

2.29 The greater financial freedom and flexibility allowed through the project will enable local authorities to work differently, giving more scope to design services to support the Government's drive for more preventative, long-term approaches in line with the Wellbeing of Future Generations Act.

2.30 The project supports and promotes joint planning and commissioning and more effective use of funding in pursuit of the constituent programme aims and objectives. The extra freedom also aims to allow for a more strategic approach to delivering for the most vulnerable in society. To help test if these benefits could be realised, Welsh Government has worked with stakeholders and partners to establish seven pathfinders of this new flexible approach across 10 grants and identify lessons to inform future policy decisions.

2.31 The seven pathfinder local authorities who are testing an approach in 2018-19 are Cardiff, Newport, Torfaen, Rhondda Cynon Taff and Merthyr as a Public Service Board, Conwy and Bridgend.

2.32 These pathfinders will have 100% flexibility across 10 grants. The remaining 15 local authorities will have enhanced flexibility of 15% movement across a smaller number of grants in 2018-19.

2.33 This will support the start of their journey to more innovative thinking on service delivery. Each pathfinder has submitted a single delivery plan to Welsh Government for flexible funding in 2018-19 which includes details of their vision, new approaches they will be taking to achieve better outcomes for people and any changes to the way the programmes are managed.

SECTION 3 - FUNDING

3.0 This section provides an update on the overall funding and breakdown of grants to various sectors across Wales. Funding can be direct from the Welsh Government or from WEFO. The data presented for 2016/17 is based on the system of 'industry keys', which was introduced specifically to provide a clear picture of funding by sector, and particularly the Third Sector.

(i) Funding from Welsh Government

Table 1: Total Welsh Government Grant Funding by Financial Year

	2015 / 16	2016 / 17	2017/18
Grant provided (£bn)	£13.6	£13.8	£14.3

Source: Welsh Government Finance System

3.1. The number of grant schemes which have made new offers in 2017 / 18 totalled 323,269 of which are hypothecated and 53 were un-hypothecated.

3.2. The following table illustrates the levels of hypothecated funding provided to each sector for the past three financial years.

Table 2: Hypothecated Grant Funding by Sector and Financial Year

Hypothecated funding (£m)	2015 / 16	2016 / 17	2017/18	2017-18 No of grant schemes
Local Authorities	£1,339	£1,329	£1,334	123
NHS	£14	£19	£19	15
Central Government and Public Corporations	£37	£37	£36	15
Welsh Government Sponsored Bodies	£53	£31	£36	11
Funding to Education	£448	£434	£434	41
Private Sector	£676	£689	£675	110
Third Sector	£248	£251	£270	94

Source: Welsh Government Finance System

Note: The number of grant schemes providing support to organisations across each sector does not mirror the total of grant schemes providing new offers (hypothecated) referred to in 3.1 – 269. For example, the Welsh Language Grants

scheme is reflected against four of the above sectors, Welsh Government Sponsored Bodies, Education, Private and Third Sector as it delivers funds to organisations across more than a single sector.

(ii) Funding from WEFO

Overview of the Current Programmes

3.3. The delivery of the 2014 – 2020 Structural Funds programmes is progressing well. WEFO has approved a total of 177 operations with a total EU funds value of £1,465m as at the end of March 2018. This equates to approximately 71% of the potential overall EU funds programme value, based on a planning rate of €1.17/£1. A further 71 operations are in the business planning stage with a total grant value of £346m.

Table 3: Operations approved and being developed for the 2014-2020

	West Wales ERDF (£m)	East Wales ERDF (£m)	West Wales ESF (£m)	East Wales ESF (£m)	Total (£m)
Allocation	1030.9	173.8	687.7	173.8	2066.2
Approved					
Grant Value	683.3	112.9	559.5	109.7	1465.4
Number of Operations	68	26	49	34	177
Business Planning					
Grant Value	239.98	44.98	45.66	15.38	346
Number of Operations	34	10	20	7	71

Source: WEFO

3.4. If there is a Transition deal between the UK and the EU, the current programmes will be delivered as normal. The EC has yet to publish its programme closure guidance, but under a Transition agreement, the key milestones would be:

- Last modifications to the programmes to be approved by the EC by late in 2020
- Last approval by WEFO of new projects, or of changes to existing projects, by early 2023
- Project expenditure by beneficiaries eligible to the end of 2023
- Final claims to WEFO by about April 2024
- Final audited claims by WEFO to the EC by early 2025

3.5. In the event of the UK leaving the EU in March 2019 with no Transition deal, we will have to rely on the HM Treasury guarantee. This represents a high risk to Wales as there is still little clarity about the exact terms of the guarantee, in spite of the Welsh Government pressing regularly for answers to questions such as:

- Will the guarantee allow flexibility across projects approved at 29 March 2019, or will our programmes become simply lists of unrelated projects?
- Will HMT confirm the funding for the guarantee will not come from the Welsh Block?
- What is the actual value of the guarantee? How and when will that be set?
- What are the cut-off arrangements for dovetailing EC and HMT responsibility?

3.6. However, as a strategy for maximising the HM Treasury guarantee or simply and delivering programmes to meet the urgent needs of communities across Wales, aiming for 100% programme commitment by March 2019 makes sense.

3.7. WEFO has every expectation of meeting this target, once the programme modifications being discussed with the European Commission are agreed, which is expected to be by late summer. However, it remains a challenging target. It also carries risks that WEFO can assess and monitor, mitigate through support challenge and influence, but not ultimately control. For example, some project proposals are heavily dependent on progress in their respective regulatory environments and on commercial agreements being reached across a range of potential partners.

3.8. The following table covers funding provided directly to organisations by WEFO. As at the end of March 2018 project approvals for the 2014 – 2020 programmes were at a satisfactory level, with the focus being mainly on the key projects that will provide the bulk of the outputs that we have committed to deliver in the Operational Programmes agreed with the European Commission.

Table 4: 2016-17 WEFO funding EU Grant Commitment by Sector

Sector	2017-18 £m
Local Authorities	60.2
Higher and Further Education	35.6
Private	0.6
Other Public	0
Third	7.8
Welsh Government	27.2
Total	132.4

3.9. The figure of £132.4 million brings the total EU funds committed in the 2014 – 2020 funding round to £1,465.4 million or about 71% of the estimated value of the funds allocated to Wales. A number of substantial projects remain to approve during 2019 – 20 including Metro related investments, other Capital projects such as Marine Energy and extensions to existing backbone projects that will take them toward the end of the current programming period.

SECTION 4: NEXT STEPS FOR GRANTS MANAGEMENT

(i) Welsh Government

Improving Efficiency Board – Grants and Assurance workstream

4.0. The 2016-17 Interim Annual Grants Management report highlighted the proposed work of the Improving Efficiency Board. The two workstreams outlined in the report have progressed well during the year and in April 2018, the Efficiency Board was presented with proposals relating to a revised Target Operating Model for managing grants within the Welsh Government and a pilot of an on line application and award tool.

Target Operating Model (TOM):

4.1. The proposed TOM reflects the end to end grant processes and identifies which functions could be undertaken more effectively and efficiently by a single team to ensure policy and procedures are applied in a consistent and compliant manner. The TOM has been designed to apply to hypothecated grants only.

4.2. In summary it was recommended to the Board that ownership of the grant schemes should remain with policy officials; including development of grant scheme outcomes, appraisal of applications and recommendations of who should receive grant funding. However, many of the more common processes required to create and deliver grant schemes such as advertising of grant schemes, development of application forms and processing payments could benefit from a more standardised approach using a single team.

4.3. The TOM also recommended the introduction of 2 new functions within the grants process:

- A Grants and Assurance Panel – This will bring together key stakeholders across the Welsh Government (including the Grants Centre of Excellence, state aid, legal, internal audit, VAT and policy teams) to provide advice, challenge and assurance at the outset of grant scheme development. The aim is to provide practical advice to the grant manager to ensure new schemes align with Ministerial priorities, add value and mitigate risks within the grant scheme processes.
- A Central Due Diligence Function - This will provide corporate due diligence and governance checks against organisations the Welsh Government is funding or is considering funding. Currently due diligence tasks are being undertaken by different officials across Government often on the same organisations. A central due diligence function would avoid

duplication and improve consistency, deliver greater support to policy areas and provide more uniformity in how Welsh Government deals with external organisations. Project due diligence (outcomes, the organisation capability to deliver the project and value for money) would remain with the policy teams.

4.4. Implementation of both the assurance panel and due diligence teams is planned for the autumn of 2018. It is anticipated that a revised operating model will be implemented in advance of the publication of the next report.

ICT Review

4.5. The purpose of the workstream is to undertake a review of ICT solutions currently in use across Welsh Government, particularly in relation to their suitability as a digital application, appraisal and claims platform. The goal is to improve consistency and compliance and reduce the administrative burden for stakeholders applying for grants and to improve the audit trail throughout.

4.6. Officials have reviewed existing tools within Welsh Government that might be utilised to support the application and award process from grants and a series of potential pilot grant schemes to begin testing the preferred application by September 2018.

4.7. The workstream is considering application and award only and not the end to end grants management process. A pilot of the on line application and award tool is planned for the autumn of 2018.

External Survey

4.8. As agreed with the Committee in the 2016-17 Interim Report on Grants Management, a follow-up external survey has been undertaken in 2018, outside of the period of this current report. The findings and any actions resulting will be included in the 2018-19 Annual Report.

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

4.9. EU funding has been a key driver of economic growth and jobs in Wales and a continued effort to build on the successes of past programmes needs to be maintained when the UK leaves the EU. The Welsh Government remains committed to ensuring that replacement funding from UK sources reflects current levels of EU funding for regional economic development in Wales.

4.10. On 14 December 2017 the First Minister launched the policy paper 'Regional Investment in Wales after Brexit'. The paper invited partner comments on principles

and proposals for regional funding in Wales post Brexit. The engagement took place between the 14 December 2017 and 23 March 2018 and overall there is a positive response to the principles set out in the paper, supporting the direction we have proposed.

4.11. Independent evaluation of responses is now underway, which will feed into the advice being prepared for the Cabinet on next steps. The Welsh Government will then begin a detailed policy development process with our partners across Wales.

4.12. In addition to this WEFO remains focussed on achieving full spend on existing EU programmes before the end of March 2019, and is liaising with the European Commission on modifications to the existing Operational Programmes, including the addition of a new ESF Priority. WEFO will also continue to support project sponsors to ensure projects are delivered to plan and that there is a smooth transition to any new regional funding arrangements. A partnership approach is vital in order for this to be achieved, and everyone involved in EU funded projects is focussed clearly on delivering this.