

## Agenda – Y Pwyllgor Cyfrifon Cyhoeddus

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Lleoliad:	I gael rhagor o wybodaeth cysylltwch a:
Fideogynadledda drwy Zoom	Fay Bowen
Dyddiad: Dydd Llun, 5 Hydref 2020	Clerc y Pwyllgor
Amser: 08.45	0300 200 6565
	<a href="mailto:SeneddArchwilio@senedd.cymru">SeneddArchwilio@senedd.cymru</a>

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### Rhag-gyfarfod preifat

(09.15 – 09.45)

Yn unol â Rheol Sefydlog 34.19, mae'r Cadeirydd wedi penderfynu gwahardd y cyhoedd o gyfarfod y Pwyllgor er mwyn diogelu iechyd y cyhoedd. Bydd y cyfarfod hwn yn cael ei ddarlledu'n fyw ar [www.senedd.tv](http://www.senedd.tv)

1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau  
(09.45)

2 Papur(au) i'w nodi  
(09.45 – 09.50)

2a Adroddiad Archwilydd Cyffredinol Cymru: Cracio'r Cod – Rheoli Codio  
Clinigol Ledled Cymru

Adroddiad Archwilydd Cyffredinol Cymru: [Cracio'r Cod – Rheoli Codio  
Clinigol Ledled Cymru](#)

2b Adroddiad Archwilydd Cyffredinol Cymru: 10 Cyfle i Ailosod ac Ailgychwyn  
System Gofal wedi'i Gynllunio y GIG

Adroddiad Archwilydd Cyffredinol Cymru: [10 Cyfle i Ailosod ac Ailgychwyn  
System Gofal wedi'i Gynllunio y GIG](#)



**3 Sicrhau bod grantiau datblygu gwledig a ddyfarnwyd heb gystadleuaeth yn rhoi gwerth am arian: Sesiwn dystiolaeth gyda Llywodraeth Cymru.**

(09.50–11.20)

(Tudalennau 1 – 27)

Papur briffio gan Ymchwil y Senedd

PAC(5)–20–20 Papur 1 – Llywodraeth Cymru

Andrew Slade – Cyfarwyddwr Cyffredinol, Grŵp Economi, Sgiliau ac Adnoddau Naturiol, Llywodraeth Cymru

Timothy Render – Cyfarwyddwr, Tir, Natur a Bwyd, Llywodraeth Cymru

Hugh Morgan – Pennaeth Taliadau Gwledig, Llywodraeth Cymru

**4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y busnes a ganlyn:**

(11.20)

Eitem 5 a 6, ac o'r cyfarfod ar 12 Hydref 2020

**(Break)**

(11:20 – 11:25)

**5 Sicrhau bod grantiau datblygu gwledig a ddyfarnwyd heb gystadleuaeth yn rhoi gwerth am arian: Trafod y dystiolaeth a ddaeth i law**

(11.25 – 11.45)

**6 Rhwystrau i weithredu Deddf Llesiant Cenedlaethau'r Dyfodol (Cymru) 2015 yn llwyddiannus**

(11.45 – 12.15)

(Tudalennau 28 – 38)

PAC(5)–20–20 Paper 2 – Cynllunio digwyddiad rhanddeiliaid

Mae cyfyngiadau ar y ddogfen hon

**Public Accounts Committee Hearing 5 October 2020**

**Ensuring Value for Money from Rural Development Grants Made Without Competition**

**Introduction**

Welsh Governments Rural Communities – Rural Development Programme 2014-2020 (RDP) is a multi-annual programme of intervention measures part-funded by the European Union, and delivered under the EU's Common Agricultural Policy (CAP) regime. The RDP complements the direct payment regime and is designed to promote competitiveness and create sustainable growth and jobs in rural Wales. The current programme will continue to make payments to supported projects until December 2023 under the n+3 rule.

Expenditure under the CAP is guided by European Law, which lays down very specific rules and thresholds. Within these overarching parameters, Member States decide on the interventions that are deemed to have the greatest impact to improve environmental, social and economic conditions for the region. The Programme in Wales was subject to a detailed ex-ante evaluation taking almost two years, including public consultations on proposals. The overall programme and budget is managed by the Welsh Managing Authority, with external stakeholder governance offered via a dedicate Programme Monitoring Committee (PMC). Responsibility and accountability of the overall CAP scheme administration resides with the Welsh Paying Agency i.e. Rural Payments Wales (RPW)

CAP Regulations also lay out a detailed and exhaustive audit regime, which includes annual audit of the accounts, checking in detail the legality and regularity of transactions, in addition to ad hoc audit mission from the European Commission (EC). Member States designate a Certification Body to undertake the annual audit work, in Wales this is undertaken by Audit Wales (Wales Audit Office).

Where errors are identified in the delivery of any CAP scheme, the EC can apply financial penalties to the Paying Agency (known as disallowance). Wales' record on scheme delivery, compliance and managing the risk of disallowance is the best in the UK, and one of the best amongst all Paying Agencies across Europe.

This paper covers the background to the Case Studies and the findings in in Audit Wales' report and is organised in the following sections:

- Section 1: The context of the projects within the Rural Development Programme
- Section 2: The Direct Application Approach.
- Section 3: Additional Grant Awards
- Section 4: Welsh Governments actions in strengthening Governance and competition

**Section 1 - The context of the projects within the Rural Development Programme**

As set out in paragraph 6 of their report, Audit Wales focused on Welsh Government's up-front processes and controls for grant award and does not comment on the Value for Money actually being delivered on the ground by the

projects reviewed.

The RDP represents a seven year investment in rural Wales by Welsh Government and the European Union through the European Agricultural Fund for Rural Development ('EAFRD'). Based on a planning exchange rate of £1:€1.176, the current policy level commitment for the Programme is £835m (£557m EU funding).

The Programme supports a wide range of activities contributing to the following objectives:

- fostering the competitiveness of agriculture;
- ensuring the sustainable management of natural resources, and climate action;
- achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

This RDP aims to enable the food, farming and forestry industries to improve productivity, diversity and efficiency, and promote strong, sustainable rural economic growth and community-led local development.

Priorities include fostering knowledge transfer and innovation, boosting competitiveness, promoting food chains, and improving prosperity and economic development.

There is emphasis on encouraging sustainable land management, efficient use of natural resources, and climate action to safeguard the environment.

The types of activity supported by the Programme are mostly delivered through 'Schemes', which can be grouped under the following broad headings:

- *Human and Social Capital Schemes*
- *Investment Schemes*
- *Agri Environment-Climate Schemes*
- *Local Development Schemes*
- *Other Activity (Technical Assistance)*

Please see Infogram at Annex 1 for a visual representation.

Audit Wales' report identifies that for £53m (6%) of the total RDP budget of £835m Welsh Government had not done enough to ensure value for money – that is, in essence, that WG did not undertake market testing at the outset in the selecting of the specific projects identified.

As PAC will be aware, the governance and management of the RDP is kept under regular review, and the Programme, along with other elements of the CAP in Wales, is subject to regular audit. To strengthen governance and to increase operational efficiency, organisational changes were made at the end of 2017 to move the Scheme Management Unit (SMU) from the Managing Authority Division into the Paying Agency (RPW). As part of this management change, and as a matter of best practice, the Paying Agency undertook a review of SMU operations and subsequently commissioned an internal audit to test that issues identified and actions taken to address them were appropriate. The findings described in the Audit Wales report, had already been identified as part of that Paying Agency management work and internal audit, and have been addressed.

## **Section 2 - The Direct Application Approach**

The 'Direct Application' (Case Study 1) approach was an innovative mechanism used for the 2014-2020 programme to help Welsh Government co-design and develop 'Strategic Initiatives' with key partners in order to secure challenging and whole-system outcomes. For some strategic initiatives identified in the ex-ante evaluation of the programme, procurement was considered but could not be guaranteed to produce the best outcomes for delivering such complex initiatives. To help ensure that projects were delivered holistically and provided pan-Wales coverage the 'Direct Application' approach was used.

The beneficiaries identified to deliver these strategic initiative projects were either public sector or not-for-profit/3<sup>rd</sup> sector organisations, and the projects themselves are non-profit, i.e. are all delivering public goods. Projects are refunded eligible expenditure already incurred and paid, and there is no profit-making element. This is in contrast to projects subject to open procurement where it would be expected that any business tendering would include a profit element, therefore increasing the costs compared to the direct applications model.

It should be noted however, that one of the projects (Case Study 4) approved under the direct application approach was an outlier and was not conceived as a strategic initiative. The circumstances surrounding this specific project's approval are unclear and are being investigated, and corrective action is being taken.

## **Section 3 - Additional Grant Awards**

The additional grant awards referred to in the report were made under one of two categories. However, in both categories the projects reviewed had been openly and competitively selected.

In the first category (Case Study 2), a number of projects were awarded an initial animation contract to undertake pilot work to ensure project delivery was designed in the most effective and efficient manner. Once the pilot stage was complete beneficiaries were able to provide more detailed and robust costings for the overall project, ensuring that forecast expenditure levels were more accurate, and projects were more likely to be successful.

Once the pilot stage was complete, projects were extended to the full duration and the additional grant was awarded using the intelligence gained throughout the pilot phase.

In the second category (Case Study 3), some projects were allocated additional grant awards during the implementation phase of their projects. These additional awards were requested by beneficiaries, either due to increased costs of material, or to allow them to adapt their projects to align them more closely with emerging market conditions.

In both cases additional grant awards were subject to a detailed review of the projects, with the project variation being subject to formal re-appraisal and re-approval by the SMU.

## **Section 4 – Welsh Governments Actions in Strengthening Governance and Competition**

Welsh Government acknowledges there was room for improvement in the historic governance and competition arrangements in place during the early life of the 2014-2020 programme. In particular the implementation of Strategic Initiatives and documentation of the decision-making that lead to the Direct Application approach should have been clearer and more robust.

Successive improvements to strengthen governance arrangements have been implemented since 2017, and Welsh Government are confident the findings highlighted in the report have been addressed. Welsh Government's response to the Report's recommendations is attached at Annex 2.

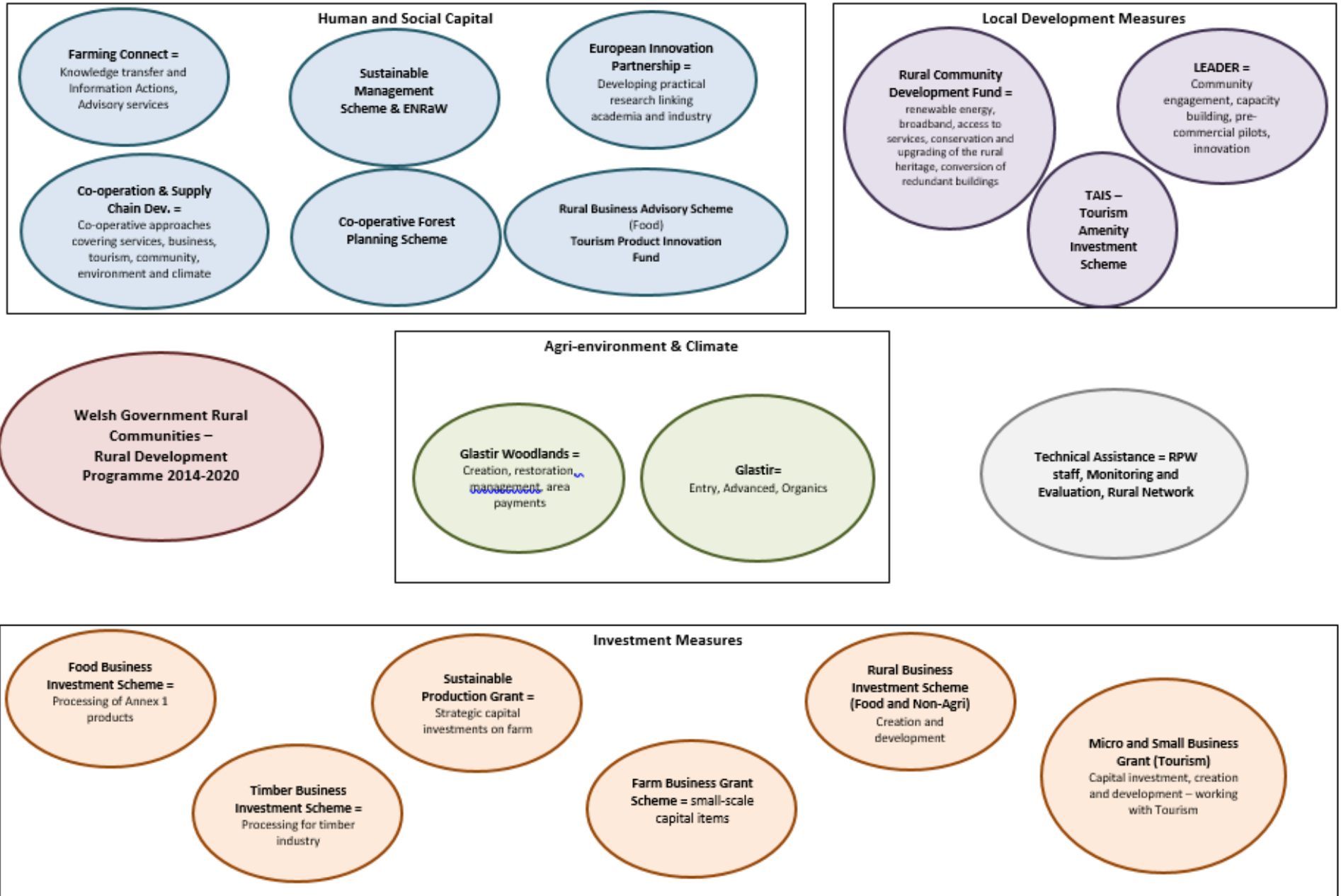
### **Conclusion**

The findings highlighted by the Audit Wales report are those already identified and strengthened by Welsh Government, with all actions fully realised in 2019. Lessons learned from Audit Wales' report have been discussed within both the ESNR Group Finance & Governance Committee and Audit and Risk Committee.

In respect of Case Study 1, a subsequent fair and open OJEU procurement was undertaken to test the market to understand if Welsh Governments' approach had identified and selected the correct delivery partners. Following the procurement exercise the original delivery partners were again successfully appointed to deliver the next phase of the Strategic Initiative at similar cost.

It is important to emphasise that Audit Wales' report focused only on the processes undertaken up-front by officials in awarding grants, and does not comment on the value for money actually being achieved by the projects in question.

In this regard it is worth noting that whilst all the projects will be reviewed in detail under the Monitoring and Evaluation work of the Rural Development Programme, a number of those concerned are already exceeding targets and are amongst the very best projects of the current Programme.



Tudalen y pecyn 25



**Recommendation 1**

*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.*

**Response: Accept**

**Action: Complete**

The scheme of delegations has been enhanced as follows:

- From April 2019 sensitive project decisions, particularly concerning increasing costs for existing projects, are escalated to Managing Authority and Paying Agency (MAPA) meetings. The MAPA replaced previous RDP governance arrangements, ensuing overall programme management and delivery was aligned.
- From May 2019 an Investment Panel, attended by at least one member of the Corporate Leadership Team, was introduced to approve all projects over £100K.
- From June 2019 a sub Investment panel, attended by Appraisal Managers and Head of Branch was introduced to approve projects with a value of less than £100k.

**Recommendation 2**

*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.*

**Response: Accept**

**Action: Complete**

Welsh Government enhanced separation of duties for claims processing by creation of a wholly separate processing team from April 2018

Formal management oversight controls to provide timely and appropriate review and challenge were introduced as follows:

- From May 2019 an Investment Panel, attended by at least one member of the Corporate Leadership Team, was introduced to approve all projects over £100K.
- From June 2019 a sub Investment panel, attended by Appraisal Managers and Head of Branch was introduced to approve projects with a value of less than £100k.

**Recommendation 3**

*Decisions taken by Welsh Government officials, and the reasons for those decisions, need to be appropriately recorded*

**Response: Accept**

**Action: Complete**

Scheme documentation has been reviewed and enhanced since 2018, with the introduction of:

- From May 2019 Enhanced Claims Authorisation checklists
- From January 2019 a comprehensive Expression of Interest (EOI) desk instruction and documentation checkpoint

- From September 2018 a Competitive Tendering Panel introduced
- From May 2019 Investment Panels for all projects approval and re evaluations
- From April 2019 Re-evaluation approvals are also referred to Managing Authority for budget management approvals

All panels maintain a decision log to record discussion and decisions on each project.

#### **Recommendation 4**

*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.*

**Response: Accept**

**Action: Complete**

From October 2018 no additional funding has been granted to existing projects to manage the overall commitment levels for the remainder of the Programme period.

#### **Recommendation 5**

*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.*

**Response: Accept**

**Action: Complete**

Welsh Government do, and have for some time, put in place processes to manage the multi annual expenditure of the Rural Development Programme. Without the ability to regularly utilise central reserves for any multiyear programmes, we have to ensure we have enough flexibility in the portfolio's budget to mitigate the potentially large fluctuation in commitments and spend.

The entire Rural Development Programme commitment schedule has been mapped and agreed with ministers under a series of Ministerial briefings. However managing a Multi Annual Programme is complex as projects may fail/under commit and so a series of actions have been implemented to identify and manage these failure points as early as possible. These include:

- Monthly Forecasting updates based on real time project information.
- Fixing Project expenditure to FY's without automatic roll forward (from Apr 2019)
- Introduction of the MAPA in April 2019 - regular meetings between the Managing Authority and Paying Agency to identify and manage risks and issues to the delivery of the RDP.

Any necessary changes to the proposed schedule are subject to further Ministerial advice and agreement.

# Eitem 6

Yn rhinwedd paragraff(au) vi o Reol Sefydlog 17.42

Mae cyfyngiadau ar y ddogfen hon