**Sir Derek Jones KCB**
Ysgrifennydd Parhaol
Permanent Secretary

Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

25th June 2014

Dear Darren,

**Public Accounts Committee – Grants Management – Action Points from Meeting 12 June 2014**

I am grateful for the Public Accounts Committee's continued interest in improving grants management across the public sector in Wales. At the meeting on 12 June I agreed to follow up on a number of points that were raised and these are set out below:

1. Further information on the work around Spot Checks – Annex A
2. Improvements to reduce administration costs – Annex B
3. Update on IT issues including recommendation 6 of the Grants Management Report – Annex C
4. Good Governance Group – Annex D

Finally, as requested at the meeting, I will of course keep the Committee updated on progress in resolving the technical issues raised by the European Commission, mainly regarding the Audit Authority's sampling methodology. These issues have led to a temporary interruption of ERDF payments to WEFO, which we hope to see lifted as soon as possible.

Please let me know if you need further clarification on these or any other points raised.

Yours,

Derek

BUDDSODDWYR | INVESTORS
MEWN POBL | IN PEOPLE

Parc Cathays • Cathays Park    Ffôn • Tel 02920 823289
Caerdydd • Cardiff    PS.PermanentSecretary@wales.gsi.gov.uk
CF10 3NQ    Gwefan • Website: www.wales.gov.uk

**Annex A**

**Spot Checks**

To continue to provide some reassurance that improvement in grants management is being maintained and embedded across the Welsh Government, spot checks are undertaken by both Grants Centre of Excellence and WEFO, although different processes are followed. Spot checks for both areas are undertaken as a way of understanding the level of cultural change, to identify any potential issues at an early opportunity and to support grant managers to improve their processes. Spot checks do not replace the more detailed internal audit processes that take place.

**Grants Centre of Excellence Spot Checks**

The spot checks detailed within the Annual Report on Grants Management are undertaken by the Centre of Excellence. These are aimed at looking at specific documentation associated with the internal processes that a grant manager would use in implementing their grant schemes. Spot checks are not directed against any particular organisation or body which is funded. They are simply a snapshot of one item of documentation from a single point in the grant life cycle.

As part of the spot checks officials are asked to provide one item of documentation. Some examples of the type of documentation that is asked for include:

- Copies of an application form (if appropriate) associated with the specified grant scheme;

- Legal documentation such as the award letter to ascertain whether it is appropriate, up to date, correctly drafted etc; and

- Copies of Desk Instructions for the specified grant scheme which would detail the tasks required of officials in a consistent and compliant manner.

The documentation provided as part of the spot check is then compared against the minimum standards to ensure continued compliance. This also enables the Grants Centre of Excellence to understand any issues or practicalities around meeting the minimum standards.

Where improvement is required the Grants Centre of Excellence works with the Grant Manager to ensure that appropriate or improved processes are applied. These arrangements were developed to support grant managers in improving their processes not from a need to record failures.

Since the process began in December 2012 the number of checks being undertaken has increased from 10 to 20 per month from January 2014.

In the period December 2012 until April 2014, 234 spot checks were undertaken and 12 failures were recorded. The failures included desk instructions not being up to

the necessary standard and issues surrounding the Award letters, including not using the standard template or an out of date version.  These spot checks were focused on internal grant managers processes, and there were no particular themes or particular areas which featured.

Where the minimum standards are not met, the Grants Centre of Excellence works with grant managers to ensure that appropriate processes are implemented to comply with the minimum standards where possible.

**WEFO Spot Checks**

WEFO carries out an inspection programme which is undertaken by its Project Inspection and Verifications Team (PIVT) in line with its set procedures.

The PIVT will visit a sample of beneficiaries who have received structural funds support during the 2007-2013 programmes. Large projects may be subjected to more than one on the spot visit.  In terms of a sampling methodology, the PIVT will visit the first project from each beneficiary, subject to levels of expenditure. Coverage of other projects will be determined on a risk based assessment. The risk based assessment will take into account, among other risk drivers, the number and value of irregularities raised against the project, project size and the programme development officers and payment officers' assessments of the project risk. The risk assessment method will be recorded and kept on file and this coverage will represent approximately 50% of the remaining un-visited projects over the life of the programme.  The sampling methodology is reviewed annually.

Based on the results of the review, the PIVT will complete a draft report based on a standard pro forma. The draft report is sent to the sponsor and to internal WEFO staff (Programme Management Division). The sponsors review the report for factual accuracy and return the report with a formal response and action plan for each issue raised. Issues and irregularities are raised in WEFO's Programme Information Management and Monitoring System (PIMMS) when the draft report is issued. At the end of the agreed timescale the PIVT either carry out a further monitoring visit or obtain documentary evidence to check the agreed action has been taken as appropriate. Where a serious problem arises the Welsh Government's Head of Counter Fraud will be consulted.

The PPIMS computer system holds records of all projects that have received a verification visit, holding the necessary data for the EC commission.

The WEFO spot checks identify issues of concern in approximately 25% of the beneficiaries reviewed. However, the significance of these concerns varies considerably and WEFO works closely with the beneficiaries to understand, rectify or resolve the issues identified. Less than 10% of issues identified are insurmountable and result in grant claims being amended accordingly.

A number of themes have emerged from WEFO's ongoing work and include document retrieval, procurement, timesheets, ineligible expenditure, eligibility of participants / beneficiaries and output evidence.

It should be noted that there is no indication these issues are systemic across the sponsor, sector or programme. Going forward WEFO intend to ensure the revised rules and requirements for future programmes are even more explicit.

**Annex B**

**Improvements to reduce administration costs**

As previously explained to the Committee, it is extremely difficult to separate out the administration cost associated with grant funding. This is because most departments are not solely focussed on the delivery of grants but grants are implemented as a much wider part of the development and implementation of policy. The exception to this is WEFO which, as a fairly self contained grant management operation, can more readily identify the administrative costs associated with its management of EU funds.

Last year (2013–14), WEFO's total programme expenditure was just under £375m and expenditure on staff costs was £7.5m – this equates to around 2%. In addition, WEFO spent £782K on research & evaluation, ICT support and communications, bringing total administrative costs to £8.3m or around 2.2% of total programme spend.

In an attempt to determine the optimum method of establishing administration costs officials have been in contact with the Cabinet Office who have told us that they also face similar issues regarding baselining administration costs across the UK. However, there are a number of approaches which the Welsh Government are adopting to take this area of work forward including looking at amalgamating grant schemes, issuing award letters covering more than one financial year (where budgets permit) and by encouraging collaborative working. Due to the time constraints in responding to the Committee we have been unable to provide as many costed examples as we would like but it is our intention to include further examples within the next Annual Report on Grants Management. However some further details and examples of reducing administration costs are provided below:

- Since 2010-11 the Welsh Government has transferred grants worth over £170 million into the Local Government Settlement. Although exact figures for the administration costs associated with these grants are not available it is clear that administration costs will have been reduced both internally and externally.

- From 2013-14 the £244 million council tax reduction scheme has also been included in the Local Government Settlement rather than be administrated as a separate and specific grant scheme.

- From 2013-14 both the School Effectiveness Grant (SEG) and Pupil Deprivation Grant (PDG) are now distributed on a regional basis totalling approximately £62m in 2013-14. The SEG is itself an amalgamation of a number of grant funding streams, resulting in significant reductions in

administration at all levels. The SEG has been in place since 2011-12 which focused on identifying grant streams which could be combined to create a larger, more focused grant scheme to minimise administrative costs and bureaucratic burdens on schools and local authorities. The 2011-12 programme combined a number of grants including:

•      Better Schools Fund

•      Community Focused Schools grant

•      Innovation in Small and Rural Schools grant

•      Out of School Hours Learning grant

•      Looked-after Children grant (formerly part of RAISE)

When additional funding was made available for lower ranking schools this was also included in the SEG rather than setting up a separate grant scheme. From these combination of measures it has been estimated that a approximately £1.2 million has been saved in administration costs for the Local Authorities whilst a further saving equivalent to approximately 90 hours of officials time per year has been realised within the Welsh Government.

However, as was discussed with the Committee at the evidence session, we are looking again at what more we can do to get better information on the cost of operating our grant schemes by looking more closely at a sample of smaller schemes. We will report back to the Committee with the results of this exercise within the Annual Report.

**Annex C**

**Provide an update on recommendation 6 of the Grants Management Report and IT issues**

*Recommendation 6 - "We recommend that the Welsh Government sets out timescales for the introduction of a central grant management IT system, and the implementation of a Customer Relationship Management system."*

The Welsh Government has previously acknowledged the limitations of its overall management information and corporate data available to support decision making on grants. As a result of the PAC recommendations the Welsh Government has been looking at a number of issues of how to take this work forward and a number of measures have been put in place to address these issues. From the PAC session it was evident that the Committee wanted further clarification of how information sharing on external bodies or any individuals of concern was reviewed and shared across the Welsh Government.

The immediate, but interim, approach was to develop a corporate due diligence sharing area to facilitate the sharing of information on external organisations and provide a point of contact for officials seeking further details. This highlights any organisations/individuals that the Welsh Government may governance concerns with. The facility prompts officials to seek further information before awarding a grant or processing a claim.  Welsh Government officials (including WEFO) have access to the "Finance Desktop" pages where the Due Diligence pages are held and therefore these pages are available to the wider business and not restricted to just grant officials who make payments. Detailed desk instructions are available for officials and a number of communication exercises have been undertaken to emphasise the use and importance of the system.

Grant managers have been made aware of the importance of reporting concerns or the availability of information relating to external bodies on the due diligence sharing area. Face-to-face training modules on due diligence are currently under development and will be made available across the Welsh Government in the early autumn.

As detailed within the Annual Report, the Welsh Government acknowledges the limitations of its existing overall management information and corporate data available to support decision making on grants.

Significant work has been undertaken on defining IT requirements and various

options have been appraised to identify the best possible solutions to support the grant processes. This ranged from developing a new IT system based on similar programming to the existing system to a packaged solution using the SAP Grantor module.

SAP Grantor is confirmed as the preferred solution for the longer term. However the estimated costs of implementing SAP Grantor within the Welsh Government are approximately £5million pounds and due to the niche nature of the software significant risk remains around the implementation. To date SAP Grantor has limited implementations worldwide. Given the uncertainty around the deliverability of SAP Grantor, the Welsh Government has decided that the system cannot be successfully rolled out at this time without an unacceptable level of risk.

Whilst the business plan for the development of a new grants IT system (SAP Grantor) was given approval, the subsequent Gateway Review indicated that a number of key dependencies (highlighted in the options appraisal carried out by Deloitte and the subsequent business case) had yet to be delivered. Further business change activity is required in order to prepare grants teams for a new IT system. This together with concerns around the capacity and capability in the marketplace for technical skills to deliver SAP Grantor for the Welsh Government poses a level of risk which at this stage is not acceptable.

The Welsh Government has therefore decided to continue to make further enhancements to the current IT system (e-Grants) which will make the information available much more transparent across the Welsh Government. Further tactical improvements to the e-Grants system are already underway, including improving the summary reporting information.

We recognise the Committee's concerns about this issue. The improvements to e-Grants will enable more detailed management information on grants across the Welsh Government to be provided through more effective use of the data already collected within the system.  E-Grants will include all grants across the Welsh Government and provide improved transparency. This, together with the due diligence system, will enable improved sharing of information across the Welsh Government so that better informed decisions can be made as to what organisations should be funded.

While not "fool proof", this will be a substantial improvement in IT support and of course the SAP system prevents a payment being made if major concerns are flagged up elsewhere in the organisation. Nevertheless, it is intended that the work undertaken by the grants pilot project and the ongoing work of the Centre of Excellence will help inform any future decisions around the timing of the delivery of a new IT system.  The Welsh Government is involved in ongoing discussions with SAP in relation to the support that can be provided in mitigating the level of risk.

We will provide a further update to the Committee in the Annual report later this year.

**Annex D**

**Good Governance Group**

In line with the recommendation from PAC, The Good Governance Group has been established and terms of reference have been agreed. This group shares all relevant details of pertinent external bodies or individuals with the Big Lottery Fund, Charity Commission, WCVA, WLGA and other appropriate bodies who are providers of publicly funded grants. This enables an informed decision to be made on the risks of funding organisations. An update on the action taken and the results of any investigation are communicated to the Governance Group members and forms a standing agenda item.

The group meet periodically to review notifications and share best practice and common themes. The meetings have been set up as and when required rather than at set specific times, to enable the group to respond to emerging concerns at short notice. Therefore, if concerns regarding a particular body are identified, all the members of the group are notified accordingly.

Not all information will result in declining or withdrawing funding from that particular organisation. Notification of any kind will not automatically result in a withdrawal of funding by other members of the Good Governance group. Instead the information will act as an early warning system and each group member will consider the impact of the information on the risk to their particular funding and where appropriate take action to mitigate that risk.

However, as a result of the concerns expressed by the Committee we will now review the terms of the Good Governance Group in consultation with its members. A representative from WEFO will now be invited to be a standing member of this Group. Regular meetings will now be set up for the Group and in future these meetings will be chaired by the Welsh Government's Director of Governance. The next meeting is planned for September.

A copy of the Group's current Terms of Engagement is attached.

# The Good Governance Group

# Terms of Engagement for Sharing Information

## Purpose

The main funders and regulators within Wales share a vision to improve/ strengthen governance within funded bodies and hence reduce the amount of Welsh public funding being lost through fraud or mismanagement. One way to realise this vision is to share information in order to detect weaknesses and potential problems and take action as necessary. All member bodies of the Good Governance Group are committed to making this happen.

This document sets out how the Good Governance group can develop as an effective Network of Welsh funders and regulators to achieve this purpose.

## Operating Principles

The purpose of the group is to discuss best practice and actions required from lessons learnt to strengthen governance. The Group is committed to sharing information on external bodies, and individuals associated with them, within the group and to disseminate this information as appropriate throughout their respective organisations.

## Nature of information

### Tangible information
In the context of organisations, tangible information is evidence based. For individuals, due to the legal restrictions on holding personal information, it must also be in the public domain.

### Intangible information
Intangible information may have been obtained through dialogue or engagement or it may be merely a concern that something is not right, rather than resting on tangible evidence.

Not all information will result in declining or withdrawing funding from that particular organisation. Notification of any kind will not automatically result in a withdrawal of funding by other members of the Good Governance group. Instead the information will act as an early warning system and each group member will consider the impact of the information on the risk to their particular funding and where appropriate take action to mitigate that risk.

An update on the action taken and the results of any investigation may be

communicated to named Governance Group members and form a standing agenda item.

## Membership

Membership of the Good Governance Group will include the following organisations and their representatives. See Annex A for contact details for each organisation.

| Name | Organisation/ Body |
|---|---|
|  |  |
| Betsan Moses | Arts Wales |
| Lara Ramsay | Big Lottery Fund |
| Harry Iles | Charity Commission |
| Jennifer Stewart | Heritage Lottery Fund |
| Neil Wicks | Museum Wales |
| Eifion Williams | NHS |
| Sarah Powell | Sports Council Wales |
| Carol Green | Swansea Council for Voluntary Service |
| Nick Davies; Mike Usher | WAO |
| Tessa White | WCVA |
| Clare Collett (Chair); Tracey Mayes; Steve Tooby | Welsh Government |
| Tim Peppin; Jon Rae | WLGA |

## Roles & Responsibilities

The purpose of the group is to discuss and share best practice and information on external bodies, and individuals associated with them, within the group, this involves each group member;

- focusing on raising awareness that good governance is critical and assisting organisations with or signpost to good governance practice, where appropriate, not policing grant funding on behalf of the Welsh Government;

- being open and transparent and acting independently without political influence;

- determining when there is sufficient evidence to support a notification to relevant members of the group;

- consider any emerging "early warnings" that might imply a cause for concern within a particular organisation;.

- notifying concerns by alerting relevant group members. All notifications to the Welsh Government will be sent to the Grants Centre of Excellence as

well as other relevant Welsh Government officials;

- considering each notification on a case by case base and agreeing not to automatically decline or withdraw funding;

- taking the appropriate, proportional risk based action to mitigate any risk identified for their particular organisation or sector;

- having the responsibility of disseminating information through their respective organisations and sectors;

- meeting periodically to review notifications and share best practice and common themes.

Those group members whose organisation have a regulatory role will also have the responsibility of deciding how best to implement best practice and actions from lessons learnt within each sector and which organisations should take the lead.


## Roles & Responsibilities of other groups

The Group should seek to identify the other committees and groups that exist which the Good Governance group should consider sharing information with. A list of these groups will be appended at Annex B and will be updated as new committees or groups are identified.


## Meetings

The group will meet periodically as required to review notifications and share best practice and common themes. The main contact will be through the alert notifications. Meetings will focus on discussing best practice and current concerns.

The Welsh Government will provide a secretariat to the Good Governance Group.

Papers for the meeting will be circulated 2 weeks before the meeting, and notes of the meeting / action points will be circulated within 5 working days of the meeting.

Meeting minutes and action points may be shared with group member organisations only and only insofar as necessary.


## Further considerations

### The Data Sharing Bill
The Cabinet Office is developing proposals to enable greater data sharing across government and the public sector. A single bill will cover three main strands around the reuse of administrative data:

Public Accounts Committee – Grants Management

- Fraud, error and debt;
- service provision; and
- research and statistics.

"The Government is now exploring legislative options for these specific proposals, with a view to publishing draft legislation in the New Year. It is likely that the legislation would be introduced to Parliament in 2014/15 at the earliest."

The Good Governance group will amend the Terms of Engagement to consider the impact of this Data Sharing Bill.

## The National Fraud Initiative

The Good Governance group will consider any links with the existing National Fraud Initiative.

## Experian pilot

The Good Governance group will consider links with the Experian pilots under development.

## Annex A – Contact list for each member organisation

| Organisation/ Body | Contact name | Tel | E-mail |
|---|---|---|---|
| | | | |
| Arts Wales | Betsan Moses | 02920 441307 | betsan.moses@artswales.org.uk |
| Big Lottery Fund | Lara Ramsay | | Lara.ramsay@biglotteryfund.org.uk |
| Charity Commission | Harry Iles | | Harry.Iles@charitycommission.gsi.gov.uk |
| Heritage Lottery Fund | Jennifer Stewart | | jennifers@hlf.org.uk |
| Museum Wales | Neil Wicks | | neil.wicks@museumwales.ac.uk |
| NHS | Eifion Williams | | eifion.williams@wales.nhs.uk |
| Sports Council Wales | Sarah Powell | | Sarah.Powell@sportwales.org.uk |
| Swansea Council for Voluntary Service | Carol Green | | Carol.green@scvs.org.uk |
| WAO | Mike Usher Nick Davies | 02920 320573 02920 320527 | Mike.Usher@wao.gov.uk Nick.Davies@wao.gov.uk |
| WCVA | Tessa White | 02920 431755 | twhite@wcva.org.uk |
| Welsh Government | GCoE | 02920 823768 | grantsexcellence@wales.gsi.gov.uk |
| WLGA | Jon Rae | | jon.rae@wlga.gov.uk |
| | | | |

## Annex B – List of other groups

- Wales Funders' Forum – chaired by WCVA