

Public Accounts Committee

Note of informal evidence gathering on grants management arrangements in Scotland

Present:

- Aled Roberts AM
- Jenny Rathbone AM
- Huw Vaughan Thomas, Auditor General for Wales
- Mike Usher, Wales Audit Office
- Alex Linkston, IPFA, Former Chief Executive of West Lothian Council
- Martin Sime, Chief Executive of Scottish Council for Voluntary Organisations
- Jennifer Wallace, Carnegie Trust UK
- Joanest Jackson, NAFW Legal Services
- Tom Jackson, Clerk

Background

1. The Auditor General for Wales produced a report on Grants Management in November 2011, leading to the Public Accounts Committee undertaking an inquiry into issues of concern highlighted by the report. Members were interested to learn more about the impact of the 'Concordant' on the Scottish Government's funding for local government.

Three year budgets

2. Alex Linkston noted that changes in Scotland had happened over a number of years since devolution; prior to the Concordant, a major step had been the introduction of three year budgets for local government in Scotland. Local Government receives approximately a third of the Scottish Parliament's overall budget.

The transition to generally non-hypothecated budgets for Local Government

3. Historically it had felt like the Scottish Government came out with a new grant-funded initiative every week. This made it difficult for local government to maintain a strategic focus and concentrate on its key priorities.
4. A key element in moving to non-hypothecated funding had been the development of outcome agreements between local and central government. The change from hypothecated to non-hypothecated funding had required a cultural shift, with government, both Ministers and civil servants, having to relinquish a silo-thinking mentality of "this is my small pocket of money and I will determine what it is spend on," and move toward greater openness and management at a strategic level.
5. The rewards of such a shift resulted in better public services, with a freed-up, non-hypothecated, system enabling greater innovation and ownership.
6. In response to Members' questions about the transition for local government to largely non-hypothecated funding, it was noted that local authorities had

largely moved to a budget which was equal to what they had previously received. This meant that some authorities which had previously been more successful in applying for grant funding did better in their un-hypothecated budget than others although some budgets were reallocated.

7. In response to Members' questions about trade unions' reaction to the shift, Alex noted that unions had bought into the concept that money would still be prioritised and focussed on particular areas by local government (for example, education), but with now a requirement to focus on outcomes. In the event that outcomes show no sign of improvement, funding might not be maintained in the future although that hasn't happened as yet. Consequently, while debate still sometimes focussed on inputs (number of police officers on the street, for example) it was moving to a greater focus on outcomes. It was also noted that in a climate of limited resource, sometimes it was easier to re-focus the debate on what was being delivered, because everyone knew there was limited money to input.
8. Alex Linkston also supported the principles underlying compulsive competitive tendering processes, greater innovation was promoted by specifying what was wanted, and then developing inputs to deliver them. Alex indicated he became interested in changing the system when he was involved with CCT. He felt previous too much emphasis was still on managing input rather than what budgets were achieving. The new system he believes places more responsibility on the politicians as to what they want to achieve without specifying how they go about achieving them.

Grants for the voluntary sector

9. Martin Sime recommended separating out consideration of grants to local government from grants to the voluntary sector. He noted that the shift from hypothecated to non-hypothecated funding had required a major shift in the political furniture of Scotland, but that there was now widespread political support for the shift having taken place. The shift recognised the authority of local government to manage across a range of political priorities. However, he also cautioned that the outcome agreements were still in relatively early days, with limited return- as yet- to demonstrate success.
10. Historically grants were an instrument of the state to support the work of the voluntary sector. Grants to the voluntary sector in Scotland had tended to be more strategic than specific, enabling general support for the aims of an organisation, rather than necessarily focussing on desired outcomes. Grants were used to enable strategic partnerships with organisations, rather than particular outcomes.
11. Historically there had been a wide range of grant schemes in Scotland, with associated concerns that Scottish civil servants managing such grants did not sufficiently engage with each other to co-ordinate funding, and that no-one could provide a strategic overview of all the different grant funding schemes available.
12. More recently grants had shifted to having a greater focus on outcomes, but there still tended to be a core grant- for a voluntary sector organisation- with a range of intended purposes. Support was also expressed for a 'middle

ground' in grants' payment regimes, noting that there was a balance between public money sitting for months in a voluntary organisation's bank account generating interest, and being paid three months in arrears (and therefore requiring voluntary sectors to divert income from other funding areas to make up the shortfall, or lose staff). There had also recently been a renewed interest in grant funding (as opposed to contract commissioning) of the third sector as a way of stimulating self help.

13. Flexibility over desired outcomes was valuable with grant funding, particularly when grants provided for a three year duration could have to take account changing priorities, and environmental changes.

Delivering outcomes

14. Members noted that a concern in Wales was whether Local Government leadership was strong enough to deliver outcomes if funding was not hypothecated. Alex Linkston asked if the issue could be whether the grants-focussed system in Wales gave little incentive for strong local government leadership in Wales.
15. Members asked how meaningful the outcome agreements in Scotland were. In response, outcomes and objectives were sometimes externally stated to be lower than they were internally held to be. It was also noted that outcome agreements could not anticipate changes in the wider environment (such as welfare cuts).
16. Jennifer Wallace noted that it was often difficult to measure outcomes, with some smaller councils lacking the capacity to effectively monitor them, resulting in them capturing outputs as a substitute.
17. It was suggested that audit processes should focus on how people and resources had contributed to achieving outcomes, enabling them to be better prioritised or re-focused in the future.

New grants

18. Members asked about remaining grants in Scotland, and whether there was any hypothecation 'by the back door.'
19. In response, it was noted that there were a few specific grants, such as the Change Fund, which formed part of the £589.236 million identified in the Auditor General for Wales' correspondence of 24 May 2012. Most of these grants were relatively new, and it was not known whether such funding would become non-hypothecated when these grants ended.

**Committee Service
June 2012**