

Public Accounts Committee

PAC(4) 07-12 – Paper 1

Grants Management in Wales

May 2012



WLGA • CLILC

INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.

Background to the WAO Report

3. The WLGA broadly welcomes the WAO report on grant management but the key issue is about simplifying and rationalising specific grant schemes. This is the first of 8 recommendations:
 - a. Look to simplify their grants portfolio more rapidly, by combining schemes where this is appropriate, in order to realise efficiencies in administration cost and in the hidden costs to the public purse borne by unsuccessful applicants.
 - b. Develop systems to ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments and, where possible, with other funders.
 - c. Work with other funders to learn from experience, develop complementary schemes and co-ordinate bidding timetables.
 - d. Work singly and together to improve the clarity and accessibility of grant-related information to bidders and encourage appropriate community involvement.
 - e. Ensure that risks relating to bidders' viability, capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery.
 - f. Ensure that project outcomes and standards of project and financial management are clearly defined and agreed in writing with recipients before releasing funding.

- g. Consider the relative merits of approaches other than grant funding, such as procurement, loans and investments, before committing to a new or continued grant scheme as the most appropriate mechanism for achieving the stated objectives.
- h. Take robust action when grants have been overpaid or misused, by suspending funding where necessary, recovering appropriate sums and, where funding is continued, strengthening requirements on recipients and monitoring arrangements before releasing further funding.

WLGA position on specific grants

- 4. The long held view of the WLGA is that the level of these grants is unnecessarily high. As the Auditor General points out:

“...Wales uses specific grant funding more heavily than other parts of the UK, with....relatively high administration costs”.

While this is difficult to justify when budgets are rising, in a time of fiscal consolidation it is lamentable.

- 5. The approach taken in Wales can be contrasted clearly with that taken in Scotland. The Auditor General’s report makes reference to the Scottish Government’s stance on de-hypothecating the majority of local authority grants. As Scottish Cabinet Secretary Jim Swinney has pointed¹ out this is an integral part of the efficiency agenda:

“.....efficiency must go hand in hand with a more enterprising and empowering culture.

We have stepped back from micromanagement of councils and are letting them get on with the job. Now greater innovation is required – within and between councils, Government and all parts of the public sector – to share services and get best value for the public pound.”

- 6. The WAO report makes a pointed reference to the cost of administering grants and it has always proved difficult to come up with a number. In our

¹ Scottish Government (2009) Finance Minister’s speech on public service reform [Online] Available at:
<http://www.scotland.gov.uk/News/Releases/2009/03/02125701>

evidence to a National Assembly Finance Committee looking in school-based grants in 2009² the WLGA stated:

“It is difficult to estimate the cost of the administration of the 100 or more grants that are accessed by local authorities for children, young people and lifelong learning. It is widely accepted that however that approximately 10% of the funding for a grant could be used on administration. It is also evident that authorities are increasingly looking at employing dedicated staff to deal with the proliferation in specific grants. The cost of a single post with on-costs could amount to £45,000. If each authority decided to take this approach then the costs across Wales could be up to £990,000 per year. This does not include the cost of the growing bureaucracy within DCELLs.”

7. An additional problem with grants in the current economic climate is redundancy costs. Taking on an individual in a grant-funded post could make an authority liable for many years worth of redundancy costs if they have previous continuous local authority service (and you would not know the potential cost until someone had been appointed to the post). These costs are generally not included in grants.
8. Additionally the nature of the grant regime is such that funding year to year or at best at the end of 3 years is uncertain so that it is common to have to issue redundancy notices to staff in grant-funded posts in case the funding is not renewed. This means insecurity and worry for those staff (generally over the Christmas period) and the danger of losing these staff as they apply for other jobs because their position seems uncertain – even if at the end of the day the grant is issued. This could partly be addressed by more timely grant decisions.

The right approach to providing assurance around local authority funding

9. In 2012–13, Councils in Wales will receive over £4.02 billion revenue funding in un-hypothecated Aggregate External Finance (AEF) and over £140 million

² Welsh Local Government Association (2009), WLGA evidence to NAFW Finance Committee.

in general capital funding. Specific revenue and capital grants will provide another £1.05bn.³

10. The external audit of these funds results in an audit opinion on whether the statements of accounts provide a true and fair view of the Council's financial position and income and expenditure for the year. The external auditor also expresses an opinion on the Council's Statement of Internal Control. In arriving at these opinions, the audit gathers sufficient evidence to give the external auditor "reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error." The external auditor also provides the Council with an audit letter which will include the Auditor's conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the financial year in questions. As part of such an audit, the financial, management and internal control systems of the Council will have been examined.
11. Given this level of scrutiny, it is the WLGA's view that much of the work involved in grant certification is repetitious and unnecessary. Far greater reliance should be placed on the internal control systems in place and on the statutory responsibilities of the Section 151 Officer (Chief Financial Officer).
12. The WLGA made a number of points response to the Auditor General's consultation on the Grants Strategy in 2011. These included:
 - a. Increasing the de minimis level and applying materiality will lead to a more proportionate level of audit activity in the grant certification process – this is welcome, but the de minimis level could be raised further than the £100,000 proposed in the strategy, perhaps to £500,000.
 - b. The provision of clear and agreed criteria for the inclusion of schemes in the grant certification framework will also assist grant awarding bodies in developing grant terms and conditions that are appropriate to the level of risk associated to the grant and to the grant receiving bodies.
 - c. The WLGA recommends that external audit and representatives of the grant receiving bodies should be involved at the very earliest stages of the development of a new grant scheme in order for their views and

³ Welsh Government (2011) LGF Settlement 2012-13

experience to feed into the process of setting the terms and conditions of a grant scheme to ensure that the requirements are appropriate to the risks.

- d. Any assessment of the audit approach required should take into account the existing external audit testing of the Council's internal systems, including internal audit, as required for the statement of accounts and work undertaken by external auditors in previous years, both in relation to the statement of accounts and previous grant certification work.
 - e. It would be preferable if the scrutiny of grant schemes could focus on whether the desired outcomes of the grant scheme have been achieved and on the assessment of the success, or failure, in terms of public service delivery rather than measuring the inputs. However, it can be difficult to find appropriate measures of the desired outcomes and care needs to be applied in developing this approach.
 - f. Grant certification reports should be clear and consistent.
13. The Association understands that the ultimate responsibility for setting the terms and conditions for specific grants, against which the external auditors must audit, lies with the grant funding body, often the Welsh Government. In 2011 Members wrote to all WG Ministers setting out the external audit arrangements already in place for Councils' statement of accounts and seeking their agreement for the cessation of all external audit of specific grants originated by WG.
14. This would free up £2.15 million currently paid by Councils to the Wales Audit Office for their grant certification work would be available to fund front line services. It would also release a great deal of internal staff resources for Councils that would otherwise be taken up with providing the external auditors with the evidence that they require for the grant certification processes, much of which has already been examined and audited during the audit of the statement of accounts.
-

For further information please contact:

Jon Rae, Director of Resources, WLGA

jon.rae@wlga.gov.uk

Welsh Local Government Association

Local Government House

Drake walk

Cardiff

CF10 4LG

Tel: 029 2046 8620