



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyfrifon Cyhoeddus **The Public Accounts Committee**

Dydd Mawrth, 29 Mai 2012
Tuesday, 29 May 2012

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Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour

Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Lindsay Whittle	Plaid Cymru The Party of Wales

**Eraill yn bresennol
Others in attendance**

Graham Benfield	Prif Weithredwr, Cyngor Gweithredu Gwirfoddol Cymru Chief Executive, WCVA
Phil Jarrold	Dirprwy Brif Weithredwr, Cyngor Gweithredu Gwirfoddol Cymru Deputy Chief Executive, WCVA
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch Gynghorydd Cyfreithiol Senior Legal Adviser
Tom Jackson	Clerc Clerk

*Dechreuodd y cyfarfod am 9.08 a.m.
The meeting began at 9.08 a.m.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Darren Millar:** Good morning, everyone, and welcome to today's meeting of the Public Accounts Committee. I remind everyone that the National Assembly for Wales is a bilingual institution and people should feel free to use either Welsh or English as they see fit. Headsets are available for translation, which can also be used for sound amplification for those who have problems with their hearing. I remind everyone that we are taking evidence today on our grants management inquiry. We do not have any apologies or substitutions.

9.09 a.m.

**Rheoli Grantiau yng Nghymru—Tystiolaeth gan Gyngor Gweithredu
Gwirfoddol Cymru
Grants Management in Wales—Evidence from the Wales Council for
Voluntary Action**

[2] **Darren Millar:** I am delighted to welcome to the table Graham Benfield, who is a regular visitor to the Assembly, and Phil Jarrold, both from the Wales Council for Voluntary Action. Graham is the chief executive and Phil is the deputy chief executive of the organisation. We have already taken evidence from the Welsh Local Government Association and the Welsh Government on grants management. We would like to start by asking you what, if anything, would the WCVA like to see happening with the rationalisation of the overall number of grants schemes in Wales? Indeed, would you like to see any such rationalisation?

[3] **Mr Benfield:** It is important to put the report in perspective. Of the 500 schemes that it recognises, only about 20 to 30 apply to the third sector. So, for us, I guess that there are not enormous numbers of grant schemes and, just in relation to the third sector, the degree of streamlining that is possible is a much lesser issue, because most of those schemes are specifically designed to achieve specific purposes for specific groups. There are environmental grants, social welfare organisation grants and so on. So, given the numbers involved, there are not hundreds of grant schemes that need to be rationalised as is maybe the issue for the statutory or private sectors.

[4] On their complexity, our issue, which you may or may not want to come on to, is more to do with the shift that we have seen from grants to contracts. That is what causes us most concern. As we said in the paper, the value of grants has halved over the past five years and the number of contracts has doubled, so there has been a shift from grant to contract. For us, the problem is not so much that grants are the default option, but that procurement is becoming the default option for the third sector. Then, as we go on to say in the paper, we think that there are often particular disadvantages to the procurement of complex services, particularly those of relatively small value.

[5] **Darren Millar:** When did this shift to a contract or to service level agreements from direct grants begin?

[6] **Mr Benfield:** It has been a very gradual shift over the past 10 to 15 years. We used to talk about the contract culture. The particular figures that we have show that the shift from grant to contract has been quite dramatic since 2006. The figures that we use in the paper are for the period between 2006 and 2009.

[7] **Darren Millar:** I expect that the big challenge there is for the smaller providers or the smaller charitable and not-for-profit organisations in trying to go through those procurement processes.

[8] **Mr Benfield:** Our experience is that, regardless of whether you are big or small, a procurement process is much more time consuming and onerous than a grants process. Indeed, we had direct experience of that in administering one of the European programmes, the EU Gateway programme. We started using procurement, because it was a European programme, and, halfway through, we were able to shift to competitive grants. That speeded up the process. It took us four times longer to procure than it did for us to achieve roughly the same results through competitive grants, because procurement is a more bureaucratic and longer process. Particularly where you are distributing relatively small amounts of money, the process is disproportionate to the endgame, which, as far as I am concerned, is getting the money to organisations as quickly as possible, and as responsibly as possible of course, to

enable them to do their work in the community. The procurement process often gets in the way of that because of its complexity and rules. In our view, it is therefore often used in inappropriate ways.

[9] **Lindsay Whittle:** Good morning. In your opening statement, you said that you thought that the processes are more streamlined. However, have you seen any evidence that the grant funders are becoming better co-ordinated? My thoughts on the matter, based on experience from another professional life, are that there were simply too many grants and that it was all too complicated.

9.15 a.m.

[10] **Mr Benfield:** For organisations, the overall position on grants has always been complicated, but it is not something that people will fundamentally disagree with, because there needs to be a variety of funding mechanisms and opportunities. So, we are talking about the lottery, about central Government, local government, trusts and foundations. The complexity of the funding mix has always been there, and people would be much more worried if, suddenly, there was only one place to go for funding. So, having diversity of funding is part and parcel of what we do. It is good that all that information is gathered in one place, and one thing that we have done, as is mentioned in the report, is set up a central funding portal that contains all this information so that people can look at the variety of funding that is available.

[11] **Lindsay Whittle:** In the region that I represent, I am aware that GAVO, the Gwent Association of Voluntary Organisations, holds funding days to which many organisations are invited to see the plethora of funding options available to them. However, is there a duplication of administration? If we could cut that down, would there not be more money available to give to organisations?

[12] **Mr Benfield:** For grants as a whole, the report talks about an administration cost of 10%. That cost will always be there, although, for our own grants, the administration cost is around 7% to 8%. So, you will inevitably have that cost, and the cost does not necessarily vary. It depends on the number of grants that you are giving, the size of the grants and the degree of support and monitoring that you want. For instance, we host the Environment Wales scheme, which some of you may be aware of, and which has a high level of support. The support to environmental organisations, through the development team, is almost as important as the grants that it gives out. In fact, it would probably argue that it is more important. So, you have an aided scheme there, but if you just ran it through a tick-box process, then, yes, it would be cheaper, but you might not get a better result. So, the costs will be there regardless.

[13] **Lindsay Whittle:** What is your opinion of the audit of all grants? Is money being spent wisely?

[14] **Mr Benfield:** The audit across the board will probably identify that some money is well spent and some money is less well spent. As far as the money going into the third sector is concerned, given that most sums are relatively small anyway and are often combined with other moneys and time, by which I mean volunteer time and resource, you are actually getting a good return on any money that is invested. The number of times that that goes wrong, given that there are 30,000 organisations in Wales and thousands of grants, is very low. It is rare, but, as we have seen, it causes quite considerable ripples through the system. However, that needs to be put into perspective with the 30,000 organisations that are out there in every town and village in Wales.

[15] **Aled Roberts:** Would you not accept that part of the reasoning behind the drift to

commissioning and procurement arrangements may be that, under the previous grant regime, a lot of the grants were handed out for historic reasons and because the monitoring and, more importantly, the measuring of outcomes of those grants were—at local authority level, anyway—at best, ropey? Is that why there was a move away from the grant regime, as the voluntary sector had almost come to expect grants to be passed through, regardless of outcomes?

[16] **Mr Benfield:** Yes, that is a good point. The emphasis on outcome as opposed to output is a necessary but difficult challenge, because of the causality. You know what you are doing and you know what outputs you have, but establishing the relationship between the outcome and the output is more complex. A lot of people are embracing results-based accountability, but it needs to work its way through. So, on the monitoring in the past of historic grant giving, there are ways and ways. If you have proper monitoring in place, it should be challenging and it should not just be historic. However, equally, procurement is not always the way to achieve that end if the downside of procurement outweighs the advantages.

[17] **Mr Jarrold:** A good grants management relationship can be much more dynamic than a good procurement relationship, because it is possible for a public body to enter into a contract and then to be tied into its commitments to its provider on the basis of a contract that was put together at a particular moment in time. There are lots of examples of Governments finding that contracts have become much more expensive because they had not planned for everything at the outset and not everything was specified. A good grants management relationship can be more dynamic, because the scope of funding can change as part of that joint management arrangement. So, you can have a much more responsive arrangement through grant aid than you might have if you are saddled with a three-year contract and your contractors are saying ‘Sorry, this is what you specified; this is what you’re getting’.

[18] **Darren Millar:** We will explore this in a little more detail. Julie has the next question.

[19] **Julie Morgan:** The Welsh Government uses hypothecated funds quite extensively, both for the voluntary sector and for local government. What do you see as the potential disadvantages of that?

[20] **Mr Jarrold:** To turn the disadvantages of hypothecated funding around and look at this from a third sector perspective, the third sector finds advantages in hypothecation, because, historically, a lot of the developments, for example around carers support and carers services and their transformation over the last 15 years, were triggered by hypothecated funding from Government at the national level to local authorities. Hypothecated funding has traditionally created opportunities for new models and types of services to be introduced. The third sector gets anxious if there is a move away from hypothecation, because it sees that targeted funding disappearing. If we look at what is happening in England with Supporting People, for example, we see that that has essentially come to an end as a programme in England, where the money has been moved into the revenue support grant. Services for vulnerable people have reduced dramatically as a result, and we understand from colleagues in the housing movement that the Minister for housing has written to local authorities, encouraging them to reinstate services, but has no apparent control or real leverage over that. So, it seems to us that if, at the centre, you have a policy drive, hypothecation is one way of ensuring that that policy is implemented at the local level.

[21] **Julie Morgan:** We can all see what those advantages are, but do you think that there are any disadvantages of hypothecated funding in this way?

[22] **Mr Jarrold:** It creates some tensions between Governments at the national level and at local level in terms of autonomy of decision making, but it seems to me that hypothecated

funding defines the purpose of funding and the way that that purpose is met is determined locally. So, hypothecation can meet both central and local accountability criteria.

[23] **Darren Millar:** May I pick up on this point? On the one hand, you seem to have a complaint against contracts being taken with you, which are of course effectively hypothecated funding streams where you have to deliver something in return for your cash. Yet, on the other hand, you are saying that hypothecation to local government—provided it is not the voluntary sector—is a good thing. Am I missing something in what you are telling me? It just seems that those two arguments are at odds with one another.

[24] **Mr Jarrold:** A grant-funding methodology and a contract methodology can be as focused as each other in terms of the purpose to which they are put. If grants are soft—and the earlier question implied that perhaps there had been some complacency around the historical use of grants—then that is about poor management and poor monitoring. A good grants programme is as demanding as a good contract in terms of clarity and what is being supported through the management arrangements. I would not accept that, somehow, contracts are hypothecated and grants are unhypothecated. The days of an open-ended grant to an organisation to go out and do good things are probably long gone, apart from on a very minor scale.

[25] **Darren Millar:** Did you want to come in on this, Mike? I see not, so Gwyn is next.

[26] **Gwyn R. Price:** What estimates do you have of the current costs of grant management and procurement for the third sector in Wales?

[27] **Mr Benfield:** The costs of grant management we see as being between 7% and 10% per scheme. I do not think that we have ever calculated the cost of procurement. As I say, we understand that a full-time procurement officer can only do about four large-scale procurements a year. Clearly, when we were running the gateway and trying to procure 250 contracts, you could see how we were getting overwhelmed by the complexity and falling behind with that. So, I suppose it is somewhere between the two. For small sums of money, we think that it is four or five times more expensive to procure.

[28] **Gwyn R. Price:** What could be done by all concerned to reduce these costs?

[29] **Mr Benfield:** We would argue that there needs to be a clearer distinction between that which is appropriate to be procured—whether that is the type of good or service, or the size—and the use of grant aid, where you want greater flexibility and where it is more likely to produce the appropriate, though complex, services, or innovation or flexibility. If that distinction was made, then everybody would be much clearer, because, for the third sector, quite a lot of time is taken up by what we call procurement blight. That is, there is talk that something might have to be procured that was previously grant aided, and then it takes a while before it becomes clear whether it has to be procured—although the rapid response team is presumably speeding that up. There is then a gap, often of months, before the specification is produced. That, in turn, creates huge uncertainty in the organisation about its future. It may lose its contract, or it may lose all its funding. So, you often get this blight for about six months, and you then go through the process, which can take another three months, so, at worst, it can take up to about nine months of uncertainty about what will happen. That cannot be an efficient use of people's time and resource—worrying about procurement.

[30] **Gwyn R. Price:** So, you are saying that procurement can sometimes get in the way of the smaller schemes, really. By the time the procurement goes through, the smaller schemes can fall by the wayside, or perhaps become disenfranchised.

9.30 a.m.

[31] **Aled Roberts:** Hoffwn ddatblygu'r pwynt a wnaeth Gwyn ynglŷn â mudiadau bach lleol. Rwy'n derbyn nad oes gennych dystiolaeth ynglŷn â chost cyfundrefn gaffael, ond mae symud yn y cymorth ar hyn o ran Teuluoedd yn Gyntaf. A oes unrhyw dystiolaeth bod y ffaith nad oes cymaint o arbenigedd caffael mewn mudiadau bach lleol wedi creu sefyllfa lle mae rhai siroedd wedi symud i gyfundrefn gaffael gan olygu bod y mudiadau lleol hynny yn colli allan ar waith y maent wedi bod yn ei wneud am flynyddoedd lawer yn y siroedd hynny?

Aled Roberts: I would like to develop the point made by Gwyn regarding small local organisations. I accept that you have no evidence of the cost of a procurement system, but there is movement in the support with regard to Families First. Is there any evidence that the fact that there is not as much procurement expertise in small local organisations has created a situation where some counties have moved to a procurement regime meaning that those local organisations lose out on work that they have been doing for many years in those counties?

[32] **Mr Jarrold:** There is anecdotal evidence. We hear from local organisations about the disadvantages that smaller organisations feel in the face of large UK third sector and private sector organisations that have bidding departments. If you are operating on that scale, you might have a procurement department whose job it is to put together bids to meet contract deadlines. That would clearly disadvantage a smaller organisation that simply does not have that critical mass and capacity. The particular concern with Families First is that one would expect that the best services might come from organisations that have a whole diversity of community links and roots, and relationships with other organisations that they can draw on to mobilise support from within communities and volunteers. Working with children and families is one of the areas where the sector has been strong. That is the sort of activity that procurement is not very good at delivering. It is good at delivering services to specification at a cost; that might be the right thing you need for certain services or products, but if you are looking at complex needs, families and communities, I doubt whether procurement is sufficiently sophisticated to deliver the best outcome for a family or an individual. Although there has been much interest in social clauses, which we support, I am not sure whether that delivers the kind of partnership arrangements that one might expect a local authority to want to have with an organisation of its community.

[33] **Aled Roberts:** A fyddai'n bosibl ichi gyflwyno tystiolaeth gadarn o'r darlun ledled Cymru? Mae hynny'n bwysig wrth inni ystyried dyfodol rheolaeth grantiau.

Aled Roberts: Would it be possible for you to submit robust evidence of the picture across Wales? That is important for us as we consider the future of grants management.

[34] **Mr Jarrold:** We can contact the county voluntary councils and look for examples of good and bad practice.

[35] **Jenny Rathbone:** I would like to go back to the issue of the comparative costs of grants or procurement. You are clear about the costs of administering grants, but why do we not have greater clarity about the costs of procurement? You mention that one person could only ever do four procurements in a year, but they may be for very large sums of money, so it might be cheaper. So, we are trying to hone in on the most cost-effective way of delivering money to our communities. Somebody needs to be doing that piece of work, to understand where the administration costs lie. The costs exist regardless of whether the work is done by a voluntary organisation or a public sector organisation.

[36] **Mr Benfield:** Third sector organisations' experience of procurement is more of being procured rather than procuring, so the obvious place to find experience is the statutory sector, where they know what the procurement costs are. We could go back and look at the costs from when we were procuring European stuff and when we switched to the grants, but we did not reduce overall costs; we just increased the throughput, as I said, from 50 to 250 in six

months. It speeded up the entire process. So, you could work that backwards. Our experience, however, and the experience of our members, is going to be limited to the direct cost of procurement.

[37] With regard to the cost of people's time and procurement blight, we could give you a blow-by-blow account of what happens to an organisation when the decision is taken to move from grant to procurement and how much time that takes from the point of view of the recipient. In all of the grant management relationships, there are two costs, are there not? There are the costs of the people giving the money, and there are the costs of the people who are trying to get the money. Indeed, one of our arguments over the years for three-year funding is that the transactional costs can be very high for short-term grants, because, by the time you have sorted it all out, you have started to deliver the work and are looking towards the end, almost before you started. So, we have only a limited knowledge of the relative costs.

[38] I suppose that it is also about what you get at the end from the process. Either way, if the service that comes out at the end is better, then you could argue that, even if it is more expensive to do it one way than the other, it is valuable. Our argument is that for many of the things that we see, the use of procurement does not deliver the benefits that people claim for it.

[39] **Jenny Rathbone:** Yes, but one thing that you could estimate is the time taken to bid for a procurement contract as opposed to a competitive grant.

[40] **Mr Benfield:** Yes, we can do that from a user's point of view. We could do some work around that, certainly.

[41] **Darren Millar:** That is more significant. The time that the organisations that you represent have to put into a procurement-type contract is more significant than if they had to apply for a grant.

[42] **Mr Benfield:** Yes. The other point is that one thing that we found when we were running two systems in parallel is that, if you offer an organisation a grant, with all the conditions attached, its reaction is very different from what it is if you offer it a contract, because a contract is a legally binding document, and every organisation offered a contract feels that it needs to get legal advice before it signs it, and legal advice always comes up with issues that need to be resolved. The scale of that for a small grant means that it is another level of complexity that kicks in for both sides.

[43] **Darren Millar:** You just mentioned the size of grants. Obviously, the smaller a grant, the greater the cost of managing it, percentage-wise, generally speaking. That is the evidence that we have gathered so far. Do you think that there ought to be a minimum size for a grant?

[44] **Mr Benfield:** Different organisations run grants of different sizes. I do not think that there should be a minimum size, however, because some communities can do wonders with £50 or £100. That can make more of a difference than a huge grant. So, I do not think that we should say that this small-scale money does not count.

[45] What is needed is proportionality in the monitoring and everything else. If you have to fill out a 15-page application for £50 and have all your policies and all the rest of it in place, that might be disproportionate to the amount being sought. So, you need it to be proportionate. Also, you need to be able to take risks. When we were running a grant scheme that was giving out a lot of very small grants, we did a one in 10 check, and we rarely found that the money had not been spent on what had been applied for, but we could not say that 100% for every one—the cost of doing that would have been disproportionate to the outcome. However, most people applying for small amounts of money very much value and appreciate

them and they only do so if they are going to use that money for their community.

[46] **Darren Millar:** May I just touch on another area of costs that you have not referred to, namely the cost of applications that might have been made for grants that have not been successful? It is difficult to quantify, but do you have an estimate of what those costs might be to the third sector in Wales? These are the costs of organisations throughout Wales that make applications for which they are not successful, which the 7% to 10% in terms of the administrative costs do not cover.

[47] **Mr Benfield:** That is quite a question. Phil, do you want to answer that?

[48] **Mr Jarrold:** We do not have an estimate of that. For individual organisations, it would be a difficult balance, because some organisations have a reasonable success rate; they might be making a lot of applications and getting a lot of rejections, but they would have sufficient successes to maintain their work. By and large, that would apply to organisations that are looking to the charitable trusts rather than to the public sector, because there is not the plethora of schemes in the public sector for an organisation—there is a narrower range of choices. I do not know what the costs would be.

[49] Organisations are willing to speculate time. Sometimes funders say that the demand is so great that they do not want to disappoint people and waste their time, so they will set much higher thresholds or tighter criteria to avoid disappointing the sector—although I think that they are really thinking about their own administrative costs. By and large, organisations would rather have the opportunity to bid, and accept that the odds might be against them, than to have the opportunity closed off to them.

[50] **Mr Benfield:** Every funder will know the hit rate in terms of whether one in five or one in two applications are successful. The other thing that has been quite useful, which the lottery and others do, is the two-stage application, whereby the first stage is simple in that you just present the idea, so that you are not necessarily spending a lot of time on it. If you are going to be rejected, that happens at a fairly early stage, so if you are going to invest a lot more time in it, you will have got through that first stage. Some sort of simple process like that, particularly for larger grants, is welcome.

[51] **Darren Millar:** Does the Welsh Government operate a similar scheme in terms of a simple, straightforward outline bid, followed by detailed bids thereafter?

[52] **Mr Benfield:** Every scheme offered by the Welsh Government at the moment is different. I am just trying to go through the 20 or 30; I do not know of any.

[53] **Mr Jarrold:** It tends not to.

[54] **Aled Roberts:** O'm profiad i, roedd gennym gytundeb gyda'r sector gwirfoddol yn lleol lle, os oedd gwerth yr arian yn llai na swm penodol, roedd yn grant syml, ond wrth i lefelau'r arian a drosglwyddwyd i'r sector gwirfoddol gynyddu, byddai proses gaffael yn codi. Pa mor gyffredin yw cytundebau o'r fath gyda chynghorau gwirfoddol lleol ar draws Cymru?

Aled Roberts: From my experience, we had an agreement with the voluntary sector locally whereby, if the value of the money was less than a certain amount, it was a simple grant, but as the levels of money transferred to the voluntary sector increased, a procurement process would kick in. How common is that sort of arrangement with local voluntary councils across Wales?

9.45 a.m.

[55] **Mr Jarrold:** It is common for local authorities to set different thresholds—some as

low as £15,000 and anything over that sum would then be subject to procurement. I think that that is far too low. The European Commission, which provides a lot of the regulatory framework for this, is proposing to increase the threshold to €0.5 million for health services, social services and education services. It will introduce changes so that the full scale of European procurement law will not apply to services of less than €0.5 million. For us, that is a reasonable threshold, because, if a local authority wants to talk to a significant mental health organisation or an older people's organisation in its area about developing in partnership a particular set of services, it would enable it to be freed up to do just that and to negotiate directly in a way that met its needs. So, thresholds are useful, but the procurement thresholds should be much higher, and I would advocate that the new European threshold for those services for vulnerable people is the right one and local authorities know that they should follow that.

[56] In terms of grants, you could still graduate your grant levels. So, you could think in terms of the small grants that you might issue to a community group that would have a fairly simple application process and a fairly light touch, but a commonsense monitoring arrangement. You might then look at more significant services, where the grant is paying the staff providing services for people and you would expect there to be a higher level of application and monitoring there. Thinking through that in a sensible way would be very good.

[57] **Darren Millar:** I will move on now to weaknesses in grants management. Members and witnesses will remember that we have had a number of reports over the years that have highlighted weaknesses in grants management and, indeed, we have the ongoing All Wales Ethnic Minority Association issue in the background, which appears to have demonstrated that there have been some weaknesses in grants management. So, I ask you to bear those issues in mind as we move on to these questions. Over to you, Oscar.

[58] **Mohammad Asghar:** What is the Wales Council for Voluntary Action doing to aid the viability, capacity and capability of the third sector across Wales in respect of grants management, and to lessen the dependence of the third sector on public funding?

[59] **Mr Benfield:** In terms of the second part of your question, we are encouraging organisations, and we have a range of materials and training in place to encourage organisations to look at the funding mix, as we call it, or, perhaps, it could be called a sustainable funding package, so that organisations are not wholly dependent on one source of funding. Many organisations already have this mix of self-generated income, trading—think of all of the charity shops—as well as grants and contracts. So, what we have done, are doing, and have equipped the county voluntary councils to do in terms of their funding advice is to ensure that people are aware of all of the options that are available to them, including loans and social investment, which we see as an important new stream of funding—not a panacea or a replacement, but another way of doing that. So, we should be providing a whole range of different ideas for our organisations.

[60] In terms of the first point, once again, we are doing a lot of work at the moment—we always have done—on skills through the variety of training that we offer on all aspects of running a third sector organisation. We offer a lot of support to trustees as well as to staff in terms of good governance and how to run a charity, and we offer other help. All of that is available through us and through the county voluntary councils. So, there is, and always has been, a lot of work going on in that area.

[61] As far as capacity is concerned, it is about organisations making sure that they are fit for purpose and that they are changing and moving with the times. Part of our role is to make sure that organisations are thinking ahead, particularly in terms of what they are doing, how they are doing it, how they know what the outcomes are and ensuring that they are

entrepreneurial in terms of how they resource what they are intending to do.

[62] **Mohammad Asghar:** What best practice resources are available to your members to help successful project planning, so that proposed projects can be well designed and properly resourced from the outset?

[63] **Mr Benfield:** We provide project and business planning courses, particularly in relation to European projects, which are often the bigger resourced projects. There are well-established accredited courses available on project planning and project management.

[64] **Julie Morgan:** Is it more difficult to advise your members in a period of recession? Has their self-generated income proven to be more variable over the last few years?

[65] **Mr Benfield:** Since the initial recession, the demand for services has gone up in the areas that you would have predicted, in terms of advice, but also with regard to what you might call 'social unease' or 'social breakdown'. So, the demand has gone up but the funding levels are static or declining, so there is a mismatch there. For different organisations, particularly with regard to the original private sector recession, before we got on to public expenditure cuts, this has had a varied impact. If you were a charity doing a lot of corporate fundraising or sponsorship, or working in areas like that, that was getting cut back. So, the ability to fundraise was difficult, particularly from the private sector. Lottery ticket sales have continued to be very high—they keep going up in the recession, although I do not think that anyone quite knows why, unless it is desperation. We always think that there is a lag in the giving figures, but we think that giving has held up quite well—it is not going up, but it is not going down either—but I am talking about the impact of the original recession. We are now seeing the impact of that, plus the impact of the increase in demand for services plus the public expenditure cut or flat-lining. So, it is getting progressively more difficult for organisations out there, but, as I say, people are still using their money to support charity. Children in Need last year held up well or had its best year, so people are still giving. For some people, it has the reverse effect because they think, 'I'm still not too badly off, I can see that there are lots of people who are worse off than me so I will give more or respond more to visible need'. I guess that that may go on for a little longer, but, as I say, sponsorship and public sector money are going down.

[66] **Darren Millar:** I will bring in Jenny in a second, but I want to ask a question related to your written evidence. To improve the financial viability of third sector organisations that receive funding, you make a case for a straightforward test in terms of financial viability and support the principle that a grant should be paid in advance where it would mean that an organisation's reserves would drop to less than six months in the kitty during the grant delivery period. Do you not think that that is quite a risky proposition, given the situation that we have had with organisations such as AWEMA? If you need to recover the cash at any point, it is going to disappear, is it not?

[67] **Mr Benfield:** This has been one of the consequences of the grants management report and the AWEMA and Plas Madoc situations. The Welsh Government has moved in its interpretation from a position where most voluntary organisations in receipt of grant received it in advance on the basis of need. The basis of need is, quite simply, that if you are paying wages and you do not have the money on 1 March, you cannot say to your staff, 'I will pay you three months wages in arrears and you can use your savings until then.' So, the practice was to pay in advance. What was never defined, as far as we were concerned, was 'need'. That is where the six months of reserves come in, because, obviously, you have to deal with the ups and downs of your income, and to be able to manage the organisation—the trustees need to be able to manage efficiently and effectively.

[68] On how you would get money back, most grants, even when they are paid in advance,

are only paid a quarter in advance. They are not paid 12 months in advance or years in advance in general. So, you are talking about a quarter. Then you are back to effective relationships and monitoring, because if you are giving a grant for a quarter in advance to an organisation that you have a long-term relationship with, you will know that organisation and whether it is employing staff. You will be able to know in a very commonsense way that the money you have given upfront is going out, because you will be able to see where that has gone. You do not need retrospective accounts to tell you that if you have an organisation and it is employing 10 staff—and you see those staff, and you have a grant coming in a quarter in advance—that most of that money will go into wages. Most third sector organisations' grants are for salaries. We are a people industry, if you like. So, the grants are going in and they are paying people's wages. It should be pretty easy to see that.

[69] **Jenny Rathbone:** Just before we go on to good governance, which is essential, I want to ask you about the relationship between third sector organisations and elected Government. You mention in your paper that the third sector plays a complementary role vis-à-vis elected Government. I would say that it should have a challenging role to ensure that elected Government is on its feet and not getting overly bureaucratic. However, if 45% of your money comes from Government, how easy is it for you to maintain that independent challenging role?

10.00 a.m.

[70] **Mr Benfield:** It requires a degree of maturity on both sides. In general, the perceived censorship is more in-built than the practice. I have been here a fair amount of time, and I can count on my fingers the number of times that Government has called and asked, 'Do you remember who is paying you?'. I guess that it goes back to your point about sustainable funding and the importance of having a mix of funding so that you are not dependent on any single source. Although Government is and will be important to many organisations, it is by no means the only source of money. Therefore, you are able to balance the two so that you do not feel that you are overly inhibited by Government. It is a choice of tactics in terms of how you act with regard to how you best achieve the outcome that you want to achieve, and that is not always to go to the press first. That is a choice of tactic. The organisations that would be very vulnerable would be those that are 100% funded by Government, which could be wiped out tomorrow, but most of the organisations that are performing a variety of roles will have a variety of funding. It is a dilemma, but I think that it is a manageable one.

[71] **Mr Jarrold:** One of the Welsh Government's voluntary sector scheme's principles recognises the duty of organisations to advocate on behalf of those that they represent. That is an important principle that we must highlight from time to time. As Graham says, a mature Government will want to engage with critical friends. It is a sign of maturity and strong democracy.

[72] **Jenny Rathbone:** One thing that strengthens your hand in dealing with Government, at whatever level, is good governance. How does the WCVA promote good governance so that Government is confident that there is sound financial control and the money is being spent on what it is given for?

[73] **Mr Benfield:** One thing that we are doing, and I would be happy to give you one, is to produce a little card, which is a computer card. It has our good governance code of practice for the third sector and it has a guide, which has been our best-selling publication for many years, 'Faith and Hope don't run charities (trustees do)'. We are giving these out to everyone. People are being asked and encouraged to assess their governance against this code. It is a code that we have adapted for Wales, but it is also used in other parts of the UK. It is a fairly well-rounded code. We are asking people to do that, and we are supporting them to do that. The way in which most organisations have responded to this in recent times is to look at their

governance, and go through this check list and ask, ‘Do we do this? Do we do that? How do we know? How can we be sure?’ and all those materials, training and help are available for people to use, and they are using them. Although it is a good wake-up call to everyone in the sector to look at their governance and refresh their governance, I do not think that there is sufficient evidence to say that there is widespread bad governance in the sector. Of course, it could be better, and it is good to test yourselves against these things, but I do not think that we are going to see—I say this with some caution—a whole stream of situations like those that we have seen recently.

[74] **Darren Millar:** Do you think that one of the criteria for being able to access a grant for the Welsh Government ought to be some sort of governance test, as it were, of the capacity and quality of an organisation’s governance prior to the Welsh Government making a grant available?

[75] **Mr Benfield:** As part of its overall scrutiny, the funder should be interested in and look at the governance of an organisation. There is some talk about having kite marks or accreditation of governance, and there may be a gap there. The issue is how you ensure that people actually take up the guidance and operate good governance. The only danger of creating a new regulatory regime and everything that means is that we could make life too complicated for trustees—remember that, at the end of the day, trustees are people like you and me and are volunteers. If we make it too onerous, people will just walk away from it because it will be too difficult. We have got to get this balance of making sure that there is good governance without creating another monster of regulation and red tape. It is that balance that we need to strive for.

[76] **Darren Millar:** Last week, the committee had a presentation on the National Fraud Initiative, which is a UK-wide initiative that seeks to expose examples of fraud within public sector organisations. Given that a significant amount of cash is given to voluntary and third sector organisations in Wales, would you welcome one of the grant conditions being that your organisations had to participate in the National Fraud Initiative? Do you think that that would give the Welsh Government and other funders extra confidence?

[77] **Mr Benfield:** Certainly we do. We have an anti-fraud policy in place, and we expect organisations of a particular size to have that. It is an issue on people’s lists. It is part of good governance to put in the checks and balances to ensure that fraud is minimised.

[78] **Jenny Rathbone:** People are not going to tell you if they are committing fraud, but what early warning systems do you have to identify that an organisation is getting into financial difficulty?

[79] **Mr Benfield:** There are no formal mechanisms. You hear things. We have a lot of people and county voluntary councils. The whole system is in contact with lots of organisations. So, you have an idea when people are beginning to get into financial difficulties. Obviously, if you are a funder, you should get to hear rather more quickly. We also lend money, so we obviously pick up on people defaulting on their loans. In those cases, we know pretty quickly that they are in difficulties. However, overall, we would know informally, or funders would know, or the organisation might come to talk to us. They might be looking at different ways of funding.

[80] **Jenny Rathbone:** If you hear on the grapevine that an organisation is struggling, but it has not actually come to you, what do you do?

[81] **Mr Benfield:** If it is a local organisation, we would probably ask the CVC whether it was a member and whether it knew about it. We would offer support.

[82] **Mr Jarrold:** Not frequently, but from time to time we are approached by an individual—perhaps a former trustee of an organisation—to raise concerns. If we do not have a funding relationship with that organisation, we have no regulatory role, but, clearly, others do. So, we would ensure that that individual knew what the routes they could go down were, and those would include approaching the funder with concerns, approaching the Charity Commission, if their concerns were about the governance arrangements, or, indeed, the police, if there were serious concerns about fraud. So, we would ensure that an individual knew what the channels were and we would support that individual in communicating their concerns.

[83] **Aled Roberts:** You referred previously to AWEMA and Plas Madoc. To develop Jenny's point, is it not the problem that, in both those instances, it was not just on the grapevine, but that reviews had been carried that made specific recommendations, none of which, as far as I can see, were followed through, and yet the funders in all instances carried on funding regardless? So, it is clearly the case that those warnings regarding governance are either not been properly listened to or, more importantly, no specific action is being taken.

[84] **Mr Benfield:** A sign of problems is when you have a significant number of trustees resigning; that is a warning sign. In the AWEMA situation, the trustees, who had acted quite responsibly over the years, were concerned about things and felt that those things were not being dealt with and that, therefore, they had no alternative but to resign. As a trustee, what else can you do? There is quite a lot of evidence that, when people express their concerns, particularly if they are trustees, their concerns are not taken as seriously as they should be. So, I would tend to agree with you.

[85] **Mike Hedges:** I have a couple of points to raise. Do you see any benefits to collaborative grants—that is people working together to prepare grant applications? To summarise everything that you have told us so far, do you think that grants are the best way of providing money to local organisations?

[86] **Mr Benfield:** My answer to the latter question is 'yes'. Phil, do you want to answer the first question?

[87] **Mr Jarrold:** Do you mean collaborative grants in terms of a grant that is encouraging people to put a joint proposal together?

[88] **Mike Hedges:** To take the greater Swansea area as an example, if four or five organisations within that area—say one in Bridgend, one in Swansea, one in Neath Port Talbot and one in Carmarthenshire—were all bidding to do the same thing, they could get together to put one application in on behalf of them all. They could also provide help to each other, because one weakness of a lot of small organisations is that you have two or three people in one place and two or three people in other places. So, if you put all of those people together, you might have a dozen people who could support each other. If you are putting one grant application in, asking for the same money to do the same thing, rather than preparing an application four times, you could just do it once. That is what I was trying to say.

[89] **Mr Jarrold:** That has happened, sometimes because organisations have spontaneously done it and have seen the merit of putting together a package, and sometimes because a local authority has said that it wants to change its funding arrangements. A local authority can say, 'We are currently funding three organisations in our area to do something similar, but in different parts of the area, so we want you to put together a single proposal.' There is merit in that. I would caution that the driver should not just be administrative efficiency for the funder, but better services for people. We have produced a paper suggesting that there are a number of good-practice challenges for both the sector and for funders. So, if you are not collaborating with other organisations, you should have a good reason for that—

there might be good reasons in relation to particular client groups and specialisms, but it is important that people do not allow their organisational self-interest or big personalities to get in the way of that. The real test has to be whether you can produce a better result for the people you are serving.

10.15 a.m.

[90] Similarly, from the funders' point of view, when asking whether you can get a better result, you have to be aware that there might be good reasons as to why not. There used to be a time when funders complained about the number of organisations working with people who are deaf, because they did not understand some of the subtleties of the deaf community or deaf communities and the different approaches. So, a simplistic approach was to say, 'They're all about deaf people, so why don't we just have one?'. Funders have to understand the people the organisations are serving and the reasons why there might be validity in different approaches. However, if it is clear that if there is public funding for services that could benefit from joining up, either because they could provide an integrated service or because they could save on some of their back-office costs, that would be a reasonable position for funders to take.

[91] We have done quite a lot of work with organisations about joint working, and there is a spectrum from full-scale merger at one end through to a range of other ways for organisations to work together in a practical way. We have produced some guidance and facilitated quite a lot of discussions between organisations that are entertaining that option.

[92] **Mr Benfield:** A model that we like, which is a variation on this, is the collaborative commissioning model that is set out in 'Fulfilled Lives, Supportive Communities', the social services strategy. In that, you work out the service that you want and then bring potential voluntary and third sector organisations together and work with them to work out who will deliver what and then fund it. That seems to me to be a fairly sensible way of going about that, because, as we said in the paper, we are keen on the concept of commissioning as something that is collaborative and that involves users and organisations to determine what is to be delivered, and not confusing that with the funding mechanism that sits below that, which is the 'how'.

[93] Often, procurement and commissioning are used interchangeably, as two different words. Within the spectrum of commissioning, we need to be much more imaginative in terms of collaborative commissioning and other ways of commissioning that may not be straight grants in terms of gift, but, equally, are not competitive procurement. At the end of the day, we want to see the organisations and the people who have built those services, and who have a commitment to them and to those communities, remaining in the driving seat in terms of how those services are delivered. A grant and collaborative commissioning achieve that, but procurement does not.

[94] Our nightmare scenario is that you have local people engaged in setting up a service, say Women's Aid or something like that, and suddenly the council comes along and says, 'Actually, we've got to procure this contract now', and off it goes and somebody comes in from elsewhere, be it the private sector or the voluntary sector, and takes over the contract because it is a bit cheaper, then the local authority turns around and says, 'Oh, we didn't mean for that to happen. That is just what happens when you procure'. You will then have lost all that local engagement and involvement. Anecdotally, what happens down the road, three years on, is that it has to go back to these people and say, 'Well, it didn't really work, did it?'. That is our nightmare scenario.

[95] **Darren Millar:** You will have to forgive me, but we are up against the clock now. There are two final big questions that we need to touch on. I ask Members to ask brief

questions and witnesses to give brief answers. However, there is one question that I want to ask as a supplementary to Mike's question. The Welsh Government has moved towards wanting to give grants to all-Wales organisations rather than regional organisations that might be providing services. AWEMA is a perfect example of the Welsh Government encouraging an all-Wales organisation to emerge in order that it could fund that one organisation rather than fund or commission services through grants in different parts of the country. That has caused some difficulties. What is your opinion on that shift towards the all-Wales approach rather than the commissioning of regional or localised services?

[96] **Mr Benfield:** I think that the geography needs to determine the service, so some services can best be commissioned nationally, because you can do it in that way, but local services are best commissioned locally. I am not sure that I quite recognise the scenario. There has always been a degree of doing something nationally. Part of the AWEMA situation was down to the European money from this round of European programmes, and the next round will want to deliver programmes through a smaller and smaller number of larger organisations. There has been a big push from the European programmes on that. Sometimes, you need larger organisations for all the things that we have talked about—good governance, systems, counter-fraud, efficiencies and costs. Sometimes, you need scale. So, it is being driven a bit by European funding, but I do not so much recognise the Welsh Government as moving in that way. If anything, it is moving towards a regional commissioning model, is it not?

[97] **Mr Jarrold:** There is a role for routing funding through national umbrella bodies. That works well with Care and Repair. At a Wales level, it is supporting the local care and repair services. It works with advice in health, where Welsh Government money is routed through Citizens Advice Cymru to fund health-related advice and benefits advice, and those are the organisations that probably know how to make the best use of that money. Local organisations are also funded through the WCVA itself.

[98] **Darren Millar:** The point that I was trying to make is that, obviously, collaborative bids have been tabled by AWEMA on behalf of a number of partner organisations in this particular case, and I am trying to root out how we can resolve problems such as those that occurred at AWEMA in the future. The big issue there was that regional delivery bodies such as the one in north Wales said that they were concerned. They were supposed to be a partner, but nobody was listening to them and they had no idea what the finances were like. With a particular grant, they would just get a bit of money and would have no idea what was being received at the other end, or what services were being delivered. So, it is about how to avoid that. Your response was very important, I think.

[99] **Julie Morgan:** The Welsh Government grants management project has been introduced to improve management. What has been its impact?

[100] **Mr Benfield:** Its impact in trying to achieve consistency across all grant giving has been causing us concern. First, it did not consult on what it was doing as part of the scheme. The Government has a code of practice for funding, and if you are introducing significant changes, whatever you call them, you have a requirement to consult. That did not happen. The purpose of consultation is that you understand what it is you are doing and the consequences of that. We have seen some teething problems, let us say, in the advice that the project has been giving to front-line Welsh Government staff. The idea that you need a separate bank account for every grant that you receive is considered by many, including accountants and bankers, as being rather impractical.

[101] On the move to having to justify payment in advance on the basis of need, the argument is the same for 99% of all organisations: you cannot operate without it. So, to introduce a system in which each and every organisation had to justify what is the same case,

and to do so without any definition of what is meant by ‘need’, was perhaps unwise. There are other consequences coming downstream that, hopefully, we have now resolved, because each side has agreed to consult with a sub-committee of the third sector partnership council, which is the funding and compliance committee, about any further changes that it might want to introduce.

[102] Consistency, good practice and all those things are fine, but it is probably quite difficult to take a one-size-fits-all approach to grants worth millions of pounds to the private sector on the one hand and grants to small voluntary organisations on the other. If they are trying to produce one set of conditions for all that, it will cause us a few problems down the road. At least we now have the mechanisms in place so that, hopefully, we can point out the consequences of trying to get consistency.

[103] **Julie Morgan:** Have you seen any benefits from this project yet?

[104] **Mr Benfield:** Not yet.

[105] **Mike Hedges:** There are alternative forms of funding to grants, such as loans, investments and procurement. Would you like to see the Welsh Government move to those other means of funding for third sector organisations? If not, why not?

[106] **Mr Benfield:** We are already involved in developing loans for all sorts of different things: loans for buildings, and things such as a simplified social investment bond, which will help organisations by providing bridging funding. Other organisations are also doing that. So, loans are not a replacement for grants, but they are another source of potential capital. Of course, we have to be clear that loans, by their very nature, have to be repaid by somebody at some time. It is about thinking how to create a bigger market. There is not a lack of resource here; there is a lack of propositions that will pay back. However, there are a lot of interesting ideas that have potential.

[107] As we have argued, the grant is a very effective and flexible way of achieving the kind of policy aims that will be most sensitive to the needs of users and communities. What we want to see is a rebalancing of the rush to procurement as the solution to all problems, because the reality, we think, is that it does not give the flexibility, innovation and ability to keep communities involved and on board. So, there are a number of downsides to procurement and we want to see a balance.

[108] If you are buying pens or any other goods or services, then it is fine to procure. If you can specify exactly what you want, procure. However, complex services and services for people need more flexibility, and grants are the way to provide that. That process does not have to be unchallenging. You can have competitive grants. There are ways of assessing value for money with grants by benchmarking against others. So, many of the characteristics that are attributed to procurement can be attributed to grants as well. The other thing about grants is that you can be sure about where the money and jobs will end up; with procurement, you cannot.

[109] **Darren Millar:** Okay. On that final note, we will draw this evidence session to a close. I thank you, Graham and Phil, for your attendance today. Both your oral and written evidence is extremely useful to the committee in undertaking its inquiry. If you want to provide any further information, such as the information that you mentioned to Aled earlier, we would be very grateful to receive that.

10.30 a.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**
**Motion under Standing Order No. 17.42 to Resolve to Exclude the Public
from the Meeting**

[110] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[111] I see that there are no objections. I ask that the public gallery be cleared.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.31 a.m.
The public part of the meeting ended at 10.31 a.m.*