



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Cross-government**

# Government grant services

## Key facts

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**£292bn**

was provided as grants  
in 2011-12

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**41%**

of total government  
spending is grant funding

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**£61bn**

was grant funding  
to the non-public sector

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<b>17</b>	departments that pay grants
<b>1,100</b>	central government grant schemes
<b>850,000</b>	recipients of individual grant payments, including some 750,000 UK students
<b>£2.6 billion</b>	Cabinet Office high level estimate of potential savings from implementing all aspects of the Grants Efficiency Programme
<b>£0.6 million</b>	cost of the Grants Efficiency Programme so far

# Summary

## Introduction

- 1** The government makes extensive use of grant funding to help implement its policy objectives. In 2011-12, it provided a total of £292 billion in grants to organisations and individuals in the public, private and voluntary sectors. This sum excluded grant-in-aid.
- 2** Government has given less attention to grants than to other policy funding mechanisms such as procurement, despite grant funding being higher in value. HM Treasury's document *Managing Public Money* includes some guidance on grant controls, but no detailed central guidance has been published since the National Audit Office's (NAO) good practice guide to grant administration in 1991.
- 3** The government has now begun work to improve its grant programmes. In 2011 the National Fraud Authority estimated that in 2009-10 grant fraud cost the taxpayer £515 million. This led the Cabinet Office to set up a taskforce to explore ways these levels of fraud could be reduced and to start collecting more information on government's use of grants. Following the taskforce's exploratory work, the Cabinet Office decided to set up the Grants Efficiency Programme in October 2012. This is designed to reduce costs and losses from government grants and to make grants more effective.
- 4** This report establishes a picture of the government's landscape of grant funding and provides an opportunity for an early look at the progress of the Cabinet Office's Grants Efficiency Programme. Although the NAO has looked at how public money has been spent through individual grant programmes, the *Whole of Government Accounts* now offers a new perspective on the entire grant funding landscape. At the same time, the large amounts involved at a time of austerity have motivated both departments and the centre of government to explore options to improve the value for money of grants. We have examined this work, together with taking a wider look at how grants are used across government.

## Scope of this report

- 5 The definition of a grant varies across government. In this report we define a grant as a permanent transfer of funding for a specific purpose and used in accordance with a set of terms and conditions. This definition is consistent with the *Whole of Government Accounts*.
- 6 The report aims to set out the complexity of current grant arrangements and identifies the opportunities and challenges that the government faces in making savings.
- 7 In Part One we use information from sources including the *Whole of Government Accounts* to analyse the scale and complexity of the government's grant spending.
- 8 In Part Two we highlight the benefits of grant funding and the use of alternatives. Through case studies we present examples of government grant programmes that illustrate areas of good operational practice, as well as weaknesses in process maturity that the government should address.
- 9 In Part Three we explain what central government is doing to address some of the issues raised in this report. It focuses on the Grants Efficiency Programme, which the Cabinet Office is leading.

## Key findings

### The current grant landscape

**10 Government spending on grants makes up 41 per cent of its total expenditure of £715 billion. Despite this, the use of grants is less mature as a practice than other government funding activities.** In 2011-12, central government as a whole spent £292 billion on grants, including grants to local authorities and other local government bodies. It paid £61 billion to organisations outside the public sector, 35 per cent more than the £45 billion it spent through procurement. The NAO reported on good practice in grant giving as long ago as 1991; however, the government still offers no central source of training or guidance. Giving grants is widely seen as a generalist role, in contrast to government's development of recognised professions around some other funding mechanisms. For example, while central government procurement spending is lower than that for grants, procurement has been professionalised for 80 years (paragraphs 1.2 and 1.11 to 1.14).

**11 The effectiveness of government's grant funding is impacted by a lack of coordination and the centre of government not having information on the grant programmes currently operating.** Obtaining information on government's grant funding activities has proved challenging because levels of information and transparency vary in different parts of government. By surveying departments, the Cabinet Office has begun to build a picture and estimates central government currently operates around 1,100 grant programmes. We have found these typically operate in isolation and many have overlapping elements. With a lack of coordination, there is a risk of unknowingly duplicating support or underfunding particular regions and industries. In addition, without evidence from a coherent picture, it is more challenging for government to plan its interventions (paragraphs 1.6 to 1.11).

**12 The landscape of government's grant funding is fragmented, reducing its efficiency.** A large number of government bodies provide grants to around 850,000 recipients, including charities, private companies and individuals. Some 750,000 recipients are eligible UK students. Different parts of government are providing grants to the same recipients. In some cases universities and charities are receiving more than ten different grants. This can be partly as a result of policy choices requiring universities and charities to compete for grants from different grant-giving bodies. Moreover, many of these grant-giving bodies are statutorily independent of central departments, making it challenging to collate grant funding information. With a lack of information on recipients beyond that held by individual programmes, the government typically cannot identify whether recipients are receiving other payments. Therefore the government does not know who its top grant recipients are or those organisations especially dependent on public funding. It also places a burden on organisations that have to apply separately, often using different application or bidding methods, for multiple grants (paragraphs 1.8 to 1.11).

How the government uses grant funding

**13 The government has started to benefit from using alternatives to grants, but some departments use grants without systematically considering alternatives.** In some cases, grants offer advantages over other funding mechanisms but they should not be used as a default option. Some departments have started to benefit from using alternative routes such as equity investment, procurement, loans and combinations of grant and loan elements. For example, the Department for Communities and Local Government (DCLG) offers long-term loans as part of its Help to Buy scheme, which should offer some financial return. However, the level of guidance on considering alternatives was mixed in the departments we examined, and guidance was not consistently followed (paragraphs 2.1 to 2.9).

**14 Departments do not consistently evaluate the implementation and outcomes of their grant programmes.** We found examples of grant programmes that did not have evaluation built in to their plans. Programmes also frequently lacked measurable objectives to assess performance, and payments are not widely linked to specific outcomes. We found some examples of better practice, for instance in the Department for International Development (DFID), which recognises that grant performance evaluation supports its evidence base for decisions (paragraphs 2.16 to 2.20).

**15 Departments' management and evaluation of grants is frequently weakened by not treating grant programmes as a portfolio.** Departments tend to operate grant programmes in isolation from each other, and from other interventions in a particular policy area. One consequence of this is that most programmes we examined accepted grant applications until all available funds were allocated. Where we found better portfolio management, funding for particular programmes was restricted to applications that exceeded quality requirements, with remaining funding reallocated to other programmes. We also found few examples of departments carrying out thematic evaluations of their multiple related grant programmes to capture lessons learned and to assess their overall effect (paragraphs 2.10 to 2.15).

#### Ongoing work to address grant funding

**16 In October 2012, the Cabinet Office formally launched its Grants Efficiency Programme to improve the effectiveness of government grants and identify savings in grant fraud and administrative costs.** Along with objectives to increase efficiency and effectiveness, the programme supports the *Civil Service Reform Plan* to promote wider sharing of expertise, and to explore the implementation of new models for public services such as increasing the use of digital technology (paragraphs 3.2 to 3.5).

**17 The Grants Efficiency Programme has been hampered by incomplete data and a lack of resources, but the programme is now gaining momentum.** Difficulties in obtaining data on grant costs and on the level of error and fraud led the taskforce overseeing the programme to delay its formal business case by a year. The lack of a proposal that could be robustly supported by high-quality data meant serious consideration could not be given to options requiring larger investments. While the Grants Efficiency Programme team continues to explore more radical options such as the wider use of shared services and the introduction of an end-to-end digital service, it is proceeding with the implementation of lower-cost elements. In particular, improving the quality and completeness of its information. The team plans to present its business case in January 2015. The team's plans were also hampered by a lack of resources and an initial lack of buy-in from some departments. However, the Cabinet Office team, now numbering seven, has successfully built on existing good practice networks. Staff in departments who are directly involved in the Cabinet Office's programme are generally engaged, and particularly welcomed sharing more information and building a cross-government community of grant practitioners (paragraphs 3.6 to 3.12).

**18 The challenges facing the Grants Efficiency Programme are potentially significant and we will continue to monitor its progress.** Grants are a large and complex area and any coherent solution will not be quick to implement. Managing any major change programme has risks, and we have previously reported on the challenges faced by the government's shared service initiatives in gaining buy-in from departments. Challenges also include preventing a central grants team from becoming detached from initiatives on the ground and managing the sustainability of grant recipients when making any changes to funding mechanisms (paragraphs 3.13 to 3.14).

### **Conclusion on value for money**

**19** Grants can be an effective method of achieving policy objectives, but should not be the default option as other alternatives may offer better value for money. There is no central good practice guidance and limited central data to support departments in implementing efficient and effective grant programmes. Grant provision is fragmented across government, with individual grants made in isolation from other funding methods or the grants of other departments. Departments and central government have a role to play to address these issues. The Cabinet Office has begun work to improve government's use of grants, but this is at an early stage and will need more support from departments to be successful. The Cabinet Office and departments, however, will have to work together to address these challenges before government's use of its grant funding as a whole can demonstrate value for money.

### **Recommendations**

**20** Government departments with grant programmes should:

- a Share information on their grants and recipients with other departments and the Cabinet Office.** This should include engaging with the Grants Efficiency Programme and providing the necessary information on a timely basis. Greater information sharing would allow more strategic coordination and lower the risk of duplication and fraud.
- b Routinely evaluate whether grants are the best funding option for particular programmes.** When considering funding policy support mechanisms, departments should systematically assess the most appropriate funding mechanism. Assessment of appropriateness should extend to reviewing existing grant programmes.
- c Ensure that those responsible for designing and administering grant programmes are sufficiently skilled and engaged in the wider community.** Department staff should engage in the good practice sharing processes that the centre of government is introducing. Departments also have a responsibility to provide training and should make sure that their guidance is updated and followed.

**21** The Cabinet Office has started work to improve the government's use of grants and alternatives. To further strengthen this work, it should:

- a Build on existing good practice guidance in departments and provide data to help department decision-making.** Subject to departments providing reliable data, guidance should include information on the design and operation of grant programmes, portfolio management and when to use grants or their alternatives.
- b Improve inconsistent public transparency around grants.** This should include refining existing transparency rules and encouraging departments to follow good practice examples such as DFID's Development Tracker, which provides information on international development projects funded by the UK government.
- c Take opportunities to learn from its other work.** The Cabinet Office is considering more process sharing as one option for grants. Its introduction of the Next Generation Shared Services programme is likely to present useful perspectives on that approach.

**22 HM Treasury should support the Cabinet Office and departments in developing a career path for grant administrators.** Within existing policy development and delivery training, there is scope to further improve grant design and administration functions, including introducing more initiatives to develop an improved career path for grant administrators.