



National Audit Office

Report

by the Comptroller
and Auditor General

Cross-government

Government grant services

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National Audit Act 1983 for presentation to the House of
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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

1 July 2014

This report examines the likelihood the Cabinet Office's programme will lead to improvements in government grant funding, whether departments routinely appraise alternatives before choosing grants, and – using case studies – establishing the degree to which grant programmes are strategically planned and output focused.

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The National Audit Office study team
consisted of:
Paul Dodimead, Iain Forrester,
Inna Rayner and Mark Wynniatt,
under the direction of Steven Williams.

This report can be found on the
National Audit Office website at
www.nao.org.uk

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£292bn

was provided as grants
in 2011-12

41%

of total government
spending is grant funding

£61bn

was grant funding
to the non-public sector

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

Part One

Government grants – who pays and how much?

1.1 The government can use multiple routes to fund the outside organisations and activities that it wants to support. Grants form one such route, and the government uses various types of grants extensively. Use of grants includes funding the wider public sector, supporting community initiatives run by the voluntary sector and supplying finance to commercial organisations to boost economic activity.

1.2 The government spends significant sums of public money through grant funding. In 2011-12, central government grant funding for its bodies and policies totalled £292 billion. Grant funding made up 41 per cent of the government's total expenditure of £715 billion, and included grant programmes to organisations independent of the public sector that totalled £61 billion. The £292 billion excludes grant-in-aid – the basic funding given by departments to organisations within their own departmental families. However, the £292 billion does include grants from central government to local authorities and other local government bodies.

1.3 The rest of this part covers the information available on grants, the different funding options available to the government and the grants landscape.

Information available on grants

1.4 Despite the large sums involved, no single repository provides information on the government's grant-funding activities. Information used from the published *Whole of Government Accounts*¹ provides some data on grant payments by government bodies. Beyond this, establishing an overall picture is difficult because individual departments and organisations provide varying degrees of information. The Department for Culture, Media & Sport (DCMS) provides information on all lottery grant awards and their recipients. The Department for International Development (DFID) publishes the details of all aid flows to all countries and work areas. But in other parts of government grant information is less transparent. The Cabinet Office has begun to produce information on the scale of grants by surveying departments. Various data are not consistent in their scope or timing, and it is not possible to fully reconcile them to gain a complete picture of grants. The lack of information weakens the evidence base for government decisions on grants and other interventions. We have used the available information, including the *Whole of Government Accounts*, to analyse the scale and complexity of the government's grant spending.

¹ At the time of our fieldwork, we used the most recent set of whole of government accounts, which was from 2011-12. HM Treasury, *Whole of Government Accounts year ended 31 March 2012*, HC 531, July 2013.

Grants and other funding options

1.5 We have defined 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*. When calculating grant totals using the *Whole of Government Accounts*, we have used amounts labelled as grants and similar types of payments. **Figure 1** explains which types of payment resembling grants are included in our analysis.

Figure 1
Payments included or excluded in our definition of grants

Type of payment	Description	Included in our definition of grants?	Example
Grants	Permanent transfers of money for specific purposes, including capital grants for creation of assets and revenue grants to fund activities.	Yes	Department for Communities and Local Government provides grants through the Coastal Communities Fund to support training and employment opportunities for people in coastal towns in England.
Subsidies	Assistance provided towards the costs of a specific activity or service provision seen to be in the public interest.	Yes	The Bus Service Operators Grant (BSOG) is paid to eligible local and community bus operators to help recover some of their fuel costs.
Sponsorships	Provision of cash, assets or services in support of a specific activity.	Yes	The Department for Transport provides sponsorship for major road and rail projects such as Crossrail.
Subscriptions	Advanced payments made to participate in or support an initiative.	Yes	Promissory notes are a method of funding multilateral organisations that then 'encash' these funds as they need them. They include capital subscriptions to the World Bank and the Regional Development Banks.
Benefits	Amounts paid to individuals who meet certain requirements, used to support the individual rather than wider policy.	No	Employment and Support Allowance is provided to lend financial support to ill or disabled people.
Grant-in-aid	The basic funding paid by departments to public sector bodies within their departmental families. Less specific than other grants.	No	The Technology Strategy Board's primary source of funds is grant-in-aid allocated to it by the Department for Business, Innovation & Skills.

Source: National Audit Office analysis

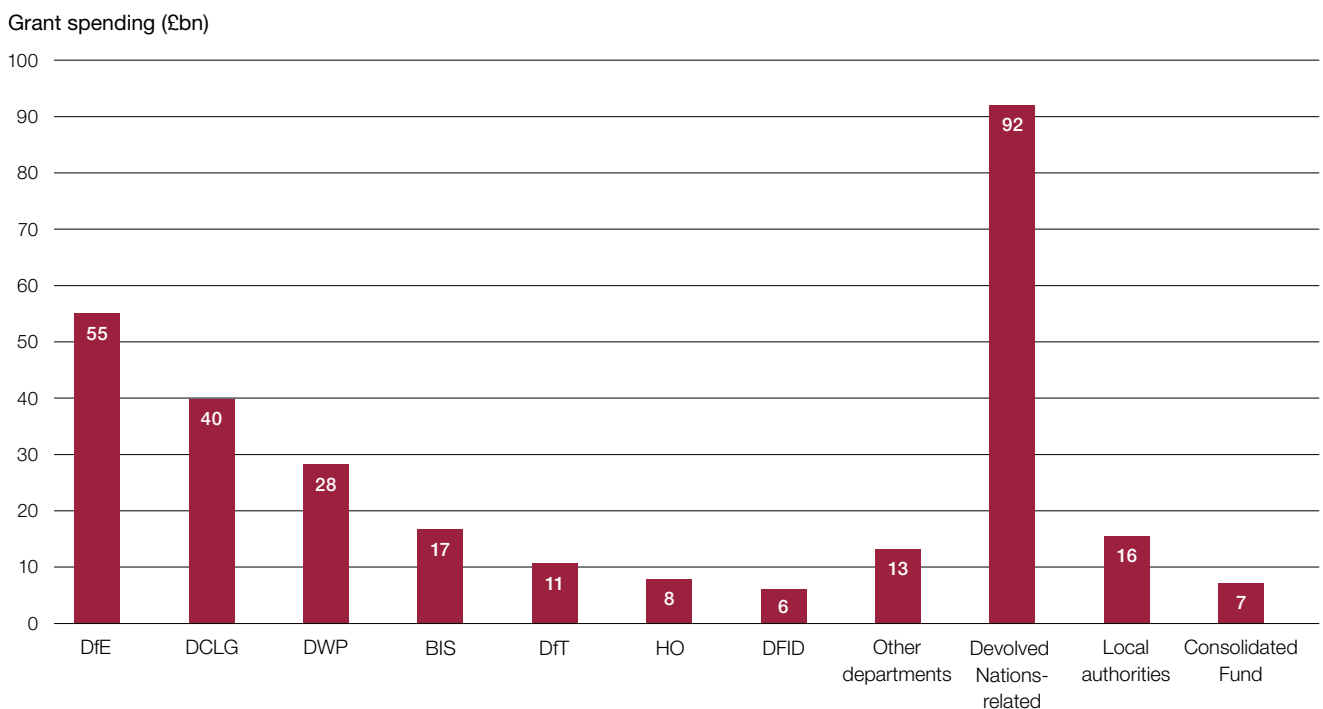
Landscape of grant payments

1.6 Seventeen government departments, and many other government bodies, pay grants, often across many different programmes with different purposes. We analysed each department's spending as shown in the *Whole of Government Accounts*, which include grants given by non-departmental public bodies. **Figure 2** illustrates the scale of the total grants paid by the largest grant-paying departmental families, and **Figure 3** overleaf shows how these totals are split between internal grants (to other parts of the government) and external grants (amounts that leave the public sector).

Figure 2

Total government spending of £292 billion on grants in 2011-12

Whole of Government Accounts: Total grants value £292 billion



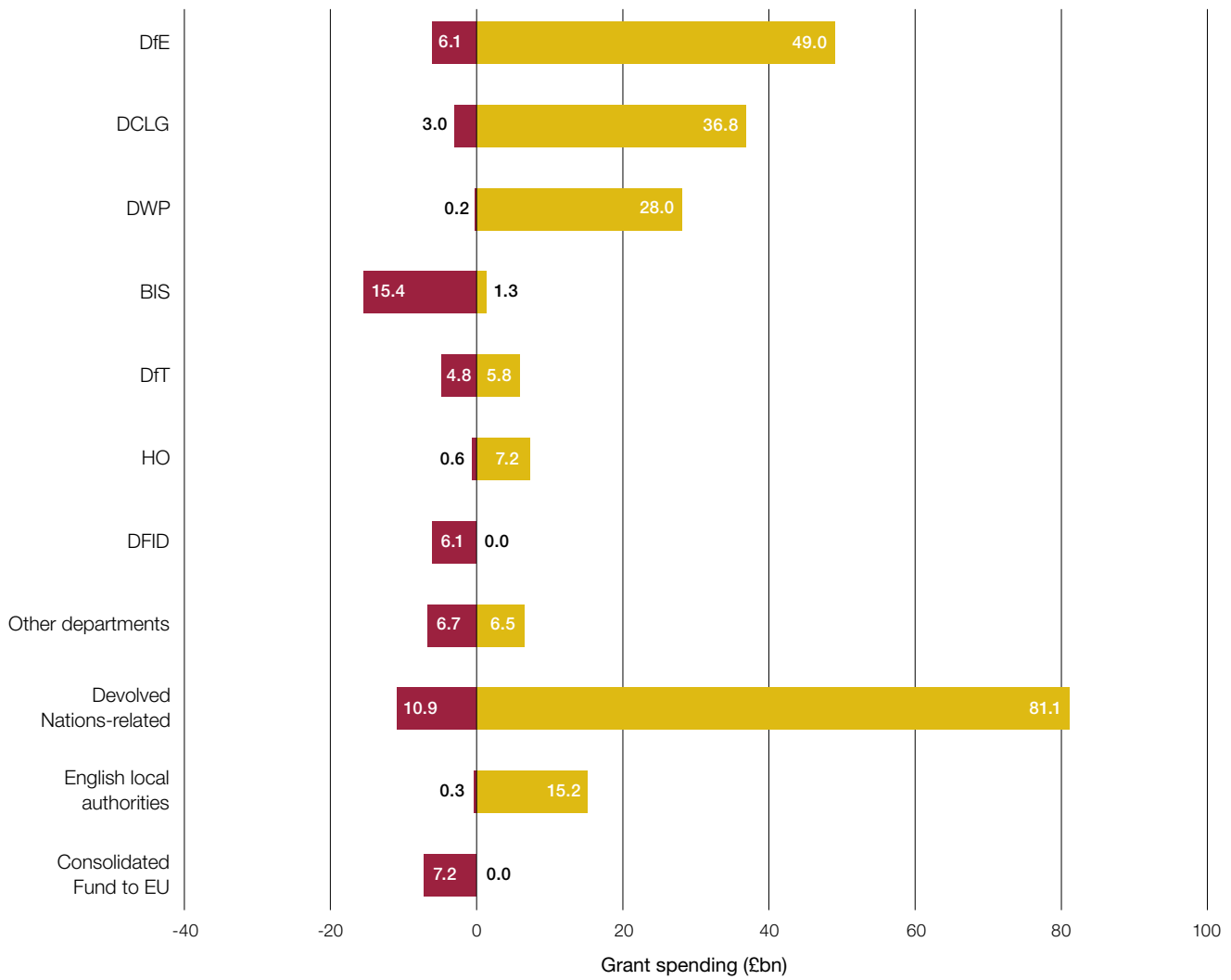
Notes

- 1 Devolved Nations-related: Grant funding made in Scotland, Wales and Northern Ireland.
- 2 DfE = Department for Education, DCLG = Department for Communities and Local Government, DWP = Department for Work & Pensions, BIS = Department for Business, Innovation & Skills, DfT = Department for Transport, HO = Home Office, DFID = Department for International Development, Consolidated Fund = HM Treasury's main bank account from which it makes payments to the European Union.
- 3 Amounts added together may not total exactly due to rounding.

Source: National Audit Office analysis of *Whole of Government Accounts* data for 2011-12

Figure 3

Government’s spending on grants in 2011-12 (including £61 billion spent outside of government)



■ External (£61 billion)
 ■ Internal (£231 billion)

Notes

- 1 Totals may not add due to rounding.
- 2 Devolved Nations-related: Grant funding made in Scotland, Wales and Northern Ireland.
- 3 DfE = Department for Education, DCLG = Department for Communities and Local Government, DWP = Department for Work & Pensions, BIS = Department for Business, Innovation & Skills, DfT = Department for Transport, HO = Home Office, DFID = Department for International Development, Consolidated Fund to EU = Payments from HM Treasury’s main bank account to the European Union.

Source: National Audit Office analysis of *Whole of Government Accounts* data for 2011-12

1.7 In financial terms, government's grant-giving is concentrated in particular departments. The three departments that give recipients outside government the largest amounts of grant funding (Department for Business, Innovation & Skills, Department for Education, and DFID) pay more than all other central government departments combined. There are also particular areas of government where the operation of grant funding is long established, for example DCMS and its arm's-length bodies. Departments and other bodies with more experience of grants may be well placed to act as centres of expertise to support others. The Big Lottery Fund has begun to offer grant management services to others in government.

1.8 Individual grant programmes hold the details of grant recipients, but the government has no clear picture of who they are as a whole. More centrally maintained information around recipients would assist efforts to combat fraud and error. An internal Cabinet Office paper authored by the Fraud, Error & Debt Taskforce in October 2013 recognised the value of having access to critical business intelligence on potential third-sector recipients to enable systematic risk assessment of applications. It also highlighted variations in administrative costs and duplications in systems and resources.

1.9 No source of information shows all recipients of government grants and the level of information available varies by programme. All government bodies must publish information on all spending transactions of more than £25,000 under transparency initiatives, and grant payments fall within this definition of spending. We found this transparency information to be incomplete and inconsistent in format and scope. From analysis we have been able to undertake, data for the following departmental families showed that they collectively gave grants to 14,000 different recipient organisations or individuals in 2012-13:

- Department for International Development;
- Department for Business, Innovation & Skills;
- Department for Culture, Media & Sport;
- Department for Environment, Food & Rural Affairs;
- Department for Communities & Local Government; and
- Department for Transport (DfT).

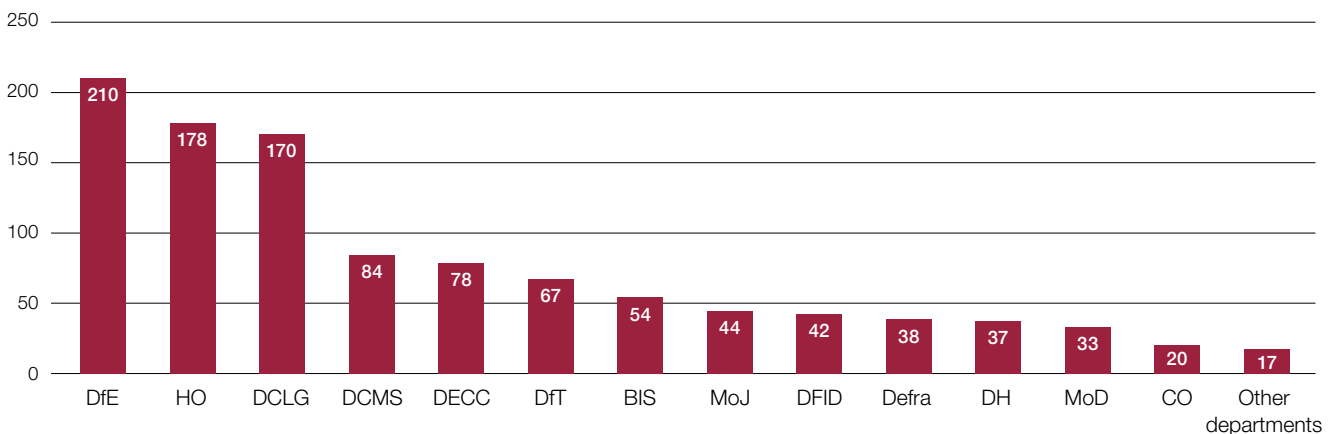
1.10 The actual total is likely to be significantly higher. The Cabinet Office’s wider survey estimated that in 2012-13 there were around 850,000 recipients of grants, which included 750,000 UK students. **Figure 4** shows how those programmes are split between departmental families.

1.11 Recipients may apply for, and may receive, grants from many government sources, either from the same department family or from different departments. This may be because the recipient undertakes a range of activities, such as various types of research. Several universities received more than ten types of grants in 2012-13. The body representing the voluntary sector has highlighted the impact on its members of each funder having their own criteria, priorities and processes. It noted the adverse effect this has on the time individual organisations have to commit to repeatedly tailoring applications for each funder.²

Figure 4

Working with departments, it is estimated that central government operates around 1,100 different grant schemes

Number of grant schemes



Notes

- 1 DFID = Department for International Development, MoJ = Ministry of Justice, HO = Home Office, DCLG = Department for Communities and Local Government, DfE = Department for Education, DCMS = Department for Culture, Media & Sport, DfT = Department for Transport, DECC = Department of Energy & Climate Change, DH = Department of Health, BIS = Department for Business, Innovation & Skills, Defra = Department for Environment, Food & Rural Affairs, MoD = Ministry of Defence, CO = Cabinet Office.
- 2 Across government, there are variations in the way parts of government think about grants. The arrangements represented in the graph include considerable diversity. We have therefore used ‘scheme’ as a catch-all term to refer to the many different types of grant-based funding arrangements used by central government.
- 3 The 42 schemes listed for DFID include multi-donor grant schemes operated by others to which DFID makes a contribution.

Source: National Audit Office analysis of Cabinet Office survey and departmental data

2 The National Council for Voluntary Organisations, *Grant Challenges*, available at: www.ncvo.org.uk/practical-support/funding/grants?highlight=WyJncmFudClslmFwcGxpY2F0aW9uIllo, accessed 3 June 2014.

Grants and the wider landscape

1.12 Grant programmes are devised for specific purposes across the government and tend to be seen in isolation as a function of that specific purpose. They are not generally seen as part of a portfolio of grants or of wider financing approaches.

1.13 Grants are not the most suitable funding approach to use for every policy initiative, and the government can use a range of alternatives such as procurement and loans. We have also separately reported on the complexity of using tax reliefs to support policy initiatives.³ **Figure 5** summarises some of the advantages and disadvantages of some alternative funding models.

Figure 5

Alternative funding models to grants

Funding model	Explanation	Advantages	Disadvantages
Procurement	Purchase of goods or services.	Government gains ownership of any assets. Greater ability to specify requirements. Allows for tighter controls.	Requires commercial skills and specialist knowledge to set requirements effectively. Higher administration cost.
Equity	Taking an ownership stake in an organisation.	Offers greater control to government. Offers the potential for a financial return.	Places a higher management burden on government. Higher financial risk than loans.
Loans	Money given with a requirement that the recipient pay it back at a later date.	Produces a financial return for government. 'Recycling' money can make the available budget go further.	Higher administration costs over a longer period.
Grant with repayable elements	Grants partly given in the form of a loan.	Relatively simple and easy to administer. Gives some financial return to government.	More complicated than standard grants to design and implement.
Tax expenditures	Tax reliefs provide behavioural incentives to achieve social or economic objectives.	Can offer lower administrative costs and provide differentiated financial support that would not be cost-effective through means-tested spending programmes. May also target support or deliver objectives more effectively.	Costs cannot be controlled within a finite budget. Risk of tax error and misuse.

Source: National Audit Office analysis from previous work

1.14 Grant-giving is not as mature as an activity as some alternatives. Government spends around £45 billion a year procuring goods and services compared with the £61 billion it spends on grants outside of the public sector. However, the practice of procurement is more mature than grants, including in the professionalisation of skills. The Chartered Institute of Purchasing & Supply (CIPS) has been the professional institute of procurement and supply management professionals for more than 80 years and provides a range of qualifications, training, advice and products for public, private and third sectors. In contrast, there is no UK equivalent for grants and the predominately US-based Grant Professionals Association has low visibility in UK government departments. There is no central source of training and guidance for grant professionals, although the NAO reported on good practice in grant giving as long ago as 1991.⁴ The Cabinet Office also has a clearer picture of procurement spending as a whole than for grants. For procurement, the Cabinet Office requests more information from suppliers and departments and now has more comprehensive management information.

4 Comptroller & Auditor General, *Promoting value for money from grants*, January 1991.

Part Two

Why and how the government uses grant funding

2.1 In this part we present examples of government grant programmes and explain the advantages of using grants along with some of the benefits government can deliver when it chooses to use alternatives. Using our examples, we also highlight both process weaknesses and areas of good practice. The individual grant programmes presented here are not a representative sample and we do not use them as a basis to draw wider conclusions around any systemic weaknesses within individual departments. Instead, they are designed to illustrate the diverse practices operating in different parts of government.

Advantages of grant funding

2.2 Grant funding enables the government to support a wide range of policy-related activities without having to directly manage them on a day-to-day basis. Giving grants to organisations with the most appropriate skills and experience enables them to appropriately match resources to priorities.

2.3 Unlike contracts, grants are not subject to EU procurement rules and have different tax arrangements.⁵ Grant payments are made by government to reflect organisations' expenditure on agreed items or functions, and are often paid only on statutory conditions.⁶ The circumstances in which grants are given and the objectives they meet vary considerably across government. This variety is reflected in the nature of the agreements that support them. In some cases these can be less formal and in others there are legally binding contracts in place. While less rigorous terms and conditions provide flexibility, they are less likely to include provisions for enforcing performance and offer a greater risk of activities not occurring as planned. However, if agreements are too tightly defined, and in substance appear as service level agreements, they may face challenge on the basis that they should have been subject to EU procurement rules.

⁵ ICAEW, *Are you receiving a grant or delivering a contract?*, available at: www.icaew.com/en/technical/charity-and-voluntary-sector/tax/are-you-receiving-a-grant-or-delivering-a-contract, accessed May 2014.

⁶ HM Treasury, *Managing Public Money*, July 2013, Glossary section.

Departments' initiatives have also delivered benefits using alternatives to grants

2.4 Benefits attainable using grant funding can also be realised using alternative mechanisms. We have identified some examples of alternatives and the benefits delivered so far (**Figure 6**).

Figure 6

Examples of departments' use of alternatives to grants and the benefits achieved

Initiative	Description	Benefits
Green Investment Bank	The Green Investment Bank provides capital for green infrastructure projects alongside private sector funds.	As of March 2014, the Green Investment Bank had committed £1.3 billion, attracting up to £3.5 billion of private sector funding into commercial green projects.
Smart ticketing managed service	The Department for Transport is funding a pilot in Norfolk that provides a managed service to operators so they can all participate in the county's smart ticketing scheme. This is provided free of charge in exchange for the foregoing of the Bus Service Operators Grant (BSOG) smart ticketing uplift.	All of Norfolk's buses are now equipped with new ticket machines as part of the county's plans to expand the use of integrated smart ticketing. This pilot is demonstrating that a managed service is a more effective mechanism for government to support small operators and help achieve smart ticketing ambitions as it spreads the high initial cost of equipment.
Help to Buy (equity loan) scheme	The Department for Communities and Local Government launched the Help to Buy (equity loan) scheme in April 2013 to provide loans to 74,000 households by 2015-16.	By the end of February 2014, a total of 16,465 properties had been bought with the support of the scheme. The government will receive a financial return on its funding.
The Seed Enterprise Investment Scheme (SEIS)	SEIS is designed to help small, early stage companies raise equity finance. SEIS offers tax reliefs to individual investors buying shares in small companies at a very early start-up stage.	Since its launch in April 2012, the scheme has helped more than 1,600 companies to raise more than £135 million of funding.

Notes

- 1 House of Commons Environmental Audit Committee, *Green Finance*, Twelfth Report of Session 2013-14, HC 191, March 2014.
- 2 Department for Transport, *Green Light for Better Buses*, March 2012.
- 3 Press release, *Norfolk bus trial to inform government's smart ticketing strategy*, available at: www.gov.uk/government/news/norfolk-bus-trial-to-inform-governments-smart-ticketing-strategy
- 4 Comptroller and Auditor General, *The Help to Buy Equity Loan Scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.
- 5 Help to Buy (equity loan) scheme monthly statistics, available at: www.gov.uk/government/statistical-data-sets/help-to-buy-equity-loan-scheme-monthly-statistics
- 6 Comptroller and Auditor General, *Tax Reliefs*, Session 2013-14, HC 1180, National Audit Office, March 2014.

Source: National Audit Office analysis

Our approach to assessing grant funding

2.5 We selected case studies from across central government as illustrative examples of how the government operates some of its grant funding (**Figure 7**). We also undertook fieldwork at the Department for International Development (DFID) including discussion with its Civil Society Department, who provide support to civil society organisations.

2.6 We developed a framework for assessing grant programmes using guidance from other governments and supreme audit institutions. To help illustrate good practice and areas of process weakness we divided our analysis into three stages:

- the consideration given to alternative options for implementing a policy;
- the use of programme portfolio management to centralise the control and oversight of an organisation's grant programmes; and
- the accountability, monitoring and evaluation of an individual grant programme that ensures it achieves its intended outcomes.

Figure 7

Grant programmes in our case studies

Department family	DfT	BIS	BIS	DCLG	DCLG
Name of grant programme	Bus Service Operators Grant	Grant for Business Investment ³	Catapult Centres (Technology Strategy Board)	Coastal Communities Fund ¹	Local Infrastructure Fund (Homes and Communities Agency) ²
When introduced	1964	1970s (changed to current format in 2008)	2011	2012	2012
Annual Value	£230m	£75m	£200m	£22m	circa £200m
Number of recipients	1,600	332	10	25	25

Notes

- 1 While the Coastal Communities Fund is a UK-wide fund, DCLG is only responsible for the fund in England. The figures for the Coastal Communities Fund here refer to England only.
- 2 The Local Infrastructure Fund is a programme of predominately financial transactions and recoverable grant costing circa £200 million per annum.
- 3 Figures from 2009-10, the only financial year the scheme was wholly operational.
- 4 DfT = Department for Transport, BIS = Department for Business, Innovation & Skills, DCLG = Department for Communities and Local Government, DFID = Department for International Development.

Source: National Audit Office analysis

Consideration of alternatives

2.7 In seeking to maximise public value, it is important that alternatives to grants are considered because:

- different interventions come with different risks;
- some types of funding earn the public sector a financial return following an initiative's success; and
- different types of government intervention affect markets and the capacity of participants in various ways.

2.8 The degree to which departments systematically consider alternatives to grant funding differs across government. **Figure 8** sets out our analysis of our case study departments and whether they:

- consider at a departmental level the use of alternative financial instruments; and
- provide guidance to their staff that challenges them to consider the use of alternatives to grants.

2.9 We have found departments are exploring alternatives to grants. The financial crisis has seen departments such as the Department for Communities and Local Government (DCLG) address market failures around the availability of credit by providing loans and guarantees at market rates. For example, the Local Infrastructure fund provides long-term loans to enable housing development that would otherwise not be viable. The government's fiscal challenge has also seen HM Treasury exert control over the composition of some departments' spending. DFID, for example, is seeking to increase its non-fiscal spending. DFID sees the impact of this new HM Treasury control as consistent with its new business model. DFID will make greater use of capital investment to achieve development results. As this spending leads to the creation of an asset it is likely to be classified as non-fiscal spending, which does not impact net public sector debt.⁷

Programme portfolio management

2.10 Portfolio management of grant funding centralises its control and oversight, enabling alignment between complementary grant programmes and an organisation's strategic priorities. It is not always possible to operate all grant programmes as a portfolio due to ministerial priorities and a need to react to events. For example, the government introduced grants of up to £5,000 for homeowners in England hit by the floods of early 2014.⁸

⁷ Non-fiscal capital programmes do not contribute to the Public Sector Net Borrowings in situations where an asset is recognised on the government balance sheet.

⁸ Press release, *New measures to help communities hit by flooding*, 12 February 2014. Available at: www.gov.uk/government/news/new-measures-to-help-communities-hit-by-flooding

Figure 8

Consideration of alternatives to grants

Department	Considers at a departmental level its strategy for using or considering alternatives to grants?	Departmental guidance for grant programme managers/budget holders challenges staff to consider alternatives?
Department for International Development	<p>Yes</p> <p>The Department for International Development (DFID) has committed to continue to use grant funding. However, its business model going forward includes an increase in the use of loans. In 2013-14, DFID also spent an estimated £1.4 billion contracting with suppliers to deliver development activities.</p>	<p>Yes</p> <p>Guidance in the use of alternative financial instruments has been provided since 2004.</p>
Department for Communities and Local Government	<p>Yes</p> <p>The department's strategy is to reduce the use of grant funding and increase the use of alternatives such as guarantees and loans.</p>	<p>Yes</p> <p>Staff are challenged to justify why a grant should be paid rather than using procurement, a loan, or other methods.</p>
Department for Transport	<p>No</p> <p>While we were unable to identify any departmental-level strategy, individual initiatives are using alternatives such as:</p> <ul style="list-style-type: none"> ● the managed service for smart ticketing; and ● the cycle-to-work annual tax exemption 	<p>Yes</p> <p>Guidance challenges staff to consider alternatives before establishing a grant programme. However, during our fieldwork we found evidence this is not systematically applied.</p>
Department for Business, Innovation & Skills	<p>Yes</p> <p>The department's Plan for Growth to boost the economy uses both grants and alternatives, for example changes to tax allowances and the launch of investment vehicles such as the Business Angel Co-investment Fund.</p>	<p>No</p> <p>Departmental guidance does not challenge staff designing policy implementations to consider whether a grant is always the best approach. However, some individual schemes such as Grant for Business Investment (GBI) did include that flexibility. GBI was based on the award of grants and guidance was appropriate to the objectives of the scheme. Its guidance made clear that applicants should be challenged on their need for a grant – GBI was funding of last resort and the applicant needed to show it had exhausted all alternative sources of funding. The guidance also prompted staff to consider repayable grants in certain circumstances.</p>

Note

1 HM Treasury, Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.

Source: National Audit Office analysis

2.11 Effective programme portfolio management enables:

- multiple funding streams to be coordinated into coherent interventions that reduce duplication and ensure that funding caters to a diverse set of complementary needs;
- information-sharing on recipient performance and insight into the relative success of different types of intervention; and
- a thematic approach to evaluation, assessing the effectiveness of the entire landscape of interventions and the overall outcome.

2.12 In **Figure 9**, we assess the degree to which our individual case study grant programmes are controlled and managed within a portfolio of similarly aligned initiatives.

2.13 Our case studies indicate a tendency for grants to be managed in isolation, with funding being directed without consideration of other grants and interventions. We also found the commissioning of thematic evaluations that considered the outcome of all the different types of related interventions to be the exception rather than the rule.

2.14 The fragmented information available for grants limits the government's ability to analyse and gain insight into its grant funding. Individually, grant programmes routinely record the levels of financial support provided along with the recipient's details. Moreover, we found DFID is able to build on individual programme data and analyse department-wide spending by theme, country and region. Despite the material level of grant funding, we found that government has a clearer picture of the financial support it gives overseas than the grant funding that goes to the different areas of the UK.

2.15 In addition, this lack of business intelligence at the centre of government means the government cannot use data from its entire portfolio of grant programmes as evidence to support policy planning or conduct meaningful analytical exercises such as comparing administrative costs.

Figure 9

Managing grant funding within a portfolio

Grant programme	The individual grant programme operates within a strategically managed portfolio	Thematic evaluations are used to assess the effectiveness of the portfolio of interventions
Bus Service Operators Grant (BSOG)	No BSOG is administered as a standalone grant providing bus operators with a fuel subsidy. DCLG also funds the industry through the concessionary travel grant.	Yes In March 2012, the Department for Transport published <i>Green Light for Better Buses</i> .
Grant for Business Investment	No The scheme is designed to address a downturn in local labour markets. The team administering the grant share information around potential recipients with those responsible for the Regional Growth Fund, but we saw no evidence the discretionary support provided is planned alongside other support mechanisms.	Yes – in 2008 The GBI scheme was launched in 2008 following a review of the previous investment support schemes undertaken as part of a wider exercise, the Solutions for Business initiative, which considered all relevant government interventions in support of business and refined them to a smaller, focused group built around key themes. These Solutions for Business schemes were then accessible from the common Business Link portal.
Catapult centres	Yes Catapult centres help get companies to the proof of concept/proof of market stage. The Technology Strategy Board has a roadmap for each individual sector. It assesses grant applications against a quality threshold rather than ranking applications and using all available funds. Unused funds are then redirected to where they can offer the most benefit.	Yes On 17 March 2014, the Business Secretary has commissioned an independent expert to consider the progress Catapult centres have made so far.
Coastal Communities Fund	No This is a standalone grant developed to promote jobs and growth in coastal communities using 50 per cent of annual revenues generated by the Crown Estate's marine activities.	No The Coastal Communities Fund forms part of DCLG's <i>Supporting and Incentivising Local Growth</i> priority. We have not found an evaluation of this theme.
DFID Civil Society Department programmes such as its Civil Society Challenge Fund	Yes DFID's Civil Society Department has awarded grants to 171 UK-based Civil Society Organisations through the Civil Society Challenge Fund since its inception in 2000.	Yes The department undertakes some thematic evaluations but an internal paper to its Investment Committee in March 2014 set out its approach for determining evaluation priorities. It recognised a need for it to do more thematic and country-level evaluations of its work, which encompasses its grant schemes.

Notes

- 1 Department for Transport, *Green Light for Better Buses*, March 2012.
- 2 Press release, *Independent expert to push forward Catapult network to new heights*, 13 March 2014, available at: www.catapult.org.uk/news-template/-/asset_publisher/tDqW3YjSO45r/content/independent-expert-to-push-forward-catapult-network-to-new-heights/
- 3 Communities and Local Government Committee, *Coastal Towns*, Report of Session 2006-07, HC 361, March 2007.

Source: National Audit Office analysis

Grant programme accountabilities, monitoring and evaluation

2.16 The setting of accountabilities, the establishment of controls and the collection of high-quality information on progress, activities and results are essential to ensure:

- responsibilities for the delivery of objectives are clearly defined;
- ongoing programme issues or opportunities are identified; and
- value is created in return for the grant.

2.17 In **Figure 10** we assess accountability and the operational processes used to monitor and evaluate performance. The Technology Strategy Board's Catapult centres are still in their early stages of development; therefore we excluded them from this aspect of our assessment.

Figure 10

Accountabilities and approaches to monitoring and evaluation

Grant programme	Controls and accountability	Monitoring	Evaluation
Bus Service Operators Grant (BSOG)	<p>DfT is accountable for the BSOG funding;</p> <p>BSOG is generally estimated for each bus operator and paid in advance;</p> <p>Administration team checks new joiners to ensure no prior unpaid debt and directors not linked to any impropriety and that services are actually eligible and are being run.</p>	<p>The Driver and Vehicle Standards Agency (DVSA) conducts inspections;</p> <p>Annual BSOG claim is signed by an accountant and a senior official of the company, and variances in actual spend against estimate paid or recovered;</p> <p>The IT system alerts the administration team to changes in key metrics such as kilometres per litre of fuel;</p> <p>There is currently no systematic information-sharing with other bus industry funders relating to fraud. However, we have been told by DfT it is shortly to put in place an information-sharing agreement with the Office of the Traffic Commissioner and DVSA;</p> <p>Bus operator performance is the responsibility of the Traffic Commissioners.</p>	<p>The BSOG system is currently undergoing a two-stage review; stage 1 is already being implemented and involves devolving a proportion of the BSOG budget to local authorities. The stage 2 review – which is about to start – is intended to move BSOG away from the current system of paying funding according to the amount of fuel that operators use.</p>
Grant for Business Investment (GBI)	<p>BIS is accountable for GBI funding;</p> <p>Grant terms and conditions include variation, withholding and repayment clauses.</p>	<p>Recipients receive a minimum of two inspections;</p> <p>Staff administering the grant estimated between 7 and 10 per cent is clawed back;</p> <p>Closure of Regional Development Agencies (RDAs) in September 2011 transferred responsibility to BIS. One consequence has been an ongoing challenge to amalgamate the poor-quality grant data received from some of the disparate RDAs.</p>	<p>The scheme (in predecessor form) was last subject to a full evaluation in 2008. Individual RDAs subsequently conducted evaluations of their own use of the scheme. Apart from large exceptional cases the scheme formally closed to new applicants in 2011. Current activity is focused on managing-out existing cases.</p> <p>Final payment will be made in 2015.</p>

Figure 10 *continued*

Accountabilities and approaches to monitoring and evaluation

Grant programme	Controls and accountability	Monitoring	Evaluation
Coastal Communities Fund	70 per cent of initiatives funded through local authorities, who are accountable. DCLG is accountable for the remainder.	<p>Monitoring is contracted to the Big Lottery Fund, who take a risk-based approach to the frequency of monitoring and inspections, drawing on their in-house Capital Support Unit as appropriate;</p> <p>All non-local authority capital projects are required to provide monthly financial reporting and an annual financial statement. Revenue projects provide quarterly financial reporting and an annual financial statement;</p> <p>Revenue funding is paid quarterly in advance; capital funding is paid in arrears on production of original invoices.</p>	No programme evaluation to date, but currently under review. Annual interim evaluation report to be published from summer 2014.
DFID Civil Society programmes such as its Civil Society Challenge Fund	<p>DFID is accountable for bilateral grant funding;</p> <p>All business cases are quality assured but those above £40 million are subject to additional review by DFID's Quality Assurance Unit;</p> <p>In 2011, a review found that while the Civil Society Department conducted detailed due diligence on non-governmental organisations (NGOs) prior to funding, local NGOs in partner countries were not subject to the same level of scrutiny. DFID responded by developing a due diligence framework.</p>	<p>All projects undergo an annual review, which the department publishes;</p> <p>All programmes administered using one department-wide IT system called Activity Reporting Information E-System (ARIES). We have previously reported that it has some limitations such as not being able to fully integrate financial and performance data. However, the system does provide DFID with a 'single view' of each of its suppliers, enabling it to report on the history of all contracts and payments.</p>	Department planning to increase number of programme evaluations from 11 in 2011 to 40 in 2013-14.

Notes

1 Comptroller and Auditor General, Department for International Development, *Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011.

2 Independent Commission on Aid Impact, *The Department for International Development's Approach to Anti-corruption*, November 2011.

Source: National Audit Office analysis

Programme accountabilities, monitoring and evaluation

2.18 Although our case studies examined only a small number of grant programmes, our assessment suggests:

- Accountability arrangements can be complex. As well as accountability for public money being transferred from central to local government, the responsibility for the performance of recipients can lie with a different organisation to the funder. This increases the risk funding is disconnected from the performance of the recipients.
- There are a number of IT systems around government that support grant administration. Many administrative processes such as risk-assessing applications, managing inspections, capturing performance and payment processing are generic and lend themselves to consolidation in centres of excellence. Some reuse of IT is already occurring, for example the Coastal Communities Fund's use the Big Lottery Fund's infrastructure, which has enabled DCLG to avoid having to make a fresh IT investment.
- Grant programmes are not consistently evaluated across government. Typically, processes associated with the early stages of a grant programme are more likely to be put into practice than those related to the final stages of a programme. We found most consistency within DFID. Since 2010, DFID has taken steps to embed and professionalise evaluation by providing training to 700 staff and creating a community of practice. However, its own internal review of evaluations found that while they had become an accepted part of the programme cycle, there was still some uneven coverage.⁹

2.19 To obtain a wider picture of the controls typically in place for grants, we reviewed the terms and conditions of 20 grant funding agreements randomly selected from departments, agencies and non-departmental public bodies. Common controls included:

- a maximum time period, within which work on the project must begin and also be completed;
- a requirement to inform the grant funder if a project's scope or objectives change;
- approved uses for any assets purchased or created with the funding and a requirement to seek written consent from the funder prior to any disposal;
- access rights for inspection and audit purposes; and
- an agreed regime of financial reporting.

2.20 Most arrangements included conditions enabling the funder to seek a repayment of funds if the grant agreement was not adhered to. However, such arrangements can only be effective if outcomes are well defined. We found that only two out of 20 agreements specifically linked payments to performance.

⁹ Department for International Development, *Rapid Review of Embedding Evaluation in UK Department for International Development*, January 2014.

Part Three

Central government's approach to improving grant funding

3.1 In this part, we explain what central government is doing to address the issues raised in Parts One and Two. We focus on the emerging Grants Efficiency Programme, which the Cabinet Office is leading.

The Grants Efficiency Programme

3.2 Since the National Audit Office (NAO) published a good practice guide on grants in 1991, departments have taken on board the lessons from many other NAO reports that have related to grants. These include *Making grants efficiently in the culture, media and sport sector*,¹⁰ *The Community Care Grant*¹¹ and *Funding for local transport: an overview*.¹² Until recently however, departments' responses to the NAO's work have been in isolation, and not accompanied by actions from the centre of government leading a wider strategic response.

3.3 The government is now taking action in response to reviews of government grants since 2011, driven by austerity and the need to constrain spending. These reviews have signalled that there is scope for improved administration and the potential to achieve significant savings. The National Fraud Authority estimated that grant fraud alone cost the government £515 million in 2009-10.¹³ In 2011, the government's Fraud, Error and Debt Taskforce¹⁴ expressed its interest in grants and started work to reduce grant fraud and error in the public sector. At its March 2012 meeting the taskforce acknowledged the value of a review of grants, as it had never been carried out before. It also identified the difficulties of collecting information and determining how much was paid out in grants and to whom. The taskforce proposed a programme of work to understand the landscape and to see how well departments managed their grant spending, and it aimed to develop a plan to improve controls and processes.

10 Comptroller and Auditor General, *Making grants efficiently in the culture, media and sport sector*, Session 2007-08, HC 339, National Audit Office, May 2008.

11 Comptroller and Auditor General, *The Community Care Grant*, Session 2010-11, HC 286, National Audit Office, July 2010.

12 Comptroller and Auditor General, *Funding for local transport: an overview*, Session 2012-13, HC 629, National Audit Office, October 2012.

13 National Fraud Authority, *Annual fraud indicator*, January 2011.

14 The Fraud, Error and Debt Taskforce is the strategic decision-making body for all fraud and error, debt and grant efficiency initiatives across the government.

3.4 Following this initial work the Grants Efficiency Programme was formally set up by the Cabinet Office in October 2012. Its three key aims were to:

- reduce the costs of government grant administration;
- reduce the amount lost through fraud and error; and
- make grants more effective in achieving their objectives.

3.5 The Cabinet Office considers that the programme will save money for the taxpayer and support the government's wider efforts to reduce the deficit. It also aims to ensure that grant funding is spent effectively and that money is channelled only to appropriate recipients and achieves better outcomes. The programme supports the *Civil Service Reform Plan*, published in 2012, which aims to share expert services across the government, implement new models to provide public services and become digital-by-default.

The four initiatives

3.6 The Cabinet Office programme was hampered by its limited project resources and the fragmented grants landscape. Obtaining data on the cost of administering grants, as well as the level of error and fraud experienced by departments, was particularly challenging. This was in part due to the initial lack of engagement by departments but also due to departments' own lack of information about their programmes. In October 2013 the Grants Efficiency Programme team, now with seven full-time staff, proposed four initiatives:

- Develop an online repository for grant data.
- Establish a guidance and support website for grant-makers.
- Require departments to adopt a set of policies and processes to reduce the costs of making grants, such as caps on intermediary administration costs.
- Establish a service for administering grants, underpinned by a digital system.

3.7 These initiatives are detailed in **Figure 11** on pages 32 and 33. The initiatives were presented to the taskforce on 7 November 2013 as a list of options for consideration. The Grants Efficiency Programme team considered that the initiatives could make substantial savings of £2.6 billion a year. However, due to concerns over the underlying departmental data, it did not consider the proposal robust enough to support a large investment. The programme proposes to continue with the simpler, low-cost options to make modest early savings, and to develop more information to help inform more radical changes. This work would form the basis of an outline business case for the next stages of the programme, which would be produced by January 2015.

The Cabinet Office's approach

3.8 The Cabinet Office has rightly taken a pragmatic approach. Figure 11 identifies the specific issues that we believe the various initiatives will address.

3.9 The Cabinet Office is following the example set by other countries that have central guidance to help them use grants more effectively.¹⁵ Digital solutions have also been implemented to support grant funding in countries such as Australia and the United States. In its early investigations, the programme team considered using these systems to provide a solution for UK government grants. However, it was found that it would not be straightforward to adapt to those systems, and more suitable options existed in the UK.

3.10 The Cabinet Office's programme is gaining momentum and development of the business case for the next phase is under way. Most departmental staff we interviewed during our audit who were dealing with the programme felt positive about its intended outcomes. They particularly welcomed the sharing of information and best practice, and the building up of a community of grant practitioners. To date, the cost of the Cabinet Office programme is £0.6 million.

3.11 The Cabinet Office received approval in March 2014 to establish a team to begin to scrutinise and advise on departments' proposed new grant schemes. This will challenge departments where an alternative form of funding may be more appropriate and has been established in part due to the NAO's early fieldwork looking at how departments decide on alternatives to grants. The Cabinet Office will bring experts from across departments to form a virtual team who will challenge new grant schemes that are considered high risk or involve innovative approaches. However, there are no plans for the Cabinet Office's team to look at the suitability of existing grant schemes.

3.12 Moving towards a shared approach has several potential benefits. It addresses the government's lack of information about where in the UK grant funding is spent, and it will offer the opportunity to develop a centralised team of professional grant administrators. Efficiencies should be achievable by simplifying and standardising the processing of grants to allow more effort on improving outcomes and a greater ability to tackle fraud. However, it is important to note that it may sometimes be necessary to do more preparatory work to ensure that a grant programme is well designed to meet its objectives. Additionally, any major change project has its challenges.

¹⁵ Australian Government, Department of Finance and Deregulation: *Commonwealth Grant Guidelines*; Treasury Board of Canada Secretariat: *Guide on Grants, Contributions and Other Transfer Payments*; Government of Canada, Treasury Board: *Policy on Transfer Payments*; Government of Canada, Treasury Board: *Directive on Transfer Payments*; New Zealand Principles to underpin management by public entities of funding to non-government organisations; New Zealand public sector purchases, grants and gifts: *Managing funding arrangements with external parties and OMB Circular A-102 – Grants and Cooperative Agreements with State and Local Governments* and *OMB Circular A-110 – Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*.

Figure 11
The Grants Efficiency Programme's four initiatives

Initiative	Implementation cost	Background	What would be implemented	Implementation date
Guidance and support website	An initial investment of £5.3 million to the end of 2014-15, which includes investment in an online repository, then an ongoing cost of £3.5 million. The set-up costs include departments' contribution in time in taking part and implementing the best practice website.	Developing the existing Department for Business, Innovation & Skills extranet to open it to all government departments to become a conduit for accessing new guidance and support. The material would be developed by members from the existing cross-government best practice grants network.	The extranet will be open to all departments by April 2014.	April 2014
Mandatory policies and process	An initial investment of £3.0 million to the end of 2014-15 with an ongoing cost of £1.2 million. For the initial set-up costs an allowance was made for additional staff training and time to adopt any new policies.	This would include: <ul style="list-style-type: none"> ● Controls on intermediary administration costs. ● A value-for-money case for all grants including an assessment of whether it is the right instrument. ● Mandatory training and mandatory grant processes in areas such as anti-fraud and error controls and evaluation of grant outcomes. 	In place for intermediated grants beginning in April 2014.	April 2014
Online repository	An initial estimate of £4.4 million to the end of 2014-15 to develop the repository with an ongoing cost of £3.3 million. An estimate for staff to update the repository is included in the ongoing costs.	A repository of all individual grants, including the amount, who the recipient is and related information such as cost of administration and outcome measures.	The repository will interface with departments' payment systems supplemented by manual input. The information will be accessible to government grant-makers, grant recipients and the public.	An outline business case for both projects to be developed by January 2015.
Grants administration service	An initial investment of £29.3 million including the development of a digital system to the end of 2016-17 with an ongoing cost of £2.2 million.	A central service for administering grants, underpinned by an online digital system, allowing a high level of automation for administration.	This would include features such as: <ul style="list-style-type: none"> ● a web-based portal for grant applications; ● automated processing such as risk and financial assessment (e.g. identity verification); ● standard forms and terms and conditions; ● automated payments and reporting; and ● a linked information portal. 	An outline business case for both projects to be developed by January 2015.

Note

1 Cabinet Office considers the savings shown as high-level estimates only due to the lack of data.

Source: National Audit Office review of the Grants Efficiency Programme Options Analysis

Indicative savings expected by the Cabinet Office¹**Which of the issues identified in our report will be potentially addressed**

	Improved efficiency	Improve outcomes	Reduce fraud and error	Improve the consideration of alternatives	Reduce fragmentation	Improving the use of management information	Improving the evaluation of grants
<p>This option could potentially save at least £2 million in 2014-15, based on staff time savings across departments.</p> <p>In the long term, annual savings could be up to £364 million.</p>	Yes	Yes	Yes	Yes	–	–	Yes
<p>Controls on intermediary costs alone could save between £5 million and £40 million in 2014-15.</p> <p>In the long term, annual savings could be up to £808 million.</p>	Yes	Yes	Yes	Yes	–	–	Yes
<p>When the project is fully implemented up to £148 million of annual savings could potentially be realised over the long term.</p>	Yes	Yes	Yes	–	Yes	Yes	–
<p>This could achieve up to £1.25 billion annual savings over the long term.</p>	Yes	–	Yes	–	Yes	Yes	Yes

Challenges

3.13 The challenges for the Cabinet Office are potentially significant:

- **Achieving government-wide engagement and maintaining the momentum of the programme.** Getting buy-in from all those involved in grant administration across government and encouraging them to share information and good practice will be a challenge. It will involve changing cultures and business practices, which will require departments to invest time and resources. Although the Grants Efficiency Programme has done well in engagement so far, the effort and resources required to maintain momentum should not be underestimated.
- **Introducing a standard web-based portal.** Implementing a portal that can support a diverse range of applications will be challenging. For non-formula grants (those not paid out according to a standard calculation), the information required from claimants differs for each grant programme. The claimants will also be diverse, including bus operators, disabled groups, farmers, offender support charities and individuals. Over-engineering the process could introduce undue complexity and deter those most in need from applying.
- **Implementing a shared service.** There is a danger that a central grants team could become detached from the initiatives, damaging their grants effectiveness. Our discussions with potential grant administrators also confirmed this concern. They considered that sharing services would be best restricted to the administration process. Departments, however, are already sharing services. For example, the Department for Communities and Local Government (DCLG) uses the Big Lottery Fund to administer grants such as the Coastal Communities Fund. The Big Lottery Fund provides payment administration, and DCLG's policy leads remain actively involved in the initiatives so that they can identify the need for changes if policies are not achieving the desired outcomes. The current Next Generation Shared Services programme, which the Cabinet Office is introducing for back office services, will offer the opportunity for learning from the management of a change programme and provide early lessons about shared services.¹⁶
- **Protecting grant recipients.** How the government changes its approach to grants without adversely affecting grant recipients will be a very important consideration. There is a major sustainability risk that some organisations rely on grant streams from multiple public sector organisations. Changing the approach could have an impact if funding is stopped or if the method of financing changes. A challenge for the government will be how it implements change in a controlled and informed way. The centralisation of services and the introduction of a repository will certainly help, but it will take time to get a clear picture of the sustainability risks and the potential effects of the changes.

3.14 We will continue to monitor the Cabinet Office's progress in implementing the Grants Efficiency Programme initiatives, and the support and buy-in offered by departments.

¹⁶ HM Government, *Next Generation Shared Services: The Strategic Plan*, December 2012. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/83717/19284_Next_Generation_3rd_Online.pdf

Appendix One

Our audit approach

1 This study examined whether government's use of grant funding provides value for money. We reviewed:

- the degree to which grant programmes are strategically planned and output focused;
- whether departments explore alternative funding models before choosing to fund policy objectives using a grant; and
- the likelihood the Cabinet Office's Grants Efficiency Programme will lead to improvements in grant funding processes.

2 We analysed the *Whole of Government Accounts* data to establish audited figures for the scale of grant funding by central government.

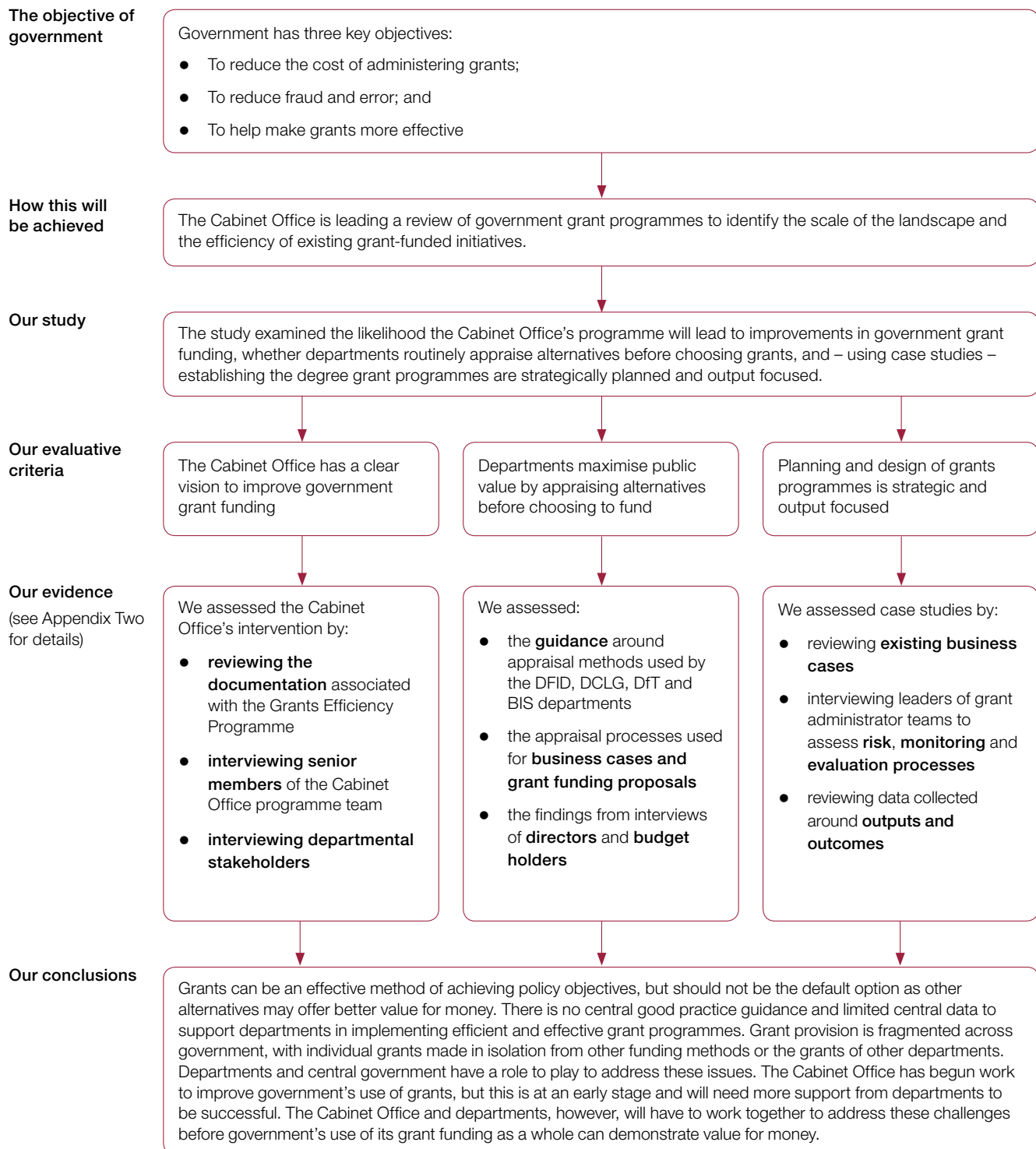
3 We applied an analytical framework to assess grant programme case studies to consider what arrangements are optimal for maximising public value.

4 We identified the quality of the outputs produced by our case studies.

5 We also established the scale and number of all grant programmes in operation across central government.

6 Our audit approach is summarised in **Figure 12** overleaf. Our evidence base is described in Appendix Two.

Figure 12
Our audit approach



Appendix Two

Our evidence base

- 1 Our independent conclusions on the effectiveness of government's grant programmes in providing value for money were reached following analysis of evidence collected between December 2013 and March 2014.
- 2 We assessed whether the Cabinet Office has a clear vision to improve government grant funding.
 - We reviewed programme documentation to establish the goals of the Cabinet Office's Grants Efficiency Programme. In particular, we reviewed options papers produced by the team, and the strategic outline business case.
 - We interviewed senior members of the programme team as well as stakeholders in departments that were dealing on behalf of their departments with the programme.
- 3 We analysed the degree to which departments appraised alternatives before choosing to fund by grant.
 - We analysed the *Whole of Government Accounts* data from 2011-12, to build a picture of grant funding by central government and establish comparators with other interventions such as procurement.
 - We reviewed departmental guidance provided to policy teams on policy delivery and business case design. We also drew on evidence from departments' financial strategies.
- 4 We assessed whether planning and design of grants programmes is strategic and output focused.
 - We analysed a sample of business cases to establish the strategic objectives, whether they were aligned with the organisation's strategic objectives and whether the grant programme had clear objectives and well-defined measures of success.
 - We collected and analysed output and success measures collected from grant programmes.

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National Audit Office

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