Area	Requirement(s)	Context	Reference	Page
Supporting practices: Reporting and information	Key data on government grants **shall** be recorded in the grants information system and **shall** include the following data as a minimum: • value; • delivery period; • brief description of purpose; • owning department; • intermediary body (if any); • recipient name.	Reporting ensures management teams and interested parties are aware of the current status and outlook regarding all aspects of government grant management, as defined in the government Grants Functional Standard.	6.8 Reporting and information.	21

Overview

1. The grants governance process comprises authorising, directing, empowering and overseeing the management of grant funding within an organisation. This requires a framework that is fully integrated within the organisation's wider governance arrangements, including such critical factors as ensuring appropriate approvals for grant schemes and their individual awards. The Grants Functional Standard also requires detailed and timely document management, record keeping and reporting.

2. These requirements are needed to enable transparent and robust decision-making, to ensure accountability, and to assist with other areas such as funding optimisation and ensuring value for money. A thorough governance framework should assist the senior officer responsible (SOR) and senior decision makers in organisations, to better manage risk within the organisation's tolerance levels.

3. The governance framework, document management and reporting requirements are applicable throughout the grants lifecycle, and associated policies should be applied continuously, particularly at key stages such as at the point of commitment to award the grant, and as part of annual reviews. Everyone involved within the design, development and administration of government grants has a responsibility for good governance, and record keeping. However, it is the SOR who is responsible for ensuring that the governance model is appropriate and decisions are made by the appropriate people with the right level of authority, proportionate to value and risk.

Grants Governance

4. The governance process for grant-making activities is an integrated part of an organisation's overall governance arrangements. The governance framework shall be:
   - established in compliance with government and departmental policies and directives, and with the government Grants Functional Standard; and
   - referenced within the accounting officer's system statement (AOSS).

5. This framework should include organisational policies for grants management, financial authority limits, decision-making roles and rules, degree of autonomy, assurance needs, reporting structures, accountabilities and responsibilities. It should also include management frameworks for undertaking the practices listed within the Grants Functional Standard that cover governance, the grants life cycle and supporting practices.

Business case governance

6. The suggested governance process for business cases - to provide advice and direction as the grant develops - covers three stages of development from inception to approval, as outlined below. Departments should adopt this model or equivalent. Consideration of each area should be in proportion to the value of the grant and the perceived risk level and the process should include (but not be limited to) the points listed below:

Strategic stage - idea formulation

- definition of aims, objectives and outcomes - see Minimum Requirement Eight: Performance and Monitoring;
- value for money and optimum funding levels - see Minimum Requirement Four: Business Case Development;
- alternative delivery mechanisms - see Minimum Requirement Four: Business Case Development, and the Grants and Alternative Funding Options guidance which can be found on the grants Centre of Excellence (CoE);
- competition, by default (or clear justification for direct award) - see Minimum Requirement Five: Competition for Funding;
- key risks and mitigations, including fraud - see Minimum Requirement Seven: Risk, Controls and Assurance; and
- referral to the Complex Grants Advice Panel (CGAP) - see Minimum Requirement Three: CGAP.

Design stage - developing the detail of the grant model

- risk management, including due diligence and fraud risk, control, and assurance - see Minimum Requirement Seven: Risk, Controls and Assurance;
- payment model and links to performance outcomes - see Minimum Requirement Eight: Performance and Monitoring;
- assurance, both financial and delivery;
- grant agreement including terms and conditions and schedules - see Minimum Requirement Six: Grant Agreements;
- defining eligible expenditure and expenditure that is expressly ineligible; and
- impact evaluation - see Minimum Requirement Nine: Annual Review and Reconciliation.

Final approval stage - including policy and financial approval

- recording of response(s) to advice from CGAP- see Minimum Requirement Three: CGAP;
- finalising the business case – see Minimum Requirement Four: Business Case Development; and
- obtaining approval and maintaining a record of the process.

Business case governance model

7. The governance model set out below is illustrative and is intended to describe the process a grant should follow before final sign-off. From the establishment of a business case at the strategic stage, the grant flows through the process with sign-off at key decision points, either through formal meetings or via a virtual process. The specific model within organisations will be tailored to the organisation's governance framework and in line with the model below.

Business case governance model
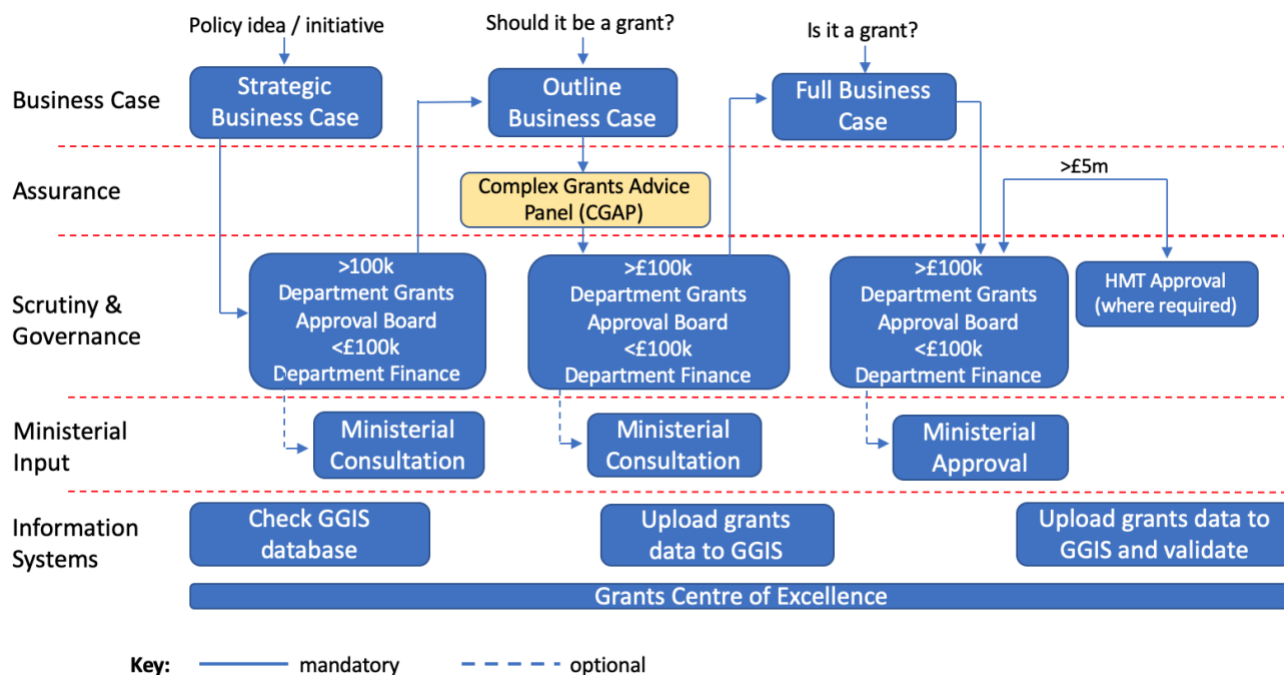
Challenge panels

8. A challenge panel is a model used by a number of organisations to scrutinise the design of new schemes and to inform the review of existing grant schemes. Challenge Panels are comprised of individuals within a department with expertise related to the design, approval and administration of government grants. The panel's role is to review grant schemes and award proposals in a particular business area, taking account of established good practice and guidance, including the Grants Functional Standard. Departments are strongly encouraged to convene challenge panels, based on the Ministry of Justice' model. Support for establishing and running challenge panels is available through the grants Centre of Excellence (CoE).

9. Departments may find it helpful to use challenge panels as part of their business case development process for proposed grant schemes.

Approvals

10. Decisions on approval should be taken in a timely manner, in line with the organisation's governance process, management framework, financial management controls and wider government policy. Decisions should be taken by individuals or committees, with the appropriate delegated authority, according to the complexity and the level of risk of the scheme and associated decisions and in line with the requirements set out in the process guidance for the *Grants Pipeline Control Framework*, which is available on the grants Centre of Excellence (CoE). For schemes with a value of £10m plus, details of the approval should be added to GGIS once the approval process is complete.

11. While decisions may be made throughout the grant lifecycle, it is expected that key approvals will take place prior to making significant commitments, such as deploying resources or awarding funding, especially when there is an exposure to risk. For example, a decision is likely to be made on completion of the business case (or other justification) - prior going to market.

12. Decisions on approvals should be based on accurate, up-to-date information, with input from functional experts - such as policy, finance, commercial, legal, fraud - as appropriate, and should be justified and recorded in the business case or an equivalent document.

13. When considering justification, reference should be made to the HM Treasury guidance: The Green Book.

Re-approvals

14. It is imperative that the grant scheme is delivered in accordance with the approvals given. Should delivery deviate materially from this, subsequent approval should be obtained. This too should be in line with the organisation's governance process, management framework, finance management control, and government policy, as described above. There should be a clear understanding within the organisation, of what level of change necessitates re-approval, and this should consider holistic risk as opposed to financial value alone.

Document Management and Reporting

15. The Grants Functional Standard refers to the importance of accurate document management and record keeping, in support of and to evidence grant management practices. This information shall be retained to meet statutory requirements, in accordance with the organisation's information retention policies and legal obligations, and should be readily available during the grant lifecycle.

Reporting and the Government Grants Information System (GGIS)

16. Departments and ALBs shall ensure that details of all grant schemes, including a forward look of proposed schemes, all awards and all grants-in-aid are uploaded to the Government Grants Information System (GGIS) – either via the bi-monthly pipeline collection, or directly to the main system. The GGIS provides a database of government grants data, and enables transparency and analysis. In capturing accurate data, the GGIS can assist teams and key stakeholders in reviewing the current status and outlook regarding grant management over a range of issues such as avoiding duplication of funding between departments and to enable the joining up of related schemes across government.

17. In accordance with the government's commitment to transparency, data from the GGIS is published annually on the Government grants data and statistics page on GOV.UK. Data is published at both the scheme and award level for the general and formula grants categories, to the 360Giving Data Standard. Individual organisations report the status of their grants within their annual report and published accounts in accordance with the Finance Functional Standard GovS 006. Sensitive information

may be withheld from the GGIS, or redacted from individual records in line with internal guidance.

18. Government grant making organisations are expected to upload scheme data to GGIS at an early stage within the grant lifecycle, in accordance with *Grants Pipeline Control Framework*.

19. Data capture requirements for the GGIS are set-out in the Government Grants Data Standard, and are agreed as part of a Memorandum of Understanding with each central department. [1]

20. Further data input to the GGIS should be drawn from the organisation's wider monitoring activities (see Minimum Requirement Eight: Performance and Monitoring) and should be verified to ensure it is correct.

21. The GGIS is covered by a privacy notice that complies with GDPR legislation.

22. The Senior Officer Responsible for the grant (SOR), or a person with delegated authority, should be involved in the GGIS data compliance process to ensure that due regard is given to each area and that the details of the grant are entered on to the system at an early stage, and maintained as required.

23. The GGIS can be used by grant makers to inform their grant scheme design, market engagement and due diligence processes. Version 2.0 of the GGIS, launched in April 2021, provides accurate, clear and reliable information in a single system. Access to improved and trusted data enables smarter, quicker and more informed decisions. The GGIS contains a number of interactive reports, which allow users to understand the current and historical grants landscape and plan future schemes effectively.

24. The Government Grants Management Function publishes data on all grant schemes and awards annually, but we encourage departments and ALBs to publish their data earlier if there is clear public value in doing so - this should be discussed with the GGMF ahead of any publication. Publishing Grant Data Guidance states publications outside of the annual grants data publication should meet the 360Giving data standard wherever possible.

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[1] Each department agreed an MoU with the Grants Management Function on data requirements and timing.

Duplicate funding   14

Within grant funding it is important to review the information available on the Government Grant Information System (GGIS), which has searchable fields of data including: recipients, objectives, and even locations (allowing for geographical analysis of grant spending reaching specific areas). When considering grant funding, departments should use the GGIS as part of their market engagement and due diligence processes.

The GGIS may also support departments considering alternative options, and access can be requested by emailing the Government Grants Management Function mailbox here:

grants-management-function@cabinetoffice.gov.uk.

Further Resources

25. The Consolidate Budgeting Guidance sets out the standards and principles underpinning the budgeting system for use in central government and explains how to account for grants in department and national accounts.

26. In seeking to comply with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider requesting training on using the GGIS. Organisations should also make full use of wider resources, including process guidance on the Cabinet Office *Grants Pipeline Control Framework*, available through the grants Centre of Excellence.

Guidance for General Grants

Minimum Requirement Three: Complex Grants Advice Panel (CGAP)

Version: 2

Date Issued: 31 August 2021

Cabinet Office

Important Note

► This guidance applies <u>only</u> to general grants made by departments and their arm's-length bodies (ALBs) using Exchequer funding. It <u>does not</u> apply to formula grants or grant in aid. Managing Public Money and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including Managing Public Money. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the grants Centre of Excellence (CoE). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents

Contents

Minimum Requirement

New government grants, including those that are high-risk, novel, contentious or repercussive, as well as those undergoing a step-change in scope or funding, should be considered for submission to the Complex Grants Advice Panel (CGAP) for scrutiny and advice from subject experts.

Purpose

1. *Minimum Requirement Three:* CGAP and the further guidance for general grants set out below, aims to ensure that there is expert scrutiny and challenge, where required, applied to the development of grant schemes, in particular during the design and development stage.

2. The CGAP is an independent, cross-government, expert panel, co-ordinated by the Cabinet Office Government Grants Management Function (GGMF). Referral to the panel is *strongly recommended* for all new schemes that are high-risk, novel, contentious, or repercussive, and for non-routine schemes undergoing a step change in scope or funding, which impacts the level of risk. In addition, schemes that are referenced in the Government's election manifesto are subject to *mandatory referral*, follow-up and reporting against the Panel's recommendations (see paragraph 12). Use of the panel is strongly recommended by the Cabinet Office for all schemes, which meet the definition above, with advice provided on a *comply or explain* basis. This means departments will:

   - **adopt** the recommended approach as defined in Cabinet Office guidance; or
   - **demonstrate clearly** how their existing approach, policies and practices, will fully deliver against each particular standard, in an equally robust way.

3. The CGAP service is available to all organisations involved in the management of government grants. The CGAP provides expert advice, which can be used to support scheme owners with key decisions on the design of new schemes, for example; key financial and fraud risks and assessing value for money, and the recommendations from the panel can also be useful in informing discussions with senior officials and ministers, such as when seeking approval for the scheme's business case. Furthermore, the panel enables improved oversight of the developing grants landscape in the Cabinet Office, and promotes the sharing of knowledge and good practice across government.

Grants Functional Standard: Key References

Mandatory requirements are defined by the word 'shall' in the Grants Functional Standard. The 'shalls' for the management of grants related to this minimum requirement have been extracted from the Standard and are set out below. *Please note that in some cases the information has been paraphrased for conciseness – refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Governance: Assurance	It is recommended that new grants, which are high-value, high-risk, novel, contentious or repercussive, should be considered by an independent panel (the Complex Grants Advice Panel, see 4.4.6). Referral to the panel is **mandatory** for new grant schemes that are referenced in the government's manifesto commitments. Advice from the panel **shall** not detract from the accountabilities of those being advised.	The Complex Grants Advice Panel is an independent, cross-government panel of experts, co-ordinated and chaired by the Cabinet Office, responsible for providing advice and recommendations on design and administration for applicable schemes, to the senior officer responsible for a grant. The panel should meet regularly with the objective of: • increasing the efficiency of grant making; • improving the effectiveness of grants; • mitigating losses from fraud and error.	4.3.2 New general grants. *Also refer to: 4.5.1 Complex grants advice pane.*	6
Governance: Roles and accountabilities	[Organisations] **shall** have (at a minimum) the following roles: 1. Senior responsible officer accountable for grants across government*; 2. Accounting Officer; 3. Senior responsible officer for finance in an organisation; 4. Senior officer accountable for an organisation's grants; 5. Senior officer responsible for a grant; 6. Grants champion; 7. Grant manager; 8. Specialist roles. *Central roles within the Cabinet Office	Government grants should be afforded the appropriate level of scrutiny by the grant-owning department, to ensure the government Grants Functional Standard for grants is being adhered to and grant funding is being administered effectively. These roles are essential to the management of grant funding, and whilst organisations may change the titles and division of responsibilities they shall have (at a minimum) the roles outlined.	4.4 Roles and accountabilities.	9

Overview

4.   The CGAP is an independent cross-government panel, coordinated by the Cabinet Office Government Grants Management Function (GGMF), which provides insight, advice and challenge to departments in relation to the development of grant schemes. As set out in the panel's terms of reference, available on the grants Centre of Excellence (CoE), the CGAP contributes to the achievement of the GGMF's three key objectives to:

* increase the efficiency of government grants administration;
* improve the effectiveness of grant funding; and
* reduce losses from fraud and error.

Support Offer

5.   The key objectives, above, can be further broken down in terms of the type of support the CGAP provides, including to:

* provide advice and challenge in reference to new, high-risk grants, planned across government;
* enable scrutiny and challenge in relation to the application of the Grants Functional Standard;
* improve the strategic oversight of government grants, alongside the Government Grants Information System (GGIS); and
* increase value for money and eliminate inappropriate practice.

6.   The CGAP's focus is on planned government grant spend, where that is defined as higher risk (see Minimum Requirement Seven: Risk, Controls and Assurance for more information on the risk definitions). The panel brings together experts from across government in areas such as grants policy, commercial, finance, legal, subsidy control, analysis, digital, fraud, debt and the UK Devolved Administrations team, to provide advice across a range of issues.

7.   The CGAP is typically chaired by the Head of the Government Grants Management Function. However, where the development of a grant related to a manifesto commitment is being discussed, meetings may be chaired by the Minister of State for Efficiency and Transformation, or a nominated deputy. Ministerial Private Offices or Special Advisers may attend and participate in CGAP meetings on a discretionary basis, where the development of grants relating to manifesto commitments are being discussed.

8.   The CGAP assists with scheme development to avoid unnecessary duplication of effort, encouraging cross-government working and identifying alternative funding mechanisms, which might be more suitable than grant funding to deliver a policy objective. The panel can also advise on appropriate governance within a scheme's delivery chain. The breadth of the cross-government panel's expertise allows for the provision of advice that may not be available as a collective within any single department.

9.   Departments should refer suitable grants to the CGAP for consideration, as early as possible within the scheme's lifecycle and in line with the CGAP schedule. Early

engagement with the CGAP allows for a more detailed analysis and consideration. Details of the schedule of panel meetings can be obtained by contacting the CGAP team by email: cgap@cabinetoffice.gov.uk, to confirm availability and schedule a referral as required.

10. CGAP advice can be accessed in two ways: formal meetings for schemes with a higher value, complexity and risk profile, and via correspondence for schemes with a lower value and risk profile. The same process and referral template is used for all referrals, and the template should be completed ahead of the review meeting. Following the meeting, written advice will be provided, including the panel's formal recommendations. For further information contact: cgap@cabinetoffice.gov.uk.

11. Typically, it is policy professionals involved in developing a grant scheme who make referrals to the CGAP, although it could also be the Senior Officer Responsible (SOR) for the scheme, or any other person involved in the governance process. The decision as to which grants to refer rests with the department or ALB, taking account of the guidance in this note – with the exception of schemes referenced in the Government's election manifesto, for which referral is mandatory.

12. Departments and ALBs are encouraged to incorporate CGAP advice into their management decisions. For schemes relating to manifesto commitments, individual recommendations, which are deemed significant by the Minister of State for Efficiency and Transformation and rated red by the panel, will require the following action by the referring department:

- consider the recommendation and develop an appropriate response; and
- report to the CGAP team on the response to the recommendation as follows:

     i. accepted in full;
    ii. partially accepted;
   iii. rejected.

The Panel allocates a priority rating to all recommendations as set out below:

High	The Panel considers that the recommendation will have a *significant* impact on the success of the grant scheme.
Medium	The Panel considers that the recommendation will have a *moderate* impact on the success of the grant scheme.
Low	The Panel considers that the recommendation will have a *minor* impact on the success of the grant scheme.

13. Where the recommendation is accepted in full, details of the action to be taken, including timelines, should be provided.

14. Where the decision is to partially accept or reject the recommendation, an evidence-based rationale for that determination, signed-off at an appropriate level within the organisation, must be provided to the CGAP team for reporting to the Minister for Efficiency and Transformation.

15. For other schemes - not referenced in the latest election manifesto - recommendations from the panel are not mandatory, however, details of the referral and a response to the advice and any action taken should be included in the business case or equivalent documents (refer to Minimum Requirement Four: Business Case Development). The scheme owner's response to the panel's recommendations can then be assessed through the departmental governance process and at the final sign-off by the finance, commercial and/ or policy lead. The CGAP team will routinely follow-up on all recommendations made by the panel, including for non-mandatory referrals. Insights from the panel also help to inform support provided by the CoE.

16. Referral to the CGAP does not replace internal scrutiny by grant making organisations, nor does it negate the requirement for legal advisers to be consulted on any legal issues in relation to the scheme. It is important to note that the CGAP does not seek to undermine the responsibilities or accountabilities of the Accounting Officer in departments, rather, it provides an additional layer of scrutiny and assurance for the design of individual schemes.

Follow-up

17. All those who submit referrals to the CGAP are expected to provide feedback on the panel's recommendations and its impact on the development of the scheme. The CGAP secretariat or relevant GGMF Business Partner will follow-up on referrals one month after recommendations are issued by the panel, to ensure the advice has been appropriately considered and recorded.

18. Recommendations provided by the CGAP must, in all cases, be fully considered by the relevant organisation. If an organisation wishes to challenge the recommendations of the panel, a written justification must be provided, signed-off by an appropriate official. Such cases will be followed-up by a meeting with the Business Partner, or by exception, a further attendance at a CGAP meeting, usually in the case of red rated recommendations. Departmental participation in the CGAP will be monitored by the GGMF, including monitoring of the grants pipeline and potential grant funded manifesto commitments. New schemes entered to the GGIS pipeline, which are identified as high-risk via the GGMF's triage process, will be selected for review by the panel on the following basis – mandatory for manifesto schemes and strongly recommended for other high-risk schemes. To discuss a specific grant scheme, departments should email the GGMF via cgap@cabinetoffice.gov.uk.

Grants Pipeline Control Framework

19. The aim of the *Grants Pipeline Control Framework* is to increase the visibility of government grants at the earliest possible stage, to enable the GGMF to focus its resources and identify schemes where its support offer will have the most impact. The control requires departments to provide advance information on their proposed and in development schemes, which will enable the GGMF to offer appropriate support for grant making organisations involved in the development of government grant schemes, via the updated Government Grants Information System (GGIS).

20. The GGMF will triage all general grants data entered into the pipeline, into two levels – those over and under £10m – and inform the grant scheme owners of the result of the assessment, indicating the level of support available and any ongoing reporting requirements to the GGMF. The CGAP will also review the grant scheme level and tailor its support accordingly. Process guidance for the framework can be found on the grants Centre of Excellence.

CGAP - Frequently Asked Questions

Why should Departments refer a grant to the CGAP?

21. The CGAP offers an opportunity for grant schemes to be reviewed by a cross-government panel of experts who are able to provide a greater breadth of advice and insight than might be found as a collective in any one department.

When should Departments refer a grant to the CGAP?

22. New grants which are within scope should be referred to the CGAP as early as possible in the development cycle. Preferably at the policy development stage and prior to the final decision being made to use a grant mechanism. This will ensure that the panel members have the best opportunity to inform the development of the policy. It is also possible to seek additional advice from the panel at a later stage of development, once a grant scheme has previously been referred to the CGAP. Schemes that are undergoing a significant step change in scope or funding, should be referred to the CGAP as soon it is clear that such a change may be necessary.

Who is responsible for the referral?

23. Departments are responsible for referring appropriate grants to the CGAP. If a department marks a grant as high-risk on the GGIS, but decides not to refer the grant to the CGAP for advice, the rationale for that decision should be captured in the business case. The GGMF's CGAP team will contact scheme owners and grant champions to discuss referral to the panel for manifesto schemes and other high-risk schemes.

Do the panel members need to see a business case?

24. In order to make a referral to CGAP, departments should complete the CGAP referral template (found on the Grants Centre of Excellence) and submit it using the central email address: cgap@cabinetoffice.gov.uk. Use of the referral template enables the department to focus on key questions, and record any specific issues or questions they would like the panel to consider, when the grant is entered on to the GGIS and/ or selected for referral. In some very high profile/ high-risk cases, a business case may be requested by the secretariat, to further support the CGAP discussion.

Who should attend the CGAP meeting?

25. The Senior Officer Responsible (SOR) for the grant, or another suitable individual will be asked to provide an overview of the scheme and the issues to be considered, at the start of the discussion. It is strongly recommended that the department attends the meeting, to enable a two-way conversation between the panel and departmental representatives, however, it is not compulsory for a departmental representative to attend the meeting.

What happens after the panel meeting?

26. The discussion is summarised and the advice and recommendations provided by panel members will be circulated to attendees via a minute of the meeting. The draft minute will be circulated for review, five working days following the discussion, and finalised subject to comments.

Examples of issues the CGAP frequently offers advice on:

- the rationale for a direct award;
- potential links with other grant schemes across government;
- loans, contract procurement or alternative funding vehicles or mechanisms that could provide better value for money than a grant;
- governance within the scheme's delivery chain to ensure strong delivery of objectives;
- risk, including fraud risk;
- blended finance, leveraging or other co-financing options that could be considered to improve value for money and/or reduce the cost of the scheme to government;
- funding optimisation; and
- subsidy control.

Examples of questions that can be asked of the panel:

- Is this grant scheme best suited to a direct award or a competed award?
- What advice does the panel have on the challenges of long-term grant schemes?
- What considerations need to be made where there is a phased/ gated approach to funding?
- What is CGAP's view on the proposed approach to due diligence and the risk of fraud?
- Does the panel have any advice on possible evaluation measures other than those outlined in the referral documents?

Referrals and User Feedback

27. The CGAP builds on the work of two previous grants advice panels that have been operated by the GGMF since 2017: the New Grants Advice Panel (NGAP) and the COVID-19 Complex Grants Advice Panel (C-CGAP).

28. In 2019/20 the NGAP considered 30 referrals for grant schemes worth over £2.58bn, providing funding across a diverse range of areas such as research and innovation, social care, education, the environment and international trade. The panel provided expert advice and recommendations, which covered a wide range of grant management specialisms including state aid, commercial implications, analysis, finance, legal, counter fraud and risk. Feedback received in 2019/20 in response to a user survey showed a 94% satisfaction rate and 94% of survey respondents stated that they were likely to refer future cases for consideration by the NGAP.[1]

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[1] Note that both percentages were based on scores of 3 or above on a scale of 1-5

29. In 2020/21, the C-CGAP considered 77 referrals for grant schemes worth over £19.6bn, focusing on designing and delivering grant schemes at pace as part of the government's COVID-19 response. Advice focused on ensuring the delivery of value for money and social outcomes, whilst delivering at pace and mitigating key risks, and putting in place appropriate counter-fraud and due diligence measures and enabling effective post-award assurance. In 2020/21, 94% of scheme developers said they would use CGAP again if they were working on a different scheme.

Further Resources

30. In seeking to comply with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, departments may want to consider the following:

- Information on the Complex Grants Advice Panel - including an overview, the terms of reference, and referral template - can be found on the grants Centre of Excellence.

Departments should also make full use of wider resources available through the grants Centre of Excellence (CoE).

Guidance for General Grants
Minimum Requirement Four: Business Case Development

Version: 2
Date Issued: 31 August 2021

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It <u>does not</u> apply to formula grants or grant-in-aid. [Managing Public Money](#) and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including [Managing Public Money](#). Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the [grants Centre of Excellence (CoE)](#). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

A **robust business case**, proportionate to the level of expenditure and risk, shall be developed for all government grants. This should be scrutinised and approved in stages, as part of the grants' approval process, in line with **managing public money**.

Purpose

Minimum Requirement Four: Business Case Development and the associated guidance set out below aims to ensure that government grant schemes are developed in line with domestic standards and managing public money to ensure that funding is used as intended, outcomes are optimised, and performance, expenditure and risk are managed effectively to maximise value for money (VfM).

Grants Functional Standard: Key References

Mandatory expectations ('shall') for management of grants related to this minimum requirement have been extracted from the 'Grants Functional Standard' (which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness, refer to the standard for the full version.*

Area	Requirement(s)	Context	Reference	Page
Principles	Those engaged in managing grants at scheme and award level **shall** ensure: 1. grants objectives are aligned to government policy and organisational objectives; 2. the application of this standard is proportionate and appropriate, and is reflected in the approach taken to governance, management frameworks and controls, having regard to an accepted balance of opportunity and risk; 3. grants are made in the best interest of the public, the public purse, and operate in line with 'Managing Public Money'; 4. funding is administered with optimum efficiency, economy, effectiveness and prudence, to maximise value for public money; 5. responsibilities and accountabilities are defined, mutually consistent, and traceable across all levels of management; and 6. public service codes of conduct and ethics and those of associated professions are upheld.	The purpose of the government Grants Functional Standard is to set expectations and drive consistency in the management of grants and promote efficient and effective grant making to ensure funding is used as intended and provides value for money through high-quality delivery.	2. Principles Also refer to: Managing Public Money, 1.1 Purpose of this government standard	2

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Area	Requirement(s)	Context	Reference	Page
Governance	To facilitate governance and scrutiny, grant activity **shall** be justified and documented throughout the grant life cycle. Such evaluation should be in accordance with HM Treasury requirements (see Green Book).	Justification may be documented either in the form of a business case or other proportionate format, which should be defined in the organisation's grant governance and management framework.	4.2.2 Justification of grants Also refer to: 5. Grant life cycle, Green Book, 4.2 Decision making	8
Governance	If required, subsequent approval **shall** be obtained in accordance with HM Treasury, Cabinet Office policy and spend controls and GovS 006, Finance **shall** be followed.	[As above]	4.2.2 Justification of grants Also refer to: 5. Grant life cycle, Cabinet Office controls: 2018, 4.2 Decision making	8
Grant Life Cycle: General Grants Life Cycle	When developing general grant models and criteria for assessing individuals and organisations for a grant award, consideration **shall** be given to combinations of risk indicators, which could affect the value of the award, or whether the grant should be awarded at all.	The purpose of design and development is firstly to define the requirement for the use of a general grant as the appropriate mechanism to meet the policy objective, and then to develop a grant model which is robust, proportionate and which will deliver value for money.	5.2.1 Design and development	13
Grant Life Cycle: General Grants Life Cycle	A robust business case (or equivalent document), proportionate to the level of expenditure and risk **shall** be developed.	The business case (or equivalent document), should be developed progressively for each grant in three steps through the life cycle: - strategy; - design; - final approval.	5.2.1 Design and development Also refer to: 4.2.2 Justification of grants, Green Book	13
Grant Life Cycle: General Grants Life Cycle	Once a business case has been developed, it **shall** be approved where it meets the requirements of the organisation's governance and approvals process.	[As above]	5.2.1 Design and development Also refer to: 4.2.2 Justification of grants Green Book [4]	13

Area	Requirement(s)	Context	Reference	Page
Governance: Assurance	It is recommended that new grants, which are high-value, high-risk, novel, contentious or repercussive, should be considered by an independent panel (the Complex Grants Advice Panel) to provide advice from experts on the efficiency and effectiveness of the proposed grant and the balance of opportunities versus risks associated with losses from fraud and error. Referral to the panel is **mandatory** for new grant schemes that are referenced in the government's manifesto commitments.	The Complex Grants Advice Panel is an independent, cross-government panel of experts, co-ordinated and chaired by the Cabinet Office, responsible for providing advice and recommendations on design and administration for applicable schemes, to the senior officer responsible for a grant.	4.3.2 New general grants. Also refer to: 4.5.1 Complex Grants Advice Panel	9
Supporting practices: Risk and issue management	Organisations **shall** ensure effective risk management is established in their assurance and governance processes.	Risk registers should be defined, maintained and regularly reviewed by the organisation's senior officers who are accountable for grant activities.	6.1 Risk and issue management	18
Supporting practices: Counter Fraud	An assessment of fraud risk **shall** be undertaken for every scheme proportionate to the value, sector and required activity of the scheme, and supported by mitigating actions appropriate to the identified risks.	The purpose of this approach is to ensure that government grant funding in respect of policy delivery and the purchase or improvement of assets is awarded safely and used for its intended purpose.	6.2 Counter fraud	19
Supporting practices: Document management and record keeping	Information **shall** be retained to meet statutory and government requirements, in accordance with organisational information retention policies and legal requirements.	Document management and record keeping ensures necessary information, documentation, data and other records (both physical and electronic) are securely stored, distributed and retrievable when needed to support and evidence grant management practices.	6.6 Document management and record keeping	21

Overview

1. The business case provides justification for the funded activity and facilitates appropriate and proportionate governance and scrutiny. It provides consideration of the existing arrangements, the business needs and a proposal for change. It is a key means of demonstrating that funding is administered with optimum efficiency, economy, effectiveness and prudence, to maximise value for public money – see sections 4.2.1, 4.2.2 and 5.2.1 of the Grants Functional Standard.

2. The business case should be proportionate to the level of expenditure and associated risk, and contains: costs, benefits, risks and timescales, against which continuing viability is tested.

3. Every business case, regardless of value or associated risk, should include information on the following at a minimum:

   - purpose;
   - strategic context;
   - case for change;
   - options analysis;
   - preferred option;
   - funding and affordability;
   - management arrangements;
   - risks to delivery of the intended outcomes; and
   - justification for key decisions such as the chosen funding route, direct awards and the decision, or not, to refer the scheme for review by the Complex Grants Advice Panel (CGAP).

This business case should be:

   a. raised during the early stages of scheme development, at the policy formation stage – strategic development;
   b. continually reviewed and developed and used to inform each stage of the department's grants governance process;
   c. approved in line with the organisation's governance and approvals process (refer to Minimum Requirement Two: Governance, Approvals and Data Capture) prior to running an application process or awarding a grant; and
   d. updated throughout the grant lifecycle to reflect material changes since approval, subject to re-approval as appropriate.

4. The Senior Officer Responsible for a grant (SOR) is responsible for justifying the grant and actively managing risks before and during the grant scheme's implementation. Monitoring and evaluation reports of the grant scheme should be owned by the SOR. Refer to Minimum Requirement One: Senior Officer Responsible for a Grant, which should be in accordance with HM Treasury guidance in The Green Book.

5. Business case development is likely to require input from a range of professions including policy, finance and commercial, in addition to expert input from subject experts such as legal, economists and analysts. You may refer to Minimum Requirement Ten: Training for further guidance on capabilities, training and support.

6. A business case development toolkit to support grant-making organisations can be found on the grants Centre of Excellence (CoE).

7. New, high-risk, novel, contentious or repercussive schemes should be referred to the CGAP. The business case should record: the decision taken to refer (or not to refer) the scheme to CGAP, advice given from a referral, and the department's response to the advice. Refer to Minimum Requirement Three: CGAP for further information.

Business Case Overview

Green Book Methodology

8. The methodology set out in the Green Book brings together: the approach to appraising public value with the Cabinet Office, the Infrastructure and Projects Authority (IPA) project assurance, and the latest commercial standards and procurement methodologies from the Crown Commercial Service (CCS). It also supports HM Treasury spending scrutiny and approval processes.

9. All grant business cases should consider proportionality, adhere to the principles of the Green Book and to the evidence-based five case model.

    - **Strategic case:** provides evidence that the proposal is supported by a compelling case for change that provides a holistic fit with the relevant policy objectives.
    - **Economic case:** provides evidence that the proposal delivers public value to society.
    - **Commercial case:** demonstrates a viable procurement route between public sector and its service providers which provides value for money.
    - **Financial case:** provides evidence that the proposal is affordable.
    - **Management case:** provides evidence that what is required from all parties involved in the proposal is achievable.

Proportionality

10. The type and format of business case or equivalent document capturing the justification of the grant activity should be proportionate to the level of financial value and risk.

11. With proportionality in mind, below is an illustrative table setting out the type of information that might be included in a grant business case according to different values and levels of risk.

    Note: this is not intended to override or replace legislation or agreements which departments have in place with HMT in relation to delegated financial authority levels or HMT approvals required for grants.

Business case requirements:

Grants below £100k and Low Risk	Grants £100k - £5milion and/ or High Risk	Grants above £5million
Approved by the organisation's Financial Business Unit.	Approved by senior finance business partner and any other internal regulations, with input from CGAP if appropriate.	Approved by HMT.
Specific requirements: • Named SOR/ Central approvals board; • Rationale/ strategic purpose; • Review of the scope; • Basic individual/ legal entity checks; • Financial viability; • Payment model/ treatment of assets; • Value for money; • Subsidy controls.	Further requirements: • Allocative efficiency assessment; • Affordability; • Fit with strategic context; • Economic appraisal; • Optimism bias; • Sensitivity analysis; • Benefits realisation.	Further requirements: • Green Book based business case, requiring more robust evidence.

Funding mechanism

12. There are a number of different funding mechanisms available to organisations such as contracts, grants, endowments, loans and other financial instruments. It is important that these mechanisms are assessed, at an early stage, in order to ensure that the appropriate mechanism is chosen, so that government funds are used effectively, efficiently and transparently to ensure compliance with Managing Public Money.

13. The most appropriate funding mechanism should be explored at the strategic outline case (SOC) and finalised at the outline business case (OBC) stage of business justification, with a preferred option identified. The determination will be made in advance of the final business case (FBC) put forward for funding approval, and the decision should be justified within this.

14. Key considerations include the policy aims and objectives and whether the chosen mechanism provides sufficient scope to deliver within available funding. For more detailed guidance on funding mechanisms, please refer to the *Grants and Alternative Funding Options* guidance note available on the grants CoE.

Early market engagement

15. Early market engagement is the process of contacting organisations outside of the government to gather information, which can help inform the design and development of grant schemes. This does not imply commercialisation of the grant process, but

rather, is there to raise awareness of opportunities with relevant organisations. Care must be exercised to avoid giving any form of competitive advantage to any organisation through this engagement. Transparency is critical, for example, sharing the minutes of meetings, or transcripts from discussions, and ensuring the assessment criteria does not include unreasonable restrictions, which could rule out some organisations.

16. Early market engagement will be particularly useful in developing the business case because it will help:

- increase understanding of and publicise the potential benefits of the scheme;
- develop clearer requirements and criteria to inform potential applications;
- increase understanding of the required value of the scheme and assist with funding optimisation;
- increase understanding of the optimal delivery period;
- manage the application and approval process, taking account of applicant needs;
- identify innovative solutions to deliver the policy objectives; and
- identify potential risks and issues of the scheme.

17. Further guidance on early market engagement can be found in Minimum Requirement Two: Governance, Approvals and Data Capture.

Responsibilities

18. The responsibility for developing the policy response and producing the business case must be retained by the organisation and owned by the senior officer responsible (SOR) in the case of significant grant schemes – see Minimum Requirement One: SOR for a grant.

19. Each stage of business case development should be fully approved by the senior officer responsible (SOR) before proceeding to the next stage. For example, the SOR will be required to approve the strategic outline case, outline business case and full business case stages in sequence – ahead of submission to internal governance and approval at each stage (for more detail see the governance diagram found in Minimum Requirement Two: Governance, Approvals and Data Capture).

20. It is the SOR's responsibility to ensure all appropriate information is included within the business case before submission to the relevant governance body and approval to move to the next stage.

Key Considerations

Value for money (VfM)

21. Good value for money is the optimal use of resources to achieve intended outcomes. In this instance, optimal means the most desirable possible given expressed or implied restrictions or constraints. Value for money is not about achieving the lowest possible cost.[1] The principles of VfM should be considered throughout the grant

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[1] www.nao.org.uk/successful-commissioning/general-principles/value-for-money/

lifecycle. It should be considered from the early stages of development, through performance monitoring, to final reconciliation and impact evaluation. In order to justify the funding, the business case should define expected VfM and set appropriate metrics and plans for monitoring and evaluating progress against these.

22. It is recognised that defining, monitoring and evaluating VfM can prove challenging. However, it is important to note that without defining milestones or performance indicators (where possible) within the business case, and subsequently in the grant agreement, it becomes extremely difficult to measure or evaluate the impact of a scheme, which presents significant risks to delivering VfM. VfM calculations in the original business case should be revisited after the grant scheme begins to test whether the case was accurate. VfM metrics should be identified in the planning stages of a grant scheme to ensure the right data can be collected during monitoring.

23. Wherever appropriate and particularly for high-value, high-risk, novel, contentious and repercussive schemes, clear cost-efficiency measures and indicators should be outlined at the outset of a grant scheme, to enable a view on VfM throughout the programme lifecycle. The knowledge and experience of the policy teams undertaking the development of the business case needs to be appropriate to enable the drafting of the economic case. It is recommended that economists within departments are involved in the drafting of the economic case, including undertaking VfM calculations at the appropriate stages.

24. In cases where the extension of funding is being considered, the benefits achieved to date of previous activities should be assessed against their costs to inform the VfM of potential further funding. In cases where an award is heavily influenced by its perceived alignment to public policy the assessment of VfM should not be bypassed in the appraisal of alternative funding options. This will ensure that public expenditure is directed to achieving benefits in line with the policy in question.

25. In cases where grants have failed to achieve their intended purpose (and consequently failed to achieve VfM), adequate consideration should be given to identifying and learning lessons, for example, outlining a clear approach and disseminating these across the organisation to ensure that further awards do not similarly fail.

26. For larger programmes where delivery follows a standardised approach, a pilot phase should be initially deployed to understand the relative costs and benefits of the programme. This will enable more accurate quantification of the value of a potential longer-term award following the pilot phase.

27. Post-programme, scheme and award impact evaluation and monitoring reports, produced during the programme lifecycle, should directly refer to any VfM indicators that are outlined in business cases or following addendums. The impact evaluation should directly comment on this to ensure that suggested VfM strategies outlined at the outset of a programme are not ignored.

Value for Money (VfM) case study

28. The case study below provides an explanation of some of the challenges in identifying and monitoring VfM in the context of grants. Nonetheless, the entities have sought to identify and articulate the VfM derived from the scheme.

> The fund for 'specialist accommodation-based support and service reform' to help local areas meet the national statement of expectations with regard to domestic abuse provides an example of good VfM practice within a business case. The nature of the scheme would suggest its benefits are hard to quantify, but despite this, analysis based on external sources allowed for the cost of a domestic abuse victim in a refuge to be calculated. The scheme has been designed so that performance can be monitored and evaluated.
>
> - The fiscal cost of a case per year is at £8,500; total cost including estimated fiscal, economic and social costs is of around £37,000 per year.
> - There are 1,300 cases untreated a year which would equate to a total cost of £48m.
> - The annual fund of £7m will cover the untreated cases, therefore, offering good VfM.
>
> The business case explains that further analysis cannot be done due to the limitations of the data at present but this does support a push towards greater data capture.

Cost benefit analysis

29. The purpose of the economic dimension of the business case is to develop a scheme that delivers the best public VfM, including wider social and environmental effects. Demonstrating public value requires a wide range of realistic options for the grant scheme to be appraised (the long-list), in terms of how well they meet the spending objectives and critical success factors for the scheme; and then a reduced number of possible options (the short-list) to be examined in further detail. These options should then be subjected to cost benefit analysis (CBA) to identify the option that offers best public value to society.

30. The CBA should provide a net present social value (NPSV) which demonstrates the present value of a stream of future costs and benefits to UK society that have been discounted over the life of a grant scheme by the *social time preference rate*.

31. The concept of proportionality should be considered when undertaking CBA for grant scheme options.

Optimism bias

32. Optimism bias should always be considered when developing a business case. It is the term used to explain the demonstrated, systematic tendency for project appraisers to be overly optimistic, thus leading to unrealistic or even unattainable objectives being set.

33. To redress this tendency, scheme owners should make explicit, empirically based adjustments (based on data from past or similar projects) to the estimates of a project's costs, benefits, and duration. This should provide a better estimate of the likely capital costs and the duration of the works. The Green Book guidance document provides further information on optimism bias.

Grants benefits management

34. Consideration should be given in the design stage of the grant making process to clearly identify the intended policy outcomes, how these will be measured and evaluated, and what success and failure looks like. This will ultimately enable the department to determine (and demonstrate) the overall effectiveness of a grant and will provide valuable information to support subsequent decisions such as whether to continue to fund a scheme or recipient over a multi-year period and whether to award additional grant funding.

35. Any benefits should be clearly identified at the design and development stage, with owners assigned to plan and manage their realisation. Specific benefits should be captured in the business case, which should also set out plans for monitoring and evaluating the benefits (refer to the Minimum Requirement Eight: Performance and Monitoring for further information).

36. While it will not always be possible to define measurable outcomes, there are a number of issues that can contribute to a grant failing to deliver its intended benefits. These could include:

- business cases focused on target savings instead of expressing intended benefits or outcomes in a manner that can be clearly understood and implemented;
- business cases that contain high level aspirational goals, or poorly defined goals, rather than specific, measurable and achievable benefits or outcomes;
- too much emphasis on deliverables, or capabilities, which on their own do not result in specific benefits or outcomes;
- a lack of plans in place for managing and realising benefits or outcomes; and
- poor fraud and risk management.

Competition

37. The default position for government general grants is to offer the opportunity to apply for funding via a competition. Competition is vital to maximise value for money and cost effectiveness as well as to reduce risk. Within procurement the benefits of competition are proven to outweigh the costs, with studies showing that increasing competition results in a 2-15% reduction in cost for the same output. However, competition is not always appropriate for grant funding and exceptions can be approved, subject to a robust rationale, approved at the appropriate level in the organisation.

38. Further guidance on competition including subsidy control is available in Minimum Requirement Five: Competition for Funding.

Risk management

39. Risk management is defined as a structured approach to managing risks that are identified and assessed when designing an intervention or that materialise later in its lifecycle. To optimise social value, risk must be consciously and proportionately managed - the risk management approach should be outlined in the management case of the business case.

40. In relation to risk management, the business case should:

- identify potential risks in advance and put controls in place to minimise the likelihood of the risks materialising;
- display identified risks and controls in a risk register;
- include the costs of risk avoidance, transfer and mitigation;
- provide an assessment of how specific risks may be avoided, minimised or managed and by whom; and
- assess fraud risks.

41. Public sector organisations should assess the risk of fraud within grant spend and have a documented assessment of their fraud risk.

42. Further guidance on risk and controls is available in Minimum Requirement Seven: Risk, Controls and Assurance.

Approvals

43. Approval should be provided in line with the department's governance process, management framework, financial management controls and government policy. Decisions should be taken by appropriate individuals or committees with the necessary delegated authority according to the complexity and the level of risk of the scheme and associated decisions.

44. While decisions may be made throughout the business case development lifecycle, it is expected that key approvals would take place prior to making significant commitments, such as deploying resource or awarding funding and exposure to risk, for example, a decision should be made on the Outline Business Case (or other justification) - prior to going to market.

45. Approval decisions should be based on accurate, up-to-date information with input from functional experts - such as grants policy, financial, commercial, legal, fraud - as appropriate and should be justified and recorded in the business case (or equivalent document). Further guidance on approvals is available in the Green Book guidance and also in Minimum Requirement Two: Governance, Approvals and Data Capture.

Dear Accounting Officer (DAO) Letter

46. A DAO letter was issued by HMT on 19 May 2016 as a result of a Public Accounts Committee (PAC) recommendation into the Kids Company grant. The action was to ensure an Accounting Officer gives due consideration to prosed funding when a department is asked by another part of government to pay a grant to an external organisation, such as a charity, from its own resources. Departments must take

account of the content of the 2016 DAO letter at the business case development stage, when allocating grant funding under the conditions described. More information on DAO letters, can be found here: https://www.gov.uk/government/collections/dao-letters.

47. The PAC DAO letter on Kids Company can be found on GOV.UK, here: https://www.gov.uk/government/publications/dao-0116-accounting-officer-oversight-of-grant-expenditure

Monitoring, analysis and evaluation

48. Plans for monitoring and impact evaluation should be part of the development of a grant scheme business case from the start. They are important to ensure successful implementation and the responsible, transparent management of funding. Guidance on conducting impact evaluation is contained in the Magenta Book.

Early Impact Analysis

49. It is advisable for departments to carry out some form of early stage impact analysis to go through the outcomes of the activities being funded. This will help develop the strategic element of the business cases and will also help ensure the objectives align with departmental policy goals and are ultimately realistic. It is recommended that departments use their social research teams (or equivalent) for advice on this area.

50. Impact analysis assesses the changes that can be attributed to a particular intervention, such as a project or programme, in terms of both the intended and unintended impacts.

51. In contrast to outcome monitoring (see Minimum Requirement Eight: Performance and Monitoring), which examines whether targets have been achieved, impact evaluation is structured to answer the question: how would outcomes have changed if the intervention had not been undertaken? Impact evaluations seek to answer cause-and-effect questions, in other words, they look for the changes in outcome that are directly attributable to delivery of an intervention.

52. It is worth noting that impact evaluation can and should be carried out at both the individual grant level and scheme level to ensure a holistic view.

Impact Evaluation

53. Impact evaluation helps answer key questions for evidence-based decision making such as what works, what doesn't, where, why and for how much? It is an important tool to improve the effectiveness of public spending as part of the initial design of the grant making process.

54. The business case should use impact evaluation as a method of demonstrating there is a strong, evidence-based case for change. Impact evaluation should be seen in the wider context of stressing the importance of evidence-based decision making and used for both monitoring and evaluating the results of grant awards. Managing for results means focusing on outcomes (what is being achieved) and inputs (how much money is being spent).

55. A properly designed impact evaluation can answer the question of whether the project or programme is working or not, and hence assist in decisions about award and scaling up. A well-designed impact evaluation can also answer questions about programme design: which parts work and which parts don't, and so provide policy-relevant information for redesign and the design of future programmes.

56. By identifying if a grant scheme or project is working or not, impact evaluation is also serving the accountability function. Hence impact evaluation is aligned with results-based management and monitoring of the contribution of grant assistance toward meeting government objectives.

57. Evidence of the effectiveness and impact of projects and programmes can help make departments more accountable to the parliament and to the UK public and citizens and, where relevant, partner country governments and organisations. Impact evaluation takes place throughout the grant making process, commencing in the design and development phase. Impact evaluation and review should continue for an extended length of time (or take place much later on) following programme completion when perceived benefits are expected on a much longer-term basis.

Further Resources

58. In line with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:

- Business case development toolkit for grant making organisations to produce high quality business cases which can be accessed via the grants Centre of Excellence (link below).
- Green Book guidance documents:

Optimism Bias	www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias
Green Book	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf
Developing Project Business Cases	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf
HMT Checklist for Assessing Business Cases	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935527/Green_Book_guidance_checklist_for_assessing_business_cases.pdf
NAO Guidance on Assessing VfM	https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/assessing-value-for-money/
Grants Centre of Excellence	https://gcoe.civilservice.gov.uk/sign-in/

Annex A: Glossary

This glossary has been drawn from definitions in various government publications including the [Green Book](#) and [Managing Public Money](#) and therefore updates to those publications may not be immediately reflected in this guidance.

Affordability	An assessment of the costs of an intervention to the public sector taking into account current and expected future budgets.
Allocative efficiency assessment	Defined as ensuring a good match between the requirements of the grant and the skills and experience, in terms of delivery, of the grant recipient.
Appraisal	The process of defining objectives, examining options and weighing up the relevant costs, benefits, risks and uncertainties before a decision is made.
Benefits management	The process for identifying, defining, tracking, realising and optimising benefits
Business case	A management tool that records the current state of evidence and thinking concerning the development approval and implementation of a proposal. It supports the processes of scoping, analysis, appraisal, planning, monitoring, evaluating, approval and implementation of a proposal and is the repository for the evidence base.
Business Justification Case (BJC)	A single stage business case, using the Five Case Model, for the delivery of relatively low level spend for which firm prices are available.
Cost Benefit Analysis (CBA)	Analysis which compares the costs and benefits of alternative options from the standpoint of society, including social values derived according to the principles of welfare economics.
Economy	Minimising the costs of inputs used while having regard for quality.
Effectiveness	The systematic assessment of an intervention's design, implementation and outcomes.
Efficiency	A measure of the extent to which a project, programme or policy's associated throughputs are increased.
Evaluation	Evaluation is the systematic assessment of an intervention, its design, implementation and resulting outcomes both during implementation and, most importantly, afterwards.
Five case model	A systematic framework for the development and presentation of the business case, comprised of the strategic, economic, commercial, financial and management dimensions of the Case.
Full Business Case (FBC)	The completed business case and third stage in the development of a business case for a significant project, which identifies the most economically advantageous offer following procurement, confirms affordability and puts in place the detailed arrangements for successful delivery.

Impact Analysis	Impact analysis assesses the changes that can be attributed to a particular intervention, such as a project or programme, both in terms of the intended and unintended impacts.
Impact Evaluation	Impact evaluation attempts to provide a definite answer to the question of whether an intervention was effective in meeting its objectives. Impact can in principle be defined in terms of any of the outcomes affected by a policy (e.g. the number of job interviews or patients in treatment), but is most often focused on the outcomes which most closely match with the policy's ultimate objectives (e.g. employment rates or health status).
Net Present Social Value (NPSV)	The present value of a stream of future costs and benefits to UK society (that are already in real prices) that have been discounted over the life of a proposal by the social time preference rate.
Optimism bias	The proven tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, project duration and benefits delivery.
Options appraisal	The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.
Outline Business Case (OBC)	The 'intermediate' business case and second stage in the development of a project business case, which identifies the option offering best public value, confirms the Deal and affordability, and puts in place the arrangements for successful delivery prior to taking a procurement to the market.
Strategic Outline Case (SOC)	The 'early' first stage in the development of a project business case for a significant project, which makes the case for change and appraises the available long list to produce a short list of options.
Value for Money (VfM)	Securing the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought. It is not about minimising up front prices. Whether in conventional procurement, market testing, private finance or some other form of public private partnership, finding value for money involves an appropriate allocation of risk.

Guidance for General Grants

Minimum Requirement Five: Competition for Funding

Version: 2

Date Issued: 31 August 2021

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using exchequer funding. It <u>does not</u> apply to formula grants or grant in aid. <u>Managing Public Money</u> and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including '<u>Managing Public Money</u>'. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the <u>grants Centre of Excellence (CoE)</u>. Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

Government grants should be **competed by default**; exceptions may be approved where competition would not be appropriate. Detailed supporting evidence for any direct award decision should be provided in the approved business case.

Purpose

Minimum Requirement Five: Competition for Funding and the guidance for general grants set out below aims to ensure that value for money is optimised through effective competition of all grants on a regular basis, and that any decisions not to compete a grant are justified and have been made with the necessary approval.

Grants Functional Standard: Key References

Mandatory expectations ('shall') for management of grants related to this minimum requirement have been extracted from the 'Grants Functional Standard' which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Grant Life Cycle: General Grants Life Cycle	When developing general grant models and criteria for assessing individuals and organisations for a grant award, consideration shall be given to combinations of risk indicators, which could affect the value of the grant, or even whether the grant should be awarded at all.	The purpose of design and development is firstly, to define the requirement for the use of a general grant as the appropriate mechanism to meet the policy objective, and then to develop a grant model which is robust, proportionate and which will deliver value for money.	5.2.1 Design and development	13

Overview

1. Competition is a process through which recipients apply for grant funding, with assessment undertaken against pre-set, weighted and published criteria; applications are assessed by the grant making organisation with awards made based on the results.

2. Broadly, there are three approaches for general grants – further detail is provided on each category in later sections.

   - **Open competition** - where applicants (usually as unconnected recipient entities) compete against each other for a single grant, in response to a published advert and pre-published award criteria. This type of competition can be open to all potential applicants where there are no restrictions on who can apply (**full competition**), or open only to a select range of potential applicants where there are restrictions on who can apply (**closed competition**).
   - **Challenge funds** - where applicants compete against pre-published criteria for portions of a funding envelope, which has been allocated for a particular purpose (repeat bids may be permitted).
   - **Uncompeted (or 'direct') award** - by exception, a grant may be awarded without competition - in such instances, strong justification must be provided in the business case and approved at the appropriate level in the organisation.

3. By default, government grants should be subject to competition. It is well established that effective competition is a key mechanism for improving outcomes for beneficiaries and thereby achieving the policy objectives to which the funding is linked. Competition unlocks savings and improves performance by encouraging applicants to compete against each other for the available funding. This can lead to: lower prices, improving the quality of outcomes, introducing greater levels of transparency, promoting innovation and enabling the achievement of value for money.

4. The difference between what is paid and what would have been paid in the absence of competition, represents a saving that can be reinvested elsewhere. These benefits will, in general, outweigh the costs.[1]

5. For uncompeted grants, there is a risk that they may be rolled-over for several years, providing funding to the same recipient for a prolonged period. This leads to a risk of diminishing returns on the investment and stifling innovation, which can present a reputational risk for government. Competition for funding can provide benefits through reducing these risks. Furthermore, a robust audit trail will enable grant makers to provide award justification if later challenged. This scenario can also apply to competed grants where the competition was only carried out once at the beginning of a multi-year grant. It is beneficial for grant making organisations to consider periodically re-running competitions for grants that continue across multiple years.

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[1] Evidence from studies of commercial procurement supports the idea that increasing competition results in a reduction in cost, to provide the same output, though caution must be exercised because there is not a direct correlation between grants and contracts, i.e. measuring value in the delivery of grants may need to be measured in different terms, from those used to measure value in procurement.

6. The Senior Officer Responsible (SOR) for a grant is responsible for ensuring that funding under a grant scheme is awarded subject to competition, or that any direct award is appropriately justified and approved, usually via the business case. It is important to consider seeking relevant expertise, as required, to provide advice on optimising the competition and mitigating risk, for example, legal input may be required and commercial input helpful. Input from counter fraud experts should also be requested, to inform the development of a fraud risk assessment. Where a direct award is made, it will be important to have an appropriate financial and delivery monitoring regime, to enable the assessment of progress and value for money achieved, aligned to annual reconciliation, which includes a decision as to whether to continue delivery.

Timing and Engagement

7. Competition should be considered during the design and development stage of the grants lifecycle, with plans set out in the business case (see Minimum Requirement Four: Business Case Development). The competition should be run during the market engagement stage, and proposals assessed during application assessment stage. Funding may be awarded via a grant agreement to the successful applicant, based on the results of the assessment. It is good practice for transparency, to rank applications received, based on their assessment scores, so it is clear why awards have been offered to individual organisations.

8. It is beneficial to capture lessons from the competition and assessment of grant applications to inform future competitions, for example, if an applicant highlights a new market technique that increases value for money for a particular process, and this is delivered throughout the grant, it should be reflected in future calls for applications – taking care not to infringe any copyright or intellectual property rights that may exist.

9. Care should be taken not to provide any individual organisation or organisations with a competitive advantage at any stage in the pre-market engagement process - ensuring the process is transparent, as far as possible, will help to ensure this. All relevant information should be made available to all eligible applicants and schemes should not be unfairly tailored to the needs of particular groups or organisations. There are also competition requirements with regards to compliance with UK Subsidy Control, which must also be considered (see below).

Subsidy Control

10. UK subsidy control rules replaced EU State Aid rules following the end of the transition period from the UK's exit from the European Union and guidance has been published for public authorities explaining the subsidies chapter of the Trade and Cooperation Agreement between the UK and the EU, World Trade Organisation rules on subsidies, and other international commitments: Guidance on the UK's international subsidy control commitments.

11. EU State aid rules continue to apply, only in limited circumstances:
    - aid that is granted within scope of the Northern Ireland Protocol, and
    - the disbursement of outstanding Structural Funds payments.

12. Organisations should also be aware of [UK-EU Trade and Cooperation Agreement (TCA)](#) and the [World Trade Organisation's Agreement on Subsidies and Countervailing Measures (ASCM)](#).

13. In general terms, and for the purposes of our international commitments, a subsidy is a measure which:
    - is given by a public authority. This can be at any level – central, devolved, regional or local government or a public body;
    - makes a contribution (this could be a financial or an in kind contribution) to an enterprise, conferring an economic advantage that is not available on market terms. Examples of a contribution are grants, loans at below market rate, or a loan guarantee at below market rate or allowing a company to use publicly owned office space rent free. An enterprise is anyone who puts goods or services on a market. An enterprise could be a government department or a charity if they are acting commercially; and
    - affects international trade. This can be trade with any World Trade Organisation member or, more specifically, between the UK and a country with whom it has a Free Trade Agreement. For example, if the subsidy is going towards a good or a service which is traded between the UK and the EU this could affect trade between the EU and the UK. Please note that you are not being asked whether the subsidy could harm trade but merely whether there could be some sort of effect. Subsidies to truly local companies or a small tourist attraction are unlikely to be caught as this is unlikely to affect international trade.

14. A subsidy within scope of the UK-EU Trade and Cooperation Agreement (TCA) must meet the [principles](#) (step 3) set out in article 366 of the TCA.

15. If in doubt, departments and ALBs should contact subsidycontrol@beis.gov.uk or their organisation's local subsidy control team for further advice. Further contacts can be found [on GOV.UK](#).

Open Competition

16. There are a number of key steps in the competition process:
    - **define your requirements**: specify what you require, including assessment criteria, as clearly as possible prior to starting a competition. This will enable you to compare like for like once applications are received and to award funding to the best proposals in the most effective way;
    - **grant agreement terms and conditions**: in public sector competitions it is common practice to publish the assessment criteria and a proposed form of the terms and conditions early in the process and to invite feedback at that stage;
    - **set the rules of the process**: it is important to define the rules of the process from the outset, including timings to give certainty to applicants and drive efficiency. It should be stated in communications for a grant scheme that applications will be subject to proportionate impact evaluation at an appropriate point in the delivery period, with a view to obtaining best value for money. It should be made clear that the grant making organisation is under no obligation to accept any application or make an award of funding, and it is recommended that costs incurred in submitting an application are defined as *ineligible expenditure* under the terms of the grant.

Therefore, it is important to consider how to minimise costs for prospective applicants, in compiling the application, for example, by setting word limits on applications forms. Consideration should always be given to the principle of proportionality;

- **asses potential delivery partners**: the assessment of applications should be against pre-defined and published assessment criteria. It is important that appropriate risk and due diligence checks are carried out at this time (see Minimum Requirement Seven: Risk, Controls and Assurance for more information). Once assessed, the applications are short-listed and the preferred applicant(s) selected based on that ranking; and

- **market engagement**: is an important enabling activity for competition. Strong market engagement can result in higher volumes of better applications and increase the level of innovation for any given grant. For more information, please refer to Minimum Requirement Two: Governance, Approvals and Data Capture.

17. Where a government grant making organisation receives an unsolicited proposal from an organisation, which is in line with departmental policy and for which funding is available, and which the department is considering funding, a range of options should be considered, including grants, before proceeding. This consideration should include whether a competition is the appropriate model for awarding funding, in line with the guidance in this document. Evidence of the process undertaken with regards to unsolicited proposals, should be recorded in an appropriate place, such as the business case. Proposals of this nature are outside normal business and should proceed only by exception and with a clear and auditable decision process.

Competition Assessment

18. The guidance below highlights issues to be considered and steps to be followed in assessing applications for funding within a competition. It should be noted that assessment criteria and process followed can be the subject of a request under the Freedom of Information Act, and as such, due care must be taken to ensure compliance with the guidance set-out in this document.

19. The key principles to be considered during the assessment of grant applications are:

- the number of assessors appointed for a particular scheme is proportionate to its size, risk, and whether the grant is novel or contentious - depending on the value and complexity of the grant, a minimum of two assessors is recommended (a lead assessor and a senior official to validate the results);
- assessors are selected based on their abilities, skills and experience;
- consensus meetings are scheduled to discuss and agree scores – these should be chaired by officials with experience of administering grant funding;
- assessors should conduct systematic, evidence-based assessments of proposals;
- assessors should be asked to complete a non-disclosure agreement, conflict of interest form, and be required to disclose any conflicts to the senior officer responsible (SOR) for the scheme - if the risk is considered acceptable and they proceed with the assessments, the conflict(s) should be clearly articulated in reports of the assessment results;
- evidence based reasons should be recorded to support all assessment scores – this helps to ensure consistency and fairness - assessors should conduct the

assessment and communicate its results in a way that clearly respects all interested parties; and

- results of the assessment may be used to provide feedback to successful and unsuccessful applicants - assessor comments must be:
    - o completed for every answer;
    - o specific to the applicant's response and documentation, and free from bias;
    - o suitable for public use, non-discriminatory and factual, avoiding statements that cannot be clarified or justified; and
    - o presented in a constructive way when used as feedback.

Grant Assessment Criteria

20. For ease of administration, the assessment process can be divided into the following:
    a) **qualification criteria**: minimum requirements to qualify to apply;
    b) **quality criteria**: bespoke to each grant, and where specific technical expertise is required to assess; and
    c) **financial criteria**: the fundamental financials of delivery.

21. Assessment criteria within the **qualification criteria** can include but are not limited to:

	Term	**Description**
1	**Application model**	Structure, role, and details for all parties within a specific entry.
2	**Grounds for mandatory/ discretionary exclusions**	Such as participation in a criminal organisation, conviction for corruption fraud, money laundering or terrorist financing, etc. (See Further Resources below)
3	**Legal entity and economic and financial position**	Description of the organisation and its legal standing, statement of turnover, profit and loss, financial position, statement of cash flow, etc.
4	**Technical and Professional Ability**	Track record of delivery including recent experience.
5	**General Declarations**	Resource availability, timeline availability, agreement to no eligible/ approved expenditure, agreement to the publication of delivery details, etc.
6	**Conflicts of interest**	Declaration of any conflicts of interest that could compromise the conduct of the particular project.
7	**Code of Conduct**	Processes for handling vulnerable adults and children, Modern Slavery declaration, Health & Safety declaration. (See Further Resources below for the Grants Recipient Code of Conduct)

8	**Insurance**	Self-certification of ability to obtain the levels of insurance stipulated in the grant agreement.

22. Assessment criteria within the **technical criteria** can include but are not limited to:

	Term	**Description**
1	**Approach and methodology**	The approach and methodology for delivery - sufficient detail must be provided to allow the assessors to understand what work is proposed and the likelihood of success.
2	**Cost Effectiveness**	An indicative cost, benefit structure for the project.
3	**Match funding**	A description of any additional matched funding sources that have been secured or applied for and what they will be used for and how they will provide additional value.
4	**Environmental assessment**	An environmental impact assessment for the proposed project.
5	**Credibility and experience**	A description of recent work undertaken to provide confirmation that the entree has the ability to deliver the project as described above.

23. It is worth considering whether to add weightings to the criteria, as part of the details of the scheme, to signal their relative importance and help applicants to focus their efforts appropriately. It is important that care should be taken on the numerical scores and that policy teams consult experts when considering any weightings. An example for a technical criterion could be:

Criteria	**Weighting %**
Approach and methodology	35
Cost effectiveness	30
Match funding	5
Environmental assessment	15
Teams capability and experience	15
Total	**100**

24. Examples for assessment criteria within the **financial criteria** are:
- unit cost for delivery with breakdown to include, for example, staff costs, delivery costs, fixed costs; and
- use of external benchmark costs/ market prices, to set the requested funding in the market context.

Challenge Funds

25. A *challenge fund* is a competitive process under a grant scheme, used to disburse funding to a range of projects, based on a set of pre-published criteria – challenge funds include an assessment of quality, in relation to delivery proposals. Under the challenge fund model, a funding envelope is made available and applications can be submitted in line with pre-published guidance, which could include an application rounds at regular intervals, or the opportunity to submit an application at any time, until the funding is exhausted or the scheme is discontinued. Repeat applications are usually acceptable, provided they meet the assessment criteria in full and any award clears the awarding body's due diligence process.

26. Challenge funds can be particularly useful to drive collaboration across industry and academia, facilitate market creation, and generate new capability.

27. Features of a challenge fund can include:
    - open competition;
    - innovative / evidence-based proposals;
    - proposals assessed based on a fixed scoring criteria;
    - match funding;
    - local solutions;
    - a governance structure that incorporates a stakeholder panel to approve funding decisions.
    - an explicit public purpose;
    - grant recipients selected competitively on the basis of advertised rules and processes;
    - significant discretion over formulation and execution of proposals; and
    - sharing risks with the grant recipient.

Direct Awards (uncompeted)

28. Government grants should be competed by default. However, there are circumstances in which a grant may be awarded directly to one or more recipients, without undertaking a competition. It is important to note that without competition, value for money may be reduced, and the risk of a breach of subsidy control regulations could increase.

29. In such instances, strong justification, complete with detailed supporting evidence for the decision, must be provided in the business case and approved at the appropriate level in the organisation, via a formal approval process (see Minimum Requirement Four: Business Case Development). It is recommended that legal advice is sought on the risks associated with direct awards.

30. Examples of circumstances in which a direct award may be appropriate include awarding a grant:

    - to an organisation that is the only provider in the area that the grant is being set up to fund;
    - to an organisation which inhabits a unique position offering a particularly specialist function;

- when the value of the grant is low and the cost of approaching the market through a competition would clearly exceed the benefit to be gained from competition between suppliers;
- when there is extreme urgency, where such urgency was not foreseeable and was not as a result of any action or inaction on the part of the grant award department;
- in the event of market failure.

Further Resources

31. In adhering to these minimum requirements, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:

- The Grants Recipient Code of Conduct

32. Organisations should also make full use of wider resources available through the 'grants Centre of Excellence'.

Guidance for General Grants

Minimum Requirement Six: Grant Agreements

Version: 2

Date Issued: 31 August 2021

Cabinet Office

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It <u>does not</u> apply to formula grants or grant in aid. <u>Managing Public Money</u> and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including <u>Managing Public Money</u>. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the <u>grants Centre of Excellence (CoE)</u>. Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

All government general grants shall be awarded through **robust grant agreements**, proportionate to the value of the grant, which reflect the Grants Functional Standard for government grants and are in line with Managing Public Money. All government grant agreements shall include terms of eligible expenditure.

Purpose

Minimum Requirement Six: grant agreements and the further guidance for general grants set out below, is provided to help ensure that all government general grants schemes have appropriate agreements in place, which set out amongst other provisions: the purpose and objectives of the award, standard terms and conditions for the receipt of funding, performance monitoring, financial assurance and the payment schedule. This should assist in minimising risk around accidental or deliberate misuse, provide necessary controls to manage delivery and ensure adherence to the appropriate parts of the minimum requirements for general grants. It is strongly recommended that government grant making organisations use the *Model Grant Funding Agreement* (MGFA), hosted on the grants Centre of Excellence (CoE) which has legal clearance and is fully compliant with the minimum requirements.

Grants Functional Standard: Key References

Mandatory requirements are defined by the word 'shall' in the Grants Functional Standard which can be accessed on GOV.UK. The 'shalls' for the management of grants related to this minimum requirement have been extracted from the Standard and are set out below. *Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Grant Life Cycle: General Grants Life Cycle	Once the draft grant agreement has been signed off for use and tailored to the particulars of the scheme, authorised representatives of the funding organisation and the grant recipient **shall** sign a copy of the grant agreement, identifying the named accountable individual for the recipient organisation.	The purpose of an agreement pertaining to a grant is to ensure that: • the government's objectives in relation to a grant are clear; • funding is used for the purpose intended; • activity and expenditure can be monitored; • action can be taken early to suspend payment or terminate activity, where the grant is failing against its objectives; • fraudulently claimed, misused or surplus funding is recovered.	5.2.4 General grant award. *Also refer to: 6.4 Agreements.*	15
Supporting practices: Agreements	General grants **shall** be covered by a grant agreement.	A grant agreement should be justified and based on the content of the business case and written to ensure that the funding is used as intended.	6.4 Agreements *Also refer to: 6.4.1 Grant agreement (general grants) 4.2.2 Justification of grants.*	19
Supporting practices: Agreements	Each general grant award **shall** be subject to a defined agreement between the grant making body and the recipient and should be proportionate to the value of the grant being awarded and **shall** be underpinned by appropriate legislation.	*[As above]*	6.4.1 Grant agreement (general grants) *Also refer to: 6.4 Agreements 4.2.2 Justification of grants.*	19

Overview

1. Departments shall ensure that their grant agreements, including those administered through third parties, clearly state the purpose and objectives for which the grant is awarded, provide details of approved activity and set out categories of eligible and ineligible expenditure.

Developing the grant agreement

2. When developing grant agreements, due regard should be given to ensuring regularity and propriety in the use of public funds. It is strongly recommended that the Cabinet Office Model Grant Funding Agreement (MGFA) is used as the default agreement for government general grants. The MGFA template includes notes to aid its completion, is fully compliant with the minimum requirements for general grants, and is cleared for use by Cabinet Office Legal Advisers (COLA). The template is regularly updated and the latest update reflects the end of the transition period, following the UK's exit from the European Union. The template is available to download from the grants Centre of Excellence.

3. In cases where the MGFA is not suitable, and there is a clear rationale for that determination, it is recommended that grant making organisations use grant agreement templates, which are cleared through internal legal advisers and finance, as a minimum – the MGFA should be used as the basis for such agreements (see paragraph 4). In the case of grant-in-aid and formula grants, grant making organisations should consult their legal advisers and Managing Public Money for advice and appropriate templates for the framework document and settlement document respectively.

4. Where an organisation chooses not to use the MGFA as a template, they should consider their existing grant terms to meet the requirements of each individual scheme and strengthen them where needed, using the MGFA as a base. Critically, this will include making absolutely sure that terms covering eligible expenditure are included and that the associated financial and performance monitoring clauses, and the assurance regime, are sufficiently stringent to prevent inappropriate expenditure.

5. A code of conduct for suppliers and grant recipients was published on GOV.UK in late 2018. It was developed to make clear, the standards and behaviours that are expected of grant recipient organisations and their employees and sub-contractors when working with government, and how they can help government deliver value for money for taxpayers.

Key considerations

6. As a minimum, the Cabinet Office would expect government grant agreements to include terms and conditions, where necessary supported by guidance, covering the following:

   - a clear description of the scheme purpose, aims and objectives;

- a clear description of expenditure, including eligible expenditure categories, which prohibit paid for lobbying (except where a requirement of the scheme) and improper expenses;
- a data protection policy;
- counter fraud policy including mitigation, identification, reporting and escalation;
- audit and assurance;
- agreed delivery KPIs or milestones and longer-term outcomes;
- financial and delivery-based reporting and validation;
- subsidy compliance (see Minimum Requirement Five: Competition for Funding);
- performance tolerances allied to payment suspension, claw back and grant termination clauses;
- a debt recovery policy; and
- impact evaluation including lessons learned.

7. The Cabinet Office will not specify what detail should be included in individual grant agreements under the above categories beyond providing the MGFA template. The grant making organisation will determine such detail, tailoring the MGFA to each individual scheme. Where one of the above listed clauses is absent from a grant agreement, it should be agreed as part of the business case development and approval process.

Declaration by the grant recipient: double funding

8. It is good practice, as part of the grant award process, to require grant recipients to declare that acceptance of the funding offered will not result in double funding, ensuring the organisation is not being funded from elsewhere for the same or similar activity. Any match or pooled funding, where declared, would not be considered double funding. The authorised signatory will be liable for any false declaration.

Payments

9. In accordance with Managing Public Money, it is expected that grant funding payment models will reflect need, and avoid paying portions of funding up-front, except where that can be justified and is approved via the organisation's formal governance route. Where possible, it is good practice to link the release of regular payments to the receipt of satisfactorily completed delivery and financial returns, with the submission of returns triggering the release of payments, following the successful completion of whatever validation checking regime is specified in the grant agreement.

Competition

10. The organisation must consider UK rules on subsidy control prior to awarding a grant (refer to Minimum Requirement Five: Competition for Funding for further details).

Eligible expenditure

11. Grant making organisations should ensure that categories of eligible expenditure are included in all general grant agreements, including items of expenditure that are expressly ineligible – the Cabinet Office Model Grant Funding Agreement includes clauses covering expenditure and breach. The terms must be sufficiently clear, to provide assurance that the grant is only used for the purposes for which it was

awarded. This includes enabling the recovery of misused or surplus funding identified at any time during the delivery period or as part of regular delivery monitoring and financial reconciliation activity and final reconciliation at the end of the delivery period.

12. Grant recipients are required to provide evidence of their grant expenditure, for example, through the regular submission of a *Statement of Grant Usage* (SoGU) or an equivalent, which must be validated to ensure accuracy. Failure to submit financial returns, or irregularities identified through validation should result in payment suspension, investigation, and in serious cases a full audit, to establish the cause. The grant agreement should require the recipient to maintain an audit trail of all grant related expenditure, and provide full access for the authority on request.

13. Departments are responsible for defining terms of eligible and ineligible expenditure for individual schemes and awards. Such terms should be clearly drafted to help provide certainty about what a grant recipient may do with the grant. In addition, where appropriate, to add more flexibility, a grant agreement might allow for the authority to issue accompanying internal guidance, clarifying what is permitted by an eligible expenditure clause.

14. Eligible expenditure terms may allow the following activities:

- giving evidence to Select Committees;
- attending meetings with Ministers or officials to discuss the progress of a taxpayer funded grant scheme;
- responding to public consultations, where the topic is relevant to the objectives of the grant scheme. This does not include spending government grant funds on lobbying other people to respond to the consultation (unless explicitly permitted in grant agreement);
- providing independent, evidence-based policy recommendations to local government, departments or Ministers, where that is the objective of a taxpayer funded grant scheme, for example, *What Works Centres*; and
- providing independent evidence-based advice to local or national government as part of the general policy debate, where that is in line with the objectives of the grant scheme.

15. Eligible expenditure specific to government research grants, for example, those awarded to the National Academies, might include:

- publishing and publicising the results of research paid for using taxpayer funded grants;
- hosting science and research communication events, for example, science festivals, Royal Society's Summer Science Exhibition, visits, breakfasts, dinners or receptions, seminars, the use of newsletters and campaigns, and sharing information with Parliament to expound greater understanding of research outcomes or launch a research project or equipment;
- working with or through a third-party organisation or commercial partners, which are not professional lobbying organisations, to conduct, communicate or publish research findings and inform policy;

- contributing expert scientific and academic advice to inform government policy and funding or make the case for science; and
- developing proposals for future research grants.

Ineligible expenditure categories

16. Eligible expenditure terms shall exclude the following types of expenditure, as a minimum, unless permitting them is a specific requirement of the grant agreement:

- paid for lobbying, which means using grant funds to fund lobbying (via an external firm or in-house staff) in order to undertake activities intended to influence or attempt to influence parliament, government or political activity; or attempting to influence legislative or regulatory action;
- using grant funds to directly enable one part of government to challenge another on topics unrelated to the agreed purpose of the grant;
- using grant funding to petition for additional funding;
- expenses such as for entertaining, specifically aimed at exerting undue influence to change government policy;
- input VAT reclaimable by the grant recipient from HMRC; and
- payments for activities of a party political or exclusively religious nature.

Prohibited expenditure

17. Other examples of expenditure, which should be prohibited, include the following:

- contributions in kind;
- interest payments or service charge payments for finance leases;
- gifts;
- statutory fines, criminal fines or penalties;
- payments for work or activities which the grant recipient, or any member of their partnership has a statutory duty to undertake, or that are fully funded by other sources;
- bad debts to related parties; and
- payments for unfair dismissal or other compensation.

18. As described at paragraph 16, all grants must include eligible expenditure terms covering how paid for lobbying is dealt with. For context, unless lobbying government on matters of policy is a requirement of a grant and part of a scheme's purpose, then attempting to exert undue influence over government policy using taxpayer funding provided as a grant award should always be prevented under eligible expenditure terms set out in the grant agreement. Grant making organisations should use the bullets set out at paragraphs 14-16 as the baseline for eligible expenditure terms.

19. The above guidance is not presented as an exhaustive list of what is permissible or otherwise under eligible expenditure terms. The authority can specify what is and is not included to tailor eligible expenditure terms to the requirements of individual schemes, in line with the guidance in this document. This flexibility means there is no requirement for an exemptions policy in relation to this guidance (Minimum Requirement Six: Grant Agreements).

Post-award

20. It is important to ensure that all post-award delivery and management activities required of the recipient, including data capture and reporting, are fully aligned with the terms and conditions of the grant agreement and also incorporates the details set out in the application for funding. Any changes to the delivery or management of the grant award that differ to the terms set out within the grant agreement will need to be justified and reflected (in a timely manner) as a revision to the grant agreement, or even as a separate grant agreement entirely. This may require additional negotiation between the funder and recipient, and is likely to necessitate obtaining further legal advice as a minimum. A Grant Agreement Addendum template, which can be used to amend the terms of a grant agreement, is available to download from the grants Centre of Excellence (CoE).

Assurance

21. Grant awarding bodies need to gain assurance on how recipients use their grant funding and obtaining an independent accountants' report is one way of doing this. When designing an assurance model, reference could be made to, for example, to the guidance contained in Technical Release AAF 01/10, which can be downloaded from the ICAEW website here.

22. The guidance in the Technical Release reflects good practice principles that grant-paying bodies may find useful when designing new grant schemes or updating existing schemes.

Further Resources

23. In seeking to comply with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:

   ● The Model Grant Funding Agreement (MGFA), which can be accessed via the Centre of Excellence.
   ● This code of conduct for grant recipients, which can be accessed here.

Organisations should also make full use of wider resources available through the grants Centre of Excellence (CoE).

Guidance for General Grants

Minimum Requirement Seven: Risk, Controls and Assurance

Version: 2

Date Issued: August 2021

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using exchequer funding. It <u>does not</u> apply to formula grants or grant in aid, although guidance for the latter grant will be developed in the future. 'Managing Public Money' and local guidance within organisations will continue to apply until then.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including '<u>Managing Public Money</u>'. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on all grant expenditure.

► This guidance should be read in conjunction with the wider set of 'Minimum Requirements' guidance documents (including the Introduction). Further information about how to apply this guidance can be found in the following document: ***'Grant Scheme Readiness: a guide to designing and developing a new government grant scheme'***, available online through the '<u>grants Centre of Excellence (CoE)</u>'. Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

All government grants shall be subject to **timely and proportionate due diligence**, **assurance** and **fraud risk assessment**.

Purpose

Minimum Requirement Seven: 'risks, controls and assurance' provides detail on the creation and maintenance of a risk, controls and assurance management framework including counter fraud and due diligence activities. An effective risk, controls and assurance framework aims to reduce the risk of grant schemes failing to achieve their objectives and will support effective risk management.

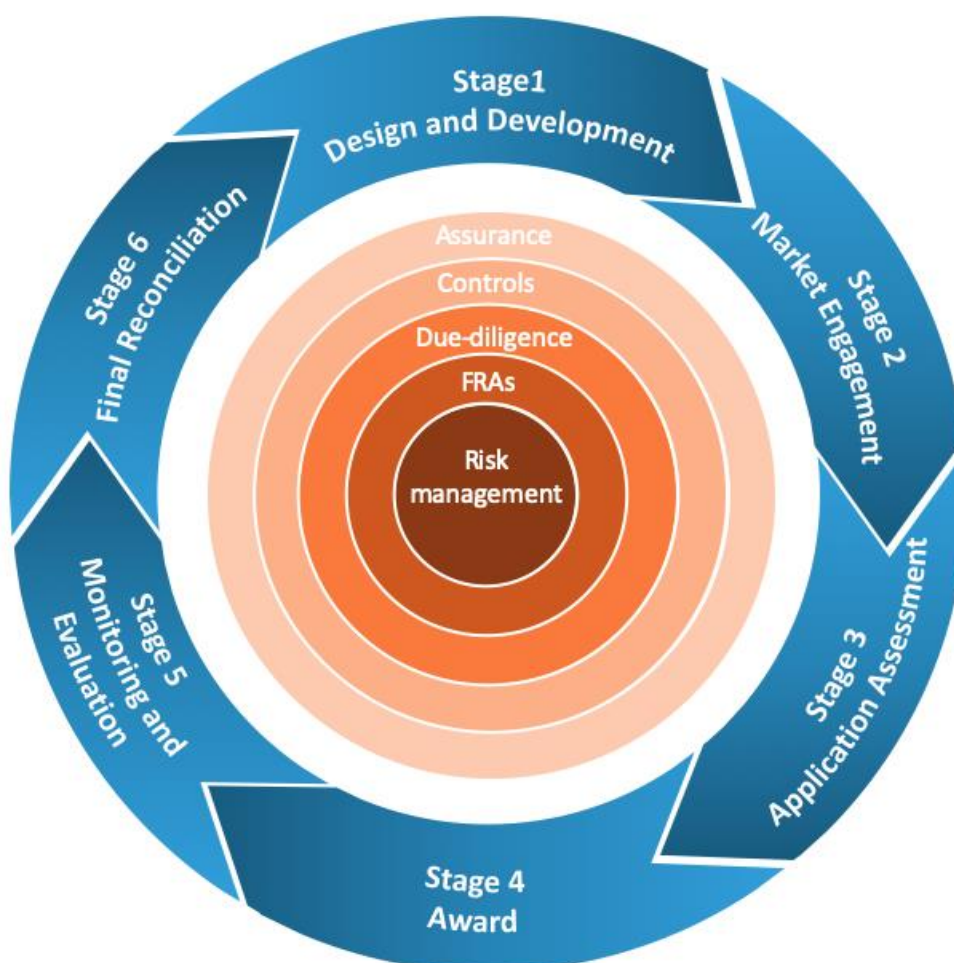## Grants Functional Standard: Key References

Mandatory expectations ('shalls') for management of grants related to this minimum requirement have been extracted from the 'Grants Functional Standard' which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness – refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Grant Life Cycle: General grants life cycle	When developing general grant models and criteria for assessing individuals and organisations for a grant award, consideration **shall** be given to combinations of risk and fraud risk indicators, which could affect the value of the award, or whether the grant should be awarded at all.	Early identification and mitigation of risk is critical.	5.2.1 Design and development	13
Supporting practices: Risk and issue management	Organisations **shall** ensure effective risk management is established in their assurance and governance processes.	Risk management practices and procedures will factor into wider assurance and governance.	6.1 Risk and issue management	18
Supporting practices: Counter fraud	An assessment of fraud risk **shall** be undertaken for every scheme proportionate to the value, sector and required activity of the scheme, and supported by mitigating actions appropriate to the identified risks. When planning and managing Counter Fraud, GovS 013, Counter Fraud **shall** be followed.	This approach is to ensure that government grant funding in respect of policy delivery and the purchase or improvement of assets is awarded safely and used for its intended purpose.	6.2 Counter fraud	19

| Governance: Roles and accountabilities | The senior officer accountable for an organisation's grants is accountable to the senior officer accountable for finance. They are responsible for ensuring that the financial requirements for grants schemes and awards are implemented, in full, within the departments and its arm's-length bodies (if any) and depending on the management arrangements in place.

In particular:
 - ensuring the required outcomes from grant-making activities are realised, at an acceptable level of risk and cost. | The senior officer accountable for the organisation's grants plays a key role in ensuring an acceptable level of risk is considered in grants management. | 4.4.5 Senior officer accountable for an organisation's grants | 12 |

Overview

1. Departments and arm's length bodies (ALBs) should have an appropriate framework covering risk, controls, and assurance to manage their grant activity. This document provides detail on what should be included.

2. The Senior Officer Responsible for a grant (SOR) shall retain oversight of their grants and also support the Accounting Officer and the Principal Accounting Officer in discharging their responsibilities, as set out in Managing Public Money. The Senior Officer Accountable for an organisation's grants (SOA) is responsible for ensuring the required outcomes from grant-making activities are realised at an acceptable level of risk and cost.

3. The following sections of this document consider the minimum requirements for risk management, controls and assurance focused on:

    *   systems to manage grants in departments and grant making ALBs;
    *   management of individual grant schemes and awards.

4. Risk management, fraud risk assessments (FRAs), due-diligence, controls and assurance are all pivotal to the grant making process and should be considered and continuously monitored throughout the lifecycle of the grant award as demonstrated in the graphic below:

Risk

5. Risk management shall be included in department and ALB grant management processes. Basic principles related to risk management are contained in the Orange Book.

6. The Grants Functional Standard includes risk management which shall be a core component of every stage of the grant management process, from design and development to final evaluation.

Risk Appetite

7. Departments and ALBs should decide how effective their grant management processes and systems need to be to deliver their core objectives and this should include an overall risk profile. This will inform the organisation's risk appetite. An immature grant management capability represents acceptance by the department or ALB of a higher degree of risk related to grant making.

8. Departments and ALBs should have an agreed appetite in relation to grant risk and should communicate that risk appetite to all involved in grant management – this includes departments communicating risk appetite to their grant making ALBs. The risk appetite should outline the principal risks that the organisation is both exposed to, and is willing to take, to achieve its objectives. Awareness of the risk appetite in departments and ALBs will support any subsequent escalation of significant risks and issues to senior management, ensuring only risks which exceed the agreed tolerance are escalated.

9. Significant events may change the risk appetite of the department, for example, the Public Accounts Committee inquiry into the Kids Company. In these cases, risk appetite should be re-set and re-communicated within the department and its grant-making ALBs. More generally, departments and ALBs should regularly review the approach taken to approving their risk appetite in order to keep pace with the changing types of risks faced.

10. Risk appetite factors to be considered in relation to grants may include: the amount of expected fraud, compliance with the General Data Protection Regulation (GDPR) to protect personal information, ensuring value for money can be demonstrated, or where applicable, covering risks to national security, for example through knowledge transfer or data use as a result of funded research, etc.

Risk Registers

11. Department and ALB risk registers shall include very high and high rated risks to significant grant scheme and awards.

12. Risk registers shall be held by those teams managing significant grant schemes and awards. These shall be used to consider if additional controls are needed to reduce the impact or likelihood of grant risks. They also support ongoing assessment on whether current risks are outside of the department's or ALB's risk appetite and, therefore should be escalated.

13. The following are positive attributes related to the use of grant risk registers:

- risks are focused on achievement of the objectives;
- includes consideration of the department and ALB risk appetite in relation to grants;
- the risk register is regularly discussed and is used as an important tool to support good grant management;
- risk management processes are not burdensome, for example the risk register does not require significant effort to maintain and only focuses on the top risks - typically no more than six depending on the grant scheme or award;
- awareness of the distinction between risks and issues; and
- mitigating action should be detailed to reduce the likelihood or impact of the risk within the department's risk tolerance.

14. Approaches to managing risks can be characterised as:

- **Treated**: controls applied to reduce the likelihood and impact;
- **Tolerated**: risk and issues are accepted;
- **Transferred**: responsibility for the grant may be transferred to another business area better suited to manage the risk; and
- **Terminated**: the grant scheme or award is withdrawn or the scheme is redesigned to eliminate one or more specific risks.

15. Where a business area decides to accept – *tolerate* – a significant risk or issue, it should document the management decision and the rationale.

Resources: the grants Centre of Excellence (CoE) contains several examples of risk templates and risk appetite statements and also hosts a fraud risk assessment (FRA) template.

16. Departments and ALBs should have a process in place to escalate significant grant risks within the organisation and also to escalate from the ALB to the department, if the risk is significant. Department and ALB risk registers shall include high-rated risks to significant schemes and awards. Significant risks, including those related to fraud, shall be discussed at departmental governance boards and audit committees, as part of an embedded risk review process.

Risk Management by Stage

17. Risk management shall be undertaken at every stage of the grant management process:

f. **Design and development**: to ensure risks are considered when designing grant schemes:
- conduct early options and risk analysis, including rating the risks for each option;
- determine the right structure of the design to minimise risks and optimise delivery of objectives;
- secure business case and efficiency control approvals and seek advice from the Complex Grants Advice Panel (CGAP), where applicable, (see 'Minimum Requirement Three: CGAP' for more information);

- engage with appropriate teams including finance, commercial and legal, to ensure related risks are considered;
- assess fraud risk, and where appropriate ensure that *national security risks* are also assessed and apply the appropriate legal frameworks, such as export controls; and
- ensure internal personnel have the capacity and capability to manage the risks under their ownership.

b. **Market engagement**: to ensure risks related to market engagement are reduced:
- prepare the requirement, application documents and evaluation strategy with regard to the department's risk appetite; and
- should consider potential fraud risks, setting a counter fraud tone and maintaining professional relationships when engaging externally.

c. **Application assessment**: to ensure the organisation considers the risks when selecting the grant recipient:
- conduct due diligence in the context of the fraud risks of the scheme (see mandatory due diligence table and paragraph 47);
- rank the applications, including estimating the level of recipient risk and consider if additional controls are needed as a result; and,
- review risk registers submitted by grant applicants – applicable to significant grants.

d. **Grant award**: to ensure that appropriate assurance requirements are established to monitor risk mitigation:
- approve grant applications and notify the applicant; and
- plan proportionate risk mitigation actions, for example:
  - increasing the frequency or scope of monitoring;
  - providing targeted technical assistance;
  - requiring additional progress reporting;
  - detailing the requirement for internal audits; and
  - applying special conditions.

e. **Performance monitoring:** to ensure delivery risks are managed:
- monitor the recipient's performance and assess if risks are being managed effectively; and
- undertake action to reduce the risk, as required.

f. **Final evaluation:** to consider if there are lessons to improve risk management of similar grants:
- document recipient performance against delivery of the agreed output and/ or financial outturn;
- report prevented and detected fraud to the Counter Fraud Centre of Expertise through the quarterly Consolidated Data Request (CDR) returns; and
- document lessons learnt (See also '*Minimum Requirement Eight: Performance and Monitoring*' for further guidance on evaluation).

Risk Management in Grant Design and Development

18. Broad risk areas relevant to individual grant schemes and awards – aligned with Accounting Officer tests on propriety, regularity, value for money, and feasibility include:

- poor value for money secured, or value for money not assessed, due to poor delivery of the output;
- risk of fraud, or loss of public money;
- insufficient due diligence to ensure grant recipient is solvent and an appropriate organisation to receive funding;
- failure to pay a grant recipient promptly and accurately;
- non-conformance to the GDPR, leading to increased risk related to the storage of personal information relating to the grant recipient;
- non-compliance with legal frameworks such as: Export Controls, the Academic Technology Approval Scheme (ATAS), the UK money laundering regulations and the UK Sanctions Regime;
- grant expenditure leads to questions related to subsidy compliance and possible referral to competition authorities by a third party;
- activity is outside the ambit of the department, or is novel, contentious and repercussive, or carries a potential risk to national security; and,
- reputational damage, arising from any of the above.

19. Departments and ALBs setting up grant schemes in the fields of research, innovation, technology and infrastructure should consider the following:

- National security risk: the risk of a threat to UK national security arising from an Organisation's failure to protect intellectual property, classified information or sensitive or dual use technology emerging from a grant award - further advice is available at the Centre for the Protection of National Infrastructure.
- Export control risk: the outputs from some grant awards can, in some circumstances, give rise to a risk of breaching export controls on sensitive or dual use technology. Early engagement with the Export Control Joint Unit can help mitigate such risks.
- Organisational security risk: the risk of a threat to the security of an organisation, its personnel or its own or other's intellectual property arising from that organisation's failure to protect sensitive information emerging from a grant award.
- The correct categorisation and application of tax relief on research and development according to the HM Treasury Consolidating Budget Guide.

Risk Management in Grant Management and Delivery

20. Types of risk relevant to the grant management system include:

- structural arrangements to manage grant making are not effective;
- the overall control framework is not effective or efficient;
- inadequate governance arrangements to manage and support grant making decisions;
- no process exists to escalate significant grant risks or issues;

- national security risks have not been considered or mitigated where it is necessary, for example in relation to sensitive research with dual military or civilian uses or where grant awards may be diverted to fund extremism;
- insufficient guidance and advice is made available for colleagues across departments to enable consistent and effective grant making;
- the limited capacity and capability of those involved in managing the grant making process;
- the extent to which grants are subject to competition;
- ministerial requests to make direct awards that may contravene Managing Public Money;
- insufficient focus on responsible grant making by grant recipients, resulting in reputational damage;
- the tone from the top underplays the risks to the scheme;
- second line assurance activity is not sufficient or effective; and,
- grant systems do not support prompt or efficient payment.
- inadequate systems to detect and/or prevent financial loss arising from fraud or the misappropriation of funds

Fraud Risk Assessment (FRA)

21. Public sector organisations should assess the risk of fraud within all grant spend. Every grant scheme should have a documented assessment of their fraud risk which should be proportionate to the size and perceived risk of the grant scheme within the organisation. High risk grants schemes are required to produce a detailed FRA, as set out in the '*Government Counter Fraud Profession Standard for Fraud Risk Assessments'* – please email gcfp@cabinetoffice.gov.uk for a copy.

22. As a minimum, all grant schemes should consider common fraud risks including falsified eligibility, misuse of grant funding, hijacked identities, inflated costs, claims for work not performed, duplicate funding, deliberate claims for excessive funding, collusion between the applicant and an internal actor, changing bank details to a fraudster's account, and claims from entities which do not exist or are not operating.

23. All fraud risks identified in an organisation whether through research, risk work or intelligence activity should be recorded.

24. It is important for the organisations' counter fraud function to have an overview of all its grant schemes from a fraud risk perspective, as set out in the *GCFP standard for FRAs* which provides further detail on how to do high-level and intermediate fraud risk assessments. This should inform the organisation's counter fraud strategy.

25. FRAs should be performed in line with the *GCFP standard for FRAs*. Where an FRA professional is not available to support the scheme, those working on the scheme are responsible for writing the FRA in line with the remainder of the *GCFP standard for FRAs* and should note on the FRA that it has been prepared without the support of a professional.

26. The detailed FRA shall be maintained through the life of the scheme to reflect changes to risk, controls and risk tolerance to ensure there is continuing focus on

fraud prevention, detection and recovery in line with the *GCFP standard for FRAs* risk management cycle.

27. Actual instances of prevented and detected fraud should be reflected in the detailed FRA by identifying any additional risks and/or consideration of whether risk scores for existing risks need changing.

28. All grant schemes should consider the impact of fraud over and above financial loss. This may include reputational damage; the impairment of the achievement of government policy objectives; physical or societal harm as well as risks to national security, including terrorist financing, hostile state actors and organised crime.

Risk Prioritisation and Reporting

29. Departments and ALBs should use their own processes to rate their risks, based on a *probability versus impact* model. This will result in an overall score for each risk. A suggested risk matrix format is set out below. Risk ratings – Very High, High, Medium, or Low – shall be recorded in the appropriate field on the GGIS database to support the identification and review.

Table: Risk Matrix

			Impact (Negative)			
			Minor	**Moderate**	**Major**	**Critical**
			1	**2**	**3**	**4**
Probability	**4**	**Almost certain**	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	**Likely**	Medium (3)	High (6)	High (9)	Very High (12)
	2	**Possible**	Low (2)	Medium (4)	High (6)	High (8)
	1	**Unlikely**	Low (1)	Low (2)	Medium (3)	Medium (4)

Risk Impact

Critical: grant objectives will not be substantially met and there is likely to be a significant reputational impact on the department or ALB, including:

- loss of personal information by the grant recipient;
- loss of sensitive information impacting on national security;
- significant likelihood of referral to competition authorities due to subsidy control questions;
- the team has no capacity to monitor and manage grant funds in line with the Grants Functional Standard; and
- funding is diverted by the grant recipient to fund criminal or terrorist activities.

 Major: grant objectives will not be substantially met:

- significant risk of fraud, impacting a large proportion of the grant funding;
- non-compliance to subsidy regulations;
- due diligence issues related to the grant recipient causing reputational damage;
- team capacity and capability to monitor and manage funds is very limited;
- a team member has an undeclared conflict of interest that is likely to cause reputational damage; and
- payments are not made promptly or accurately to the grant recipient.

Moderate: some grant objectives will not be met:

- some risk of fraud affecting a low proportion of the grant funding;
- grant funding not used within the year, resulting in clawback of the funding to the funding organisation; and
- team capacity and capability to monitor and manage grants is limited.

Minor: Some slight impact on delivery of the full business objectives and a small risk of fraud.

Risk Rating

30. The following provide basic definitions of overall risk ratings. Grants loaded onto GGIS shall have a risk rating ascribed to them.

Very high or high risk: grants rated very high or high risk may include several risk factors in combination, leading to a greater level of uncertainty in delivery terms. For example, a high value grant awarded to an organisation which does not have a long track record of delivery in government grants, and/ or where a grant is focused in a policy area which is new to the department or highly innovative. Novel and contentious grants and those that are awarded as a result of a ministerial direction, should also be considered for a high-risk rating. These grants have a significant impact on the department's strategy or operational activities and significant stakeholder concern in the event of the risk materialising.

Medium risk: grants rated medium risk may be lower value than high risk grants and will usually be in policy areas familiar to the department, but perhaps where the department is seeking to break new ground or innovate. They may also include those which are awarded to organisations considered slightly higher risk in terms of credibility or financial viability due to a lack of alternative options in the market. These grants have a moderate impact on the department's strategy or operational activities and moderate stakeholder concern in the event of the risk materialising.

Low risk: grants rated low risk consist of low value, routine or repeat grants in policy areas familiar to the department, awarded to recipients with a proven track record of successful delivery in the public and/ or private sector. These grants have a low impact on the department's strategy or operational activities and low stakeholder concern in the event of the risk materialising.

Controls

31. Controls are any action taken by management, the board and other accountable parties to manage risk and increase the likelihood that identified objectives will be achieved.

32. Departments and ALBs should ensure that there are proportionate, risk based, efficient and effective controls in place at every stage of the grant administration process. Effective risk management and control for the whole grant management system is a specific responsibility of the department's Senior Officer Accountable, supported by the SOR for individual schemes and awards.

33. Where grants administration is part of ALB activity departments should ensure that any framework document, Memorandum of Understanding, and other governance documents that govern the relationship between the department and the ALB contain appropriate reference to supporting a control framework related to grant making and that they provide assurance, via an agreed format, that the framework is operating effectively.

34. The existence and effectiveness of controls should be considered during every stage of the grant making process. They should typically entail a range of preventative, directive, deterrent, detective and corrective controls for every stage of the process as described below:

Activities to support preventative controls include:
- appropriate segregation of duties when setting up and paying grant recipients;
- involvement of finance and commercial in setting up grant schemes and making awards;
- procedures to identify and prevent conflicts of interest;
- effective risk management.

Directive controls include:
- delegation letters to SROs;
- guidance and defined procedures on how grants are to be set up and managed;
- detailed grant agreements;
- requirement for those involved to undertake training; and
- fraud risk assessments and counter fraud strategy.

Deterrent controls include**:**
- the legal right to apply penalties and sanctions;
- warnings of the consequences of making false declarations.

Detective controls include:
- regular due diligence checks;
- reviews of payments against invoices;
- internal fraud landscape reviews and internal audits;
- compliance checks by internal control teams; and

- on-site inspections, including having the right to continue to inspect for specified periods of time in the future once a grant payment has been made to ensure grant conditions are maintained.

Corrective controls include:
- having the legal right to undertake inspections or request documentation and to effect recovery where irregularity is established;
- having a strategy for recovering overpayments.

Department and ALB Grant Management Controls

35. Departments and grant making ALBs should ensure that controls to manage and monitor grant administration are effective and efficient - core controls include:

- an effective Senior Officer Accountable to manage and direct the grant making;
- ensuring that those involved in managing the grant activity have sufficient capability and capacity, whether undertaken in a central team or a more dispersed one;
- appropriate systems to store grant management information in a consistent way and to enable analysis and provide management information and reporting;
- risk management, including fraud risk assessment and assessment of national security risk is effectively embedded within grant management processes;
- compliance with the Grants Functional Standard;
- compliance with elements of other Grants Functional Standards that may apply, such as Finance, Counter Fraud, Commercial and Analysis, and also with the finance Global Process Design Principles for grants, the Data Protection Act and/ or the General Data Protection Regulation;
- processes to ensure there is strong awareness of the need to seek ministerial direction where the Accounting Officer considers the scheme is novel, contentious or repercussive;
- payment systems conforming to the finance Global Process Design Principles support prompt and accurate payments to grant recipients; and
- procedures to identity and address conflicts of interest.

Grant Recipient Controls

36. Departments and grant making ALBs should consider the controls that they place on grant recipients during the initial development stages. The *grant agreement* will detail those controls - they may include:

- categories of eligible and ineligible expenditure;
- regular reporting of progress- monthly or quarterly- to the department and ALB on progress against the objectives of the grant;
- regular reporting of expenditure, within eligible categories, and reconciliation of spend to invoices;
- retention of financial records evidencing all grant spend for future audit;
- retaining the right of the department or ALB to audit the activities of the grant recipient related to the use of the grant; and
- requiring the grant recipient to nominate an Accountable Officer to sign off the accounts and formally confirm the funding was spent only on eligible expenditure.

37. Departments and grant making ALBs should consider the impact of any controls placed on the grant recipients to ensure that collectively they do not create a disproportionate burden - an excessive control regime may actually reduce compliance with key controls.

Public Body and Charitable Organisation Controls

38. Departments and grant making ALBs should consider the controls needed when grants are awarded to other public bodies (such as police authorities) or to charities.

39. There should not be a presumption that fewer controls are needed because the grant recipient is a public orientated or worthy body such as a charity. Specific controls include those provided to manage other grant recipients, set out above. Additional controls may also include:

- confirmation that funding used to fund staff is being spent on those specific posts, rather than other posts and activities;
- assurance from local audit teams that funding is being used effectively and only for eligible expenditure;
- due diligence on applicants to confirm they are eligible and the value of grant funding is not far in excess of their annual turnover, regardless of the Department or ALB's relationship with the entity; and
- there should be an assessment as to whether the funding constitutes the majority of the organisation's total funding and whether that is appropriate. In that respect exit plans may need to be agreed with the organisation, for instance to increase other funding sources and reduce reliance on government support.

40. There are specific arrangements related to controls over grant monies issued to public entities such as Local Authorities and certain Local Enterprise Partnerships. Departments should comply with guidance issued by MHCLG on grants to these entities.

Grant Fraud Controls

41. The key intention of controls is to reduce the likelihood and impact of fraud and other similar risks such as conflicts of interest. Controls to reduce fraud should form part of the thinking throughout the lifecycle of a grant scheme, from fraud risk assessment at the design and development stage, through to checks that should be undertaken at the final evaluation stage.

42. To ensure a consistent approach the government applies the legal definition of fraud (as set out in the Fraud Act 2006): "The making of a false representation or failing to disclose relevant information, or the abuse of position, in order to make a financial gain or misappropriate assets"

Common Types of Grant Fraud:

- falsifying information in grant applications or contract proposals;
- misuse of grant funding, such as charging personal expenses as business expenses against the grant;
- stealing the identity of a business or charity to claim a grant;

- charging for costs which have not been incurred, are inflated or are not attributable to the grant;
- charging for inflated labour costs or hours, or categories of labour which have not been incurred, for example fictitious employees, contractors or consultants;
- deliberately failing to comply with grant conditions (including post-payment), through the non-delivery of agreed elements, removal of agreed elements, or delivery to an inadequate standard;
- grant application from a fictitious or '*shell*' company[1], or an entity which is not operating;
- billing more than one grant or contract for the same work;
- falsifying test results, outcomes or other data;
- amending bank details to divert payment to a fraudster's bank account;
- substituting approved materials with unauthorised products; and
- misrepresenting a project's status to continue receiving government funds.

Reduce the risk of fraud by:

- taking a proportionate approach to managing the risk of fraud within grants as part of the organisation's *Counter Fraud, Bribery and Corruption Strategy*;
- training, education, and awareness of all staff on fraud risks;
- ensuring organisations have appropriate whistleblowing arrangements to support the reporting of fraud or other related issues;
- clearly communicating the risk of fraud at senior leadership level to set the tone from the top;
- setting clear eligibility criteria;
- actively designing fraud out of the grant process at the initial development stages;
- reviewing and updating the fraud risk assessment at intervals throughout the life of the scheme;
- undertaking proportionate due diligence at the initial award stage and also at intervals during the delivery period;
- ensuring controls in the fraud risk assessment are operating effectively;
- the use of data analytics to proactively look for potential fraud;
- undertaking fraud loss measurement exercises to estimate and understand the potential for fraud loss through identified residual fraud risks;
- embedding detective controls and ensuring they are operating effectively; and,
- site visits for high-value and high-risk grants.

Due Diligence

43. Due diligence refers to a process, or set of processes, to appraise:
- performance;
  eligibility;
- basic financial checks;
- past track record; and
- background of the grant applicant.

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[1] A shell company is defined as an inactive company used as a vehicle for various financial manoeuvres, or kept dormant for future use in some other capacity.

44. These are part of initial checks performed during the assessment of applications, but may be refreshed during the lifecycle of the grant if proportionate. Robust due diligence processes help to mitigate reputational risks, potential fraud, potential national security risks, errors and financial loss.

45. Due diligence is important to:
   - confirm that a grant recipient understands and can manage the risks associated with grants and that they are working with organisations, entities, or institutions that are likely to assist them with successfully achieving their objectives;
   - identify potential early warning signs and avoid bad grant award decisions; and
   - support information gathering, which is useful for ensuring all checks are completed prior to the application proceeding to the next stage of the grant making process.

46. Departments should consider the resources to be allocated for due diligence, in line with the following principles:
   - resources allocated to the due diligence process are at the discretion of departments - departments are free to conduct due diligence themselves, or outsource as appropriate;
   - ensure that the right people with the right skills are assigned to the task and consider the resource allocation, based on the thresholds of grants outlined in the diagram below, for example for grants with a value of less than £100,000 the due diligence checks can be undertaken by the grant or policy team with support from finance and commercial;
   - for complex and contentious grants or those above £100,000, consider using staff with specialist skills as appropriate, for example accountants, fraud investigators, lawyers, etc.; and
   - there is no prescription on the seniority of those conducting due diligence checks, but those involved should have the powers and authority to carry out due diligence in full and the SOR be able to confidently sign-off on the findings from due diligence checks.

Departments and their grant making ALBs should develop due diligence models based on best practice and guidance that are proportionate to the value of the grant, as demonstrated in the table below. The mandatory due diligence checks reflect spend and risk.

Table: Mandatory due diligence

Grants award below £100k and Low Risk	Grant awards £100k - £5milion and/ or High Risk	Grant awards above £5million
Checks to be conducted by the grant or policy team with support from finance.	Due diligence conducted by internal finance professionals.	Due diligence to be compliant with HMT guidelines and to be conducted by finance professionals with support from external experts if required.
Specific requirements: • Check if the individual or entity meets the eligibility criteria. • Individual legal entity checks (Companies House and Charities Commission). These shall include a check on whether the entity is trading. • Financial viability checks. • Check the individual or entity is able to deliver the grant; such as confirming their day-to-day activities are in line with the grant purpose, and the grant does not significantly exceed the size of their business. • Assess Ultimate Beneficial Owners and linked companies and geographies for National Security risk. • Check if the individual or organisation has received another source of government funding (GGIS) and consider evaluating feedback.	Further requirements in addition to the previous column: • *Financial*: cash flow and reserves- consider the impact of the recipient taking on outcome-based grant. Check for evidence of financial distress or over-reliance on grant funding. • *Commercial*: consider the impact on competitors or the market. • *Operational*: investigate if the grant recipient has the people, processes and products required for delivery – a site visit advisable. • *Governance*: is the governance structure robust? • *Reputational:* Perform adverse media checks	Further requirements in addition to the previous two columns: • A mandatory site visit and detailed analysis of financial accounts. • Quarterly reviews of performance. • Consider that a non-executive member sits on the programme board.

47. The following due diligence checks should be considered:

Financial:

- the short and medium-term financial viability of the applicant organisation, including the extent of reliance on grant and other government funding;
- use of other sources of data such as 360Giving and the EU's Financial Transparency System to assess performance track record and the risk of overlapping funding;
- financial stability of the applicant e.g. grant to revenue ratio, assessment of profitability, liquidity, debt commitments, etc;
- bank account verification prior to any payments being made – including location, where a UK based account is specified; and ensuring the bank account matches the name and type of applicant e.g. personal or business account; and
- late financial reporting.

Operational:

- type of applicant i.e. individuals, organisations (public sector, private sector), new applicants;
- the applicant's previous experience, if any, in managing grant awards;
- the applicant's performance under other government grant awards;
- the length of grant period, including whether it has been renewed over several years;
- grant value and whether the value is appropriate for the outcome delivered and the size of the applicant organisation;
- capability, track record and credibility;
- whether the applicant has adequate internal, fiscal and administrative controls and has capacity to deliver;
- considerations around capacity where the grant awarded is in excess of the organisation's annual turnover; and
- website and web presence (via a search engine).

Governance:

- ownership or control structure of the organisation;
- applicant's eligibility, verifying the application to third party evidence e.g. Companies House, HMRC data, third party databases or bank statements;
- assessment of whether the applicant is genuine e.g. businesses which are not operating, whose identities have been hijacked, or shell companies;
- verification of identity and/ or legal status via legal teams including checks against Companies House and the Charities Commission as well as checks of legal documentation such as certificates of incorporation or articles of association, where applicable;
- directors are active on the Companies House register;
- the track record of the directors associated with the applicant organisation and whether historical poor performance is indicative of a higher risk of misuse of the funding;
- whether the disclosed directors or trustees have links to other grant recipients and whether there is any risk associated with those shared directorships;

- address search, use of a Post Office (PO) box;
- checks to establish the *beneficial ownership* in relation to the applicant organisation to ensure that departments and grant making ALBs know who has significant control over an organisation;
- any adverse information regarding the applicant's officials or key employees that calls into question the applicant's ability to perform satisfactorily; and
- turnover of board members

Security:

- research to investigate specific areas of risks, for example conflicts of interest, anti-money laundering (AML), countering terrorist financing (CTF), bribery and other criminal activities associated with the activity being funded - in particular when working with vulnerable adults or children;
- an assessment of any *national security, export control or organisational security* risks; including other companies or directors in the Group structure and potential use of subcontractors;
- risks to national security e.g. overseas ownership or financing, linked entities which are overseas, access to possible dual use Intellectual Property, risk of terrorist financing, or access to UK border controls; and
- any adverse information on the applicant's international collaboration partners, whose links to research, institutions or authoritarian states may present *national security risks* or reputational risks to the organisation and applicant.

48. For grants in the fields of research, innovation, technology and infrastructure, the following checks should be considered - whether:

- the applicant intends to collaborate, or has a history of collaboration, with foreign organisations of potential *national security* concern, for example, those that are subject to export restrictions or thought to conduct research on behalf of the military or intelligence agencies of hostile foreign states;
- the applicant has proportionate measures in place to protect sensitive information or technology arising from the grant award, for example, physical, personnel, and cyber security policies;
- the organisation is itself or has directors or owner that are subject to the UK or international sanctions regimes;
- the Export Control Joint Unit should be consulted; and
- the institution is compliant with the Academic Technology Approval Scheme.

Each of these has its own conditions and complying with one will not satisfy the conditions of the others. Failure to comply with legislation may expose the grant recipient to criminal investigation.

49. The three potential outcomes from the due diligence process are:
Fully approved: a recommendation to proceed with the award.
Partially approved: depending on the concerns raised a variety of options are available such as a reduction in grant value to lessen the department's exposure, further enhanced due diligence steps and considering funding in tranches with enhanced monitoring.
Not approved: a recommendation not to proceed with the award.

Assurance

Governance processes

50. Departments and grant making ALBs should obtain appropriate assurance over the effectiveness of risk management and controls, as part of governance processes. This can be achieved through internal audits, internal reviews and other assurance mechanisms. The level and range of assurance depends on the departmental risk appetite, size and type of grants and the impact on business objectives. Ultimately this will inform the end of year reporting process.

Assurance framework related to grants

51. Departments and grant making ALBs with significant grants expenditure should map out the *three lines of defence* (see below) to support effective risk and control management in relation to grants. Further detail on ensuring the department or ALB has an effective and efficient assurance framework is detailed in the HM Treasury assurance frameworks guidance. Mapping out the *three lines of defence* supports the identification of weaknesses and gaps in assurance, such as whether second line assurance activity is sufficient. The Government Internal Audit Agency (GIAA) can provide further advice on how best to undertake this exercise.

52. By defining the sources of assurance in three broad categories, it helps to understand how each contributes to the overall level of assurance provided and how best they can be integrated and mutually supportive. For example, management checks and assurances could be harnessed to provide coverage of routine operations as the first line of assurance, as a second line of assurance a team/individual within the department that is separate from the day to day running of the grants team should perform periodic objective tests to the effectiveness of grant making arrangements and internal audit could targeted at riskier or more complex areas as the third line of assurance.

53. Departments and grant making ALBs should ensure that assurances are obtained as part of ongoing governance processes from those operating in the three lines of defence.

54. From an assurance perspective, as a minimum, the development of business plans, the competitive requirements of grant making, the robustness of grant funding agreements should be reviewed, together with the requirements to conduct fraud risk assessments and due diligence on grant recipients (where applicable).

Reporting of assurances related to grants

55. Departments and grant making ALBs shall have a process to ensure that important assurance reports are shared with their senior governance boards and audit committee for review and comment - this includes:
   - Cabinet Office led grant maturity assessments, which provide an important source of assurance by issuing an assessment of grant making in the department. The scores shall be discussed by the department's boards and audit committee, along with any action plans to improve the scores;
   - Internal audit reports and assurances on grant management; and

- Infrastructure and Project Authority (IPA) work.

56. As required by HM Treasury guidance, responsibilities related to grant management shall be clearly defined in departments' annual [Accounting Officer System Statement](#) (AOSS) – the '7th Section' of the guidance sets out the requirements for grants. The AOSS provides visibility against required assurances from those with responsibility for the management of the department's grants portfolio.

57. Principal Accounting Officers remain accountable for grant funding issued to ALBs. As a result, with respect to grant funding Accounting Officers should:
   - seek assurance that ALBs are complying with the Grants Functional Standard and associated minimum requirements for general grants and have an appropriate assurance framework;
   - ensure that ALB framework and governance documents include a reference to the requirement to comply with the Grants Functional Standard - review of the efficacy of governance documents should be undertaken at an appropriate point;
   - ensure there is a process to escalate risks from the ALB to the department; and,
   - accurately outline responsibilities related to grant management within their AOSS.

Use of research funding which may pose a risk to national security or breach export controls:

Protecting research

58. The Centre for the Protection of National Infrastructure has launched [Trusted Research](#), a new campaign to support the integrity of the system of international research collaboration, which is vital to the continued success of the UK's research and innovation sector. If you manage research and innovation grants please familiarise yourself with the aims and objectives of the campaign and promote it to your grant recipients as appropriate.

59. The expectation is that grant making departments and ALBs shall ensure grant recipients provide a commitment that Intellectual Property (IP) generated from taxpayer funded research will be of benefit to UK prosperity.

Understanding the risk

60. There is a risk that technology developed as part of an international research collaboration could be misused by a foreign state to control or repress their population.

61. Dual use technology, which may be subject to export control, could be adapted by a foreign state's military against UK interests. Good due diligence should include a consideration of potential *national security* concerns surrounding the award of a grant. In such cases, failure to protect IP and a lack of due diligence into collaborators could result in sensitive technology being transferred to and misused by a hostile foreign state. The loss of sensitive IP and technology has the potential to damage the prosperity of the UK.

Further Resources

62. In adhering to this minimum requirement and additional guidance, and in addition to the references and resources highlighted earlier in this document, organisations may want to consider the following in particular:

- The HM Treasury Orange Book: Management of Risk – Principles and Concepts.
- Each government organisation's internal guidance on risk management, controls and assurance, particularly where it details arrangements related to grant risk appetite and management of related risks and controls.
- The Centre for the Protection of National Infrastructure (CPNI) and National Cyber Security Centre (NCSC) Trusted Research guidance.

63. Organisations should also make full use of wider resources available through the grants Centre of Excellence (CoE)

Guidance for General Grants
Minimum Requirement Eight: Performance and Monitoring

Version: 2
Date Issued: 31 August 2021

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It <u>does not</u> apply to formula grants or grant in aid. Managing Public Money and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including Managing Public Money. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the grants Centre of Excellence (CoE). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

All government grants should have performance measures agreed and longer-term outcomes defined, wherever possible, to enable active performance management, including regular reviews and adjustments where deemed necessary.

Purpose

Minimum Requirement Eight: performance and monitoring, is designed to ensure that there is active performance and financial management of the grant after it has been awarded. Active management of the grant is essential to ensure risks to delivery are effectively managed and to support full achievement of the objectives to maximise the value for money obtained from the expenditure.

Grants Functional Standard: Key References

Mandatory expectations ('shall') for management of grants related to this minimum requirement have been extracted from the Grants Functional Standard which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Supporting practices: Reporting and information	Grant recipients **shall** report on their grants in accordance with their grant or framework document, as appropriate.	Reporting ensures management teams and interested parties are aware of the current status and outlook regarding all aspects of government grant management, as defined in the government Grants Functional Standard.	6.8 Reporting and information	21
Supporting practices: Reporting and information	Organisations **shall** report the status of grants as part of their annual report and resource account. GovS 006, Finance **shall** be followed.	*[As above]*	6.8 Reporting and information *Also refer to: GovS006, Finance*	21

Overview

What is performance monitoring

1. Performance monitoring is an ongoing process and should include several checkpoints over the course of the delivery period - a full performance review and financial reconciliation should also take place annually for multi-year schemes, and at the end of the delivery period for all schemes.

2. The minimum expectation under this standard is that to enable effective monitoring and evaluation, all grant schemes and awards should have performance measures and longer-term outcomes defined, which form a binding part of the grant agreement, where this is possible, for example:

   • the purpose of the grant is clearly described;
   • the policy aims and objectives and performance measures, such as milestones for successful delivery, are clearly defined;
   • explicit eligible expenditure terms are defined (see guidance in Minimum Requirement Six: Grant Agreements); and
   • financial performance is measured against the agreed budget for the activities being funded.

3. Where performance measures genuinely cannot be specified, for example, in the case of innovation grants where the outcomes cannot be foreseen, there should be a very clear articulation of what the grant is awarded for, the required activity and the aims and objectives - these should be linked to an appropriate monitoring regime, to ensure that funding can be suspended or terminated, where delivery does not match defined expectations.

4. The process of defining performance measures and outcomes and the associated monitoring and assurance regime should be proportionate to the value of the grant, an assessment of risk, including fraud risk, considered in the context of the organisation's risk appetite.

The Performance and Financial Management regime

5. Recommended activities for performance and financial monitoring might include:

   • regular financial returns such as *statements of grant usage* which are require reporting of expenditure by eligible expenditure category and that are linked to the release of future payments;
   • regular checkpoint meetings to discuss progress against a pre-agreed schedule;
   • regular monitoring visits to the grant recipient;
   • peer review and impact evaluation of delivery;
   • review of supporting documentation and other evidence from the grant recipient;
   • the use of technology, such as time-stamped digital photos and the use of video call functionality on mobile phones to undertake virtual tours of remote sites to assess progress;
   • a requirement for the submission of pre-defined periodical performance delivery reports; and

- an end of grant or annual delivery and financial report.

6. It will be for the authority to define the assurance and performance and financial monitoring regime for individual schemes. The details should be recorded in the business case and form a part of the grant agreement terms and conditions.

Performance management toolkit

7. A performance management toolkit is available via the grants Centre of Excellence (CoE) to support the development of performance management models.

What should performance monitoring include?

8. The monitoring process should include a range of key performance measures, which align with the wider organisation. In all cases, it should include metrics and supporting evidence tailored to the grant objectives and the intended purpose of the grant award.

9. This process should include monitoring of general expenditure against the agreed budget for the activity, due diligence checks, supporting evidence of progress against objectives and a review of the pre-agreed timeline. In the event of slippage, the monitoring process may include penalties such as the withholding of funds until the grant recipient recovers within tolerance (where performance tolerances are defined in the grant agreement).

10. The process should include the monitoring of fraud risk and embedding identified fraud into lessons learnt – see Minimum Requirement Seven: Risk, Controls and Assurance.

11. Eligible expenditure will be defined by the scheme requirements – Minimum Requirement Six: Grant Agreements includes examples and guidance. It is good practice for the grant recipient to be required to pay invoices directly, the funding organisation should not take responsibility for paying any supplier invoices. The grant recipient should also ensure appropriate controls are in place for financial management in line with the terms of the grant agreement, and ensure compliance with relevant regulations are also incorporated into their processes.

Key considerations for performance monitoring

12. The grant recipient is required to submit relevant data for reporting purposes in line with the pre-agreed schedule within the grant agreement. This is to ensure that progress is monitored and any risks or delays are reported as soon as they are identified, to maintain transparency and enable appropriate remedial action. The grant recipient must also report any suspected or confirmed irregularities to the authority, such as identified fraud or misuse of funding, as soon as it is identified. Details of the reporting process should be set out in the grant agreement.

13. The authority should reserve the right to amend or update performance measures required for reporting purposes, in line with policy changes, during the funding period. Any changes and the reasons for them should be discussed with the grant recipient before proceeding.

14. In the event that the grant recipient is not able to provide sufficient information and evidence to evidence their delivery, the authority should reserve the right to withhold payments until the situation has been rectified. Any remedial action should be completed within a specified number of days (as determined by the grant agreement or the grant funding organisation), to bring the process back on track and enable the release of any withheld payment.

15. Payment arrangements should be set out in the payment schedules of the grant agreement – the authority should reserve the right to make changes, where appropriate, to reflect any performance issues identified. Where payments are made upfront - where justified and approved via a formal governance route - they should generally be released within 30-days of the date the grant agreement is signed.

16. In the event of a breach of the terms and conditions of the grant agreement, any remedial action will be determined by the grant funding organisation – this may include payment suspension, termination and payment recovery - depending on the nature of the breach. The grant agreement should include information on breach, with clear expectations and details of associated penalties – the Cabinet Office Model Grant Funding Agreement includes clauses on breach, together with guidance for their use.

Evaluation

17. Evaluation is defined within the HM Treasury Magenta Book as a systematic assessment of the design, implementation and outcomes of an intervention (such as delivery of policy outcomes via grant funding). Evaluation involves understanding how an intervention is being, or has been, implemented and what effects it has, for whom and why. It identifies what can be improved and estimates a scheme's overall impact and cost-effectiveness.

18. Evaluation is important to government activities and provides various benefits in relation to capturing learning and providing assurance. Of particular importance is the role evaluation plays in gathering or generating evidence that can demonstrate an intervention's outcomes and wider impacts. With grant funding it provides justification for the awarding of Exchequer funds, tying in the outcomes being funded to the policy intent.

19. Evaluation usually consists of three elements that can be assessed individually or together to form a more comprehensive evaluation:

- **process evaluation**: which typically analyses whether an intervention is being implemented as intended, whether the design is working, what is working more or less well and why;
- **impact evaluation**: an objective test of what changes have occurred, the scale of those changes and an assessment of the extent to which they can be attributed to the intervention; and
- **value for money (VfM) evaluation**: a comparison of the benefits and costs of the intervention (for more information on VfM please refer to Minimum Requirement Four: Business Case Development).

20. Full guidance on evaluation can be found within the Magenta Book.

Value Added Tax

21. Grants do not attract Value Added Tax (VAT) by virtue of not requiring *consideration* in exchange for funding. Care must be exercised when carrying out the justified requirement to define outcomes to ensure that this does not become so specified and onerous to the grant that it constitutes consideration, thus potentially making the award subject to VAT.

22. The Tax Centre of Excellence has produced a guidance note on grants and VAT, which outlines the key differences between grants and contracts. This document can be accessed from the government finance function website here: Tax Centre of Excellence.

Further Resources

23. In adhering to this minimum requirement, and in addition to the references and resources highlighted, organisations may want to consider the following:

- HMRC internal manual VATSC06300 contains further detailed information on consideration in grants.

24. Organisations should also make full use of wider resources available through the grants Centre of Excellence (CoE).

Guidance for General Grants

Minimum Requirement Nine: Annual Review and Reconciliation

Version: 2

Date Issued: 31 August 2021

Important note

► This guidance applies only to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It does not apply to formula grants or grant in aid. Managing Public Money and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' primary concern when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including Managing Public Money. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the grants Centre of Excellence (CoE). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a 'comply or explain' basis. It is important to consider flexibility and proportionality in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

All government grants shall be **reviewed annually at a minimum** with a focus on financial reconciliation, taking into account delivery across the period, resulting in a decision to continue, discontinue or amend funding.

Purpose

Minimum Requirement Nine: annual review and reconciliation and the guidance for general grants, set-out below, aims to ensure that there is an efficient and effective review and reconciliation of the grant scheme at the end of each financial year, for multi-year schemes, and also the end of the grant delivery period, providing scrutiny and identifying lessons learnt through formal evaluation, to apply to future policy making. The purpose of the reconciliation and evaluation step is to establish that value for money has been achieved, to confirm that the delivery objectives have been achieved, that the funding has been used for the intended purpose and managed appropriately and to assess the impact of the intervention and capture and share learning.

Cabinet Office

Grants Functional Standard: Key References

Mandatory requirements are defined by the word 'shall' in the Grants Functional Standard. The 'shalls' for the management of grants related to this minimum requirement have been extracted from the Standard which can be accessed here on GOV.UK.
Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.

Area	Requirement(s)	Context	Reference	Page
Governance Framework: Approvals	To facilitate governance and scrutiny, grant activity **shall** be justified and documented throughout the grant life cycle. Such justification should be in accordance with HM Treasury requirements (see *Green Book*). Justification may be documented either in the form of a business case or other proportionate format, which should be defined in the organisation's grant governance and management framework.	Decisions should be made, and approvals given in a timely manner, in accordance with the organisation's grant governance and management framework, financial management controls (including delegations of authority) and government policy.	4.2.2 Justification of grants *Also refer to:* *5 Grant life cycle* *Green Book [4]* *4.2 Decision making.*	8
Supporting practices: Reporting and information	Key data on government grants **shall** be recorded in the grants information system and **shall** include the following data as a minimum: • value; • delivery period; • brief description of purpose; • owning department; • intermediary body (if any). Organisations **shall** report the status of grants as part of their annual report and resource account, in accordance with *GovS006, Finance*.	Reporting ensures management teams and interested parties are aware of the current status and outlook regarding all aspects of government grant management, as defined in the government Grants Functional Standard.	6.8 Reporting and information *Also refer to:* *GovS006, Finance.*	21

Overview

Annual review and reconciliation

1. The purpose of this minimum requirement is to describe the process for undertaking effective annual review and reconciliation in accordance with HMT Handbook on financial HMT Handbook on financial regularity, with the aim of ensuring that grant funding is used for the intended purpose in line with the grant agreement and the authority delegated by Parliament. This will include consideration of delivery against the performance measures and outcomes defined in the grant agreement. Annual or end of grant reconciliation should result in one of the following decisions depending on the findings:

    *   continue the award of a grant for next financial year in line with existing plans;
    *   increase or decrease funding for the next financial year;
    *   re-define and agree amended outcomes with grant recipients;
    *   recover surplus funding or clawback where misuse is identified;
    *   termination of the award if performance consistently below tolerance or quality thresholds are not met; or
    *   deploy exit plan activities for awards which come to a natural end.

Key considerations during the annual review and reconciliation

2. Regular and effective financial and performance management should be undertaken throughout the delivery period, described under Minimum Requirement Eight: Performance and Monitoring. The purpose of annual review and reconciliation is to:

    *   assess delivery and expenditure, versus payments made, across the delivery period;
    *   ensure funding has been used as intended;
    *   identify any performance shortfalls, which may lead to surplus funding;
    *   identify any misuse of funding or fraudulent activity;
    *   instigate funding clawback where required;
    *   inform the impact evaluation; and
    *   support the consideration of the value for money achieved from the scheme.

3. The authority should conduct an objective assessment of delivery and undertake financial reconciliation at the end of each financial year, for multi-year schemes, and at the end of the delivery period for all schemes. An example template for this purpose is available from the grants Centre of Excellence (CoE).

Financial reconciliation

4. The financial reconciliation should:

    *   confirm the value of the funding paid;
    *   support an accurate assessment of actual expenditure against the budget and forecast through scrutiny of management accounts and financial statements;
    *   provide a picture of spend throughout the year to support the reallocation of money in cases of overspend;

- identify and track resource (RDEL) and capital (CDEL) expenditure, including depreciation and recovery of residual values in relation to fixed assets funded wholly or in part by the grant award;
- facilitate the scrutiny of invoices to check expenditure incurred by the recipient was used for eligible costs (eligible and ineligible categories shall be set out in the grant agreement); and
- be performed to ensure final payments are made and formal closure of the scheme including confirmation to the relevant parties, if outside of the grant agreement.

Clawback

5. Regular delivery and financial monitoring and annual reconciliation should identify any expenditure that is ineligible and assist with the identification of funding misuse. Where applicable, this should be reconciled with the fraud risk assessment - Minimum Requirement Seven: Risk, Controls and Assurance - to support the identification of funding that is to be recovered due to the calculation of a surplus or where fraud or misuse are identified.

6. Annex 5.2 – Protecting the Exchequer interest (clawback) in Managing Public Money should be consulted before considering taking steps to recover funding identified for clawback under the terms of the grant agreement.

Financial reporting

7. Accounting treatment is reviewed to confirm the scheme has been accounted for and allocated under the appropriate expenditure and budget category in line with grants policy and standards, for example, capital grants to external bodies are treated as resource expenditure in the Statement of Comprehensive Net Expenditure, but as capital expenditure in budgets.

8. Ensure relevant International Accounting Standards (IAS) are applied correctly to reportable activities, for example IAS 20 Accounting for government grants and disclosure of government assistance.

Value for money (VfM)

9. The annual review and financial reconciliation exercise should include an assessment of value for money from the scheme. The business case should set out how the value for money will be assessed in relation to delivery of performance measures and outcomes. Further information on assessing value for money can be found in Minimum Requirement Four: Business Case Development.

Lessons learnt

10. As part of the annual review it is possible to informally record lessons learnt and best practice identified to support future policy making through grants. A case study template is available through the grants Centre of Excellence (CoE), which can be used to record lessons learnt in a clear and simple way.

11. If applicable, incorporate findings from any formal evaluation of the risk, controls and assurance as well as lessons learnt to improve the risk management process.

Information management

12. The completion of the annual and end of delivery review and reconciliation, including the outcomes of the reconciliation process, should be recorded as part of documenting the scheme in line with your organisation's information management policy.

Key individuals responsible for the requirement

13. The Senior Officer Responsible (SOR), with support from legal advisers, finance and commercial professionals, is responsible for ensuring that the performance is reviewed regularly and financial reconciliation is undertaken with sufficient rigour to ensure that taxpayers' money is protected in line with Managing Public Money and the guidance under the Grants Functional Standard and Minimum Requirements for General Grants. See guidance for Minimum Requirement One: Senior officer responsible for a grant for further information on the role of the SOR.

Further Resources

14. In seeking to comply with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:
    ● HMT Publications - Consolidated Budgeting Guidance;
    ● HMT Publications - Government Financial Reporting;
    ● HMT Publications – Managing Public Money;
    ● HMT Publications – The Green Book.

Organisations should also make full use of wider resources available through the grants Centre of Excellence (CoE).

Guidance for General Grants

Minimum Requirement Ten: Training

Version: 2

Date Issued: 31 August 2021

Important note

► This guidance applies <u>only</u> to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It <u>does not</u> apply to formula grants or grant in aid. Managing Public Money and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.

► Organisations' <u>primary concern</u> when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including Managing Public Money. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.

► This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the grants Centre of Excellence (CoE). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.

► This guidance should be approached on a '<u>comply or explain</u>' basis. It is important to consider <u>flexibility</u> and <u>proportionality</u> in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

Contents

Minimum Requirement

All those involved in the development and administration of grant awards should **undertake core training in grant management** best practice.

Purpose

Minimum Requirement Ten: training and the guidance for general grants set out below is aimed at ensuring that all staff involved in the management of general grants are competent and properly equipped to undertake the role effectively. The appropriate level of training and support should be made available, particularly regarding optimising value for money and identifying and managing risk.

Grants Functional Standard: Key References

Mandatory expectations ('shall') for management of grants related to this minimum requirement have been extracted from the 'Grants Functional Standard' which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.*

Area	Requirement(s)	Context	Reference	Page
Supporting practices: Training	In performing their roles, and in meeting this standard, those undertaking grant management should have the appropriate level of support and **shall** have completed basic training to perform their role effectively.	Such training should include knowledge of applicable sources of further guidance and the identification of empowering legislation underpinning individual grant schemes. Note: An eLearning package: *Introduction to Managing Government General Grants*, designed to help grant managers comply with the above training requirement, is available on Civil Service's preferred learning platform.	6.7 Training Also refer to: GovS003, Human resources.	21

Overview

1. All staff involved in the management of government grant funding should be competent and experienced and be given the appropriate level of training and support by their organisation in order to perform their role effectively. Staff should be familiar with the Grants Functional Standard and the Minimum Requirements for general grants and be aware of other relevant resources (including those referred to within the minimum requirement guidance documents). Staff are expected to be registered on and make regular use of the grants Centre of Excellence (CoE) in order to access the latest guidance, good practice and other resources.

2. The Senior Officer Responsible (SOR) should ensure that their team has the required capability, training and support (refer to minimum requirement one: senior officer responsible for a grant). Grant making organisations should decide on the training appropriate for the different roles within their organisation, based on their staff's responsibilities and existing knowledge and experience. They should draw on existing training resources available through the Governments Grants Academy on the grants Centre of Excellence (CoE), and from other sources across government, such as the Commercial College and Finance Academy, in addition to their organisation's internal guidance and training.

3. Training should be provided prior to starting, and throughout a person's work in grant management, as required. All new grant makers shall undertake the Foundation Learning package - the package includes the following eLearning modules: '*An Introduction to Managing Government General Grants', 'Fraud in Grants', and 'Grant Risk, Controls and Assurance',* which have been made available on Civil Service Learning (CSL) – you will need to logged into CSL before clicking the link - and through the Governments Grants Academy. In addition, there is the *General grants or Commercial Procurement?* e-learning module available via the Government Commercial College. Working through these modules will ensure an individual's compliance with this minimum requirement – it is strongly recommended that grant making organisations mandate the completion of these modules or an internal training package that offers an equivalent curriculum.

4. Where already qualified via a relevant profession, for example, finance, commercial or audit, an individual may be deemed to have already met the minimum requirement. In all cases, there is value to be gained from undertaking grants-specific training, for example, to help commercial specialists understand the key differences between contract procurement and grants administration. Basic grants training may also be advantageous for those in other professions who have not had prior, direct experience of grant making.

5. Support should also be available to those involved with the management of grants. There is often a requirement for specific expertise in the design and development of a grant, as well as at key stages throughout the grant lifecycle. Specialist support may include, but is not limited to, the following professions and capabilities: policy, analysis, finance, commercial, legal, risk and counter-fraud.

6. Grant making organisations should engage with their departmental grants champion to discuss their training needs and available resources. Organisations may also

consider introducing a process for matching new and inexperienced grant makers with a 'buddy' who should be a colleague who is an experienced grant maker.

The Government Grants Academy

7. The Government Grants Academy is developing a suite of bespoke training products designed to support learning and development in relation to grant management. The training offer can be found on the grants Centre of Excellence (CoE); it provides details of available eLearning and additional training resources for grant makers.

8. The suite of training products includes web-based resources – accessed through Civil Service Learning. Training modules have been produced in collaboration with grant administrators across government from internal departments and Arm's Length Bodies.

    Note: *check the training page on the grants Centre of Excellence regularly for updates on training products currently in development.*

9. The eLearning module *Introduction to managing government general grants* provides an essential overview of the administration process for general grants. On completion users will be able to understand:

    ● the key stages of the end-to-end grant management process and best practice;
    ● the key roles and who to consult;
    ● where to find further guidance and support; and
    ● how to apply the Grants Functional Standard for government general grants.

Fraud in grants

10. On completion of this training users will understand:

    ● the importance of a Fraud Risk Assessment; and
    ● how to report suspected grants fraud.

Risks, controls and assurance

11. On competition of this training users will understand:

    ● identify, assess and manage risks;
    ● develop and implement a control and assurance framework

In addition, there are further bite-sized modules available on the Grants Academy page on the grants Centre of Excellence, providing an introduction to some key considerations when administering government general grants and where to find further resources and information.

General grants and commercial procurement

12. The Government Grants Academy has partnered with the Commercial Function and Commercial College to produce an eLearning module to explain the similarities and differences between grants and contracts, and highlighting the importance of ensuring that the most appropriate funding route is used.

13. A programme of capability development workshops and learning material is under development and will be available during 2021.

Further Resources

14. In meeting this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:

   ● more general eLearning modules available on CSL, which can help to develop skills and knowledge that is useful when managing government grants; and
   ● the grants Centre of Excellence (CoE) contains products and toolkits that can be used to enhance grant knowledge and expertise.

Annex 21: The Green Finance Strategy

HM Government

Green Finance Strategy

Transforming Finance for a Greener Future

July 2019
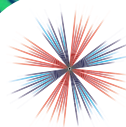
INDUSTRIAL STRATEGY

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