Guidance for General Grants

Minimum Requirement Eight: Performance and Monitoring

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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, 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’ 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 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 ‘Grants Centre of Excellence (GCOE)’. 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.

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Minimum Requirement

All government grants should have outputs 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 [here on gov.uk](https://www.gov.uk). Please note that in some cases the information has been paraphrased for conciseness - refer to the standard itself for the full version.

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<td>Supporting practices: Reporting and information</td>
<td>Grant recipients <strong>shall</strong> report on their grants in accordance with their grant or framework document, as appropriate.</td>
<td>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 functional standard for grants.</td>
<td>6.8 Reporting and information</td>
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<tr>
<td>Supporting practices: Reporting and information</td>
<td>Organisations <strong>shall</strong> report the status of grants as part of their annual report and resource account, in accordance with <a href="https://www.gov.uk">GovS006, Finance</a>.</td>
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Overview

What is performance monitoring

1. Performance monitoring is an ongoing process and should include several checkpoints over the course of the funding period/ grant lifecycle, although a full review should also be included annually.

2. The minimum expectation for this standard is that all grants should have defined outputs and/ or longer-term outcomes, which form a binding part of the grant agreement, where this is possible, for example:
   - the aims and objectives of the grant are clearly defined;
   - eligible expenditure terms are defined (see guidance on ‘Minimum Requirement Six: Grant Agreements’);
   - financial performance is measured against the agreed budget for the activities being funded; and
   - key performance indicators (KPIs) and/ or milestones are included as part of the description of delivery.

3. Where outputs 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 a rigorous monitoring regime to ensure that funding can be stopped where delivery does not match expectation.

4. The process to define outputs and the associated monitoring and assurance regime should be proportionate to the value of the grant and the perceived risk.

The Performance and Financial Management regime

5. Recommended activities for performance and financial monitoring can include:
   - regular financial returns such as ‘statements of grant usage’ which 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;
   - quarterly statements of grant usage by eligible expenditure categories;
   - a requirement for quarterly performance delivery reports; and
   - an end of grant or annual delivery report.

6. It will be for the grant funding organisation to define the assurance and performance monitoring regime for individual grants. The details should be recorded in the business case and form a part of the grant agreement.
Performance management toolkit

7. A performance management toolkit is available via the Grants Centre of Excellence to support the development of performance management models.

What should performance monitoring include?

8. The monitoring process should include a range of Key Performance Indicators (KPIs) and metrics, which align with the wider organisation. In some cases it may include metrics and supporting evidence tailored to the grant objectives and the individual grant award’s intended purpose.

9. This process should include monitoring of payments/ 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 financial penalties or the withholding of funds until the grant recipient recovers within tolerance (where performance tolerances are defined).

10. Eligible expenditure will be defined by the scheme requirements – ‘Minimum Requirement Six: Grant Agreements’ includes examples and guidance. The grant recipient is 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 grant agreement and compliance with relevant regulations are incorporated into the process.

Key considerations during performance monitoring

11. 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 with a view to ensure that current progress is monitored and any risks or delays are reported on ahead of time to maintain transparency. The grant recipient must also flag any suspected or already established irregularities to the grant funding organisation, such as fraud, as soon as it is identified.

12. The grant funding organisation should reserve the right to amend/ update the performance indicators (KPIs, metrics) required for reporting purposes during the funding period.

13. In the event that the grant recipient is not able to provide sufficient and correct data and evidence to support monitoring, the grant funding organisation reserves the right to withhold payments until this has been done. 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.
14. Payment arrangements are set out in the payment schedules of the grant agreement – the agreement should reserve the right to make changes, where appropriate, to reflect any performance issues identified. Where payments are made upfront they should generally be released within 30 days of the date the grant agreement is signed.

15. In the event of a breach of the agreement any remedial action will be determined by the grant funding organisation – this may include termination and recovery action depending on the nature of the breach.

Evaluation

16. Evaluation is defined within the HM Treasury Magenta Book as a systematic assessment of the design, implementation and outcomes of an intervention (such as 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.

17. 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.

18. 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’).

19. Full guidance on evaluation can be found within HM Treasury ‘Magenta Book’ which can be accessed here: https://www.gov.uk/government/publications/the-magenta-book
Value Added Tax

20. Most government 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 outputs and 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.

21. 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 Tax CoE website here: https://taxcentreofexcellence.uk/

Further Resources

22. 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 VATSC 06300 contains further detailed information on consideration in grants and can be found here: https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vatsc06300

23. Organisations should also make full use of wider resources available through the Grants Centre of Excellence and the Government Grants Academy.