

Board Paper

04 December 2014

Paper Title	Partnership Funding Proposals
Paper Reference:	NRW B B 83.14
Paper Prepared By:	Rhian Jardine, Emyr Thomas, Helga Dixon, Carolyn Williams and Meinir Wigley and incorporating points made by Leadership Team members at the Partnership Funding Programme Board meeting of 7 th November and also the Communities Sub-Group meeting of 13 November 2014.

Purpose of Paper:	Information
Recommendation:	To endorse the approach in this paper
Decisions Required:	<ol style="list-style-type: none"> 1. Agree the principles and approach to finalising the funding proposals and also the communication approach as set out in 'Next Steps' and 'Communication'. 2. Agree the recommendations contained in the paper.

Impact: To note – all headings might not be applicable to the topic	<p>Impact on the environment: NRW Partnership Funding will be directed at achieving environmental outcomes and outputs.</p> <p>Impact on the economy: Tools for fostering interventions that generate economic benefits, will be integrated into Natural Resources Wales' Partnership Funding. In addition, Partnership Funding levers in match funding which increases levels of direct employment, purchasing of goods and services, and capital works.</p>
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	<p>Impact on the community: Partnership Funding will, as applicable, be used to carry out community engagement work around environmental issues.</p> <p>Impact on knowledge: Partnership Funding will be used to acquire knowledge services such as data collection and storage both relevant and important to NRW activities.</p>
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NRW PARTNERSHIP FUNDING: PROPOSALS FOR FUNDING AND OVERALL APPROACH

Issue

1. This paper sets out proposals for distributing the budget set aside for NRW partnership funding for the next three years and also suggests an approach to communication of these proposals. The Board is asked to consider both these issues.

Summary

2. Partnership Funding is any funding paid to a third party organisation where they are also bringing match funding alongside this to support or enable delivery of outputs, or realisation of outcomes, that relate directly to NRW's corporate objectives as set out in our Corporate and Business Plan.

3. Because Partnership Funding involves other parties making their financial contribution to the work, it is different from a market relationship initiated by procurement.

4. This paper sets out the current and next steps in the implementation of NRW's strategic approach to Partnership Funding.

5. The paper is written in a context characterised by:

- Pressures on public sector funding and needing to find new and innovative ways to tackle the challenges we face
- NRW's commitment to working in partnership to achieve the outcomes of the Corporate Plan and deliver benefits for Wales
- Significant numbers of applications and NRW's complete focus on judging based on merits of each project proposed.

The main principles of NRW's response to these contextual factors are set out in the next paragraph below.

Background

6. At its meeting in April 2014 the NRW Board approved a strategic approach to Partnership Funding. This approach comprised the following main principles:

- NRW will be a funding organisation with a dedicated budget for Partnership Funding for the next three years.
- NRW will distribute this budget in two ways – via joint working approaches and via targeted competitive rounds.
- Joint working approaches are restricted to situations in which NRW selects another organisation as best placed to deliver a project which directly relates to a corporate priority that NRW wants to see addressed. The other organisation shares this priority and contributes some of its own resources to its realisation.
- Competitive funding is where other organisations submit bids, in competition with other organisations, with their own ideas for projects that relate to NRW corporate priorities.
- NRW will normally only provide project funding i.e. work with a clear start and end date and with clear outputs. NRW is not responsible for funding to ensure the existence or core activities of other bodies. Welsh Government may take on the role of core funding for relevant organisations.
- NRW's grant in aid for Partnership Funding will be at a similar proportion to current levels but will reflect any future decline in NRW's budgets.
- NRW funding should have a legacy value, with tangible and sustainable physical, environmental or behavioural outcomes in place.
- NRW Partnership Funding will be managed as a three year programme. This is important in order to provide certainty to those organisations undertaking work that requires more than 12 months to be completed.
- No NRW funding arrangement will be embarked upon without a clear exit strategy.
- Where NRW is paying 100% of the costs then this is not joint working but a situation which requires formal procurement.

7. In July 2014 an update paper was provided to the Board setting out the detail of how the Competitive Fund and Joint Working Partnership approach might be run.

8. Also in July, NRW ran two briefing events for external organisations on its approach to Partnership Funding, followed by the launch of the 2014 round of the Competitive Fund at the Royal Welsh Agricultural Show.

9. At the closing date (1 October) for the Competitive Fund a total of 95 applications had been received by NRW seeking funding of £5.5 million for operations amounting to a total

value over the three years of £16.7 million. The demand from NRW for year 1 is over £2 million. Annex 1 is illustrative of the range of applications received.

10. NRW has also received 111 proposals for Joint Working Partnerships by early October. This represented a demand for £12.5 million from NRW, with total value of £37.7 million. The demand from NRW for year 1 amounts to over £3.9 million. Annex 2 is illustrative of the range of proposals received.

11. Practitioner Assessment Boards have been established to score and prioritise all Competitive Fund Applications and all proposals for Joint Working. They were considered in detail at a meeting of Chairs of Practitioner Assessment Board Chaired by the Head of Sustainable Communities on 6 November. Following that meeting a set of proposals was made to a Leadership-level Board (including a representative from Welsh Government) chaired by the Director of Knowledge, Strategy and Planning. That Board set out the basis for a paper to NRW's Executive Team.

12. Important inputs have been received from key specialists in NRW. Nigel Reader, Board member and Chair of ARAC, has undertaken the role of ensuring that there are sufficient controls in place from a financial and audit perspective and has provided very helpful advice that will be incorporated in the next steps for the approach. NRW Board members at the Communities Sub-Group meeting of 13 November 2014 have also contributed valuable insights.

13. Assessment carried out by NRW finance team is ongoing and includes checking internal coherence and eligibility of the financial elements of the applications, legal and financial status of the organisations applying, creditworthiness, its ability to manage cashflow, evidence of match funding and due diligence.

14. The total funding available for Partnership Funding is £4.2 million per annum (subject to pro-rata decreases in line with any budget reductions we receive). This total covers both Joint Working Partnerships and the Competitive Fund.

15. We recommend that the following deductions are made from the partnership funding budget of £4.2 million in order to arrive at the amount of funding that is available for new work from next year:

- Funding for National Trails of £377k.¹

¹ This budget amount of £377K for National Trails (NTs) reflects the level of budget allocated by CCW and Welsh Government. In CCW the National Trails were funded from the grants programme rather than having a separate ring-fenced budget as, for example, for the Coastal Path. NRW intends to set up a separate budget for the National Trails in future years rather than include it as a component of the central Partnership Funding budget.

- Funding for local authorities which we propose to reduce by 5% to £1.387 million for next year. Further proposals on how this is allocated is set out in paragraph 21 below.

16. Welsh Government has indicated that it will take in and fund any core funding and distribute it directly through its own grant scheme at some point in the future beyond the next financial year. In the meantime they have asked us to continue to fund local authorities; due to the uncertainty around the timing of this we will manage this element of funding on an annual basis.

Next Steps

17. It is **recommended** that offers of funding be programmed on a 75%/25% basis as we do currently, paying 25% in the following financial year. This has been recommended by finance staff with experience of grants funding as a practical means of achieving a more even management of work flow and avoiding a 'log-jam' around the year end period. The work on a project is completed in February-March in one year but the claim-processing, inspection of outputs and payment is carried out in quarter 1 of the following year.

18. Applying this approach will mean that 25% of the costs of year 3 of a three-year programme will actually be paid in the first quarter of year 4.

19. To manage costs, it is **recommended** that NRW applies a limit to the level of overhead costs it will provide. Some organisations have sought to apply what are deemed to be excessive costs within their bid for funding. **It is proposed that standardised overheads be introduced i.e. a fixed percentage of project costs together with a suitable definition of what can be classed as an overhead.** Recommendation is that specific indirect costs can be claimed up to a maximum of 7% of direct project costs.

20. To avoid a situation in which Local Authorities become the dominant recipient of the limited funds available, the following proposals are **recommended**:

- The total allocation to Local Authorities will be capped at £1.387 million a year across both partnership funding approaches. This is in itself a 5% reduction on last year's budget.
- The funding that Local Authorities have secured through the Competitive Fund, will be deducted from the total £1.387 million. The remaining funding will be divided between Local Authorities who have applied for Joint Working Partnerships, according to the standard formula currently in use.

21. Both the Competitive Fund bids and the Joint Working proposals have been divided into the following categories:

GREEN – Good proposals with good financial/due diligence assessments.

AMBER – These fall in to three groups. The first are potentially viable projects but requiring financial/due diligence problems to be resolved. For some, the problems may be resolvable by early 2015. For others, more time may be required. We will identify both categories and advise applicants. The second are good project ideas that require further development work in preparation for future rounds. The third are good proposals that are better suited to be funded through other routes and NRW will assist in supporting partners to access other funds.

RED – Projects to be rejected because they are rated as poor and/or have financial/due diligence issues that are not capable of resolution.

22. If the above principles are accepted, further moderation and assessment is required before the final listing of GREEN, AMBER and RED proposals can be determined. NRW's risk appetite is a factor in the assessments but the intention is to support the best project proposals.

23. Rhian Jardine, Head of Sustainable Communities, will chair a meeting by early December to agree the final GREEN and RED lists and review progress on clarifying the AMBER list.

24. We aim to run a further Competitive Round in 2015 and will identify the Corporate Plan priorities it will be targeted at. We **recommend** that in the first year that we do not commit the funding for the three years, thus allowing the flexibility for annual and two year offers to target priority outcomes.

25. NRW will inform all organisations of the status of their proposals/applications by mid-December. We need to ensure that we adhere to the best customer care principles and it will be vital to give early notification to those in the RED category so that they have at least 3 months warning of lack of future funding from NRW. This is also vital for those whose award of funding is significantly reduced.

26. Successful organisations will be sent a *formal offer of funding* by the central finance team dealing with Partnership and External Funding before the end of the current financial year that will set out the conditions in full. We anticipate being able to indicate before Christmas to those organisations that their projects have come to the fore and that we will work with them to finalise the details of the projects and the funding profile. This will allow us the opportunity to fine tune the outcomes and scale the financial requirements if needed.

27. The Partnership Funding Programme Board will establish a governance sub-group consisting of Management Tier staff and other key practitioners to oversee the implementation of the Partnership Funding programme from 2015-16 onwards. This will involve identifying the additional structures and processes required for its efficient

operation. It will also extend to prioritising the making of offers to projects classed as AMBER. Currently many of the processes governing practical operation of Partnership Funding within NRW are based on the CCW grants handbook. This handbook, and associated guidance to staff, will need to be updated, as will special conditions applying to the issues of offers of funding. This is in line with the recommendations of the *Grants and Partnership Funding Audit* (2014). Further, a programme of staff training is required for relevant NRW staff. The emerging lessons learned from this first round of partnership funding are being logged and NRW will act on these issues as it progresses the three year funding programme. Partnership Funding currently supported through operation budgets will, in future years, be brought under the co-ordination of this sub-group.

28. Appropriately experienced NRW practitioners, skilled in managing partnership relations, will be appointed to work with the partner organisations to guide the projects to a successful delivery.

Risks

29. Risks and mitigations are:

- **Risk that unsuccessful applicants may criticise the outcome.** A clear statement of feedback will be prepared for the Partnership teams to enable them to explain our decision to applicants.
- **Accusations of partiality and conflict of interest in selection.** All practitioners involved in scoring complete a declaration of interest form.
- **Unsuccessful applicants fail to appreciate the reasons for their lack of success.** An internal communication and briefing document will be sent out to partnership staff across NRW to help them advise unsuccessful applicants, including organisations that were previously funded and will now be subject to significant reduction or cessation of funding.
- **Good projects that NRW has been unable to fund will not come to fruition.** NRW staff in partnership teams will seek to direct unsuccessful applicants to other, more appropriate sources of funding.
- **NRW fails to appreciate the experience of applicants.** NRW will seek views of applicants and will build that feedback into the next funding round.
- **The timescale in-between closing date for applications and the announcement of awards is too short to enable a robust selection process.** NRW has built-in a system to allow moderation to ensure that the scoring undertaken by the different Practitioner Assessment Boards is consistent and comparable.

Financial Implications

30. Partnership funding will have a budget of £4.2 million next year, subject to the deductions noted in paragraph 15 above. In future years, the amount for core funding for local authorities is likely to be taken in to Welsh Government and the sum for the National Trails have a separate dedicated budget.

Communications

31. It is important that everything possible is done to ensure that all applicants are advised of the funding decisions direct from NRW, that the work undertaken by NRW to prepare the sector is understood and that the broader context for any funding decisions are made clear to key audiences. A comprehensive communications plan has been developed to manage this process.

Equality impact assessment (EqIA)

32. Equality issues will be integrated as one of the cross-cutting themes in the implementation of the Partnership Funding. The means to do this will be explored by a sub-group convened by the Partnership Funding Programme Board and will be based on the methodology recently developed within NRW.

Index of Annexes

- Annex 1 – List of Applications Received for the Competitive Fund
- Annex 2 – List of Joint Working Partnership Proposals Received