



**Corporate & Scrutiny Management Committee**

**11 November 2013**

**Report of the Loans & Grants Scrutiny Task Group**

**Loans and Grants Scrutiny Review – Draft Final Report**

**Summary**

1. This report presents the review findings from the recently completely Loans & Grants Scrutiny Review, and asks this Committee to endorse the review conclusions and draft recommendations ahead of their presentation to Cabinet in November 2013.

**Background to Review**

2. In January 2013 the Corporate & Scrutiny Management Committee considered a scrutiny topic submitted by Cllr Healey and Cllr Runciman on how loans/grants from City of York Council (CYC) to outside organisations were being monitored. The topic was submitted as a result of the collapse of the North Yorkshire Credit Union, for which the Committee were informed there was an ongoing investigation.
3. The Committee agreed they would like to receive an update on the results of the investigation into the collapse of the North Yorkshire Credit Union, on its completion. However, they agreed the focus of the scrutiny review should be to look forward to provide guidance on best practice for monitoring future grants/loans provided by the Council.
4. On that basis, the Committee agreed to proceed with the review and set up a Task Group of the following Members to carry out the review on their behalf:
  - Cllr Chris Steward
  - Cllr Ruth Potter
  - Cllr Carol Runciman

**Information Gathered**

5. An initial meeting of the Task Group held in March 2013 established that the issuing of loans and grants was not overseen by the Corporate Finance Team and in most cases the decision was taken at Directorate

level with no central record of all the loans and grants made each year, other than the information recorded on the Financial Management System.

6. The Task Group considered a list of all the loans and grants made by the Council in the financial year 2012-13 and randomly chose six for further analysis and scrutiny – see a list of those below:

Description	Original value of loan / grant	Grant or Loan	Current amount O/S
Bike Rescue	30,000	loan	22,443.36
Codebreaker Ltd	2,100	loan	2,100
York Homestart	26,636.85	grant	n/a
Homelessness Strategy	325,927.78	grant	n/a
Parenting Commissioning Programmes	2,500.00	grant	n/a
Warm Homes, Healthy People	15,491.25	grant	n/a

7. In May 2013, the Task Group received detailed information on each of their chosen loans/grants as shown below:
8. Bike Rescue  
This loan was provided to the Bike Rescue Project in March 2010. The full reasons for the loan were outlined in the report to Cabinet on 2<sup>nd</sup> March 2010, but in summary it was to cover a shortfall in funding to convert a former electricity sub station into a secure cycle park at Lendal Bridge. The total project cost was £300k of which £270k was funded through the Local Transport Plan.
9. The Cabinet report provided a full analysis of the potential risks and how these would be mitigated. It also set out the reasons for offering a loan rather than a grant.
10. The loan is being repaid on a monthly basis, with interest being charged at 4.43%. It is monitored by Property Services who are in regular contact with Bike Rescue.
11. Codebreaker Ltd  
The loan was originally awarded in May 2007 as part of the Council's 2006/07 support to Voluntary and Community Organisations and was approved by the service manager at that time. The loan was to help with the cost of attending a Rugby Festival in France on the basis that it provided benefit as a cultural exchange and would secure the future of French teams travelling to York in future years. The monitoring

arrangements included measures to identify the number of children participating in sport and the diversity of the teams participating in local tournaments.

12. The organisation signed a loan agreement agreeing to repay the loan in 3 instalments over a 9 month period meaning the loan should have been repaid by February 2008. However, the organisation defaulted on the loan and the Council was not been able to recover the outstanding payments. The loan was written off in November 2012.
13. York Homestart  
Homestart is a family support charity which works with families and children providing preventative early intervention work to reduce the risk of children becoming looked after. This activity is an integral part of the Council's multi agency strategy of Keeping Families Together and this provider works with CYC Children's Services under a funding agreement / Service Level Agreement (SLA) to deliver this.
14. In terms of monitoring, a CYC employee is on the governing board and all payments made are authorised by the Assistant Director.
15. Homelessness Strategy  
The Homelessness Strategy grant is a national programme funded by the Department for Communities and Local Government. The funding covers a wide range of projects, some of which are Council run, or internal, services, as summarised in the following table.

<b>Summary of Homeless Strategy Grants</b>	<b>£</b>
Bond Guarantee Scheme - Internal	5,000
Nightstop - SASH	15,000
Foundation - Youth Worker	17,448
Howe Hill Young Persons Hostel - Internal	26,000
Mortgage Rescue Post - Internal	15,000
Mortgage Rescue Cases	15,000
Single Access Point - Internal	18,000
Yorhome - Internal	20,000
CAB Housing and Debt project	35,500
Peasholme Charity (resettlement centre)	91,019
Salvation Army Early Intervention & Prevention Team	87,992
Salvation Army -travel warrants	5,000
Keyhouse - legal assistance	5,000
meeting and training	1,200
IDAS multi-agency training	500
Severe weather	700

Homeless strategy consultation	1,500
Elderly persons leaflet / road show	300
Housing Options Worker - Internal	28,000
<b>Total</b>	<b>388,159</b>

16. Overall, the purpose of this funding is to help achieve the Council's statutory duty to the homeless. The grant was originally paid as a rough sleeper grant which was subsequently merged into a homeless prevention grant. Grants are given to various internal and external organisations to provide services that will either prevent homelessness or are directly provided to those customers who are homeless. The services provided are directed through law, Department of Communities & Local Government directives and locally by the Homeless Strategy as approved by Cabinet.
17. The main emphasis of the funding has been to reduce the number of rough sleepers and reduce the numbers of homeless living in temporary accommodation. Reports are provided to Cabinet annually to report progress and recent reports show success in both these areas. In addition, homelessness statistics are provided to Government on a quarterly basis to monitor progress and services are required to submit quarterly reports setting out the numbers of people accessing services.
18. The performance of all projects is monitored regularly and in 2010/11 this process picked up some concerns regarding the vulnerability of the CAB Bond Guarantee Scheme due to reliance on 1 staff member (e.g. at times of absence) and cost saving exercise. As a result, and following discussion with CAB, the decision was made to provide service in house and the grant funding was released to support new initiatives in Young Persons accommodation.
19. Parenting Commissioning Programme  
The funding concerned is given to Relate for the 'Delivering the Storm' programme for parents of teenagers. The programme covers a need identified, in partnership with community colleagues, for sex and substance misuse education for parents of teenagers. The programme is an option for faith schools as it is perceived to focus more on relationships than 'activities'. It therefore supports the equalities agenda.
20. The funding covers 2 programmes each working with up to 20 parents. It is financially bench-marked against other parent programme delivery and is verified as delivering good value.

21. The multi-agency Parenting Steering group, which comprises local partners and providers, is consulted on the funding. The delivery partner is recognised as having particular skills and experience in this particular element of support.
22. The funding is approved by the Strategic Planning and Commissioning Manager and Parenting Programme manager under CYC financial regulations. There is an SLA for the funding.
23. The programme is monitored in the following ways:
  - For content initially, it is a nationally recognised programme, delivered by a nationally recognised voluntary organisation
  - For take-up through reports on attendance
  - For effectiveness through reports from the schools involved (3rd party evaluation).
24. This close monitoring minimises the risk to the Council along with payments being made in arrears. Identification of poor delivery would lead to measures to improve or curtail future delivery.
25. Warm Homes, Healthy People  
The Warm Homes, Healthy People grant is a national programme funded by the Department of Health.
26. This grant has 2 key aims;
  - Increasing the capacity of the existing First Call Age UK 50+ (FC50+) signposting and information service.
  - To build on the network of community volunteers within the city to ensure older residents stay safe, healthy and warm by signposting to the FC50+ service.
27. There were conditions attached to the funding provided, including:
  - Ensure all care agencies, statutory & voluntary partners and community networks are aware of the 'Get Ready for Winter' checklist with a specific aim to distribute 1000 check lists.
  - Minimum of 100 Free Home Energy Audits provided to older and vulnerable people.
  - Provide and publicise checklist and contact list.
  - Increase hours of FC50+ service during extreme weather.
  - The provision of:
    - A vital shopping service, prescription collection, general monitoring and support to engage services of plumbers, etc.
    - 100 emergency packs.

- 25 emergency heaters on short term loan if boiler breaks down.
- Emergency fund to provide small loans to enable boilers to be repaired quickly.

28. The delivery is monitored by regular meetings with Age UK and specific information is provided on the targets outlined above. The allocation of the funding is agreed by a panel including representatives from Public Health, Neighbourhood Management and the Yorkshire Energy Partnership.

### **Analysis**

29. The Task Group learnt that the process of seeking out the information on the above loans and grants had highlighted some incorrect coding which had made it difficult for the Corporate Finance Team to produce a comprehensive list directly from the finance system. Therefore, in order to be able to support the work on this review, the finance team had to review all their records of the council's loans and grants and identify and correct all the coding errors. They also agreed a common approach for the future to enable a clearer and more transparent picture of the Council's loans and grants at any given time.

30. In regard to the Codebreaker Loan referred to in paragraphs 10-11 above, the Task Group queried what steps had been taken to recover the outstanding balance on the loan, and learnt that initially numerous attempts were made by an officer in the Leisure admin team to contact the company, but on each occasion they were unable to speak to anyone. This prompted the raising of a debtors invoice on 3 September 2010 addressed to the individual at the company who had completed the loan agreement.

31. In turn, this initiated the council's debt recovery procedures i.e.:

- A reminder letter was sent out 28 days after the invoice
- On 15 October 2010 a legal letter was sent out
- On 21 October 2010 a further legal letter was sent
- The invoice was put on hold but on 1st March 2011 it was taken off hold when another letter was issued
- On 10 March 2011 the customer rang disputing the invoice – this prompted the invoice being put on hold again
- On 28 April 2011 the invoice was taken off hold and another letter issued
- This prompted the customer to ring again disputing the invoice
- In March 2012 the debt was passed to bailiffs for recovery

- In July 2012 proof of debt was received and the company went into administration which resulted in the invoice being recommended for Write off.

32. Having considered all of the information on their chosen loans and grants (as listed above), the Task Group recognised there were a number of common and recurring issues. This raised a number of questions and finance officers were charged with providing additional information on the following:

- The application and assessment process for loans and grants.
- How associate risk is assessed
- The Mechanics of setting/calculating interest rates
- The measurable targets set for monitoring outcomes
- The monitoring of loans and grants
- Debt recovery procedures, including disputes

### **Additional Information Gathered**

33. Grants Application Process

The Task Group were aware there were numerous ways in which organisations could access grant funding from the Council and officers provided the following information on 'Community York' as an example.

34. 'Community York' is a grants fund recently created by City of York Council that brings together a number of existing funding streams for voluntary sector organisations in the city. The fund was set up to ensure that CYC investment in voluntary sector grant funding is managed in a cohesive and transparent manner which ensures the greatest impact and value for money for residents of York.

35. The fund has two distinct aims:

- Provide high quality additional services to York residents in line with the four "Community York" themes
- Support voluntary sector organisations to deliver outcome-focused services with demonstrable impact

36. The Task Group learnt there was no overarching council wide process in place for allocating and managing grants, but they were informed that work was ongoing to update the Council's financial regulations to include a section specifically dealing with grants.

37. Criteria for Awarding a Grant

The Task Group learnt that the Council no longer had a dedicated grants officer, and grants were now being issued by individual managers based on criteria they determined locally. This meant there were a number of budgets from which grants could be issued. It was also not clear from the work on the review whether the same criteria were being used across all services.

38. Risk Assessments for Grants

The work on the review identified the assessment of risk as a weakness, given there was no clear system for risk assessment. Finance officers agreed this needed to be included within the guidance being prepared and in the revised financial regulations.

39. In regard to Grants, in light of the additional information provided the Task Group agreed that all officers should follow an approved process when making a decision to award a grant. This should include carrying out risk assessments, an investigation of the financial standing of the organisation involved and approval levels and monitoring arrangements. They therefore suggested that a corporate template be developed and written guidance be disseminated to all budget managers.

40. Assessment of Loans

The Task Group noted that the Council had granted relatively few loans and in each case they were in exceptional circumstances. Also, that in the last 3 years all loans made had been agreed by Cabinet after careful consideration of whether they offered the best value, whether their purpose met the council's priorities, or if the council could instead help the organisation access other external funding. The Task Group queried whether a sufficient assessment was undertaken as to the financial viability of an organisation and whether an appropriate risk assessment was completed in each case.

41. Interest Rates

The Task Group learnt that the interest rates applied to loans were determined on a case by case basis and that the relevant rate was included in the loan agreement. For example, the loan to Yorwaste was agreed at bank base<sup>1</sup> rate plus 1%. The Task group noted that no formal process was in place for setting the rate

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<sup>1</sup> Given the historically low levels of the base rate and concern with regards to state aid (borrowing below the interest rates available on the market) the Council has set a base rate floor at 1.5%. The interest rate will therefore vary as the base rate changes, ensuring the return on a loan remains in line with economic and market conditions.



42. Debt Recovery Procedures

The Task Group noted that officers follow standard council recovery procedures and individual officers are tasked with ensuring repayments are made within their area. It was agreed that this should be made explicit within the corporate template and guidance to be introduced, and full details should be included in the financial regulations.

43. Service Level Agreements (SLAs) - Standards, Quality & Criteria Applied

At the meeting in May 2013, the Task Group queried at what level SLAs were prepared, if there was a template, if measureable targets and monitoring levels were being applied etc. The Task Group also suggested that any agreements which referred to other documents e.g. performance management, should always have those documents attached as an appendix to the agreement.

44. In addition, the Task Group agreed that as with the criteria for awarding a grant (see paragraph 39 above), it would be helpful if a corporate approach was agreed, and suggested that a template together with officer guidance notes be introduced to support the process of producing an SLA.

45. As a result, the Corporate Finance team analysed all of the SLAs in place for 2013/14, looking at the standard, quality and criteria applied etc, and provided three examples for the Task Group's consideration – see Annex A.

46. The finance Team found no standard SLA in use, and the Task Group noted that individual officers were able to construct agreements that best suited their particular service area. With this in mind, and taking into consideration the views of the Task Group suggesting a corporate approach be introduced, the Corporate Finance Manager drafted a corporate SLA template together with some guidance notes for Task Group to consideration – see Annexes B & C.

47. National Best Practice

The Task Group queried best practice by other Local Authorities and received information on the following:

- Kirklees Council has a Grant Access Point (GAP) and organisations are required to register every 3 years in order to be eligible for grant funding. Once registered, however, they can apply to any council department for funding. Registration includes gathering information about the organisations aims and governance arrangements.

- Brighton Council has lots of information about who they fund and why on their website. It sets out the amounts, when agreements will be reviewed and an officer contact within the Council for each grant.
  - North Yorkshire County Council has a grants section on their website that lists the organisations receiving funding, the amount and a brief outline of the purpose of the funding.
48. The Task Group noted that each council had a widely different approach with no one method being identified as best practice.
49. Defaulted Loans & Grants  
The Task Group also queried the percentage of CYC loans/grants defaulted on i.e. in the case of a loan, how many were not fully repaid, and in the case of a grant how many did not achieve the aims outlined in the grant request.
50. They learnt there was no separate recovery route on the Council's systems to distinguish write offs of loans from other debts, so it was not possible to isolate that information. They could only be identified if the name of the organisation that had defaulted was known. However officers confirmed it may be possible to set up a separate recovery route on the systems to allow the Corporate Finance Team to identify and actively monitor this information in the future.
51. Finally, in regard to the Codebreaker Loan referred to in paragraphs 11-12 & 30-31 above. The Task Group questioned the timings for each stage outlined in paragraph 31, the reasons why the invoice was put on hold and taken off hold so many times, and what the Council was expecting to happen when the account was on hold.
52. In response, the Corporate Finance Manager confirmed that the account was put on hold in an attempt to allow the organisation more time to repay the debt. At the time, officers were trying to resolve the issue without the need for legal proceedings. With the benefit of hindsight it was agreed it was not the correct way to proceed. However, it was done with the best of intentions and was considered the best way to resolve the issue and recover the loan.

### **Summary of Review Conclusions**

53. Having considered all of the information provided in support of the review the Task Group concluded the following:

- There are numerous ways to access Council funding and the Task Group were not confident that the same criteria was being used across all services
- There is no clear system in place for assessing the risks associated to providing a loan or grant
- Interest rates on loans are being set on a case by case basis in line with best practice
- In regard to missed loan repayments, the decisions on when to progress to each stage of the debt recovery procedure appeared to be different on a case by case basis e.g. in the case of the Codebreaker Loan. The Task Group agreed those decisions should be taken at senior officer level and recorded for transparency purposes.
- Not all SLAs included input and/or output metrics which made it difficult to assess their success in achieving the aims outlined in the grant request.
- More could be done to improve transparency for the tax payer and greater use of the Council's website could be made to share information on grants provided and available to the voluntary sector.

### **Review Draft Recommendations**

54. As a result of their work on the review, the Task Group has agreed the following draft recommendations for this committee's consideration:
- i. An agreed common approach to be put in place for coding all loans and grants on the Council's finance system to make them easily identifiable.
  - ii. In regard to New Service Level Agreements (SLA):
    - a) Where those agreements make reference to other documents e.g. performance management information, those documents must be attached as an appendix to the agreement.
    - b) A template together with officer guidance notes to be introduced to support the process of producing an SLA, in line with that shown at Annexes B & C.
  - iii. In regard to current SLAs, the new process detail above to be implemented as part of a phased approach, as and when each SLA is reviewed.
  - iv. All Loans and grants over 100k to be agreed by Cabinet
  - v. All grants over £100k to have a legally binding grant funding agreement (GFA) rather than an SLA.

- vi. The Council to make greater use of its website to share information on the loans and grants over 3k it provides, together with information on how to make loan/grant applications and details of those available to the voluntary sector.
- vii. Applications for loans should detail the applicants other attempts to find the appropriate funding
- viii. In regard to monitoring arrangement for loans – introduce a six monthly minimum requirement for reporting back on loans to a specified named officer or in the case of higher level loans, to the Cabinet.
- ix. In regard to defaulted loans:
  - a) A separate recovery route on the Council Finance system to be set up to enable the Corporate Finance Team to easily identify and actively monitor those loans.
  - b) Guidance to be given to ensure an improved understanding of the times allowed between each stage of the loan recovery process

## Implications

- 55. **Finance** - The draft recommendations in this report will improve financial management and accountability for this area of expenditure.
- 56. **Legal** – In regard to recommendation (v) the introduction of a grant funding agreement for grants over £100k, in place of a SLA would be beneficial to the Local Authority as it is a more robust legally binding and enforceable document. There are no legal implications associated with the remaining recommendations arising from this review. In regard to the provision of loans and grants in general, under section 1 Localism Act 2011, the Local Authority has the power to do anything that an individual may do (known as the general power of competency).
- 57. In regard to recommendation (vi), whilst providing details of grants given on the Council's website is acceptable, i.e. the amount and who it's for, it would not be appropriate to place the associated SLA or GFA on the website as it may contain commercially sensitive, or confidential information. The acceptable alternative to this would be to publish a summary of the agreement online containing details of the recipient, the purpose and period of the grant, the main terms of the agreement, and the agreed monitoring arrangements.

58. There are no other implications associated with the draft recommendations arising from this review.

### **Council Plan 2011-15**

59. The review supports all of the priorities within the Council Plan as it ensures that the Council is effective in its financial monitoring of loans and grants, which in turn supports the work of external businesses, community groups, charities and other organisations.

### **Risk Management**

60. The risk to the Council of not effectively monitoring the allocation of loans and grants and their outcomes, could result in some not achieving the outcomes that were set when the grant or loan was agreed, and/or loan repayment terms not being met.

### **Recommendations**

61. Having considered the information contained within this report, the Committee is asked to endorse the draft recommendations arising from the scrutiny review.

Reason: To conclude the work on this review in line with scrutiny procedures and protocols.

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**Report Approved**  **Date** 28 October 2013

**Wards Affected:** All

For further information please contact the authors of the report

#### **Annexes:**

**Annex A** – Examples of Current Service Level Agreements

**Annex B** – Draft SLA Guidance Notes

**Annex C** – Draft SLA Template

#### **Report Abbreviations:**

**CAB** – Citizens Advice Bureau

**Cllr** – Councillor

**CYC** – City of York Council

**FC50+** – First Call Age UK 50+

**GFA** – Grant Funding Agreement

**IDAS** - Independent Domestic Abuse Service

**Ltd** – Limited

**SASH** – Safe And Sound Homes

**SLA** – Service Level Agreement