

# A

## ANNEX 5.1 GRANTS TO THIRD PARTIES

This annex sets out how government departments should arrange and control grants to third parties, including to arm's length bodies such as NDPBs.

**A.5.1.1** Central government departments may offer two kinds of financial support to third parties, using statutory powers:

- **grants:** made for specific purposes, under statute, and satisfying specific conditions, eg about project terms, or with other detailed control;
- **grants in aid:** providing more general support, usually for an NDPB, with fewer specific, but more general controls on the body, and less oversight by the funder.

### Payment

**A.5.1.2** Grants should be paid on evidence of need or qualification, depending on the terms of the grant scheme. For example:

- the recipient may need to submit a claim with evidence of eligibility;
- the recipient may need to show that it meets the conditions of the scheme, eg a farmer may need to disclose details of his or her business;
- there may be a timing condition;
- small third sector organisations may need to demonstrate a clear operational requirement for project funding to be made before grant is paid (see *Improving financial Relationships with the Third Sector: Guidance to Funders and Purchasers* [www.hm-treasury.gov.uk/spending\\_review/spend\\_ccr/spend\\_ccr\\_guidance.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_guidance.cfm)).

**A.5.1.3** Grants in aid should also match the recipient's need. Significant sums should be phased through the year in instalments designed to echo the recipient's expenditure pattern. In this way the recipient organisation need not carry significant cash balances, which would be an inefficient use of public money (see section 5.8).

### Control

**A.5.1.4** Payment of both grants and grants in aid normally requires specific empowering legislation as well as cover in Estimates. There is scope for temporary ex gratia grant schemes to be financed on the authority of the Appropriation Act alone provided that the scheme meets the standard conditions (see section 2.3).

**A.5.1.5** The Accounting Officer of the funder is responsible for ensuring that grant recipients are eligible and use the grant in the way envisaged in the founding legislation. For **grants in aid**, it is often convenient to arrange this by setting out terms and conditions in a framework document sent to recipients to explain their responsibilities. Such framework documents should strike an appropriate balance among:

- ensuring prudent management of grant in aid funds;
- achieving value for money;
- assuring funders that grants are used as envisaged; while

- allowing recipients reasonable freedom to take their own decisions.

However, care needs to be taken as general and wide ranging conditions attached to grant in aid can transfer control of a body to a funder for public sector classification purposes.

**A.5.1.6** Departments which provide grants of either kind to an arm's length body should document how the recipient is expected to handle the funds. See annex 7.4 for more.

**A.5.1.7** Departments should ensure that the Comptroller and Auditor General has formal access rights to all grant recipients.

## Protecting the Exchequer

**A.5.1.8** If public sector organisations provide grants to private sector organisations to acquire or develop assets, suitable and proportionate steps should be taken to safeguard both their financial interests and those of the Exchequer. Donors should consider setting grant conditions designed to ensure that the Exchequer's interest is not overlooked if the asset is not used as expected (more in annex 5.2).

## Endowments

**A.5.1.9** Grants and grants in aid are normally paid to meet the needs of the recipients. Exceptionally, there may be a case for funding by way of endowment or dowry, ie a one-off grant to enable the recipient to set up a fund from which to draw down over several years. The recipient may then be able to make a clean break with the need for support.

**A.5.1.10** Departments contemplating such funding arrangements should consult the relevant Treasury spending team (and in turn arm's length bodies should consult their sponsor departments). The Treasury will need to consider the value for money case for this form of funding, including:

- the opportunity cost of locking public funds into a particular endowment, using investment appraisal techniques;
- the value of the particular programme or project against others. The Treasury will need to be satisfied that such funding would not protect any low-value programmes or projects from proper expenditure scrutiny;
- the sustainability of the funded body and whether such funding will decrease future reliance on public funding;
- whether there are clear objectives, outputs and outcomes of the funding; and
- the risk of further call on public funds.

**A.5.1.11** Any such endowment should:

- reflect genuine need for capital funding;
- be made only to recipients with the competence to manage the endowment over time; and
- avoid skewing public funding away from other projects that have genuine cash needs.

**A.5.1.12** The terms of an endowment should:

- be clear that the funded body should not subsequently approach the donor for annual funding;
- maintain clear boundaries between the funder and recipient.