



Cabinet Office

# Triennial Review of the Big Lottery Fund

## Report

June 2014

# Triennial Review of the Big Lottery Fund

Report

This document is available  
in large print, audio and  
Braille on request. Please call  
+44 (0)800 000 4999 or email  
[servicedesk@cabinet-office.gsi.gov.uk](mailto:servicedesk@cabinet-office.gsi.gov.uk)

Cabinet Office  
1 Horse Guards Road  
London SW1A 2HQ

Publication date: June 2014

© Crown copyright 2014

You may re-use this information (not  
including logos) free of charge in any format  
or medium, under the terms of the Open  
Government Licence.

To view this licence, visit  
[www.nationalarchives.gov.uk/doc/open-government-licence/](http://www.nationalarchives.gov.uk/doc/open-government-licence/)

or write to the Information Policy Team,  
The National Archives, Kew, London TW9  
4DU, or e-mail: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

Any enquiries regarding this publication  
should be sent to us at [BLFTriennialReview@  
cabinet-office.gsi.gov.uk](mailto:BLFTriennialReview@cabinet-office.gsi.gov.uk)

This document is also available from our  
website at [www.gov.uk](http://www.gov.uk)

# Contents

<b>Foreword</b>	5
<b>Executive summary</b>	7
<b>Full list of recommendations</b>	13
<b>Chapter 1 Background and introduction</b>	
The Triennial Review	17
The Big Lottery Fund	19
<b>Stage One of the Review</b>	
<b>Chapter 2 Findings on the functions and form of the Big Lottery Fund</b>	
Context	21
Are the functions of the Big Lottery Fund still necessary?	23
Is an arm's length body the most efficient and effective way to deliver those functions?	25
<b>Stage Two of the Review</b>	
<b>Chapter 3 Efficiency</b>	
Context	39
Operating costs	39
Staffing	41
Technology infrastructure	42
Digital by default	43
Property	44
Shared services	46
Procurement of common goods and services	46
Areas subject to Cabinet Office spending controls	47
Major projects	49
Fraud, error and debt	48
Comparator data	49

## **Chapter 4 Improving the effectiveness of the Big Lottery Fund for the future**

Context	51
Effectiveness as a grant making body	51
Effectiveness of work for third parties	58
Effectiveness of distribution of dormant accounts	61

## **Chapter 5 Corporate Governance**

Context	65
Accountability	66
Roles and responsibilities	66
Effective financial management	71

## **Annexes** (published separately)

Annex A	Summary of responses to the Call for Evidence
Annex B	Written Ministerial Statement
Annex C	Challenge Group membership and engagement
Annex D	Terms of Reference of the Review
Annex E	Background to the Big Lottery Fund
Annex F	Big Lottery Fund policy directions
Annex G	List of stakeholders engaged and evidence used
Annex H	Assessment of alternative delivery model options
Annex I	Big Lottery Fund self-assessment of its compliance with the principles of good corporate governance

## Foreword by Nick Hurd MP



In November 2013 I announced the start of the Triennial Review of the Big Lottery Fund ('the Fund') by the Cabinet Office. This is the first Triennial Review of the Fund and provides an important opportunity to consider the efficiency and effectiveness of its functions.

The Public Bodies Reform Programme is leading to the largest restructuring of public bodies for a generation, ensuring that they are less costly, more accountable and transparent and deliver value for money to the public. As part of the programme, Triennial Reviews were introduced to ensure that those bodies which remained after the Government's wide-ranging reforms are subject to regular and robust challenge. Reviews challenge the continuing need for Non-Departmental Public Bodies (NDPBs), consider whether functions can be delivered through alternative models and ensure that bodies are operating efficiently, effectively and with the appropriate levels of control and governance. Rigorous reviews of NDPBs are therefore central to the public bodies reform agenda.

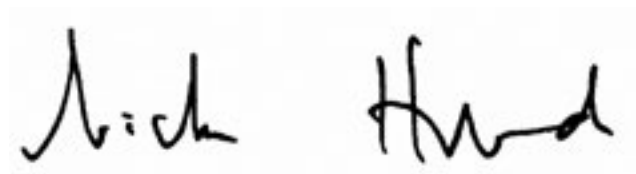
In Stage One the review team considered whether the functions of the Fund remained necessary, and whether delivery by an arm's length body was the most efficient and effective way to deliver those functions. Having considered the evidence, they concluded that there is a continuing need for the functions that the Fund delivers, and a very strong case for those functions to continue to be delivered by an arm's length body. Stage Two of the Review considered

whether adequate control and governance arrangements were in place to ensure that the Fund complies with the principles of good corporate governance, and looked at the efficiency and effectiveness of the organisation.

I believe that the Fund is a highly respected and very important organisation and I was delighted to see that the evidence gathered throughout the Review confirms this. It is clear that the Fund is a valued organisation with an important role to play with the Voluntary, Community and Social Enterprise sector as well as with public sector partners and business stakeholders. I am delighted to support the important ongoing role of this UK wide NDPB by continuing to provide sponsorship of the Fund within Government and helping the Fund further enhance what it does and how it operates.

The Review does make a number of helpful recommendations about how the Fund can develop, to ensure that it continues to operate efficiently, effectively and transparently. I am pleased that the Board and Chief Executive are considering the recommendations of the Review in detail. The Fund is currently consulting on their Strategic Framework for 2015-2021. This consultation will provide an ideal platform to take forward a number of the recommendations in this Review. Cabinet Office officials will be monitoring the delivery of the Fund's agreed actions as well as ensuring the recommendations for Government are implemented.

I would like to thank the many stakeholders who contributed to the Review. Nearly three hundred responses were received to the Call for Evidence and the review team spoke to a wide range of individuals or representatives of organisations, some of whom also responded to the written Call for Evidence. I am also grateful to the Fund for the way they have co-operated fully and actively with the review. Finally I would like to thank the Challenge Group which has rigorously and robustly tested the assumptions and conclusions of the Review, and the review team for the work they have done.

A handwritten signature in black ink, reading "Nick Hurd". The signature is written in a cursive style with a large initial 'N' and 'H'.

Nick Hurd MP  
Minister for Civil Society

# Executive Summary

## Background

The Triennial Review of the Big Lottery Fund ('the Fund') was launched on 21 November 2013 by the laying of a Written Ministerial Statement in the Houses of Parliament by the Minister for Civil Society, Nick Hurd MP. Triennial Reviews are part of the Government's Public Bodies Reform work to provide a robust challenge to the continuing need for public bodies and to review their control and governance arrangements. This is the first Triennial Review of the Fund.

To reflect the public interest in the work of the Fund the Review published an online Call for Evidence survey during the evidence gathering phase of the Review. A summary of the findings from the survey has been published alongside this report.

The size of the Fund's budget and headcount necessitated that an independent Challenge Group be established. The members of this Challenge Group were: Ed Welsh, Executive Director, Transformation, Efficiency and Reform Group, Cabinet Office; Dominic Lake, Head of Arts, Libraries and Cultural Property, Department for Culture, Media and Sport; Dame Barbara Stocking, Non-Executive Director of the Cabinet Office and President of Murray Edwards College, Cambridge; and Mark Florman, Chairman of Time Partners. The Challenge Group endorse the findings of the Review.

The Fund has supported the conduct of this Review in a very helpful and professional

manner, both helping to ensure that a wide range of views were gathered and also by responding to numerous requests for information or policies to review. The Chief Executive in particular has been clear that the timing of the Review has proved helpful to her in her first few months in the role and will be a useful source of evidence to her as she continues to lead the organisation.

The tenor of the evidence gathered throughout the Review is that the Fund is a well respected and valued organisation with an important role to play, particularly as other sources of funding are squeezed. Most of the comments were made in the context of the organisation not being considered 'broken' in any way but with the ability to enhance what it does and how it operates further.

A full list of the recommendations can be found at the end of this executive summary but this summary identifies the main themes from the Review.

## Stage One

### Function

The Review concluded that the Fund's current functions are still required and it was clear that there is an inter-relationship between the separate functions, because the distribution of Lottery funds gives the organisation the capability and capacity to perform the other functions well. **The Review has therefore concluded that the three main functions of the Fund** (distribution



of National Lottery funds, distribution of non-Lottery funds, and distribution of funds from dormant bank and building society accounts) **all remain current and necessary** (Recommendation 1).

The Fund makes it clear that it only carries out the distribution of non-Lottery funds ('third party work' and distribution of dormant account money) where it is consistent with its mission to "bring improvements to communities and the lives of people most in need", but the Review did find variation in approach to this work within the organisation and a concern about taking on new work at the moment because of back office system changes. Nevertheless, the Review found no reason why the Fund should discontinue this function and has recommended that the Fund develops a more consistent and more widely understood approach that helps make more of ongoing opportunities (Recommendation 19).

The Review also identified a strong expectation that the Fund should be playing a leadership role in the Voluntary, Community and Social Enterprise (VCSE) sector. The Fund is currently a sector leader 'by default' – that is by virtue of its size and reach – but the Review recommends that the Fund should clearly define its leadership role and how it expects to proactively fulfil this. Although the Fund's related capacity building and intelligence sharing roles are better developed, the Review also recommends that the Fund develops a clear, coherent strategy for these (Recommendation 18).

## Form

The Review concluded that being a **Non-Departmental Public Body (NDPB) is an acceptable delivery vehicle for the Fund**. In making this judgement the Review considered the Fund's functions against the three Cabinet Office tests for NDPB status and also considered the alternative delivery

models set out in the Cabinet Office guidance on Triennial Reviews. The distribution of Lottery funds continues to pass one of the three tests for retaining NDPB status, evidenced by 94% of survey respondents stating that the Fund needs to be, and be seen to be, politically impartial. In addition, two out of the five characteristics of an NDPB were considered essential for the Fund to operate by more than 80% of survey respondents and a further two characteristics were considered essential by more than 60%.

Some of the evidence gathered by the Review has demonstrated a lack of understanding of the status of the Fund. There is an incorrect assumption that it should be independent of Government if it is to make impartial funding decisions, whereas NDPBs are by definition at arm's length from, not independent of, Government. Although the Fund has a broad set of policy directions from the Minister for the Cabinet Office (see Annex F), Government is not involved in its funding decisions. It is also important to recognise that any change to the delivery model could have a significant impact on the ability of the Fund to maintain business as usual and so has to be able to demonstrate significant advantages over the status quo.

In considering whether the Fund's governance and accountability might be improved through another delivery model, the Review has identified that the standards of conduct and responsibility in line with those of Directors of a Company Limited by Guarantee would be preferable to the Fund's current arrangements. The Review recommends that these standards are set within the current delivery framework (Recommendation 3).

The Review has not recommended that the Fund becomes a Company Limited by Guarantee at this time because that change is likely to require legislation and it is believed

to be possible to secure the benefits in terms of governance and accountability through the current delivery model.

## Stage Two – Efficiency, effectiveness, transparency and governance

The Fund is a large, complex organisation with staff spread across the UK in six main locations and a number of smaller offices in England and Wales. The new Chief Executive has already identified that she feels that the organisation can be even more than the sum of its parts and has initiated changes to achieve this.

### Efficiency

**The Fund needs to be more proactive in driving down costs.** Although it has taken the 5% operating cost target seriously, it has viewed this as something to be achieved and does not appear to have identified ways to go beyond it, either to reduce overall costs or to reallocate investment elsewhere. The Review recommends that the Fund develops a performance metric over time to improve efficiencies throughout the business (Recommendation 4).

The overall headcount of the organisation is on a downward trajectory as a result of restructuring and the Business Process Re-engineering (BPR) that has taken place, but the Fund needs to set out its approach to staffing over the next five years to support its new Strategic Framework. This needs to include how it will deliver already identified headcount reductions and how it can further drive down costs (including the relatively large number of staff engaged on a fixed term contract basis in anticipation of further headcount reduction). The change to the delivery of the communications, marketing, strategy, performance and learning functions

at the UK wide level, which came into effect on 1 April 2014, is partly designed to address the issue of duplication (Recommendation 5).

Other areas for improvement identified by the Review include a high manager to staff ratio (up to 1:4) and a very low staff turnover rate (1-2%). In terms of structure there may be scope to rationalise office locations, some of which are historical (Recommendation 8).

### Business Process Re-engineering (BPR)

The organisation is part way through a major BPR programme, of which the implementation of a new Funding Management System (FMS) is a key part. Although the FMS implementation is the subject of a separate Gateway Review process and therefore has not been scrutinised in detail as part of this Review, it would not be appropriate to pass no comment on it because of the impact it has across many areas of the Fund's work.

The FMS implementation has not gone to plan. The rollout of a customer facing portal, which would support applicants and grant recipients in all their interactions with the Fund, has not taken place. The Fund has taken the decision to stabilise the system and assess the benefits delivered. It will then develop a clear plan for the next phases of FMS implementation, and for the wider BPR programme. The separate Gateway Review process will provide further FMS recommendations and capture lessons learned, nonetheless the Fund needs to be clear about what has been delivered to date and what remedial or further action is needed to meet the programme's original objectives, because the implementation issues do not take away the need to improve the grant application/making process. This should be part of a clear strategy about how the Fund will become 'digital by default' (Recommendations 6 and 7).

## Shared services

The Review did not find as much evidence as expected of collaboration and close working between the Lottery distributors. Although it is outside the scope of this Review to make recommendations which impact on other NDPBs, the Review recommends consideration be given to scoping the potential for an increased use of shared services between the Lottery distributors for corporate services and/or grant making (Recommendation 9).

## Data

In all of the analysis around efficiency it has been difficult to identify benchmarks or comparable data. This is in part due to the differing natures of all of the Lottery distributors but also due to the fact that the Triennial Reviews for the other distributors have not yet been carried out. The Review recommends that the Fund, the Department for Culture, Media and Sport and the Cabinet Office work out ways to measure cost effectiveness, to inform the Fund's approach to cost control and to enable better and more effective comparisons of performance to be drawn in the future (including in Triennial Reviews). Preferably this information should be in the public domain in a format that is readily understandable to all. The Cabinet Office and the Department for Culture, Media and Sport should also consider whether grouping the Triennial Reviews of the Lottery distributors together (even if carried out by different Departments) would be helpful (Recommendation 12).

## Effectiveness

**The Fund is an organisation which functions effectively** (92% of survey respondents said it was effective or very effective), meets its stated mission (89% of survey respondents said it was either successful or very successful in doing this)

and works well with the VCSE sector (87% of survey respondents said the Fund works well or very well with the sector). Customer service levels are high (the Review survey supported the Fund's own customer survey) with 87% of respondents satisfied or very satisfied with their interactions with the Fund overall.

Although the application processes operated by the Fund were thought to be proportionate by 68% of those who responded to the survey, 32% disagreed while 48% of respondents said the time taken in the application process was either unpredictable or too long.

The Review found that the Fund could pay more attention to the sustainability of organisations and projects it funds at the start of the process. Stakeholders felt that the Fund had a responsibility to encourage organisations to become sustainable after they had stopped receiving money from the Fund, even if via further grant funding from elsewhere (Recommendation 15).

An independent survey commissioned by the Fund in April 2013 found that "greater engagement at the end of projects" was an area for improvement for the Fund. Evidence provided to the Review reinforced this point, with stakeholders feeling that the Fund pays more attention to getting the money out of the door at the start of the process, at the expense of useful monitoring and evaluation. The Review recommends that the Fund improves its understanding of impact (Recommendation 16).

There is an appetite to share learning within the organisation, but the Review found that this is not hard wired into the operating model of the organisation and relies too heavily on the good will of staff. The Review recommends that the Fund establishes more robust ways of ensuring

that learning is shared internally between the different funding portfolios and externally (Recommendation 17).

### Increasing transparency

**The Review has identified a number of ways in which the Fund can increase the transparency of the way it works**, which is a key driver behind the Government's approach to Public Bodies Reform. The recent NAO report<sup>1</sup> on Public Bodies Reform has highlighted the number of public bodies that fail to meet the three main tests for transparency, which are: publication of an annual report; publication of minutes of Board meetings; and Board meetings being open to the public. Although the Fund is compliant in the first two of these the Review recommends that the Fund makes Board meetings open to the public. The Fund should also be clearer about the role the non-executives play in funding direction and decisions at a national level, and publish information about the number and type of complaints received (Recommendation 27).

In addition the Fund should provide more information about the different aspects of its work – specifically the way it allocates dormant bank account funds, its non-Lottery funds grant making, and its international work (Recommendation 19).

### Governance

Following a self-assessment carried out by the Fund with the Cabinet Office as its sponsor department (and in this case also validated by the Department for Culture, Media and Sport), the Review found the Fund to be broadly compliant with the “Principles of Good Corporate Governance”. However,

the Review has identified a number of other areas where the **Fund should improve its governance arrangements**.

The Fund has a large number of non-executive directors to staff both the UK Board and the four Country Committees. Whilst some of this structure does reflect the devolved nature of the organisation – and it is important that governance arrangements allow the Fund to properly take account of devolved policy directions – there does appear to be some duplication in what the respective committees look at. The Review recommends that the Chair ensures the Country Committees are operating in line with their terms of reference. This should also include distinguishing where the Board and Country Committees are carrying out a governance or advisory role (Recommendation 24).

The Review recommends the Fund reduces the time it takes for matters requiring the attention of Board members to be considered by them (Recommendation 25).

The current Board does not reflect the Government's ambitions for diversity in public appointments. There is also a need to strengthen the financial, commercial and risk management capability of the Board, to balance with experience in the VCSE sector. The Review recommends the Cabinet Office uses the ongoing recruitment of new Board members, and future recruitment rounds, to address and keep these issues under review (Recommendation 22).

Finally, sponsorship for the Fund lies with the Cabinet Office and financial accountability lies with the Department for Culture, Media and Sport which has policy responsibility for the National Lottery. Officials in both departments had already identified the need to better clarify where these roles begin, end, and intersect. Evidence to the

<sup>1</sup> Progress on Public Bodies Reform  
<http://www.nao.org.uk/report/progress-public-bodies-reform>

Review supports the need to do this and the Review therefore recommends that the Management Statement for the Fund is updated with a clear shared understanding of the role of the Cabinet Office as the sponsor (Recommendation 20).

The report includes recommendations for the Fund, the Cabinet Office, and the Department for Culture, Media and Sport. The Fund intends to call an extraordinary Board meeting to consider the recommendations of the Triennial Review. Following this, and no later than three months after the publication of the Review, the Fund will set out how it intends to respond to the recommendations and by when. The Cabinet Office and the Department for Culture, Media and Sport where relevant, will also set out how they will take forward the recommendations of the Review relevant to them, within three months of publication of this report.



## Full list of recommendations

The Review recommends that:

### Function

1. The three main functions of the Big Lottery Fund (distribution of National Lottery funds, distribution of non-Lottery funds, and distribution of funds from dormant bank and building society accounts) all continue.

### Form

2. The Fund remains an executive NDPB.
3. Ministers use policy and financial directions and the terms and conditions of Board members' appointments to deliver greater levels of personal accountability, in line with that expected of Directors of Companies Limited by Guarantee.

### Efficiency

4. The Fund develops a performance metric over time which sets out its approach to cost control and how it will continue to drive operational efficiencies. In doing this the Fund should consider whether the difference in its operating costs between grant delivery of Lottery funds and third party work is appropriate, and separately whether a single operating cost target for Lottery funds (combining what is included in the current 5% and 3% definitions) would be more useful to the organisation and more transparent.
5. The Fund sets out its approach to staffing over the next five years (to align with the Fund's strategic framework for 2015-2021) which addresses overall headcount, staff to manager ratios, turnover and duplication of functions at country and UK level.
6. The Fund sets out what has been delivered to date by the implementation of the new Funding Management System

(FMS), and identifies further or remedial action to address the inefficiencies in the grant making/application process, which the FMS had intended to address.

7. The Fund sets out, as a matter of priority, how it will now deliver 'digital by default' and how this will lead to further efficiencies.
8. The Fund sets out how and when it will meet the government occupancy target of 10m<sup>2</sup>/FTE and identifies how it can exploit different ways of working (such as hot desking and home working) more effectively.
9. The Cabinet Office and the Department for Culture, Media and Sport scope the potential for increased use of a shared service model between the Lottery distributors and other grant making bodies, for corporate services and/or for grant making and the Fund considers shared service opportunities as part of its overall cost control.
10. Greater clarity is provided about the applicability of Cabinet Office spending controls and public body efficiency and reform policies to the Fund by:
  - (a) the Department for Culture, Media and Sport reviewing and updating the Statement of Financial Requirements (2006) and Spending Controls and Authorisations (2011) for the Fund, with input from the Cabinet Office, making more explicit which public sector spending controls and efficiency and reform policies are binding for the Fund as a public body, and where the Fund has discretion whether to implement the guidelines or not; these revised financial directions should cover relevant policy areas such as: digital by default, transparency, advertising and marketing, procurement,

- property and estates including occupation benchmarks, etc
  - (b) the Fund updating its financial regulations and delegations reflecting the updated Statement of Financial Requirements, controls and authorisations
  - (c) the Cabinet Office reviewing and if necessary updating its policy directions to the Fund, to reflect how the Fund is expected to comply on an ongoing basis with key policies which apply to all Cabinet Office sponsored bodies, but that cannot appropriately be included in the Statement of Financial Requirements
  - (d) the Cabinet Office and the Department for Culture, Media and Sport updating their Memorandum of Understanding to agree responsibilities for issuing any future guidelines on public sector spending controls and other policies relevant to the Fund.
11. The Cabinet Office sponsorship team continues to engage with the Grants Efficiency Programme so that the findings from its work about benchmarks for grant funding costs can be used to inform the future work of the Fund.
  12. The Fund, the Department for Culture, Media and Sport and the Cabinet Office work out ways to measure cost effectiveness to inform the Fund's approach to cost control and enable better and more effective comparisons of performance to be drawn with other similar bodies (including in future Triennial Reviews), and consider whether grouping the Triennial Reviews of the Lottery distributors together (even if carried out by different departments) would be helpful in the future.

## Effectiveness

13. The Fund increases commercial awareness amongst its staff.
14. The Fund re-assesses its grant application process to make sure it is proportionate for smaller groups and first time applicants.
15. The Fund promotes the sustainability of the organisations, where appropriate, and the projects it funds, both when it makes award decisions and towards the end of funding.
16. The Fund improves its understanding of impact, for example the role of 'end of grant' monitoring and building this requirement into projects earlier on, focusing on outcomes, and tailoring monitoring to different organisations, in order to ensure they collect more valuable information in a way that is less complex and time consuming for grant holders.
17. The Fund develops a clear methodology for sharing the most valuable information from its funded projects both internally and externally, and leads discussions with other funders to agree what, how and at which level they want to share information.
18. Given its significant influence over grant making in the UK, the Fund defines its sector leadership role, the convening role it will play, and how it will help the sector to build capacity.
19. The Fund improves the transparency of the work it does by:
  - (a) being as clear about its international work as it is about its work within the UK
  - (b) providing full and clear publicly available details on the dormant account spending directions,

budgets and achievements for the whole of the UK

- (c) setting out a clear, publicly available strategy and plan for its third party work which is underpinned by clear aims and objectives, and deliverable over the next strategic framework period.

## Governance

20. The Cabinet Office and the Department for Culture, Media and Sport update their Memorandum of Understanding and the Management Statement of the Fund with a clear statement of their respective roles and responsibilities in relation to the Fund.
21. The Fund confirms to the sponsorship team when the Accounting Officer training has been completed.
22. The Cabinet Office, during the current and future rounds of Board member recruitment:
  - (a) increases the diversity of the Board
  - (b) strengthens the financial, commercial and risk management capability of the Board, to balance with experience in the VCSE sector.
23. The Cabinet Office reviews the terms and conditions of appointment to the Board to:
  - (a) Give Board members a more explicit role to focus on efficiency and effectiveness.
  - (b) Be clear around restrictions on acceptance of other appointments.
24. The Chair ensures that the Country Committees are operating in accordance with their terms of reference, not duplicating discussions which ought to be had either by the country executive team or by the UK Board, and are distinguishing between governance and advisory roles. This may result in changes to the number and time commitment of Board and Country Committee members.
25. The Chair and CEO ensure that matters requiring the attention of the Board are considered in a timely way that maintains corporate momentum; and review executive team attendance at Board and Committee meetings, to better differentiate between the accountabilities of the UK Board and the operational responsibilities of executive directors.
26. The Fund improves links between staff across the UK at all levels in the organisation, including its Board and Country Committee members, in a cost-effective way.
27. The Fund improves the transparency of the way it carries out its work by:
  - (a) promoting the governance arrangements for the organisation more clearly to ensure customers and stakeholders are aware of how and by whom decisions are made
  - (b) including management information about the number and type of complaints in the 13/14 annual report and ensure that this becomes a standard part of the annual report going forward
  - (c) holding Board meetings open to the public
  - (d) reconsidering its approach to publishing data on spend over £500.
28. The Fund completes its ongoing review of its risk process.





# Chapter 1 – Background and Introduction

This document sets out the findings of the 2013/14 Triennial Review of the Big Lottery Fund (the Fund). It describes the purpose of Triennial Reviews, the process adopted for the Review and presents findings based on feedback from stakeholders and analysis of a range of evidence on the Fund's activities and impact. The report draws on this evidence to make recommendations as to the future of the Fund.

## The Triennial Review

### Aims of the review

**1.1** It is government policy that a Non-Departmental Public Body (NDPB) should only be set up, or remain in existence, where the model can be clearly evidenced as the most appropriate and cost-effective way of delivering the function in question.

**1.2** In April 2011, the Cabinet Office announced that all NDPBs still in existence following the reforms brought about by the Public Bodies Act would have to undergo a substantive review at least once every three years. The first year of these reviews would be 2011-12. These Triennial Reviews would have two purposes:

- (a) to provide a robust challenge to the continuing need for individual NDPBs – both their function and their form – employing the 'three tests' discipline
- (b) where it is agreed that a particular body should remain as an NDPB, to review the control and governance arrangements

in place to ensure that the public body is complying with recognised principles of good corporate governance.

**1.3** All Triennial Reviews are carried out in line with Cabinet Office guidance "Guidance on Reviews of Non Departmental Public Bodies", June 2011. This guidance states that reviews should be:

- **Proportionate:** Reviews must not be overly bureaucratic and should be appropriate for the size and the nature of the NDPB in question.
- **Timely:** Reviews should be completed quickly – the first stage ideally within three months – to minimise disruption to the NDPB's business and reduce uncertainty about its future.
- **Challenging:** Reviews should be robust and rigorous. They should evidence the continuing need for individual functions and examine and evaluate as wide a range as possible of delivery options.
- **Inclusive:** Reviews should be open and inclusive. Individual NDPBs must be engaged in reviews. Key users and stakeholders should have the opportunity to contribute to reviews. Parliament must be informed about the commencement and conclusions of reviews.
- **Transparent:** All reviews should be announced and all reports of reviews should be published.
- **Value for Money:** Reviews should be conducted in a way that represents value for money for the taxpayer.

## Context

**1.4** Encouraging and stimulating growth is a core principle for the Government, which is one of the main reasons for seeking to reduce regulatory burdens. The potential for encouraging growth should also be considered. It has relevance to the Triennial Review programme, which looks at reducing the number of unnecessary bodies, which may impose burdens on others.

**1.5** The Fund is currently implementing a new Funding Management System (FMS). This is part of a Business Process Re-engineering (BPR) project and will significantly change the way the Fund operates. The implementation of the FMS is subject to a separate Gateway Review process and the Triennial Review will not seek to duplicate this. The Review will however comment on the expected savings and benefits from the implementation, as well as the business change aspects where they are relevant to areas that are part of the Review.

## Process

**1.6** The Review was led by Emma Boggis, a Senior Civil Servant in the Cabinet Office supported by a team of three other officials.

**1.7** The Review was announced by Written Ministerial Statement on Thursday 21 November 2013 (Annex B) and a copy of the Terms of Reference can be found at Annex D. The Devolved Administrations were also informed of the Review and invited to provide evidence through a variety of means.

**1.8** In accordance with Triennial Review guidance, the size of the organisation warranted the establishment of a Challenge Group to provide robust review and challenge to both the content and the process of the Review. Details of the membership and meetings of the Challenge Group can be found at Annex C.

**1.9** The additional costs associated with the review are £4500. These relate to travel and subsistence costs from visits and meetings attended by review team members during the evidence gathering phase and the costs of preparing the report for publication. This figure includes costs incurred on the review team's behalf by the Fund.

## Evidence and stakeholder engagement

**1.10** The review team mapped groups of relevant stakeholders, in consultation with the Fund. These included management, staff, beneficiaries, other funders, Voluntary, Community and Social Enterprise (VCSE) umbrella organisations, VCSE organisations, Government (at all levels), unions, private sector representatives, and media commentators.

**1.11** The review team visited a number of locations across the UK and used a range of engagement methods to ensure they were able to reach as many stakeholders as possible.

**1.12** The review team published a Call for Evidence survey based on the Terms of Reference which sought the views of customers and stakeholders on the Fund. It was available online and in Microsoft Word format. The review team promoted the survey on the Cabinet Office and Fund websites, as well as proactively sending it to a broad range of stakeholders.

**1.13** The Call for Evidence was also promoted by other groups, for example the Office for Civil Society Local Intelligence Team, who promoted it to their 2,800 England VCSE stakeholders, and the Esmée Fairbairn Foundation, who circulated it to the Social Impact Investors Group. Forums such as the London Funders' Forum and several of the sector's umbrella bodies also alerted their stakeholders to the Call for Evidence.

**1.14** The review team conducted face-to-face engagement with stakeholders. A detailed breakdown of the type of face-to-face engagement used for each stakeholder group is at Annex G.

**1.15** The review team collected a range of other evidence, in order to supplement that provided by stakeholders and to provide statistical information, clarification, and further details on areas of interest. Using existing evidence (not produced specifically for the Review) was also in keeping with the principle of proportionality. A full list of this additional evidence is at Annex G.

### Select Committees

**1.16** The lead reviewer contacted the clerks of the relevant Select Committees (the Public Administration Select Committee and the Culture, Media and Sport Select Committee) on Friday 22 November, informing them of the Review, providing a link to the Written Ministerial Statement, and informing them of the opportunity to provide comments on the Fund.

**1.17** The review team also reviewed a Public Administration Select Committee report from 2007-8 on 'Making grants efficiently in the culture, media and sport sector' which made mention of the Big Lottery Fund.

### Keeping the Fund informed

**1.18** The lead reviewer met with the Chief Executive of the Fund on a regular basis to ensure that the Fund was kept informed and had sufficient opportunity to comment on the approach being taken by the team.

**1.19** The review team would like to put on record their thanks to the Fund for facilitating meetings with staff and stakeholders and responding to requests for information to inform the Review.

### Using the evidence collected

**1.20** The review team used the evidence gathered to inform conversations and discussions throughout the review process. All the conclusions and recommendations made by the review team are based on their assessment of the evidence. Where relevant the specific evidence is highlighted in the relevant part of the report. The detail from specific sources, for example the Call for Evidence, is also summarised in the annexes.

## The Big Lottery Fund

### Overview of the Fund

**1.21** The Fund exists as an executive NDPB under the National Lottery etc Act 1993 (as amended). The Secretary of State for Culture, Media and Sport has responsibility for the National Lottery, including the system of distribution of Lottery funds and all pan-Lottery matters. Policy and sponsorship responsibilities specifically for the Big Lottery Fund transferred to the Minister for the Cabinet Office on 13 April 2011, having previously been the responsibility of the Secretary of State for Culture, Media and Sport. The Permanent Secretary of the Department for Culture, Media and Sport retains responsibility as Principal Accounting Officer for the National Lottery Distribution Fund.

**1.22** The Fund is responsible for distributing 40% of money raised for good causes from the National Lottery. The Fund must distribute this money to health, education, environment, and to charitable causes. The other 60% of the money raised for good causes by the National Lottery is distributed equally between sport, arts, and heritage by other distributors.

**1.23** The Fund is a UK wide organisation. The Minister for the Cabinet Office has powers to issue policy directions with UK wide effect or which relate to England specifically. The relevant Devolved Administration issues policy

directions for Wales, Northern Ireland and Scotland.

**1.24** The functions of the Fund include distributing 40% of all funds raised for good causes (about 11 pence in every pound spent on a Lottery ticket) by the National Lottery; distributing non-Lottery funding on behalf of public bodies (such as the Department for Education and the Office for Civil Society); and distributing money previously held in dormant bank and building society accounts.

**1.25** The Fund is required to report on the extent to which they follow the ‘additionality principle’, that is that National Lottery and dormant accounts funds should be used to fund projects for which funds would be unlikely to be made available by the UK Government or the Devolved Administrations.

### Lottery funds

**1.26** Lottery money does not form part of Exchequer funds and is not consolidated as such. However, it is defined as public money because it is subject to public regulation and accountability in the following respects:

- The money is protected by statute through the National Lottery Acts, which ensure that Lottery money is held in the National Lottery Distribution Fund (NLDF) in proportions agreed in statute, and shared out to the Lottery distributors in these proportions.
- The Chief Executive of each Lottery distributor is accountable to Ministers, who in turn are accountable to Parliament.
- NLDF is under the control and management of the Secretary of State for Culture, Media and Sport.
- The Comptroller and Auditor General examines, certifies and reports on distributors’ annual statement of accounts.

**1.27** Given the amount of money available to the Lottery for distribution, this public

regulation and accountability was regarded as necessary by the majority of stakeholders engaged over the course of the Review.

### Structure of the Fund

**1.28** The Fund is made up of two central functions providing services to the whole Fund and four country directorates, each headed by a director who sits on the Senior Management Team and reports to the Chief Executive. The two central functions are Finance and Corporate Services and Insight, Policy and Engagement. The Insight, Policy and Engagement function was created on 1 April 2014 following a merger of the former Strategy, Performance and Learning and Communications and Marketing functions.

**1.29** The four country directorates cover England, Scotland, Wales, and Northern Ireland. The senior management structure chart is at Annex E.

### Staffing of the Fund

**1.30** The Fund employed 988 FTE at the end of financial year 2012/13. The average number of staff employed during the year was 980. A detailed breakdown of staff numbers including year on year comparisons and forecast staff reductions is at Annex E.

### Big Lottery Fund spend

**1.31** At the end of the financial year 2012/13, the Fund had spent £773,286,000, against an income of £838,688,000.

**1.32** For 2013/14, the Fund had a funding budget of £1,044,670,000, and an operating budget of £54,700,000 (takes into account the expected extra FMS costs but does not yet factor in any benefits realisation).

**1.33** A summary income statement and a breakdown of the Fund’s budget are at Annex E.

### Further information about the Fund

**1.34** References to the corporate documents published by the Fund are also at Annex E.

# Chapter 2 – Findings on the Functions and Form of the Big Lottery Fund

## Context

**2.1** Triennial Reviews examine whether all the functions fulfilled by a public body are still necessary, and if they are, whether the current form of the organisation is the most efficient and cost-effective delivery model for those functions.

**2.2** When considering the form of the organisation, review teams are required to consider both a checklist of alternative delivery models that is provided in the guidance,<sup>2</sup> and consider whether the functions pass one or more of the ‘three tests’ of whether the functions should be delivered ‘at arm’s length’ from Ministers, ie. by an NDPB.

**2.3** It is important to note that NDPBs are not independent of Government – rather they are at arm’s length from it. Some of the evidence gathered as part of the Review was predicated on the view that the Fund was independent of Government, which is incorrect.

**2.4** Annex H sets out information about the key characteristics of delivery models which may be applicable to the Fund.

## What are the functions of the Big Lottery Fund?

**2.5** The Fund’s functions are set out in the National Lottery etc Act 1993 (as amended). In addition it has functions conferred on it under the Dormant Bank and Building Society Accounts Act 2008 (“the Dormant Accounts Act”).

**2.6** The principal functions of the Fund comprise:

- distribution of National Lottery funds (“Lottery funds”) to meet expenditure which is charitable or connected with health, education or the environment
- distribution of non-Lottery funds for these purposes
- distribution of funds from dormant bank and building society accounts (“dormant accounts funds”) to meet expenditure that has a social and environmental purpose.

**2.7** The business objectives and key performance indicators to deliver these functions are set out in the Fund’s Corporate Plan 2013/14.<sup>3</sup> The Fund also reports to the Cabinet Office against its policy directions for England and the United Kingdom, issued to the Fund on 2 April 2012. Scotland, Northern Ireland and Wales also have their own arrangements for informing the Devolved Administrations about their performance in relation to their country-specific directions.

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/230191/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/230191/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf)

<sup>3</sup> Corporate Plan 2012/13, Big Lottery Fund, July 2013.



**2.8** Within the functions and corporate objectives the Fund has 5 ‘portfolios’ of investment across England, Northern Ireland, Scotland, Wales and UK wide. These can be broadly categorised as including demand-led, strategic interventions, third party work and dormant account funds. The UK portfolio includes an international funding programme called International Communities.

**2.9** However, there are some overlaps in how elements of the Fund’s work are defined, for example in Scotland the dormant bank account distribution has the characteristics of third party work.

## **Function 1 – Distribution of National Lottery funds**

**2.10** The Fund divides its Lottery distribution into demand-led/responsive (open funding), strategic interventions and flexible investments as follows:

- Demand-led/responsive funds (including smaller individual grants (up to £10,000)) to address a wide range of issues that have been identified by organisations. Programmes include ‘Reaching Communities’ in England, ‘Awards for All’ that operates in all countries, ‘Investing in Communities’ in Scotland, ‘Reaching out-Supporting Families’ in Northern Ireland, and ‘People and Places’ in Wales.
- Strategic or targeted interventions are evidence based, focused pieces of work designed to make a significant difference to a small number of deep rooted social issues over a longer period of time. Interventions include ‘Fulfilling Lives – Supporting people with multiple and complex needs’, ‘Impact of Alcohol’, ‘Talent Match’ and ‘Mental Health Matters’.
- Flexible Investments are described in England as work that can’t be addressed through demand-led/responsive or

strategic interventions. They offer the opportunity to trial new approaches that have the potential to scale up into strategic work and have included social investment and trusts work. Flexible investments have been made in a range of areas of work that subsequently develop into strategic, collaborative or third party work.

**2.11** As part of its UK funding portfolio the Fund is running an ‘International Communities’ programme. In 2012/13 the total value of the Fund’s international work was £14,415,462. The Fund’s current policy directions state that organisations funded should include “those with a base in the United Kingdom and working overseas.” The Fund is fourth in a table (by grant award size) of the ninety UK based international development funding foundations. The Fund’s work and staff are respected in the sector and engage with relevant organisations including with Department for International Development (DfID) and Comic Relief.

## **Function 2 – Distribution of non-Lottery funds – third party work**

**2.12** Using powers introduced by the National Lottery Act 2006 the Fund has also had power to handle non-Lottery funds on behalf of other organisations, in line with its core purpose to fund projects supporting health, education, environment and charitable purposes. For example, it distributes ‘Coastal Communities’ funding on behalf of Department for Communities and Local Government. It is also able to pursue joint funding schemes (e.g. the ‘Advice Services Transition Fund’ with the Cabinet Office). This work is delivered under the name of the Big Fund. It is underpinned by a third party strategy and was later endorsed by the ‘Fresh Thinking’ document in 2012.<sup>4</sup>

<sup>4</sup> BIG’s Strategic Framework Refresh, Big Lottery Fund, April 2012.

Part of this function also includes the Fund's work with the private sector.

### Function 3 – Distribution of dormant account funds

**2.13** In November 2008 the Dormant Bank and Building Society Accounts Act was passed enabling banks and building societies to transfer money held in dormant accounts to a central reclaim fund for reinvestment in the community. The 'Reclaim Fund' started transferring funds to the Fund in March 2011 to distribute in accordance with the Act and directions issued to the Fund by the Minister for the Cabinet Office and the Devolved Administrations.

### Are the functions of the Big Lottery Fund still necessary?

**2.14** The majority of comments received by the Review about the Fund and its functions related to the Fund's distribution of National Lottery funds. However, the team received sufficient information across the piece to draw appropriate conclusions on all three functions.

**2.15** The Fund is highly valued and respected for the delivery of its smaller demand-led grants to the voluntary and community sector. The Review evidence endorsed the results of the Fund's own VCSE survey of high levels of customer satisfaction. Many stressed the need for the continued role of the Fund and to deliver local funding to high standards.

**2.16** Stakeholders involved in the Fund's strategic programmes reported positive local impact, enabling good partnerships and helping to make investment more focused. As facilitators of this process, the strategic programmes had increased the importance of the Fund's role locally. The Fund's approach to initial partnership working during

the development of strategic programmes was highlighted as needing to be more collaborative with key local partners and commissioners.

**2.17** Third party work partners whom the review team interviewed described the importance of the Fund to the delivery of their grant programmes. The ability of the Fund to use its existing grant and decision making processes, provide access to experienced and knowledgeable staff, and the opportunity to be procured relatively quickly, were all key factors.

**2.18** The distribution of the dormant accounts funds has different operating models across the UK. In England the transfer of funds to Big Society Capital (BSC) is a straightforward financial transaction whilst in Scotland the resources are directly administered by the Fund on behalf of the Scottish Government.

**2.19** The trust and specialisms that are necessary for the Fund's delivery of third party work and dormant accounts work rely on the knowledge, systems and expertise that are core to the Fund as a National Lottery distributor, with the exception of the England dormant account distribution.

**2.20** The review has concluded that:

- The distribution of demand-led funding is an important source of support for the VCSE during a time when other sources of grant funding are reducing. Strategic investment funding provides ongoing opportunities to tackle key issues facing society in a coordinated and joined up way in localities.
- The third party work is an important function for a range of government departments which have benefited from the systems, experience and scale that the Fund has been able to provide.



- The dormant accounts work provides further funding sources to deliver key strategic policy priorities. Whilst the administration of this in England is at the moment purely an accounting exercise and is therefore not interdependent on the Fund’s other functions, the review team do not feel it is practical for this to be carried out separately as a function outside the rest of the dormant account function (not least because in the future the treatment in England may change).

**2.21** However, the Review found that there are opportunities to improve the delivery of the functions and services currently undertaken by the Fund in order to improve their effectiveness. The opportunities for functional improvements are described in Chapter 4.

### Recommendation 1

The three main functions of the Big Lottery Fund:

- distribution of National Lottery funds to meet expenditure which is charitable or connected with health, education or the environment
- distribution of non-Lottery funds for these same purposes
- distribution of funds from dormant bank and building society accounts, to meet expenditure that has a social and environmental purpose

all continue.

## Evidence and analysis of Big Lottery Fund functions

### Evidence provided on the Fund’s functions and analysis

**2.22** There was strong endorsement from all sources of evidence gathered by the

Review for the continued need for the three functions to be fulfilled. The Call for Evidence survey found that 96% thought that some or all of the Fund’s functions should continue, with over 80% saying all three of them were needed.

**2.23** There is good awareness amongst the Fund’s stakeholders of the Fund’s functions. Of those responding to the question in the Call for Evidence 95% recognised the three functions of the Fund.

**2.24** Even those who were not aware of the three functions were familiar with the Lottery distribution function and it appears that most people see this as the main function of the Fund. Comments from the Call for Evidence included:

*“Funding from Big Lottery Fund is an absolute lifeline to community groups and charities across the country.”*

*“Because as the largest and best nationwide funder Big Lottery Fund is well managed, well-structured and ideally positioned to make a real difference to deprived communities through a mixture of large and small and long and short term grants (for both capital and revenue projects).”*

*“The Big Lottery helps an extremely wide and varied community. Without the Big Lottery many worthwhile organisations would not exist.”*

**2.25** The importance of the grant distribution to small VCSE groups was heard many times throughout the Review with people saying that the demand-led programmes are important sources of funding for voluntary groups. One respondent to the Call for Evidence said:

*“Big Lottery Fund is ideally placed to continue to distribute this funding due to its established infrastructure, knowledge,*

*skills and experience including extensive experience and understanding of the voluntary and community sector.”*

**2.26** Many stakeholders who engaged with the Review had experience of the Fund’s strategic investments. These were broadly welcomed as an important source of funding and focus for key strategic issues facing an area. However, there were questions raised about how the Fund approached some of this work in joining up with local partners.

**2.27** The Fund is seen by a key Government stakeholder to be a significant contributor to the UK’s portfolio of international work. Its strengths are in its VCSE engagement and communications experience rather than in international policy skills and it is seen as an important partner in ongoing collaboration with other key UK international work funders.

**2.28** The distribution of dormant account funds caused the most surprise amongst a minority of people reflecting limited awareness of the full functions of the Fund by some. Comments made in the Call for Evidence included:

*“Was unaware of the Dormant Bank/ Building Society accounts redistribution”*

*“I’m aware of the first two functions, although I’m currently unaware of the distribution of funds from Reclaim Fund Ltd.”*

**2.29** Further opinions questioned the need for and appropriateness of distributing other funds and dormant account funds. However the majority saw where the Fund adds value to these functions and considered it well placed to deliver them.

**Is an arm’s length body the most efficient and effective way to deliver those functions?**

**Why was the Big Lottery Fund established as an NDPB?**

**2.30** The Big Lottery Fund is a Non-Departmental Public Body (NDPB), which is broadly defined as:

*‘a body which has a role in the processes of national Government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm’s length from Ministers’.*

**2.31** The Fund has a role in the processes of national Government and is therefore a ‘public body’, rather than a charity or a private company, because it was established with the express purpose of distributing income from the National Lottery, and the Lottery itself was set up by Government specifically to generate money for good causes (see the National Lottery etc. Act 1993 for more detail).

**2.32** As the National Lottery is state sponsored, the relevant Secretary of State is accountable for it, which is not the case for privately or community run lotteries such as the Health Lottery. The statutory responsibilities of the Secretary of State for Culture Media and Sport in relation to the National Lottery include:

- (a) ensuring that the National Lottery is run with propriety, and that every participant in it is protected
- (b) control and management of the National Lottery Distribution Fund (into which the total Lottery income is paid and from which all Lottery distributors then receive their allocated proportion of it)
- (c) protecting (using policy and financial directions) the public interest in how

the income is subsequently distributed and spent by all the nominated National Lottery distributors.

### What kind of NDPB is it?

**2.33** The Fund is an ‘Executive NDPB’, (rather than an Advisory NDPB). Executive NDPBs have the following key characteristics:<sup>5</sup>

- (a) Are usually established in bespoke legislation or under the Companies Act. A small number of NDPBs have been established by Royal Charter. **[The Fund was established through the National Lottery Act 2006.]**
- (b) Are (with a couple of exceptions) not part of The Crown but have their own legal personality.
- (c) Carry out a wide range of administrative, commercial, executive and regulatory or technical functions which are considered to be better delivered ‘at arm’s length’ from Ministers. **[This means a significant degree of autonomy but not full independence.]**
- (d) Have a regional or national remit. Bodies which operate at a local or international level are rarely NDPBs. **[The Fund operates nationally across the whole of the UK.]**
- (e) Have varying degrees of operational autonomy and independence from Ministers and the sponsoring department – but all work within a strategic framework set by Ministers. They are directly accountable to Ministers who, in turn, are ultimately accountable to Parliament and the public for the performance of their NDPBs and their continued existence. **[The Cabinet Office sponsors the Fund and the Minister for the Cabinet Office provides the policy directions<sup>6</sup> that broadly set the Fund’s strategic framework for the whole of the UK, as the Cabinet Office has policy responsibility for Civil Society on behalf of the UK Government; the Secretary of State for Culture, Media and Sport sets financial directions for the Fund; and the Minister for the Cabinet Office and the Devolved Administrations provide policy directions for the Fund’s work within (respectively) England, Scotland, Wales and Northern Ireland.]**
- (f) Are headed by boards (or occasionally office holders) comprising of an independent, non-executive chair and a majority of non-executive members. Board members are usually appointed by Ministers or by the Queen on the advice of Ministers. **[The Fund has a non-executive Chair and all the Board members are non-executive. The Chair and Board members are appointed by the Minister for the Cabinet Office.]**
- (g) Generally, have a CEO with day-to-day responsibility for managing the body, who is appointed by the Board. The CEO and staff are not usually civil servants. In most cases the CEO would be designated as the Accounting Officer for the NDPB and the sponsor department’s permanent secretary, as Principal Accounting Officer, would usually be involved in the designation. **[In the Fund’s case, the financial accounting line is to DCMS, which has responsibility for the Government’s policy on the National Lottery and for distribution of the income from it.]**

<sup>5</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/80075/Categories\\_of\\_public\\_bodies\\_Dec12.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf)

<sup>6</sup> These are provided in Annex F in the separate Annexes document.

- (h) Do not have their own Estimate; they are instead funded within the Estimate of their sponsor department. This is usually delivered through a grant or grant-in-aid, although many Executive NDPBs also generate additional income through other sources. Some are funded by levies on particular sectors and receive no central funding. **[The Fund is primarily funded from the Lottery income it receives, with UK Government Ministers giving direction on the percentage of Lottery income that the Fund can use for its operating costs, with additional third party work delivered on a cost recovery basis and not subsidised by Lottery income.]**
- (i) Are accountable for their own budget and publish their own annual report and accounts. Each will have a sponsor department with whose accounts the NDPB's will be consolidated (as they are considered as central government for Office for National Statistics (ONS) purposes). **[The Fund publishes an annual report and accounts and its accounts are consolidated into those of DCMS, alongside the accounts of all the other Lottery Distributors sponsored by DCMS.]**
- (j) The Comptroller & Auditor General is normally the external auditor. **[This is the case for the Fund.]**

**2.34** The 'at arm's length' nature of the Fund is written into the legislation in a number of ways. For example:

- (a) The Fund has broad discretion as to how it distributes Lottery funds, providing that its distributions are to meet expenditure that is charitable or connected with health, education or the environment. While it has the power to consult others about distribution decisions, it is not obliged to do so.

- (b) The 'additionality principle' that proceeds of the National Lottery should be used only 'to fund projects, or parts of projects, for which funding would be unlikely to be made available' by a government department or Devolved Administration.
- (c) Before making changes in the Fund's powers to distribute Lottery money, the relevant Secretary of State (Minister for the Cabinet Office) is required to consult with the Fund and with the Devolved Administrations.

**2.35** As an NDPB the Fund is sponsored by the Cabinet Office. Sponsorship of an NDPB requires a sponsor team to be established within the department, which not only represents the Minister in providing appropriate oversight and scrutiny of the body, but also provides ongoing support and assistance to the NDPB. This provides the Fund with a number of benefits and opportunities. For example:

- (a) The Office for Civil Society (OCS) reports to the Minister for Civil Society<sup>7</sup> who is responsible for a number of government policies around supporting and strengthening the voluntary and community sector that is served by the Fund, such as: making it easier to set up and run a charity, social enterprise or voluntary organisation; promoting social action, encouraging and enabling people to play a more active role in society; and growing the social investment market.
- (b) Part of the OCS sponsorship team's role is to keep the Fund informed of developments in the Cabinet Office and emerging Government policy and initiatives that are relevant or of interest to the Fund – this degree of openness and transparency is enabled by the Fund being a public body.

<sup>7</sup> <https://www.gov.uk/government/ministers/parliamentary-secretary-minister-for-civil-society>

- (c) The sponsorship team also aims to represent the Fund, its challenges and its work, in a balanced way to Ministers, to colleagues within the Cabinet Office and across Whitehall.
- (d) The sponsorship team is able to facilitate and/or advise the Fund when its work involves engaging with other government bodies.

**2.36** More information on different types of public body, including NDPBs, is available on the Public Bodies Reform page on the Gov.uk<sup>8</sup> website.

### **Does the Fund pass the three tests for being an NDPB?**

**2.37** The Government’s presumption is that if a ‘public function’ is needed then it should be undertaken by a body that is democratically accountable at either national or local level, and that such a body should only exist ‘at arm’s length’ from Government (rather than any closer) if it meets one of three tests:

1. It performs a technical function (which needs external expertise to be delivered).
2. It performs a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions).
3. It performs a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity.

**2.38** The Review has concluded that the work of the Fund does not pass the first and third test, but that its primary function of distributing Lottery money does require political impartiality as does the distribution of dormant account funds.

### **Test 1 – Technical function (fail)**

**2.39** The Fund does provide a specialist grant making function, but government departments also do this activity, albeit often on a smaller scale. The benefit of having an arm’s length body to distribute £770 million in Lottery income a year (and deliver third party and dormant bank account work) is primarily due to the volume of this work and not due to the work being of a technical nature.

### **Test 3 – Establish facts and/or figures (fail)**

**2.40** Although the Fund does gather facts and figures about its work and the impact of the grants it awards, this is not an essential function as it would be for other organisations producing statistics used by the Government to develop policy and explain it credibly to the public.

### **Test 2 – Political impartiality (pass)**

**2.41** There are several reasons why the Fund’s work needs to be, and be seen to be, delivered with absolute political impartiality. The first is that the money distributed by the Fund comes from the Lottery ticket buying public, and not from income or indirect taxes applied to the population at large. It is therefore ‘the public’s money’ for which a degree of care-taking and accountability is required given the scale of it, rather than public money from tax income that a Government is democratically elected to raise and spend.

**2.42** Secondly, and building on the first point, customers and stakeholders strongly expect the Fund to be politically impartial in its decision making, and anything that causes a perception that this may not be the case, such as undue influence over specific funding decisions or instructions about where to direct strategic programmes, would cause alarm. The Call for Evidence survey asked for views on whether or not the work of the Fund

<sup>8</sup> <https://www.gov.uk/public-bodies-reform>



must be politically impartial. This question received a 94% “Yes” response.

**2.43** Since before the National Lottery was launched in 1993, successive Governments have adopted the policy that Government should not benefit financially from Lottery ‘good cause’ funding. This principle was reflected in the National Lottery etc. Act 1993 by amendments made through the National Lottery Act 2006, which require all Lottery distributors to report annually on their additionality policy and practice, as follows:

*“The report shall set out the body’s policy and practice in relation to the principle that proceeds of the National Lottery should be used to fund projects, or aspects of projects, for which funds would be unlikely to be made available by—*

- *a government department,*
- *the Scottish Ministers,*
- *a Northern Ireland department, or*
- *the National Assembly for Wales.”*

**2.44** Current policy directions<sup>9</sup> require the Fund to take account of the need to ensure that all its funding is additional and complementary to Government and other funders. This requirement is articulated in slightly different terms in the England, Scotland, Wales and UK wide policy directions, while no reference is made to the additionality principle in the Northern Ireland directions:

- **England and UK:** “the development of programmes and funding of projects should complement, add value and be distinct from the work of other funders and parties working towards the Fund’s goals”.
- **Wales:** “The need to operate within the distinctive Welsh policy, governmental,

social, economic, environmental and cultural context, ensuring funds complement and add value to, whilst remaining distinct from, the work of Government”.

- **Scotland:** “the development of programmes should complement and add value to the strategies and activities of partners and stakeholders”.

**2.45** The Review recognises that it is hard to strictly define ‘additionality’ in an environment where public sector investment is generally declining.

### Comparison of alternative delivery models for the Fund

**2.46** Triennial Reviews are required to consider whether the functions of an NDPB, if still required, could be delivered more effectively by a different organisational delivery model. The options to be considered fall broadly into two categories: inside central government or outside it.

#### **2.47 The alternative delivery model options to be considered inside central government are:**

- (a) bringing the functions of the NDPB in-house
- (b) merging the existing NDPB with another public body
- (c) delivering the functions of the NDPB instead via an Executive Agency
- (d) retaining the status quo i.e. continued delivery by the existing NDPB.

#### **2.48 The alternative delivery models outside central government include:**

- (a) transferring the NDPB’s functions to local government
- (b) outsourcing the functions to the private sector

<sup>9</sup> See Annex F.

- (c) converting the existing organisation into a corporation or company
- (d) moving the functions or the organisation itself into the VCSE sector.

### Criteria used for assessing alternative delivery models for the Big Lottery Fund

**2.49** The review team’s priority when considering alternative delivery models for the Fund was to ensure that any recommended changes would deliver greater benefits than the current NDPB status quo, and that the costs of implementing such changes would not outweigh the benefits of making them.

**2.50** As well as considering whether the three functions of the Fund could be delivered by other organisational models inside or outside of central government, the review team also considered how well each alternative delivery model would support the aims and principles underpinning what the Fund does, including the requirements set out in legislation.

**2.51** Given the scale and significance of the Lottery money distributed by the Fund, the optimum delivery model will achieve an appropriate balance between the statutory responsibilities of Ministers and the autonomy of the Fund. This means it will:

1. Give full governance accountability and operational control to the Fund’s Board to lead, manage and improve the organisation.
2. Enable Ministers (including in the Devolved Administrations where relevant) to fulfil their statutory responsibilities for the Fund as a National Lottery distributor, including the ability to:
  - define the overall purpose of the Fund
  - set broad parameters for the kind of ‘good causes’ the Fund should support

- define what would be inappropriate and unacceptable uses of public money by the Fund, such as funding terrorist organisations or cross-subsidising third party work with Lottery money
- hold the Fund to account on its effectiveness, efficiency, governance and transparency and
- intervene in extreme circumstances if necessary to protect the public interest, e.g. in cases of negligence or wrongdoing by the Fund’s Board.

3. Be an appropriate vehicle for the management of public money, providing sufficient transparency, controls, and assurance to the Department for Culture, Media and Sport Ministers responsible for the National Lottery Distribution Fund as a whole.

**2.52** In relation to what the Fund does and how it does this, the Review concluded that the optimum delivery model for the Fund will:

1. Meet the second test for being an NDPB (see paragraphs 2.37 to 2.45), by ensuring that the Fund can make all its funding decisions independently of government influence, and with political impartiality.
2. Allow and enable the Fund to fulfil its purpose in distributing Lottery money to good causes, as set out in legislation, and recognising the ‘additionality principle’.
3. Allow effective delivery of all the functions of the Fund, as currently set out in legislation, at a national level across the UK.
4. When distributing Lottery money to good causes, allow and enable the Fund to:
  - manage open demand-led funds and also develop and deliver longer term strategic programmes

- have credibility with both the VCSE sector and with the Lottery ticket buying public and
  - keep operating costs to a minimum so it can channel the maximum amount of its income into funding and frontline services.
5. Allow the Fund to:
- fulfil a leadership and capacity building role within the VCSE sector
  - innovate and collaborate with partners in both the VCSE sector and the public sector
  - contribute to development of government policy (by both central and local government).

### **Assessment of delivery model options inside central government**

**2.53** Details of the Review’s assessment of delivery models inside central government against each of the assessment criteria can be found in Table 1 at Annex H.

### **Bringing the functions of the NDPB in-house**

**2.54** Integrating the Fund into its sponsor department, the Cabinet Office, has significant practical downsides, as it would mean bringing a large transactional operation, and the associated headcount and overheads, into what is a small policy department. It would also be highly unpopular with the VCSE sector, which would see it as a loss of autonomy in grant making decisions, while Lottery ticket buyers would be concerned about whether or not their money was genuinely ring-fenced for good causes.

**2.55** As the functions of the Fund pass one of the tests for being delivered at arm’s length from Government, the Review does not recommend that these functions are brought any closer into central government than they are currently.

### **Merging the existing NDPB with another public body**

**2.56** The most appropriate merger would seem to be with one of the other eleven Lottery distributors, all of which are sponsored by the Department for Culture, Media and Sport and direct Lottery funds to the arts, heritage, or sport.

**2.57** However none of these are an obvious fit with the Fund: most have significant alternative sources of income affecting their business model, which the Fund does not have; all but three operate in only one home nation rather than across the UK as the Fund does now; and there is a limited overlap between the VCSE sector and those covered by the other Lottery distributors, meaning that their purposes, priorities and functions may not align well in practice.

**2.58** Although this option appears to offer some potential for efficiency savings, the Review has concluded that these are not significant enough to outweigh the cost, risks and disruption of implementing such a merger. Potential for greater collaboration with the other Lottery distributors is not however ruled out and is covered in chapter 3 below.

### **Delivering the functions of the NDPB instead via an Executive Agency**

**2.59** An Executive Agency operates a step closer to Government than does an NDPB (indeed, Executive Agencies have no separate legal personality from their parent department); this model therefore has many of the same disadvantages as bringing the Fund’s functions in-house and the Review does not recommend it, for the same reasons.

### **Continuing delivery by the existing NDPB**

**2.60** On analysis, this remains the most appropriate delivery model for the Fund within central government, given the balance it provides between the statutory responsibility



of Ministers and the autonomy of the Fund, and the effectiveness levels and credibility with stakeholders and customers of the existing NDPB organisation.

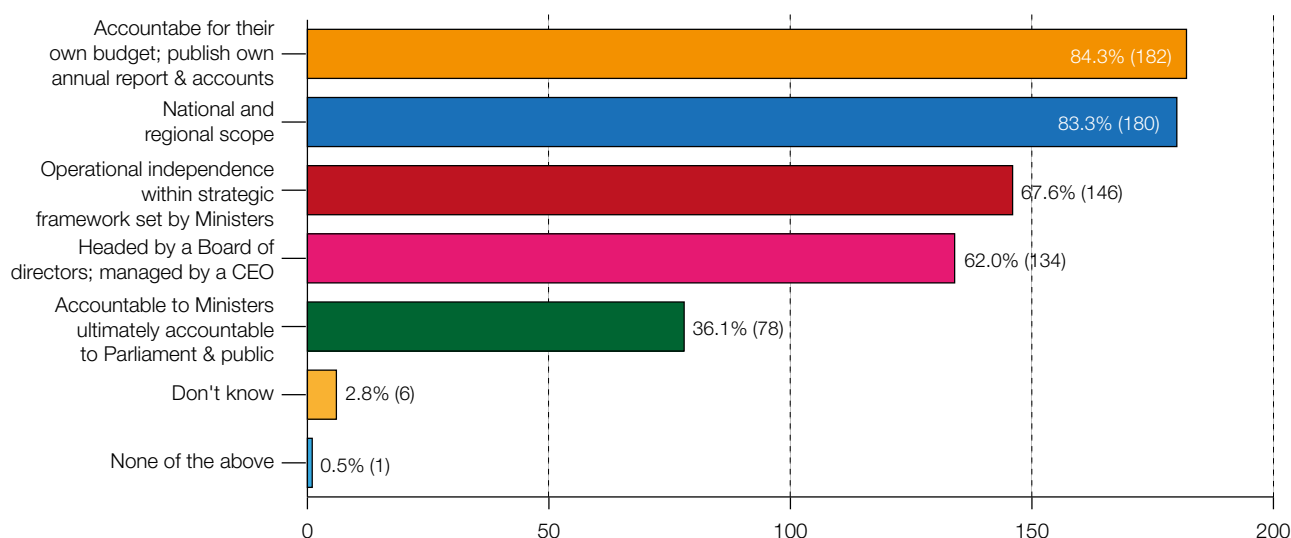
**2.61** The Review found no evidence to suggest that the Fund has been politically influenced in its day-to-day funding decisions by Ministers, which would have supported VCSE sector concerns about whether the Fund may be ‘too close’ to central government to be autonomous.

**2.62** The Call for Evidence responses suggest that VCSE sector concerns about the independence of the Fund do not translate into a clear consensus amongst the Fund’s stakeholders and customers around a preferred alternative delivery model. The Call for Evidence survey provided a list of five of the key characteristics of Executive NDPBs and, although these are not all unique to NDPBs, asked people’s views on which of these are essential for the Fund to operate. Many respondents chose more than one option. Four out of the five characteristics were considered ‘essential’ by the majority

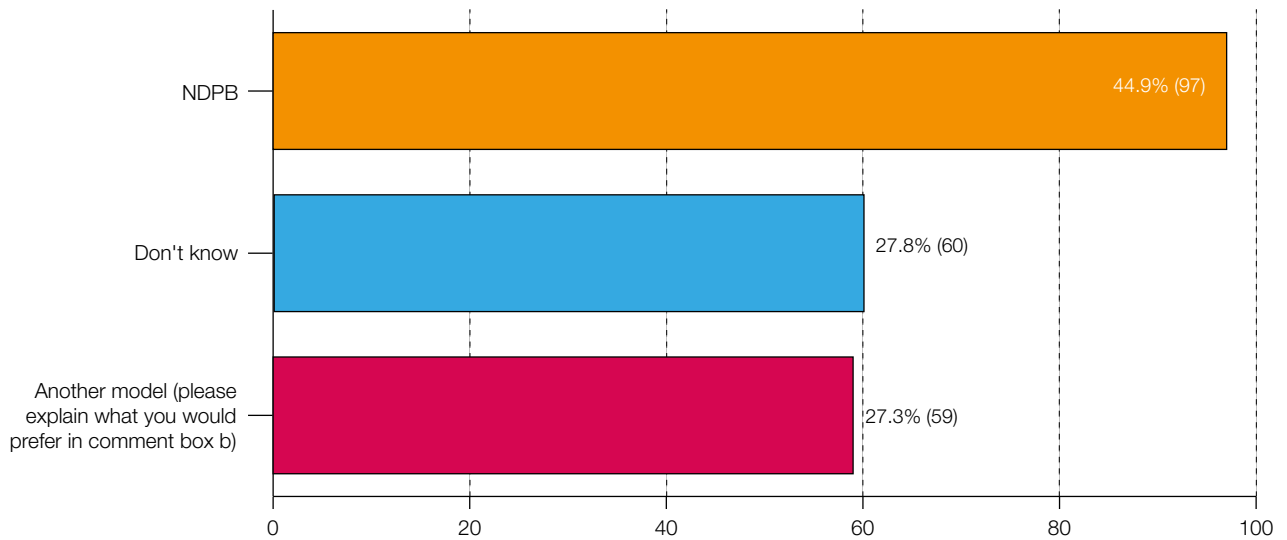
of people who answered the question, which suggests that the Fund’s status as an NDPB currently works well in many respects.

**2.63** The survey then asked whether or not being an NDPB is the most efficient organisational model for the Fund (question 17). There was some uncertainty amongst respondents on this topic, as 28% (60) of the 216 people who answered this question said they did not know. However, of the remaining 156 who did express an opinion, 62% (97) favoured the Fund being an NDPB, while 59 people (38%) favoured some alternative form of organisation.

**2.64** Ninety people provided additional comment in response to the question regarding delivery models for the Fund. A significant proportion of these comments support maintaining the NDPB status quo, while four emphasise the need to maintain Government scrutiny, even of a more independent body. Two respondents suggest merging Fund activities with other Lottery distributors.



**Question 16: The following characteristics are all features of NDPBs. Which of these do you think are ESSENTIAL for the Big Lottery Fund to operate? (216 responses)**



**Question 17: Do you think an NDPB is the most efficient model for the Fund, or would it be more efficient as another model (for example, if it were moved outside of Government, run by a Government Department, merged with another organisation, or delivered by another organisation)? (216 responses)**

**2.65** However, many suggest in general that the Fund should have more independence from Government, and the alternative model most often suggested is that the Fund should move out of the public sector and into the VCSE sector it serves, although there are many different options proposed for what that might look like. Some of these alternative organisational models have therefore been considered by the review team.

### Assessment of delivery model options outside central government

**2.66** The ONS classifies which bodies are in the public sector and which are not. The ONS currently classifies the Fund as a “central government” body, on this basis:

*“In summary, the difference between the public and private sectors is determined by where control lies, rather than by ownership or whether or not the entity is publicly financed. International guidance defines control as the ability to determine general corporate policy. For example, this control can be exercised through the*

*appointment of directors, control of over half of the shareholders’ voting power, through special legislation or decree, or through regulation.”*

**2.67** This is an administrative rather than legal classification, and means that while Ministers retain current levels of statutory responsibility for the Fund, the ONS will continue to classify the organisation as being in central government, e.g. as an NDPB, regardless of its organisational delivery model. This has implications for how the Review has considered the range of delivery models outside of central government, because some delivery models involving the private sector, and/or the VCSE sector, are either incompatible with NDPB status and existing legislation or, when combined with NDPB status, become overly complex and bureaucratic. These options are summarised in Tables 2 and 3 at Annex H.

### Transferring the NDPB’s functions to local government

**2.68** The Review concluded that devolving the Fund’s grant making functions to local

government would result in: the loss of the Fund as a key asset in the VCSE sector; a drop in efficiency and effectiveness caused by duplication of efforts and varying capabilities at local level; and increased political pressure at local level to use Lottery income to fill budget and service shortfalls. This model is not recommended by the Review.

### **Outsourcing the functions to the private sector**

**2.69** Outsourcing the functions may potentially deliver greater efficiencies and increased control for Ministers, but the Review concluded that those limited benefits would be offset by a reduction in effectiveness and flexibility caused by the contractual relationship with Government, and a lack of credibility with the VCSE sector that the Fund has been set up to serve.

### **Converting the Fund into a public corporation**

**2.70** The public corporation model also offers some potential benefits but does not appear feasible due to the fundamental requirement for a public corporation to cover 50% of its operating costs from selling goods and services. It is uncertain whether there is sufficient demand in the market for the Fund to deliver grant making services on sufficient scale to achieve this, and even if there were, the Fund is prohibited from using Lottery income to subsidise the necessary business generation activities to secure this work.

### **Converting the Fund into a Company Limited by Guarantee**

**2.71** This model offers several benefits, including greater clarity of autonomy and accountability for the Fund's UK Board (the members of which comprise the Fund as a legal entity), as a Company Limited by Guarantee (CLG) is subject to requirements under the Companies Act. Most CLGs are

nevertheless not-for-profit organisations, which would suit the mission of the Fund. In addition, the CLG model may also be compatible with NDPB status, because as the founding Members of the organisation, Ministers would still be able to fulfil their statutory responsibilities for the Fund.

**2.72** As the founding Members of the new CLG organisation would be Ministers, and because Members control a CLG as shareholders do in private companies limited by shares, this change could be perceived by the VCSE sector and the public as an unwelcome increase in ministerial control over the Fund. Also the existing staff, who are passionately committed to the Fund's 'good causes' mission, may not wish to work for an organisation they believe is more akin to the private sector and/or under greater political influence, even if in reality the CLG, as a not-for-profit organisation, is no more commercial than an NDPB.

### **Moving the functions or the organisation itself into the VCSE sector**

**2.73** The Review considered converting the existing NDPB into four delivery model options:

- (a) Charitable Company Limited by Guarantee (CCLG)
- (b) Charitable Incorporated Organisation (CIO)
- (c) Charity or Charitable Trust (CCT)
- (d) Community Interest Company (CIC).

The nature of each of these types of organisation, and the advantages and disadvantages of each as a delivery model for the Fund, are outlined in Annex H.

**2.74** Each of the first three options, as charities, would be likely to satisfy VCSE sector preferences for a greater degree of independence from Government for the Fund, and would therefore potentially

have more credibility than the Fund's current NDPB status. However, giving the Fund independence rather than its current autonomy would undermine the Minister's ability to meet statutory responsibilities for the Fund as a National Lottery distributor.

**2.75** The alternative is to consider whether a Charitable CLG, CIO or charitable trust could also operate effectively as an NDPB, providing an appropriate balance between the statutory responsibilities of Ministers and the autonomy of the Fund. Although there are examples of charitable organisations being classified by the ONS as also having NDPB status, ministerial oversight required for NDPB status conflicts with charity law requirements for independence. This conflict can be overcome by primary legislation, but the increased bureaucracy involved in trying to marry these two models inside one organisation, in a way that would satisfy both Government and the Charity Commission, works against the Public Bodies Reform policy aim to improve efficiency across the wider public sector. The Review therefore does not recommend options (a) to (c).

**2.76** The best option for the Fund amongst the delivery models in the VCSE sector is the Community Interest Company. These are less tightly regulated than organisations with charitable status, provide the Board level governance and accountability of organisations subject to company law but also demonstrates the priorities of the VCSE sector in both the community interest test and the asset lock.

### Conclusions on delivery model for the Fund

**2.77** In relation to alternative delivery models, the Review concluded that:

- (a) none of the alternative models considered would deliver significantly greater benefits (against the assessment criteria) than

the Fund's current NDPB status, and therefore

- (b) it is very likely that the costs of implementing a different delivery model would outweigh the benefits of doing so.

**2.78** In relation to the Fund's current NDPB status, the Review concluded that:

- (a) the reasons for originally establishing the Big Lottery Fund as an NDPB remain valid while its purpose is to distribute income from the state sponsored National Lottery, and therefore
- (b) any alternative delivery model would have to be compatible with NDPB status.

**2.79** In summary, the models that the Review concluded are least suitable for the Fund are:

- (a) **moving the Fund closer to Government**, because it conflicts with the political impartiality test (which identifies the Fund as a body which should operate at arm's length from Ministers), and would lack credibility with the VCSE sector and the public (see paragraphs 2.54, 2.55 and 2.59)
- (b) **merging the Fund with another Lottery distributor**, because there appear to be no strategic benefits (see paragraphs 2.56 to 2.58)
- (c) **devolving the Fund's functions to local government**, because the loss of existing economies of scale, tried and tested processes, and UK wide approach would reduce overall efficiency and effectiveness (see paragraph 2.68)
- (d) **outsourcing the Fund's functions to the private sector**, because there is no guarantee a private sector provider could do any better than the existing organisation, moving to a contractual relationship would introduce inflexibilities and possibly unforeseen costs, and

private sector provision would lack credibility with the VCSE sector and the public (see paragraph 2.69)

- (e) **converting the existing Fund organisation into a public corporation**, because the Fund cannot use Lottery income to subsidise other grant making or commercial activities and would not be able to cover 50% of its operating costs from sales of services and products, as required under this model (see paragraph 2.70)
- (f) **converting the existing Fund organisation into a charitable body**, because this would increase governance complexity and bureaucracy for the Fund, in having to meet the conflicting requirements of Ministers and of the Charity Commission (see paragraphs 2.73 to 2.76).

**2.80** The Review concluded that of all the alternative delivery models considered, the **Company Limited by Guarantee** (CLG – see paragraphs 2.71 and 2.72) and the **Community Interest Company** (CIC – see paragraph 2.76) provide the best fit with the assessment criteria and have the most potential to be compatible with NDPB status. They are subject to requirements under the Companies Act, they both provide enhanced governance and Board level accountability, yet they both have a not-for-profit ethos.

**2.81** The Review then explored whether there are similar examples of public bodies operating as CLGs or CICs that would demonstrate the value of these alternative models. The Financial Services Authority was, and HS2 is, a public but non-statutory body originally set up as a CLG. The Fund, however, is a statutory body with its powers defined in legislation, and to convert the existing Fund organisation into a CLG would be likely to require changes in legislation. Most CICs are relatively new (introduced in

2005) and currently there is no exemplar CIC organisation on the scale of the Fund; converting the Fund would therefore be a potentially high risk pilot.

**2.82** Finally, to weigh up the advantages and disadvantages of converting the Fund into a CLG or CIC, the Review explored whether the governance and accountability duties under these models would offer enough benefits to make a change in model worthwhile. The team concluded that:

- (a) There is little in the substantive content in the duties of directors of a CLG or CIC that adds to the obligations that either (i) already exist on UK Board members under the National Lottery etc. Act 1993 and general principles of public law (which governs the exercise of power by Government, statutory bodies, and other bodies which discharge public functions) or (ii) could readily be placed on the Fund's UK Board through policy and financial directions given by Ministers or through their terms of appointment (which are determined by Ministers).
- (b) While the means under the Companies Act of enforcing directors' duties are different to the means of enforcing duties that stem from legislation and general public law, these differences seem unlikely to make much difference, in practice, to the accountability of the Fund's UK Board members.

**2.83** The Review has therefore concluded that:

- (a) the disruption, risk and costs of changing the Fund's organisational model to Company Limited by Guarantee or Community Interest Company would outweigh the benefits of doing so, but
- (b) some of the benefits from these models can and should be delivered within the existing NDPB structure, and that

- (c) there are benefits and opportunities for the Fund to being an NDPB, which customers, stakeholders and staff may not fully understand (see paragraphs 2.34 and 2.35).

**Recommendation 2**

The Fund remains an Executive Non-Departmental Public Body.

**Recommendation 3**

Ministers use policy and financial directions and the terms and conditions of Board members' appointments to deliver greater levels of personal accountability, in line with that expected of Directors of Companies Limited by Guarantee.

# Stage Two of the Triennial Review



## Chapter 3 – Efficiency

### Context

If the conclusion from Stage One of a Triennial Review process is that there is an ongoing need for the functions and form of the NDPB to continue, Stage Two includes looking at the way the organisation operates in order to identify scope for increasing efficiency and effectiveness. Following the conclusion of Stage One of the Triennial Review of the Fund, this chapter reviews the organisation against a number of important efficiency measures, seeking to draw on established benchmarks or appropriate comparison data when it is useful to do so.

### Operating costs

**3.1** The Fund agreed an Operating Cost Strategy 2011-2015 in October 2011. This saw the Fund move from internally generated targets, which had resulted in some limited downward pressure on costs, to a more fundamental change which took account of a number of factors including:

- (a) the Fund's share of Lottery funding being reduced from 50% to 40%
- (b) a focus almost entirely on funding the voluntary and community sector
- (c) the need, in line with other Lottery distributors, to reduce the cost of Lottery 'administration' to 5% of Lottery income.

**3.2** On the operational merger of Community Fund and New Opportunities Fund in 2004, the then Secretary of State

set a target of a reduction in operating costs of 10-20% from the pre-merger level. This target formed the basis for the management of operating costs up to 2008-09. Savings of 15% were delivered by 2008-09, mainly by the relocation of a large number of posts out of London and the South East to Birmingham and Newcastle. In 2008-09 the operating costs were 8.9% of Lottery income.

**3.3** Extensive discussions took place, mainly between the Lottery Forum and the Department for Culture, Media and Sport about the exact meaning of the requirement to reduce 'administration' costs. There was an early recognition that many of the operating costs of Lottery distributors were not 'administration' costs in the sense of popular usage, but included costs providing services to grant applicants and recipients and to the public. As a result of these discussions a two level target for the ratio of Lottery operating costs to Lottery income was agreed:

- (a) a ratio of 8% for total operating costs
- (b) a ratio of 5% for core administration costs, excluding a schedule of costs considered to provide 'front-line services'.

**3.4** The frontline costs (3%) target covers

- (a) **Outreach work:** The cost of identifying potential applicants and informing them about the availability of Lottery funds and encouraging them to apply.
- (b) **Information and advice on Lottery programmes:** Cost of provision of



information materials, websites, and telephone helplines. This does not include dealing with applicants once they have made the application.

- (c) **Involving the public in Lottery decision making:** Cost of public votes and similar exercises designed to involve the public in funding decisions.
- (d) **Providing information to the public on how Lottery money has been spent:** This includes publications on Lottery spending and acknowledgement plaques etc for projects.
- (e) **Research and evaluation work:** Costs of commissioning work to measure the effectiveness of programmes and informing the VCSE sector, funders and other stakeholders of lessons learned from funded projects.
- (f) **Knowledge management services:** Provision of access to information resources for funders, to increase the effectiveness of their projects.
- (g) **Technical support provided to projects:** For example specialist advice on capital grants.

**3.5** The Fund set out a number of principles about how it would reduce costs and concluded that the emphasis had to be delivered by efficiencies and the elimination of lower value activities and not by materially changing its approach (for example by stopping its small grants work) or by accepting a lower quality of service to its customers. The Fund's internal Operating Cost Strategy includes reference to the Business Process Re-engineering (BPR) programme, accommodation, procurement and people strategies, as efficiencies in these areas will be needed to deliver the 5% target.

**3.6** The Fund anticipates having a 4% operating cost level for its third party work. It does not treat this as a target but describes it

as an average across all third party work in a four year period. The Fund says that many of its customers require their programmes to be delivered with a fixed percentage operating cost which will vary according to the size and complexity of the programme.

**3.7** The Chair and Chief Executive both recognise that the Fund could be more proactive in driving down costs. Although the Fund recognises the importance of the 5% target, it does not appear to have identified ways of going beyond this, either to reduce overall costs or reallocate investment elsewhere. In addition the breakdown of costs into the 5% and 3% categories appears to add an unneeded complexity. The Fund finds the 5% target challenging but not the overall 8% target. The Fund would welcome a single cost target which it accepts could be less than 8% overall.

**3.8** It appears inconsistent that the Fund expects to deliver third party work at lower cost than Lottery funded grants and therefore raises the question of whether it should be able to meet the 5% target for Lottery funded grant giving more easily than it currently is. However, the Review recognises that third party work tends to involve larger grants, but at low volumes, which lends itself to lower programme costs.

#### **Recommendation 4**

The Fund develops a performance metric over time which sets out its approach to cost control and how it will continue to drive operational efficiencies. In doing this The Fund should consider whether the difference in its operating costs between grant delivery of Lottery funds and third party work is appropriate, and separately whether a single operating cost target for Lottery funds (combining what is included in the current 5% and 3% definitions) would be more useful to the organisation and more transparent.

## Staffing

**3.9** The Fund's 2013/2014 Corporate Plan stated that the Fund was expecting staff numbers to fall by 100 to 150 full time equivalents (FTE) over the subsequent 12 to 18 months although the Fund has not had a headcount reduction target set by the Cabinet Office. The anticipated reductions were from a combination of departmental restructures and the implementation of the new Funding Management System (FMS), which aimed to significantly reduce the unit costs of processing grant applications and grant management.

**3.10** The delays in FMS implementation have impacted on these figures. The Fund estimated that it would have reduced its headcount by 99 by 31 March 2014. The Fund anticipates making further headcount savings during the course of 2014 to 2015 but has not yet been able to set out the scale of these changes or the ways in which they will be delivered.

**3.11** Despite the problems with FMS implementation, the Fund believed that it was possible to drive efficiencies in its operation by making technological changes and should therefore still be expected to deliver these efficiencies even if in a different way from first intended.

**3.12** In November 2013 the Chief Executive announced her intention to change the structure of some of the corporate functions. This took place with effect from 1 April 2014 with the creation of a new Insight, Policy and Engagement function (bringing together the previous Strategy, Policy and Learning Directorate and the Communications and Marketing Directorate into a central team) under a Chief of Staff (Director level) who has been appointed and is expected to take up post in July 2014. The new function will deliver the Fund's strategic and

corporate objectives and directly oversee the governance, external relations and knowledge sharing teams, providing an advisory and lead role to the organisation and removing duplication and maximizing efficiencies. Although headcount reduction was not the primary purpose of the restructuring, it is anticipated that the new structure will have a reduced headcount.

**3.13** The manager to staff ratio in the organisation is high (1:4 in some parts of the organisation). This is an issue that the Fund is aware of and it recognises the need to address it; planned changes within England will mean that from 1 April 2014 it will move to a 1:8 ratio. There is still more work to do on this issue.

**3.14** The Fund has a very low staff turnover rate (1 to 2%) which means that there is a large cadre of middle managers who can be in danger of stagnating in role and preventing the Fund from recruiting new people with the different skill sets it requires to help it respond to developments in the VCSE sector and funding environment, e.g. project management, client relationship management and other commercial skills.

**3.15** The Fund has a physical presence in all four home nations of the UK and in multiple locations in England. Some of these locations still arise from the regional offices of the predecessor bodies whereas others are as a result of Government decisions to move staff out of London and south-east England in the mid-2000s. The 'Connecting England' programme has changed the way the Fund is structured. It is too early to say whether this has had a positive impact.

**3.16** Duplication exists in some parts of the organisation. Senior managers in the England Directorate admit they have created functions and roles within the England structure that duplicate what could be provided by the corporate functions, because they have not

always received the service they require from the corporate functions. Part of the rationale of changing the way the communications, marketing, strategy, performance and learning functions are delivered at the UK level is to address this.

#### Recommendation 5

The Fund should set out its approach to staffing over the next five years (to align with the Fund’s strategic framework for 2015-2021) which addresses overall headcount, staff to manager ratios, turnover and duplication of functions at country and UK level.

## Technology infrastructure

**3.17** As set out above the Fund is mid-way through implementing a new FMS. The project is taking longer to implement and costing more than was originally planned. A change of supplier was necessary in 2013. “Internal Go Live” for the project was reached in early October 2013 but significant teething problems mean there is still a considerable challenge to stabilise the system.

**3.18** Since taking over at the beginning of October 2013, the new Chief Executive has assessed the situation and has put in place clearer governance structures and lines of accountability and taken steps to fill the gap in management information to better facilitate productive oversight. She has taken on the role of Senior Responsible Owner (SRO).

**3.19** The Fund acknowledges that the implementation delays have had an impact on the Fund’s customers both in terms of extending the time taken to reach decisions about applications and in making payments once funding has been confirmed.

**3.20** “External Go Live” was the description given to when customers would have

seen a user friendly front end portal for an online grant application process. Given the difficulties in implementing the system the rollout of this aspect of the FMS has been halted.

**3.21** At the time of writing this report the current focus of the FMS programme is to:

- stabilise the system
- develop detailed plans to bring customers online and maximise benefits
- review the entire control framework
- develop a clear plan for the next phases of FMS implementation, and the wider BPR programme.

**3.22** The current work will focus on stabilising what has been implemented already and then the programme will be closed. Work on the next stages of FMS implementation will then be taken forward separately. This is partly as a result of a recent review of the planned customer portal which has been found to significantly fall short of the Fund’s requirements, and a reflection that technology has moved on significantly since this project was conceived in 2007. There will be merit in reassessing what is available and what the Fund’s needs are – which will allow it to examine how its learning and sharing evidence role can also be integrated into a customer facing solution.

**3.23** Recognising that there still is a requirement to improve the customer experience especially in relation to grant applications, the Fund is exploring the use of an online forms solution for small grants programmes, to both improve the customer experience and realise some financial benefits. Approval for future deployment is dependent on the forms work meeting specific conditions, including business stability.

**3.24** The implementation problems have had an impact on the (revised) £25.6m budget although detailed cost and timing implications are not yet clear.

**3.25** The FMS programme specifically is subject to separate assurance processes and therefore this Review has not examined it in great detail. However given the significance of the programme to the way the Fund operates, it would be impossible to exclude it completely from the scope of this review.

**3.26** The Fund had identified fourteen non-financial benefits expected from the implementation of FMS. These included benefits such as improvements in customer experience, staff engagement and information the Fund holds. However, many of these benefits were not expected to be fully realised until sometime after the planned External Go Live – in some cases as many as three years after that date. In light of the delays to External Go Live, the delivery plan for these benefits will need to be reviewed.

### Recommendation 6

The Fund sets out what has been delivered to date by the implementation of the new Funding Management System (FMS), and identifies further or remedial action to address the inefficiencies in the grant making/application process which the FMS had intended to address.

## Digital by default

**3.27** All government departments and their arm's length bodies (ALBs) are expected to consider the potential to derive savings from shifting current services to digital channels and transforming transactional services to be digital by default as outlined in the Digital Efficiency Report<sup>10</sup>. The Fund is committed

to digital inclusion and to increasing the use of digital services by its staff and customers. Although it does not consider itself formally required to follow the Digital by Default Strategy, the Fund does recognise the importance of digital technologies and how they can contribute to greater efficiency and improved service for customers and stakeholders. For example one of the aims of the significant BPR project was to make it easier for grant applicants to submit applications online.

**3.28** The Fund has a 'digital vision' which covers the internal intranet, its web presence, engagement with social media and use of the online community. It is to:

- (a) deliver cost-effective, scalable online platforms for the Fund and its customers
- (b) deliver cohesive and accessible communication across a variety of channels
- (c) radically improve online service provision and increase community participation and engagement.

**3.29** Progress to achieve this vision is as follows:

- (a) The Fund's **website** was re-launched in 2012 after extensive user led design and testing. Customers are now able to search for suitable funding via the Funding Finder tool and all information about how to apply for funding is available via programme pages, which also include the facility to download application forms.
- (b) The Digital Media team is developing an **online community** which is due to be launched in the first quarter of 2014/2015. The aspiration is that this will offer help and support for customers and provide them with a platform for promotion and discussion of the practical aspects of their projects and actively share learning,

<sup>10</sup> <https://www.gov.uk/government/publications/digital-efficiency-report/digital-efficiency-report>



best practice and resources with the Fund and their peers. The community, which will be available via the Fund website, will also be open to other funders, funding advisors, partners, MPs and journalists. Fund staff will be actively involved in the community through posting questions and responses and promoting the use to their customers.

- (c) The Fund is a **Founder Member of Go-on UK**, which is promoting the benefits of digital inclusion. In October 2013 the Fund launched a £15 million programme to improve the basic online skills of people across the UK who rarely or never use the Internet.
- (d) Central to the BPR programme was the move towards **online processes** for customers. By making this transition, the Fund anticipated data capture savings to be realised as well as enabling increased opportunity for customers to track progress and review their communication, monitoring and payment history via access to a customer account. As set out above, this work will now not progress as planned so a new approach to delivering these benefits must be identified.
- (e) The Fund has developed a **Channel Shift plan** to support customers in making the transition to new digital ways of working. This plan has been informed by significant external research with other funders and engagement with Government Digital Services. The planned interventions are designed to support the full range of customers and are based on the Fund's customer segmentation research, which has ensured it is better able to understand customers' needs, preference and level of experience. The Fund has also developed an 'Assisted Access' process

for the small group of customers who will be unable to interact online.

- (f) The Fund delivers pre-application advice in all four countries through the **'Big Advice'** teams. The service for England was put in place in early 2013, replacing a previously outsourced service. This realised significant cost savings as well as promoting great alignment across the UK. The Big Advice teams staff the telephone lines, but are increasingly making use of digital channels to support customer enquiries, for example by maintaining the 'Ask Big' service which provides an online Q&A service and web chat facility. They also conduct webinars to provide advice to a group of customers at the same time.

**3.30** The review team assesses that the Fund had taken seriously the principles of digital engagement and had a comprehensive plan in place to deliver their digital vision. However, much of the intended change is predicated on the BPR work and FMS implementation. The decision not to roll out the customer facing features of the FMS at this time means that there is no plan currently in place for online processes. In addition the Fund has postponed the rollout of the 'online community' referred to above and is currently considering when an appropriate time to launch this will be.

#### Recommendation 7

The Fund sets out, as a matter of priority, how it will now deliver 'digital by default' and how this will lead to further efficiencies.

## Property

**3.31** The Fund is a UK wide organisation and as such has offices in England, Scotland, Wales and Northern Ireland. The Fund has

an accommodation strategy for 2011-15 which was revised in June 2012 and which, as highlighted in paragraph 3.5, forms part of the wider operating costs strategy. The Fund is aware of, and compliant with, a number of central government controls around property, including space targets and consents required to make accommodation changes.

**3.32** The Fund has significantly shifted its geographical location over the last 10 years with now less than 13% of staff based in London. The presence in some areas of England is based on historical office locations inherited from its predecessor bodies.

**3.33** The BPR work has implications for the Fund's accommodation needs, both in anticipated headcount reductions (paragraph 3.9-10 above) and in the removal of the need for staff to be physically located with paper files. The Fund recognises it will also need to revisit its approach to home based working but anticipates that the change will be progressive rather than sudden, partly because of the current locations of staff, and partly because current grants will still have paper documentation that will be required for their management.

**3.34** The Fund had previously agreed that no major accommodation changes should be made until two years after External Go Live of the FMS, to ensure stability. It has recognised however that the delays to FMS may mean this is not a realistic position to maintain and they may need to consider this during 2014.

**3.35** The gross annual running costs of the estate are £6.9m, as broken down in Table 1 below.

**3.36** The Fund is aiming to bring the sq m/FTE ratio (12.8/FTE) in line with government targets of 10m<sup>2</sup>/FTE, by implementing the remainder of the accommodation strategy. Since March 2013 some changes have already taken place. Belfast has consolidated onto one floor, the Cambridge office (which was significantly oversized) has relocated to a smaller building, and the Newtown office has been downsized. Planned works include consolidating onto one floor in London and clearing at least a further half floor in Birmingham in addition to the already vacant ground floor, subject to a space planning exercise. The Cambridge office relocation has removed any vacant space in Cambridge.

**3.37** The Fund currently operates subleases in London, where floors 1 to 3 and 5 are all sublet and generate an income of £1.8m p.a. (the £1.7m forecast figure for London running costs is net of both cost and income for these floors). The Fund intends to make the anticipated extra space (paragraph 3.36 above) available for sublease, although success will be subject to the buoyancy of the property market at the time, and with consideration that the head lease in Birmingham expires in 2016.

**3.38** The Fund has a home working policy although currently only one member of staff is contracted as a home based worker. More

**Table 1: Gross Annual Running Costs of The Fund's Estate (data drawn from March 2013 survey)**

Office	2013/14 budget (£m)	FTE	Occupied sq m	Vacant sq m	FTE per sq m	£ per sq m
London	1.7	127	1406	0	11.1	1209
Newcastle	1.4	271	2758	0	10.2	507
Birmingham	1.9	329	4387	1078	13.3	433
All others	1.9	283	4379	328	15.5	433
<b>Total</b>	<b>6.9</b>	<b>1010</b>	<b>12930</b>	<b>1406</b>	<b>12.8</b>	<b>533</b>



staff work from home on an ad hoc basis. The previous FMS was difficult to access remotely, which was one of the barriers to increased home working. The new FMS has increased the ease with which people can work from home although as highlighted above some existing grant management functions do still rely on paper records.

**3.39** Although the Fund is managing its accommodation needs it will be important to consider the benefits of more flexible ways of working as the FMS system stabilizes. This should consider the role that home working and shared/hot desking could play, especially for staff whose role requires them to be out of the office engaging with stakeholders and customers on a regular basis. The Fund also needs to be clearer about how it will achieve the government occupancy target and by when.

**Recommendation 8**

The Fund sets out how and when it will meet the government occupancy target of 10m<sup>2</sup>/FTE and identifies how it can exploit different ways of working (such as hot desking and home working) more effectively.

**Shared services**

**3.40** The Fund does not currently use shared services provided by a third party for any of its corporate functions. It does provide legal advice and services for two other Lottery distributors (Arts Council England and Heritage Lottery Fund) and procurement advice and services to the Arts Council England. The Fund is also the host for the small National Lottery Promotions Unit (NLPU) and is the accountable body for all NLPU legal and contractual matters, so provides them with exactly the same range of services.

The feedback from those in receipt of the Fund’s services is positive.

**3.41** The Fund perceives little potential to outsource its corporate functions due to lack of economy of scale, and not least because it is required to pay VAT on any outsourced services. The review team believes that there may be scope for some further sharing of services, either with the sponsor department or with the other Lottery distributors – building on the successful legal services and procurement models in place. This work would be best led by the Cabinet Office and DCMS given their sponsorship roles and ability to look across the Lottery distributors.

**Recommendation 9**

The Cabinet Office and the Department for Culture, Media and Sport scope the potential for increased use of a shared service model between the Lottery distributors and other grant making bodies, for corporate services and/or for grant making, and the Fund considers shared service opportunities as part of its overall cost control.

**Procurement of common goods and services**

**3.42** Procurement for the Fund and its shared service partner (Arts Council England) is managed through a single procurement unit. The Fund does not currently operate its own common procurement contracts but rather makes use of central government frameworks for the procurement of goods and services wherever this is appropriate. The Fund has relatively low levels of external spend, and most of the remaining contracts are funding related support and development contracts which are not available on centralised frameworks.

**3.43** The Fund does not currently hold any contracts over £5m although it will shortly be entering into a £7m evaluation contract for the Fund's Better Start funding initiative.

**3.44** Although there may be opportunities to renegotiate major contracts between 2014 and 2017 which relate directly to the Fund's grant making, the Fund does not anticipate any other major corporate procurement renegotiation in this period.

**3.45** Contracts relating to grant making include continuous improvement clauses which require the service provider to follow a set programme of review with the aim of improving the efficiency of the services. Any cost savings are shared with the Fund. The scope to negotiate contracts above the OJEU procurement threshold is limited. The Fund will negotiate contracts where possible, for example when extending contracts to ensure it is obtaining good value for money.

**3.46** A number of major corporate contracts (leases and maintenance of printing, faxing and scanning equipment, travel booking services, gas and electricity supply) are due to expire between 2014 and 2017. These are all framework contracts and are likely to be procured through the same method.

**3.47** The Fund also anticipates significant procurements of contracts to support grant making, but this will depend upon the strategic plan and on UK and Country Committee decisions, yet to be made.

### Areas subject to Cabinet Office spending controls

**3.48** The Fund is subject to Cabinet Office spending controls and the sponsor team should advise the Fund on the application of these controls. Reference to the controls should be included in the Statement of Financial Requirements which was last issued

by the Department for Culture, Media and Sport in 2006 when it was still the sponsor department for the Fund.

**3.49** The NAO commented (reported to the Fund's Audit Committee in December 2012) that:

*"Whilst our testing over Cabinet Office spending controls and transparency guidance did not indicate that there had been a breach, management oversight of monitoring of these controls could be improved."*

**3.50** The Fund's view is that whilst the Cabinet Office guidelines have not been formally issued to it through specific financial directions, they were still endeavouring to comply with them and set an internal action (to be monitored through the Audit and Risk Committee) that it would incorporate reference to the controls into its Financial Regulations and Delegations which were in the process of being updated and were expected to be approved by 31st October 2013. The Fund has advised the review team that these have been prepared, but have not been formally approved and issued. This is because a further review is being carried out (unconnected with the controls) to ensure they reflect the views of the new Chief Executive on the appropriate distribution of responsibilities. This is expected to be completed shortly. The Fund has stated that this is purely a formalisation of the position with all of the controls it believes are relevant already embedded in HR and procurement procedures.

### Recommendation 10

Greater clarity is provided about the applicability of Cabinet Office spending controls and public body efficiency and reform policies to the Fund, by:

- (a) the Department for Culture, Media and Sport reviewing and updating the Statement of Financial Requirements (2006) and Spending Controls and Authorisations (2011) for the Fund, with input from the Cabinet Office, making more explicit which public sector spending controls and efficiency and reform policies are binding for the Fund as a public body, and where the Fund has discretion whether to implement the guidelines or not; these revised financial directions should cover relevant policy areas such as: digital by default, transparency, advertising and marketing, procurement, property and estates including occupation benchmarks, etc
- (b) the Fund updating its financial regulations and delegations reflecting the updated Statement of Financial Requirements, controls and authorisations
- (c) the Cabinet Office reviewing and if necessary updating its policy directions to the Fund, to reflect how the Fund is expected to comply on an ongoing basis with key policies which apply to all Cabinet Office sponsored bodies, but that cannot appropriately be included in the Statement of Financial Requirements
- (d) the Cabinet Office and the Department for Culture, Media and Sport updating their Memorandum of Understanding to agree responsibilities for issuing any future guidelines on public sector spending controls and other policies relevant to the Fund.

## Major projects

**3.51** The implementation of the FMS predates the establishment of the Major Projects Authority in the Cabinet Office and as a result the programme was not considered as part of the Government's Major Projects Portfolio (GMPP).

**3.52** The implementation of the FMS has not featured on the Major Projects Authority's work programme as it does not meet the criteria for being a 'major project'. Recognising the seriousness of the problems with the project upon her arrival the Chief Executive took on the role of SRO and has changed the governance arrangements for the programme. She has also taken the advice of a former Government Digital Service senior manager in a 'critical friend' role in order to inform her role as SRO.

## Fraud, error and debt

**3.53** In accordance with its financial directions the Fund writes off losses when the objectives of the funding have not been achieved and the funds cannot be recovered. Write-offs (including grants that have been written off for a number of reasons, not just fraud) in the financial year ended 31 March 2013 totalled £1.95m, but have averaged at £500k per annum between 2003 and 2011. There has been an increase in the value of write-offs because of one individual, large grant that has been written off. There has also been an increase in the volume of write-offs, largely as a result of the numbers of insolvencies experienced by organisations that have been funded as well as an increase in grants that the Fund has identified as misused. The level of write-offs generally falls within the Fund's tolerance level.

**3.54** This tolerance level has been set based on the Fund's risk management which limits tolerable fraud at about £2m per annum

or 0.3% of total funding. This fraud appetite was set in 2011 and was based on the fact that at this time the Fund was dealing with fraud cases amounting to approximately 1% of awards. The Fund therefore set a tolerance limit of 1% of numerical awards and 0.3% of total funding. (This is designed to reflect the higher incidence of fraud in smaller grant programmes.)

**3.55** It is extremely risky to set fraud tolerance levels based on detection as an organisation can make sure it is within tolerance simply by not looking for fraud. Whilst the industry standard for tolerance is generally around 1%, often when fraud is actually measured the rate tends to be above 1%. It would therefore be preferable for the Fund to set its fraud tolerance based on an estimation of the level of potential fraud amongst grant holders. Estimating this as part of its new Fraud Strategy will help the Fund to better define its fraud risk appetite, and set a fraud tolerance based on this appetite.

**3.56** The Fund uses a number of established detective controls to identify suspected fraud in grant programmes, including system generated alerts based on data patterns which alert funding teams to potentially fraudulent or suspicious applications and automated person verification controls using Experian's Authenticate product to verify the identity of applicants. The Fund is also a member of CIFAS (The UK's Fraud Prevention Service) and all applicants are checked against the details held on the National Fraud Database to help identify potential fraudsters. The Fund will be able to ensure the detective controls in place are appropriate for the new agreed tolerance level, when it re-sets this tolerance level in its new Fraud Strategy.

**3.57** The Fund does not currently estimate the amount of undetected fraud. In addition

to estimating total potential fraud in order to set its tolerance level, the Fund may also wish to estimate undetected fraud on an ongoing basis, given the high level of detected fraud last year. However, this would need to be weighed against the cost and feasibility of such a measure and many organisations do not estimate undetected fraud.

**3.58** The Fund has very few conventional receivables, such as sub-tenancy rent. At 31 March 2013 their accounts showed £25.5m of receivables, but of these £12m was held by delegated partners for distribution, and £10m was prepayments and similar items.

**3.59** No debt was written off in the last financial year.

## Comparator data

**3.60** The Grants Efficiency Programme being carried out by the Cabinet Office is looking at the costs where Government is using intermediaries to deliver grant funding on its behalf. That work has shown great variation in cost from as little as 0.1% to 30% (where the cost is considered as a percentage of the overall funding available.) Although a degree of variation might be expected (to reflect variances in the nature of grant schemes and what the intermediary was being asked to deliver) such variation is extreme. The work has also identified that there is no clear benchmark to help departments in negotiating new intermediary arrangements.

**3.61** The work is in relatively early stages and has not yet identified any formal benchmarks that can be used to consider the third party work of the Fund although an initial comparison has shown that their work for the Cabinet Office in relation to the Advice Services Transition Fund and the Social Incubator Fund, and the Department for Communities and Local Government and

HM Treasury on the Coastal Communities Fund compares favourably with other intermediaries. However, the Review recommends that the Cabinet Office sponsor team continue to engage with the Grants Efficiency Programme so that the findings from their work can be used to inform the future work of the Fund.

#### **Recommendation 11**

The Cabinet Office sponsorship team continues to engage with the Grants Efficiency Programme so that findings from it work about benchmarks for grant funding costs can be used to inform the future work of the Fund.

**3.62** In all of the analysis around efficiency it has been difficult to identify benchmarks or comparable data. This is partly due to the differing natures of all of the Lottery distributors but also due to the fact that the Triennial Reviews for the other distributors have not yet been carried out. In particular, the absence of comparable data also makes it difficult to accurately identify the most appropriate headcount for the Fund. Being able to measure cost effectiveness would allow for better and more effective comparisons of performance to be drawn with other similar bodies in future Triennial Reviews. Preferably this information should be in the public domain in a format that is readily understandable to all.

#### **Recommendation 12**

The Fund, the Department for Culture, Media and Sport and the Cabinet Office work out ways to measure cost effectiveness to inform the Fund's approach to cost control and enable better and more effective comparisons of performance to be drawn with other similar bodies (including in future Triennial Reviews), and consider whether grouping the Triennial Reviews of the Lottery distributors together (even if carried out by different departments) would be helpful in the future.



# Chapter 4 – Improving the Effectiveness of the Big Lottery Fund for the Future

## Context

**4.1** The following section examines the effectiveness of the Fund, including how well it operates as an NDPB, how well the Fund performs its three functions, and whether there are any opportunities for the Fund to improve its delivery of these three functions.

## Effectiveness as a grant making body

### What the Fund does well

#### Overall effectiveness

**4.2** 92% of survey respondents said they thought the Fund was overall either effective (63%) or very effective (29%). The comments made here supported this, tending to say that the Fund was effective overall, notwithstanding some specific areas for improvement.

**4.3** The Call for Evidence indicated that the Fund was generally effective in meeting its mission and values, and in working with the sector and other partners.

- 89% of respondents said that the Fund was either successful (52%) or very successful (37%) in meeting its mission. 81% said that the Fund usually (42%) or always (39%) reflected organisational values in its professional conduct.
- 87% of respondents said that the Fund worked well (38%) or very well (49%) with the voluntary and community sector, and 86% said the Fund worked adequately

(49%) or very well (37%) with its other partners.

#### Customer service

**4.4** An August 2013 customer satisfaction report showed that 82.2% of respondents rated their overall satisfaction with the Fund as 8 to 10 out of 10 (satisfied to excellent service). 85% of respondents rated their satisfaction with the Fund's quality of service as 8 to 10/10.

**4.5** The survey conducted by the Review showed similar results. 87% of respondents were satisfied (50%) or very satisfied (37%) with their interactions with the Fund overall. When asked how much support they received during a grant application, 49% said they had received the right amount of help, with another 17% saying they had received a bit more help than expected, but that this was appreciated.

**4.6** The view that the Fund provides good customer service is reflected internally, with 91% of staff in the 2013 People Survey reporting that the Fund provides excellent customer service.

**4.7** During a Nottingham stakeholder roundtable, a stakeholder said that the Fund is the best funder because of the unique way it works closely with its customers through application and rejection. The Fund informed the Review that this stakeholder had the previous day been rejected from a funding application, making this praise particularly striking.



### **Giving feedback to unsuccessful candidates**

**4.8** 65% of respondents in the Call for Evidence said they were provided with an adequate explanation and useful feedback when their application for funding was rejected by the Fund. Customers cited “really good feedback that helped to secure the grant in the next cycle”. Although there was some complaint that customer feedback could be more specific, customers valued the fact that they received feedback and particularly valued the opportunity to speak to a funding officer about this.

### **Strategic programmes**

**4.9** 65% of survey respondents thought the Fund struck the right balance between open and strategic programmes, with some of the other 35% saying that open funding was important and should not be replaced by strategic funding. The Review agrees that open funding should be retained as a way of ensuring the Fund, as a Lottery distributor, is open to all.

**4.10** Strategic programmes were found to have a positive impact, not least in the role they play locally. Stakeholders at the Leicestershire roundtable said that strategic programmes had enabled good partnerships, made investment more focused, and forced the voluntary sector and wider community to confront important local issues. The strategic programmes had increased the importance of the Fund’s role locally, as a facilitator of this process. Strategic programmes had also increased local organisations’ influence with local authorities, who were liable to take local organisations more seriously when they were part of a bigger strategic programme.

**4.11** Review team members attended two sessions of the Multiple and Complex Needs (MCN) decision making panel. The presentations showed how strategic programmes could allow organisations to

become more than the sum of their parts, and the importance of the joined up working encouraged by the strategic programmes for tackling entrenched social problems. For example, a holistic approach to services was defined as better than trying to make service users, with already chaotic lives, meet the needs of multiple different services. For example, a joined up approach might help to prevent women from having multiple children removed due to a lack of follow up care after the removal of one child.

**4.12** Some particular successes were highlighted by survey respondents. For example, the Fund was said to “add a huge amount of value” on strategic programmes by addressing a policy solution gap and bridging a gap between academics and practitioners. They were also said to be valuable in supporting particular areas of civil society, for example the Community Libraries and Power to Change programmes were said to be “very valuable for the libraries sector”.

### **Areas for development or improvement**

#### **Increasing commercial awareness within the organisation**

**4.13** Staff at the focus groups consistently showed their dedication to the organisation’s mission and to the customers it served. Whilst this is positive in many respects (and customer service has been one of the Fund’s corporate priorities for the last five years and is a behaviour that staff are appraised against), there is a risk that staff may ‘gold plate’ customer service when it is not proportionate to do so, and in doing so may not recognise the costs of their time incurred by providing such customer service and capacity building services (that is, providing feedback and advice to applicants in order to improve the skills of the sector).

**4.14** For example, according to one senior management interviewee, the FMS implementation was made more difficult by

staff's overriding dedication to customers. Emotive loyalty to customers had increased staff anxiety and their temptation to go 'off system' with the aim of reverting to old ways of working (in order to deliver what they saw as better customer service), rather than accepting the FMS as a system designed to enable new ways of working. More generally, staff in focus groups repeatedly mentioned downward pressure on overheads as a concern, and there was little recognition of why this might be necessary or that these overheads might be even lower in the private sector or if the Fund was an independent charity.

**4.15** This lack of commercial awareness could be partly due to the traditional skill sets within the organisation. This was seen in the organisation's approach to third party work and is discussed in full under 'effectiveness of third party work' below.

**4.16** The lack of commercial skills may also be related to the Fund's low staff turnover (averaging between 1 and 2%), which prevents the Fund from being able to recruit people with new skill sets. This is discussed in full under the efficiency section of the report.

**4.17** The Fund's approach to contracting was one example of where commercial awareness and skills could be improved. Contracting problems were suggested as the main reason for FMS problems by one management interviewee. They were also referenced in the August 2013 Gateway Review, which explained that during the course of the FMS the Fund had to enter into three separate contracts. Although the Fund contracted its first supplier under a fixed term fee, the supplier was able to charge for work undertaken outside the original scope on a time and materials basis. The Fund's person verification process provides another example of the Fund's approach to contracting in that

the Fund chose to extend its contract with an existing supplier via single tender action, rather than opening up a tender process, following advice from the Cabinet Office Fraud Error and Debt team that an alternative supplier could provide a much higher rate of digital verification.

### Recommendation 13

The Fund increases commercial awareness amongst its staff.

## Bureaucracy in grant applications

**4.18** Some external stakeholders felt that the Fund's application processes were too bureaucratic and involved, and required too much time and resource, particularly for small organisations. 48% of survey respondents said the time taken by the application process was either unpredictable or took too long, compared to 52% thinking it took about the right amount of time for the money being sought.

**4.19** Although the majority (68%) of respondents thought the application process was proportionate, a significant portion (32%) disagreed. One respondent explained that this was because the application process required "so much information which is overwhelming for small organisations". Another described the process as "daunting in the extreme" and said that they would not have attempted it, had they known "how long and how difficult it would be". This was particularly a problem for first time applicants and applications from smaller organisations.

### Recommendation 14

The Fund re-assesses its grant application process to make sure it is proportionate for smaller groups and first time applicants.

## Sustainability

**4.20** The Fund can do more to ensure that the projects and organisations it funds are sustainable – that they can continue to operate after funding has ceased (whether by applying for more grant funding which may be the only mode of finance available to some organisations, or by being able to obtain other forms of finance). This is less relevant for smaller grants programmes such as ‘Awards for All’, but where relevant it will help to ensure that the outcomes the Fund is trying to achieve through its funding are secured in the longer term.

**4.21** At assessment stage, the Fund should consider the ability of the organisations and projects to become sustainable. At the staff focus groups, some staff thought that the Fund struggled to balance being open to all with choosing sustainable projects, and that they could be “too nice” in this respect. This resonated with the review team’s strong impression that staff are highly committed to the Fund’s mission, sometimes at the expense of other outcomes.

**4.22** The Fund could also do more to ensure that funding decisions take account of local factors. Stakeholders at the Leicestershire roundtable felt that national funding decisions often missed local intricacies, resulting in unsustainable projects and organisations being awarded funding. They felt that in Leicestershire natural communities were obscured by ward boundaries, and the issues surrounding Halal finance were not fully considered when funding decisions were made.

**4.23** Towards the end of projects, the Fund could do more to put in place exit strategies. Stakeholders at a London roundtable described the Fund as focusing too much on the “front end” – they were good at “getting the money out of the door” but not at completing the cycle.

### Recommendation 15

The Fund promotes the sustainability of the organisations, where appropriate, and the projects it funds, both when it makes award decisions and towards the end of funding.

## Understanding of impact

**4.24** Survey respondents were largely satisfied with the amount of monitoring and evaluation carried out by the Fund, with 75% of respondents describing it as sufficient, against 20% who thought it was excessive. Projects visited in Exeter indicated that they understood why the Fund needs to evaluate what it funds. It seems therefore that the Fund carries out the right amount of monitoring and evaluation from the perspective of grant holders.

**4.25** However, there is scope to improve the nature of the Fund’s monitoring and evaluation, so that it collects more meaningful information in a less burdensome way, allowing it to focus on outcomes and determine the impact their funding is making. Currently, the Fund does not appear to understand the impact of its grants consistently well. Only 28% of Call for Evidence respondents thought the Fund understood the impact of its grants “very well”; 72% thought the Fund understood impact adequately (51%) or inadequately (21%).

**4.26** More focus could be placed on end of grant monitoring. An April 2013 independent survey of the Fund’s stakeholders commissioned by the Fund found that respondents “wanted to see [the Fund] doing more to evaluate the funding and the fundee experience” and cited “greater engagement at the end of projects” as an area for improvement. A stakeholder consulted at a London roundtable said that the Fund could have done more at the end of the grant to celebrate success and capitalise on this.

**4.27** The Fund could also collect more valuable and meaningful information. The Review found several instances of this:

- Stakeholders at the Nottingham sector roundtable thought that the Fund asked for the wrong paperwork, and needed to focus more on outcomes rather than details of processes
- Stakeholders at the Leicestershire roundtable described monitoring and evaluation as “messy and mechanistic”. Stakeholders felt that they were not really saying anything when they filled in the end of grant form, and were not convinced that anyone at the Fund paid attention to what they wrote on the form and
- Comments from the Call for Evidence support this – one stakeholder didn’t think project managers “understand what they are monitoring”, whilst another suggested that “more emphasis should be placed on the outcomes achieved... rather than outputs alone”.

**4.28** There was also some comment within the Call for Evidence that grant monitoring is “overly complex” and “very time consuming”. This was supported by the Nottingham roundtable stakeholders who found monitoring and evaluation requirements time consuming. This could be linked to the Fund collecting detailed information on processes, rather than focusing on broader outcomes.

#### **Recommendation 16**

The Fund improves its understanding of impact, for example the role of ‘end of grant’ monitoring and building this requirement into projects earlier on, focusing on outcomes, and tailoring monitoring to different organisations, in order to ensure they collect more valuable information in a way that is less complex and time consuming for grant holders.

### **Additional work to support the core function (Lottery grant making) for Big Lottery Fund**

**4.29** There was a strong view from survey respondents that the Fund’s intelligence sharing and sector leadership was needed and that the Fund should do more of this type of activity. Nearly all (94%) of respondents who recognised the Fund’s additional work thought that either some (10%) or all (84%) of these activities were still needed.

**4.30** Stakeholders clearly indicated that these activities were valued by the sector and that therefore the Fund should actively pursue them, rather than doing them ‘by default’ (i.e. by virtue of its size). Despite the overwhelming view that additional work should continue, 31% of survey respondents did not know whether the Fund did anything additional or not, and only 69% of those who had a view thought that the Fund did do something extra. This shows that there is scope for the Fund to more clearly define and communicate this work.

### **Intelligence sharing**

**4.31** Survey respondents clearly indicated that the Fund should be more proactive in sharing the intelligence it can gather through its Lottery grant making function. One respondent said they thought the Fund could “provide great knowledge and evidence of what is happening on the ground” and that “its intelligence function could be put to great use”. Another respondent said they “would like [the Fund] to take a more activist approach to sharing this learning”. Another said that the Fund “sees itself as an ‘intelligent funder’ but has never clearly articulated that internally or to the external world. It holds huge amounts of invaluable data but until now, it has failed to open that up.”

**4.32** Given that the Fund captures a large amount of information via application processing and monitoring and evaluation,



it seems sensible that they should share this information, both to ensure that Lottery money is put to the best and most efficient use, and to help other funders and Government to tackle social problems and secure better outcomes.

### Sharing learning internally

**4.33** At present the Fund relies on informal networks for sharing learning internally, which leads to some inconsistency in how well this is done. A number of examples illustrate this point:

- Staff at one focus group said that they found it difficult to share learning across directorates, and that the effectiveness of sharing learning vertically varied depending on individual managers
- The MCN panel were aware of the need to capture learning, for example picking up recurrent themes in the presentations, but there did not appear to be a systematic method agreed for capturing this learning. The panel had good plans in place to share the learning from this programme across the twelve areas involved and to feed back in to the England Committee, but it was less clear how the learning would filter through the wider organisation, both vertically and horizontally
- During a project visit in Nottingham, the CEO asked the project leader how the learning from the project could be captured and shared. Whilst the project leader was very happy to share learning, there did not appear to be a robust or specific plan in place to make this to happen and
- The Wales Committee had a good discussion about research they had commissioned about Looked After Children to inform one of their strategic programmes. When a member of the

review team raised this with members of the England Management team it appeared to be the first time they were aware of it.

### Sharing learning externally

**4.34** The review team identified some instances of overlap with other funders. One survey respondent suggested that the Fund's youth unemployment programme overlapped with others in "an overly complicated system that is awash with thirty three different national schemes". Leicestershire stakeholders highlighted the problem of funders all "throwing money" at the same post code, without working out together who could best fund what within that post code, and suggested the Fund might have a greater role to play in leading such discussions at a local level.

**4.35** There was appetite from the funders at a London roundtable for the Fund to share intelligence with them in order to help them make better funding decisions. One survey respondent described the Fund as having "unique intelligence about the issues and pressures affecting the voluntary and community sector" due to the large number of applications it processes and the monitoring and evaluation work it carries out. The respondent said it would be "very helpful to other funders" if the Fund could share this more. The April 2013 independent stakeholder survey described sharing learning about what works as a "natural extension" of its role as a grant maker.

**4.36** The review team found that the Fund could do more to share intelligence with policy makers, as well as with other funders, and that this would help to secure outcomes in the longer term by effecting systems change. For example, the desired outcome of the 'Multiple and Complex Needs' programme was to change service delivery so that services better meet the needs of

people. Local commissioners were very clearly engaged in the programme, playing an active role in the project presentations seen by the Review. However, it was less clear how the learning from the programme was to be fed back into the policy environment. For example, no mention was made of feeding this learning into the Cabinet Office Commissioning Academy. More formal plans might also have ensured that learning was shared between participating local authorities and those who did not fall within the remit of the programme.

**4.37** Despite the comments above, the Fund has already started to make good progress in open data, recognised by survey respondents:

*“We welcome the recent moves towards opening up [the Fund’s] data which should allow interested parties to develop a better understanding of [the Fund] and be more engaged in offering feedback in future.”*

**4.38** It should also be noted that variation in how effectively learning was shared within the organisation was identified. An example of where this works better is discussed under the section on third party work below.

#### **Recommendation 17**

The Fund develops a clear methodology for sharing the most valuable information from its funded projects both internally and externally, and leads discussions with other funders to agree what, how and at which level they want to share information.

### **Sector leadership**

**4.39** *“[The Fund] (by virtue of its size and reach) provides a leadership role with other funders. Where [the Fund] leads others tend to follow!”*

The view expressed by this survey respondent – that the Fund is naturally a leader due to the size of its Lottery grant making function – was echoed across the Review’s stakeholder engagement. Another respondent described the Fund as an *“informal...direction setter”*. Stakeholders at both London roundtables reiterated the view that the Fund was a default leader which naturally set the direction for the sector via its grant application requirements.

**4.40** Roundtable participants and survey respondents both thought that the Fund should use its position to act as a leader, rather than just occupying the position by default. One respondent said that the Fund “needs to accept the fact” that it leads; another said they would “like to see BIG be more mindful of the implications and unintended consequences of its funding policy decisions”.

**4.41** There was some disagreement as to what this role should be, with some London roundtable stakeholders thinking that the Fund should set the direction but that there should be good accountability around this, and others who envisaged the leadership role as more of a convening, corralling one. It should be noted that the leadership role also operates differently at a local level, for example in Leicestershire stakeholders described the Fund as already having an important convening role through its strategic programmes.

**4.42** The Fund, with the Association of Charitable Foundations, also co-chairs the Intelligent Funders Forum (IFF). This group meets twice a year and by its own admission does not have a strong basis for its membership. There is however an appetite for a group of this type and scope for it to add value to the sector, providing there is clarity over its role and a frequency to meetings which allows it be productive.



**4.43** Part of the Fund’s leadership role might also be capacity building within the sector – that is, providing feedback and advice to grant applicants in order to build the skills of the sector. The Fund currently provides a wide range of support including strategic investments, online learning, and provision of support and development grants and contracts. The Fund also supports organisations on an individual basis by providing feedback on applications and running project evaluations.

**4.44** During staff focus groups, it was clear that staff perceived building capacity of grant applicants as a central part of their role. The sector seems to support this view, with one survey respondent describing it as “integral”, and the April 2013 independent stakeholder survey describing it as “vital”.

**4.45** Apart from the benefit to the sector, this work benefits the Fund in that it supports organisations to use the grant money well. One survey respondent recognised that this support helps grant holders to *“better plan their projects, utilise [their] budget soundly and apply for further funding if required”*. Another respondent said that this work *“needs to continue to increase the impact of the Big Lottery Fund”*.

#### **Recommendation 18**

Given its significant influence over grant making in the UK, the Fund defines its sector leadership role, the convening role it will play, and how it will help the sector to build capacity.

## **Effectiveness of work for third parties**

**4.46** The Fund describes its third party work as the opportunity to work collaboratively, putting its experience, systems and learning

at the disposal of others to distribute non Lottery sources of funds. Evidence has shown that third party work does allow for innovation and the opportunity for the Fund to pursue opportunities through tendering, solicitation, joint schemes, shared services and the potential for charging for advice.

**4.47** Following the transfer of policy responsibility from the Department for Culture, Media and Sport to the Cabinet Office, the Fund’s policy directions were strengthened in several areas including supporting the development of policy and practice beyond their own funding.

**4.48** As described in chapter 2 the Review has concluded that the third party function is required and is dependent on the Fund’s Lottery distribution function. It is therefore important that the Fund delivers this work effectively, working towards focused strategic delivery of a clear strategy and set of outcomes.

### **What the Fund does well**

#### **A key function for government departments**

**4.49** As an NDPB, and having the ability to be solicited for work, the Fund is in a strong position to develop its third party work with government departments. A central government stakeholder explained that key factors in the decision to work with the Fund were: its track record with other departments, its ability to run a UK wide programme, and that it could be ‘appointed’ to run the programme. This latter point was highlighted as important where there was urgency in delivering funds. Some VCSE survey respondents expressed concerns that the Fund has an unfair advantage and that this type of work should be put out to tender. The Fund’s own analysis highlights its accountability, values and learning, and

experience and systems as key areas where it can offer added value.

### **Building on success with other third parties**

**4.50** Third party work with other Lottery distributors has been successful. An external stakeholder in Northern Ireland described very successful joint working between Lottery distributors. The jointly funded ‘Awards for All’ was administered by the Fund and the distributors worked very closely together during this time sharing information and considering joint work. The Derry City of Culture 2013 was a successful joint arrangement between the Fund and Arts Council Northern Ireland that ran for eighteen months and Arts Council Northern Ireland commented that the joint arrangement provided them with great profile and recognition.

**4.51** The Fund’s internal private sector strategy sets out clearly the challenges and issues facing the Fund in developing this type of third party work. The private sector represents an important source of funding and support for some VCSE organisations and is a focus for some civil society policy thinking. The Fund is well placed to broker, lead and collaborate in order to help develop the benefits of working with the private sector. A private sector stakeholder commented on the opportunity to work with the Fund to develop programmes of joint strategic priority by saying:

*“[This is an opportunity]... to join up our thinking and resources and to share local intelligence about funding and activity.”*

### **Extending expertise and knowledge**

**4.52** A member of the Fund’s management team felt that there was a huge benefit to working with Government and having access to other sectors including private sector. He felt that this helped the Fund extend its

internal knowledge on policy issues as well as improving its understanding of the way that Government works. The Fund’s own strategy has highlighted that third party work allows it to use learning to achieve lasting impact. This knowledge and learning gathered through third party work should also be subject to improvements in sharing learning described in Recommendation 17.

### **Good relationships and expertise**

**4.53** Third party work recipients described the Fund’s staff as very responsive, hard working and helpful. A central government stakeholder praised grant officers’ knowledge and their excellent relationship with applicants by saying, “we worked well with [the Fund] and have continued to do so. I think it has been welcomed by [the Fund] as we have continued to share learnings and projects ...”

**4.54** Once third party agreements are in place day-to-day communication and contact can be very good. Central government stakeholders have talked of good governance arrangements. For example the Coastal Communities working group meets every six weeks with all the home nations represented.

### **Communications and press**

**4.55** Many of the third party work programmes have a high profile with stakeholders, the public and Government Ministers. The Fund’s regular updates and knowledge of the programmes including keeping its website up to date with information and case studies has been important and helpful to some third party partners. A central government stakeholder explained that they were very impressed with the Fund’s general communications of its work and in particular in engaging with communities and Members of Parliament about their programmes.

## Areas for development or improvement

### Long delays and disproportionate bureaucracy

**4.56** A number of external stakeholders have reported some long delays to both the development and delivery of third party work by the Fund. A number of central government stakeholders have described inflexibilities in the Fund’s decision making processes as well as grant making systems. A private sector stakeholder described early development of collaborative working as “...*challenging, lacking clarity and extremely difficult.*” A number of external stakeholders described turning for help to the Cabinet Office sponsor to unblock issues. One said “*it was really helpful having a Cabinet Office sponsor as it was someone who understood the process and could offer advice.*”

### Culture and approach

**4.57** By its nature much of the third party work is new and often innovative. The Fund’s systems either do not exist or are not entirely fit for the new purpose of the development and delivery of some of this work. For example one central government interviewee described large underspend in a third party fund and the need to ‘pressure’ and to ‘push hard’ to get the Fund to change its existing systems to allow for a swifter process.

**4.58** The Fund’s third party ambition as described in its strategy is not always borne out in reality. This is in part a cultural issue for the organisation with staff interpreting rules to the letter at the cost of innovation and collaboration. A Board member and a member of the management team both highlighted reputational risks as key considerations. However the result for third party stakeholders is a perception of the Fund being inflexible. One external stakeholder described great strategic buy-in from the Fund whilst “*funding officers stuck rigidly to*

*the processes causing frustration and delay*”. A central government stakeholder felt that the Fund created tensions when its systems and processes would not allow agreement to meet ministerial direction, reflecting that as an NDPB it appeared to be politically naive.

**4.59** A member of the management team reflected that the Fund had learnt a substantial amount about contracting and client relationships through the Department for Education ‘Myplace’ third party work. However external stakeholders, including a private sector partner, report relationships in which they felt they were treated “...*like applicants rather than strategic partners or clients*”. A member of the management team felt that the Fund had also learnt about the required skills for third party work and found that those staff with private sector backgrounds worked better on ‘Myplace’ than others from a VCSE background. These issues are related to the points and recommendations made on commercial awareness and expertise elsewhere in this report.

### Strategic direction

**4.60** Members of the management team reflected that the Fund is rather reactive to third party work opportunities rather than developing work that meets agreed strategic directions they wish to pursue. A number of central government stakeholders also felt that the Fund did not have a clear strategic direction on third party work nor clear routes for securing internal agreement and were disappointed that the Fund was not more proactive in sourcing opportunities.

### Management costs and fees

**4.61** The Fund uses modelling done in England to agree the staff and project requirements for each piece of third party work. The Fund has put in place mechanisms to manage and monitor its costs internally

and to model its unit costs. The management fee for third party work agreed five or six years ago was more generous than subsequent agreements. As third party clients' budgets have reduced, agreements have been negotiated that exclude non essential parts of the work. For example 'Transforming Local Infrastructure' and 'Advice Services Transition Fund' (ASTF) both have had much clearer management fee limits which required more clarity on roles and responsibilities including a reduced number of visits that the Fund could undertake. A member of the management team felt that this push back on management fees meant that it was much harder for the Fund to deliver the work.

### Summary

**4.62** It is important that the Fund continues to ensure it is delivering its third party work effectively, working towards focused delivery of a Third Party Strategy. The strategy should be supported by the most up to date intelligence on opportunities for delivery of other organisations' funds to ensure that the benefits of collaboration are maximised. This will require excellent client relationship management including with government departments across all administrations, with private sector organisations and foundations, trusts and other funders.

**4.63** A more proactive approach would help to embed third party work further as a core function especially in relation to current policy direction, additionality, and consistency with the Fund's mission. Stakeholder interviews identified some long and sometimes difficult negotiation processes both during the setting up of arrangements as well as when changes were required to already established funds. Standardised procedures and delegated responsibilities could help to manage risk as well as help speed and smooth agreements.

**4.64** The Fund can be more confident in presenting its third party work 'offer' including where it complements government policy such as social investment and should consider how new commercial skills, approaches and culture can be nurtured across the organisation to help the work to become an accepted part of the organisation's mission.

**4.65** Third party work with government departments is fulfilling an important function as well as an important role in developing private sector collaboration. The Fund should make more of these opportunities and the chance to fulfil its mission through joint policy delivery. The Fund needs to consider its approach to seeking third party work with consideration of:

- proactive approach to profile and relationships
- timely and transparent decision making processes for agreeing innovative third party work
- development of client facing culture and commercial skill sets.

## Effectiveness of distribution of dormant accounts funds

### What the Fund does well

**4.66** Any funds released by the Reclaim Fund Ltd pass to the Fund for distribution (2012/13 £50m; 2011/12 £47.6m). The Fund deposits funds until required and receives interest. The Fund distributes those funds in accordance with the Act and directions issued by the Minister for the Cabinet Office and the Devolved Administrations which are at Annex F.

## Flexibility

**4.67** The Fund has shown flexibility of approach in agreeing different distribution mechanisms, for example:

- In England the Fund is directed to pass all funding to Big Society Capital, which has been established as an independent social investment wholesaler. In 2012/13 the Fund transferred £41m in this way
- In Northern Ireland, the Department of Finance and Personnel lead on setting priorities for dormant accounts funding. Until such priorities have been set the funds are held by the Fund
- In Wales the Fund is directed to deliver the funding in accordance with directions issued by the Devolved Administration. The Fund has distributed money to the Sustainable Steps programme to encourage community action to tackle climate change and Getting Ahead, a scheme to support young people to enhance their chances of progressing into sustainable employment
- In Scotland the dormant accounts funding is delivered through Young Start to help children and young people become more confident, healthy, connected and enterprising.

## Effective delivery

**4.68** The Fund delivers Young Start in Scotland itself, with the programme having awarded £7.48m to 174 projects in 2012/13. A Government stakeholder reflected that the Fund is seen as the expert and that decision making is devolved to the Fund with the Government receiving regular updates on awards and spend. The scheme has been very popular and has been well received. A Government stakeholder commented that delivery from their perspective is very hands off and seems to have been very smooth.

## Areas for development or improvement

### Awareness issues

**4.69** The distribution of dormant accounts money provides further funding sources to deliver key strategic policy priorities for the Fund. The Call for Evidence and some interviews revealed that there is some lack of understanding about this part of the Fund's role and consequently its impact and importance, as highlighted in Chapter 2.

**4.70** Public information on dormant accounts spending directions is only available for Scotland and England on the Fund's website and public reporting of dormant accounts activity varies in detail and clarity.

### International work

**4.71** As part of a review of its international work the Fund undertook an evaluation in January 2013<sup>11</sup> that included an analysis of its impact as well as consideration of future opportunities. The recommendations of the evaluation included that the Fund continue to run a mixed portfolio with both reactive and proactive funding strands and should include strategic initiatives such as collaboration with other funders such as Comic Relief, piloting social investment and increasing engagement with the private sector. The Fund is currently in discussion with Comic Relief on the potential to collaborate in the near future.

**4.72** The Department for International Development has commented on the success of the Fund's community engagement and communications work and is interested in learning more about how their approach might be applied to international work. The Fund believes there is scope to ensure that the experience and learning from its international work, particularly working

<sup>11</sup> An Evaluation of Big Lottery Fund's International Funding Programmes, January 2013 <http://www.biglotteryfund.org.uk/research/international/international-funding>



with partners, is used to inform its domestic portfolios. In order to ensure this it intends to better integrate the international work into the work of the organisation as a whole.

### **Recommendation 19**

The Fund improves the transparency of the work it does by:

- (a) being as clear about its international work as it is about its work within the UK
- (b) providing full and clear publicly available details on the dormant accounts spending directions, budgets and achievements for the whole of the UK
- (c) setting out a clear, publicly available strategy and plan for its third party work which is underpinned by clear aims, objectives and deliverables over the next strategic framework period.





# Chapter 5 – Corporate Governance

## Context

**5.1** Good corporate governance is central to the effective operation of all public bodies. The Cabinet Office, as the sponsoring department, and the Fund completed a self-assessment against the principles set out in the “Guidance on principles of Good Corporate Governance in Executive NDPBs”.

The department and the Fund identified, as part of the Review, any areas of non-compliance with the principles and where appropriate explained why an alternative approach has been adopted and how this approach contributes to good corporate governance – this is known as the ‘comply or explain’ approach, the standard approach to corporate governance in the UK.

## The principles of good corporate governance

Principle		Descriptor
Accountability	Statutory accountability	The public body complies with all applicable statutes and regulations, and other relevant statements of best practice.
	Accountability for public money	The Accounting Officer of the public body is personally responsible and accountable to Parliament for the use of public money by the body and for the stewardship of assets.
	Ministerial accountability	The Minister is ultimately accountable to Parliament and the public for the overall performance of the public body.
Roles and responsibilities	Role of the sponsoring department	The departmental board ensures that there are robust governance arrangements with the board of each arm’s length body. These arrangements set out the terms of their relationships and explain how they will be put in place to promote high performance and safeguard propriety and regularity. There is a sponsor team within the department that provides appropriate oversight and scrutiny of, and support and assistance to, the public body.
	Role of the board	The public body is led by an effective board which has collective responsibility for the overall performance and success of the body. The board provides strategic leadership, direction, support and guidance. The board – and its committees – have an appropriate balance of skills, experience, independence and knowledge. There is a clear division of roles and responsibilities between non-executive and executives. No one individual has unchallenged decision making powers.
	Role of the chair	The Chair is responsible for leadership of the board and for ensuring its overall effectiveness.
	Role of non-executive Board members	As part of their role, non-executive board members provide independent and constructive challenge.
Effective financial management	Annual reporting	The public body has taken appropriate steps to ensure that effective systems of financial management and internal control are in place.
	Internal controls	
	Audit committee	
	External auditors	

**5.2** The Review assesses that the Fund and the sponsor department provided comprehensive supporting documentation for its questionnaire response, including policies available to the public on its website and internal documents where relevant to governance and accountability issues. A summary of compliance issues is set out below, with a full table of compliance in Annex I.

## Accountability

### Statutory accountability

**5.3** The Fund is compliant in all of the required aspects of statutory accountability.

### Ministerial accountability

**5.4** The Fund is compliant in most of the required aspects of Ministerial accountability.

**5.5** The Minister meets the Fund Chair and Chief Executive at least annually to discuss the annual report, and as required on other matters.

**5.6** The Department for Culture, Media and Sport and the Cabinet Office are currently reviewing their Memorandum of Understanding and this will result in changes to the Management Statement. The Cabinet Office will use the revised Management Statement to be clearer about which areas the Fund is required to consult Ministers on.

#### Recommendation 20

The Cabinet Office and Department of Culture, Media and Sport update their Memorandum of Understanding and the Management Statement of the Fund with a clear statement of their respective roles and responsibilities in relation to the Fund.

### Accountability for public money

**5.7** The Fund is compliant with most of the required governance arrangements around

accountability for public money. It should be noted that money from Lottery ticket sales is not public money in the sense of money generated from taxation but describing it as ‘public money’ does ensure it is subject to the same levels of accountability.

**5.8** The Fund complies with all the relevant requirements including the Accounting Officer role and complying with Managing Public Money. The Fund has guidance for staff on financial issues including expenses, gifts and hospitality, and fraud policies. The annual report and accounts for 2012-13 were published on 11 July 2013.

**5.9** The Fund has a formally designated Accounting Officer (AO) in the form of the Chief Executive. She was appointed in October 2013 and although she has made provision for training on her AO responsibilities this will not be complete until April 2014, though this has been affected by the availability of training courses.

#### Recommendation 21

The Fund confirms to the sponsorship team when the Accounting Officer training has been completed.

## Roles and responsibilities

### Role of the sponsoring department

**5.10** The Cabinet Office sponsor team and the Fund are compliant in all aspects of governance and oversight.

**5.11** There is a Cabinet Office sponsor in the Office for Civil Society and an effective relationship exists at working level. They have provided appropriate oversight and scrutiny of, and support and assistance to, the public body. The Cabinet Office sponsor reports that they regularly engage with the Lottery Team in the Department for Culture, Media and Sport to ensure that their requirements

as Accounting Officer are also met. The period of the Review has also seen a change in personnel in the Cabinet Office sponsor team so it will be important that these relationships are maintained effectively.

**5.12** The Cabinet Office, the Department for Culture, Media and Sport and the Fund have recently implemented three way meetings to ensure that the interests of both departments are well understood by the Fund and necessary reporting requirements are met. Although these meetings are relatively new, early indication from all parties is that they are working well and are enhancing the respective relationships.

**5.13** There is a Memorandum of Understanding between the Cabinet Office and the Department for Culture, Media and Sport setting out the responsibility for various functions of the Fund. This was produced in 2011 following the transfer of policy and sponsorship responsibility for the Fund from the Secretary of State for Culture, Media and Sport to the Minister for the Cabinet Office. As referred to in paragraph 5.6 this is currently being revised.

### **Role of the Board, Chair and non-executive Board members**

**5.14** The Fund is compliant in all of the required aspects of good governance arrangements related to roles of the Board, Chair and non-executive Board members. However, in day-to-day practice there is some lack of clarity and differentiation between the different roles and accountabilities within the governance framework of the Fund, which should be addressed.

**5.15** The Fund is led by a UK Board of between 9 and 12 members, appointed by the Minister for the Cabinet Office, which has collective responsibility for the overall performance and success of the body. The members of the UK Board are the Members

of the Fund, for the purposes of the National Lottery etc. Act 1993. As a matter of law, those Members comprise the Fund itself.

**5.16** The UK Board members are all non-executives who reflect a balance of sector knowledge and regional coverage. There are currently 9 members, consisting of a Chair (Peter Ainsworth, who was appointed on 1 June 2011) and 8 others – the vice Chair, the Chair of each of the Country Committees and three general members. The review team witnessed that, as part of their role, non-executive Board members provide effective, independent and constructive challenge.

**5.17** The current Board is 33% female with one member from the Black and Minority Ethnic (“BME”) community. Improving diversity in public appointments is a ministerial and Government priority aimed at achieving equal representation of women and men in public appointments, and pro rata representation of ethnic minority groups and increased participation of disabled people. The Fund’s Board does not currently meet this aim.

**5.18** The annual report and accounts (2012-2013) states that: *“Each country has a Country Committee responsible for the funding programmes in their country. Country Committees have delegated authority to determine the funding strategy and programmes in their countries, subject to a UK-wide strategic framework approved by the Board and the policy directions for their country. They also make grant decisions, or agree the delegated arrangements for making them.”* Examination of Country Committee agendas however indicates that they also consider issues not only of how the Fund distributes money but also the way in which it does this, i.e. the operational management of the Fund. There is also a UK Funding Committee which oversees the UK portfolio.

**5.19** The Country Committees and the UK Funding Committee are made up of a further 28 non-executives (in addition to the country chairs who sit on the UK Board), although their powers and accountabilities are not equal to those of the non-executives on the UK Board (reflecting that, for the purposes of the National Lottery etc. Act 1993, they are staff employed by the Fund and are not, themselves, Members of the Fund). These committees (with the exception of England) better reflect the aim of equal representation of men and women. In total, therefore, 37 non-executives are involved in the running of the organisation, and this non-executive network requires servicing – which places a demand on the executive team. The total remuneration to the non-executives in 2012-2013 was £358,942 with additional expenses of £49,094.

**5.20** In addition, the non-executive cadre have said they would appreciate greater links between them across the UK structure to improve their effectiveness – though they are mindful of the cost implications of bringing them all together on a regular basis and recognise increased connectivity may need to be delivered virtually.

**5.21** As well as the Country Committees and the UK Funding Committee the Board has two sub committees (made up from the non-executives on the UK Board or Country Committees) who provide advice and oversight. These are the Audit and Risk Committee and the Remuneration Committee. In addition, the Audit and Risk Committee has two external members bringing expertise in audit and accounting matters.

**5.22** The Cabinet Office is currently working with the Fund on a recruitment campaign for new members of the UK Board, because the vice Chair is due to step down at the end of May 2014. Of the eight members

who will remain after May, three (including the Chair) have predominantly private sector backgrounds, three have broadly VCSE sector backgrounds, and two are from higher education/local government. The vice Chair whose departure prompts this campaign will take with her significant knowledge and expertise of the challenges facing VCSE sector organisations and it will be important to ensure that at least one of the new appointees brings experience in this area.

**5.23** The Cabinet Office has also identified the need to recruit new Board members who can bring strong financial and commercial expertise, risk management and governance experience, and the ability to improve and broaden the Fund's links to the private sector and other organisations.

**5.24** As part of this recruitment the Cabinet Office and Fund are looking at the requirements placed on Board members to work 36 days a year, and whether this is in practice the required contribution of Board members. Reducing the time commitment involved, if deemed appropriate, could have a significant impact over time on the total remuneration and expenses payable.

**5.25** The governance structure of the organisation was not particularly well known amongst the stakeholders the review team talked to and evidence from them suggests that the Fund could promote the non-executive role in their governance more strongly. Better promotion of the skills and experience of Board and committee members and the role they have in decision making and setting strategic direction may clarify for stakeholders the way in which the Fund operates at arm's length from Government.

**5.26** All UK Board members are formally appointed by the Minister for the Cabinet Office, including specific terms and conditions of appointment, and are required

to comply with the *Code of Conduct for Board Members of Public Bodies (2011)*. The recruitment process complies with guidelines for making public appointments<sup>12</sup>, and the Fund's Chair is a member of the interview panel which advises the Minister on suitable appointees. Board members are appraised annually by the Chair.

**5.27** A further governance issue is the time taken for decision making. The involvement of Country Committees in decisions about both where and how the Fund distributes money can lead to delays, as issues need to be considered at different levels but within a fixed schedule of meetings. The UK Board meets four times a year and on occasions some issues have taken a long time to get to the Board. For example, the externally commissioned stakeholder survey carried out in April 2013 was only considered by the Board in detail in January 2014.

**5.28** The day-to-day operations are managed by the Fund's Chief Executive and the Senior Management Team which includes national and corporate Directors. The Board holds the Fund to account through its CEO Dawn Austwick who took up post on 1 October 2013. She has responsibility for the overall management and staffing of the Fund and for its procedures in financial and other matters, including conduct and discipline. She is also the Fund's Accounting Officer.

**5.29** There is a clear division of roles and responsibilities between non-executive and executives. No one individual has unchallenged decision making powers.

**5.30** All the executive Directors (and one of the Deputy Directors) currently attend the meetings of the UK Board. As a result there are almost equal numbers of Board members and executive team members in the room. Whilst it is understood that this is done to

ensure clear links between the Executive and the Board and to ensure that the views of each are respectively well known, the Chief Executive may wish to consider whether this in anyway inhibits the Board in expressing their views clearly, and whether it would be better to limit executive attendance to specific items of the agenda when relevant, to more clearly differentiate between the accountabilities of the UK Board holding the management team to account and the operational responsibilities of the executive Directors.

#### **Recommendation 22**

The Cabinet Office, during the current and future rounds of Board member recruitments:

- (a) increases the diversity of the Board
- (b) strengthens the financial, commercial and risk management capability of the Board, to balance with experience in the VCSE sector.

#### **Recommendation 23**

The Cabinet Office reviews the terms and conditions of appointment to the Board to:

- (a) Give Board members a more explicit role to focus on efficiency and effectiveness.
- (b) Be clear around restrictions on acceptance of other appointments.

<sup>12</sup> <http://publicappointments.cabinetoffice.gov.uk/>



**Recommendation 24**

The Chair ensures that the Country Committees are operating in accordance with their terms of reference, not duplicating discussions which ought to be had either by the country executive team or by the UK Board, and are distinguishing between governance and advisory roles. This may result in changes to the number and time commitment of Board and Country Committee members.

**Recommendation 25**

The Chair and CEO ensure that matters requiring the attention of the Board are considered in a timely way that maintains corporate momentum; and review executive team attendance at Board meetings, to better differentiate between the accountabilities of the UK Board and the operational responsibilities of executive directors.

**Recommendation 26**

The Fund improves links between staff across the UK at all levels in the organisation, including its Board and Country Committee members, in a cost-effective way.

**5.31** The Fund's internal audit function is led by a small internal team with additional support from PricewaterhouseCoopers, operating in accordance with the relevant internal audit standards.

**Annual reporting and transparency**

**5.32** The recent NAO report<sup>13</sup> on Public Bodies Reform has highlighted the number of public bodies that fail to meet the three main tests for transparency which are: publication of an annual report, publication of minutes of

Board meetings, and Board meetings being open to the public. Although the Fund is compliant in the first two of these it does not hold Board meetings open to the public.

**5.33** The Fund has stated that all Board meetings encourage free and frank discussions, including previously those they have held as open meetings with access to the public. They do publish Board agendas and minutes on line.

**5.34** The Fund states that it is committed to transparent decision making and good governance. The Fund's approach is driven by its experience of what works and it welcomes the use of open Board meetings where they add value to existing channels and if they are cost-effective. The Fund previously held a series of open Board meetings which attracted varying degrees of attendance and considers that they are best utilised for specific purposes. The governance review in 2012 noted the ability to hold open meetings, but did not make any recommendations for their specific use. The Fund believes that maintaining the ability to hold open Board meetings as necessary is beneficial.

**5.35** The Fund does not maintain a gifts log because it has guidance which states that the policy of the Fund is that staff and non-executives are not permitted to accept anything of significant (which is defined in the guidance) value which requires registration. The Fund does require staff to log offers of hospitality on the online HR system.

**5.36** The Fund publishes information regularly under a publication scheme and consults extensively on its policy areas. The complaint handling procedure is published at <http://www.bigLotteryfund.org.uk/about-big/customer-service/making-a-complaint> but the Fund does not currently publish management information about the number or type of complaints. There are plans in place to address this in the 2013/14 annual report.

<sup>13</sup> Progress on Public Bodies Reform <http://www.nao.org.uk/report/progress-public-bodies-reform>

**5.37** The Fund publishes spend data over £25,000 but it has decided not to publish procurement card data over £500 after consideration of the administrative burden. Better cost control procedures (Recommendation 5) should allow the Fund to publish this information more easily.

#### **Recommendation 27**

The Fund improves the transparency of the way it carries out its work by:

- (a) promoting the governance arrangements for the organisation more clearly to ensure customers and stakeholders are aware of how and by whom decisions are made
- (b) including management information about the number and type of complaints in the 13/14 annual report and ensure that this becomes a standard part of the annual report going forward
- (c) holding Board meetings open to the public
- (d) reconsidering its approach to publishing data on spend over £500.

#### **Audit Committee**

**5.38** The Audit and Risk Committee meet regularly. Limited assurance in terms of risk processes was provided by the Head of Internal Audit at the end of 12/13 and therefore the Fund's risk process is currently being reviewed.

#### **Recommendation 28**

The Fund completes its ongoing review of its risk process.

#### **Effective financial management**

**5.39** The Fund is compliant in most of the required aspects of effective financial management.

#### **Conduct and behaviour**

**5.40** The Fund is compliant in most of the specified conduct and behaviour requirements.

**5.41** The Board and staff of the Fund work to the highest personal and professional standards. They promote the values of the Fund and of good governance through their conduct and behaviour. There is a code of conduct on behaviour which forms part of the employment contract for all staff and procedures to deal with conflicts of interest and is published internally.

**5.42** Rules and guidelines are in place relating to political activity for all staff, including Board members.

**5.43** Rules are in place for Board members and senior staff on the acceptance of appointments or employment after resignation or retirement. For new senior staff (Directors and CEO) the rules are included in appointment terms and can be enforced. Board members' appointment terms do not currently include restrictions and this will be remedied going forward (Recommendation 23b).

#### **Consultation on Strategic Framework and country business plans**

**5.44** The Fund consults on its five year Strategic Framework and its annual country business plans before publication. This allows stakeholders and the general public to engage in the process of developing objectives for the organisations, strategies for approaching areas of work, and influencing the work plans. It also allows respondents to engage in discussions on budgets and working practices. Consulting in this way ensures that the Fund is open and transparent about its plans.