

FUNDING COMMISSION

Paper 5 – National Lottery Funding – Findings and Emerging Recommendations

Between June and September 2010 the Commission published eight papers on its website on different aspects of its work. Comments were invited on these papers. The emerging recommendations in the papers have subsequently been amended as the Commission's thinking developed. However, the findings in the papers contain much of the evidence on which the final report is based. Details of all those consulted during the preparation of the papers are given in Annexe 2 of the main report.

This is the fifth paper to be published by the Commission (August; revised September 2010) – on National Lottery Funding.

1. Background

- 1.1 Lottery funding provided £523m to charities in 2007/08. (NCVO Almanac 2010¹). Although this represents a small part (1.5%) of charities' overall funding, it is a very important element, particularly for funding new and innovative projects and for funding causes that may otherwise have difficulty in attracting funds.
- 1.2 Medium sized organisations and micro organisations get proportionally more (2.7% and 2%) of their income from the Lottery than other charities, whereas large and medium get the biggest share of the Lottery's income (39% and 34%) compared with other charities.
- 1.3 There are currently 14 distribution bodies, of which the biggest is the Big Lottery Fund (BIG), which, prior to the 'Olympic Diversion' (which ends in August 2012), was receiving 50% of the money raised by the National Lottery for good causes. BIG committed to distribute 80% of these funds to civil society organisations (CSOs), but estimates that the proportion is currently over 90%.
- 1.4 In overall terms, charities receive at least 38% of the Lottery-distributed funds, but, apart from BIG, none of the other Lottery distributors can account for the precise amount they distribute to the sector. NCVO estimate that at least 70% of the £523m provided in 2007/08 was from BIG, with the next biggest proportion coming from Arts. Very little of the funding currently comes from Sports and Heritage.
- 1.5 BIG (and its predecessor the Community Fund) has always been an important source of funding for local CSOs. Some of the most significant funding provided by BIG for local CSOs has included Awards for All (grants for local people and local issues), Fair Share (place based funding), Reaching Communities and BASIS.
- 1.6 BIG has recently conducted a consultation exercise on its strategic priorities for the next five years and has also been updating its technology and processes to become more efficient and to better deliver the intelligent funder agenda.
- 1.7 BIG also now manages funds on behalf of government departments, such as My Place for the then DCSF. It is also the body that, under the Dormant Bank and Building Society Accounts Act 2008, will receive the dormant accounts funds from the Reclaim Fund, for onward distribution according to the spending priorities of the four nations. In England, under the last government, these priorities were young people, financial inclusion and capability and, if resources permit, social investment (but see 3.6 below).
- 1.8 BIG also co-hosts, with the Association of Charitable Foundations (ACF), the Intelligent Funding Forum (IFF), which has discussed a number of themes of interest to the Funding Commission including:
 - Supporting positive and lasting outcomes

¹ NCVO Almanac data, in the main, relates to charities, excluding housing associations, faith groups, trade associations, independent schools and those charities that are not independent of government, such as NHS charities.

- Supporting working together/partnerships
- Nurturing innovation
- Promoting sustainability and/or ensuring learning when projects end
- Building capacity
- Engaging more with customers/stakeholders
- Supporting sustainable development.

2. Changes under discussion

- 2.1 The Government has confirmed that it will be reducing BIG's share of the good causes money from 50% to 40% with effect from September 2010. The other 10% will go to the Arts, Heritage and Sports distribution bodies.
- 2.2 The Government has also indicated that it would like to introduce two further changes:
- Directing BIG to focus all its funding on CSOs
 - Limiting distributors' administration costs to 5% of the funds they distribute
- 2.3 Some of the concerns raised by NCVO, NAVCA, ACEVO, DSC and others on these proposals have been:
- The importance of ensuring that the extra 10% going to arts, heritage and sports is used for supporting community based rather than more elitist organisations
 - The need for flexibility over administrative costs to reflect the fact that grants to small, newer organisations and small grants are proportionately more expensive to administer and to manage, than large ones to well established organisations (BIG's administrative costs are currently 7.5%).
- 2.4 BIG itself, as an outcome funder, is concerned that requiring it to become a CSO-only distributor could reduce its effectiveness e.g. in rural areas where Parish Councils are often the only representative local group; in communities where the infrastructure for civil society is weak; or in encouraging a step change in partnership working between the local authority and the sector.
- 2.5 The Government has also stated that it intends to use the funds from the dormant bank accounts to establish a 'Big Society Bank' to provide new finances for social enterprises, charities and neighbourhood groups by April 2011. The legislation provides for the funds from dormant accounts to flow from the Reclaim Fund to the Big Lottery Fund in the first instance.
- 2.6 Although BIG has the power to make loans, it does not have expertise in this area. It, therefore, is not expecting to play anything more than an administrative role in helping get the Big Society Bank established. It also does not have any current plans to develop a social investment approach to its own funding; if it were to consider this, it would expect to work with partners with expertise in social investment.

3. Issues for discussion

- 3.1 Changes under discussion. The changes in the distribution of the good causes income will reduce BIG's income levels. BIG estimates that in 2013/14 (after the Olympic Diversion has stopped), it will receive £654m instead of £813m. However, the impact of this on CSOs could be mitigated if all this funding went to the sector (rather than 92% in 2009/10) and if the extra funding going to the other Distributors went to the sector, and especially, to community organisations. Potentially the most damaging change would be an arbitrary imposition of 5% administrative costs, as this would change the type of funders the Lottery Distributors are. In particular, it would reduce their ability to be engaged funders and to run small and locally based grant programmes.
- 3.2 Support for CSOs. BIG has played an important role in building the capacity of the sector. This role could become even more important if funding for infrastructure and for support

services from other sources, such as Capacitybuilders and central and local government more generally, comes to an end or reduces significantly. BIG will therefore be waiting to see the outcome of the OCS review of infrastructure and the October Spending Review before deciding what role it should play in the future in this area.

- 3.3 Good practice in funding. BIG has developed good practice in outcome funding and in evaluation, as well as co-hosting the Intelligent Funding Forum, which promotes good practice of this kind. The Scottish Funders Forum has developed some common outcome frameworks for different sub sectors (see recommendation in the Effectiveness paper on this issue) and BIG in Scotland has been promoting self-evaluation by CSOs themselves, which will be supported by independent advisers commissioned by BIG.
- 3.4 Big Society Bank. The Government has stated that it will direct all of the money from the Unclaimed Assets Reclaim Fund to the Big Society Bank. Further details of the timetable and process for establishing the Bank will be published shortly, but the aim is for the Bank to be operational by April 2011 (see recommendations in the Capitalisation and Social Investment paper regarding the role of the Bank).
- 3.5 Charity Lotteries. The paper on Individual Giving discusses reducing the barriers and bureaucracy involved in running raffles/lotteries and enabling higher prizes to be paid. If charities working for the same cause or in the same area could run joint raffles with higher prizes, there is considerable potential for raising larger sums of money this way. However, the paper makes clear it will be important to look at European experience to ensure that this would not have a negative effect on the National Lottery's income before proceeding with these changes.

4. Emerging Recommendation

- 4.1 The Funding Commission would wish to support the sector's efforts to maximise the amount of Lottery income going from all the Lottery distributors to CSOs. Whilst recognising the need for Distributors to keep their administrative costs low, the Commission would also want to resist the imposition of fixed percentages on any funders' overheads, since these are decisions which each funder should make, as part of maximising their effectiveness.
- 4.2 The main strategic issue to highlight regarding Lottery Funding is the increasing importance of the Lottery, alongside trusts and foundations, in funding and sustaining the effectiveness of CSOs and the sector generally, and in supporting local, community groups in particular.

Emerging Recommendation – The Lottery's role in helping the sector to become more effective

Background

- **The Big Lottery Fund has played an important role, through the BASIS programme and through a range of national and local grants, in developing the effectiveness of CSOs and the sector's infrastructure**
- **The other Lottery distributors have played a much smaller, but nevertheless important role in funding CSOs in their area; however, less is known about the impact of this funding, as it is not separately identified**
- **With current restrictions on public funding, this source of funding is going to become even more important, especially for infrastructure bodies and smaller, local community groups**
- **BIG, together with ACF, has also helped promote good funding practice through the Intelligent Funding Forum.**

Proposal

- **BIG and ACF should work with NCVO and OCS to develop a coordinated approach to helping develop and fund the sector's effectiveness, particularly in relation to demonstrating impact, supporting collaborative working and modernising the infrastructure**
- **The Intelligent Funding Forum should input to this approach and review progress on it annually**
- **All Lottery distributors should be required to identify the amount of funding they allocate to the CS sector each year, including the amounts they allocate to smaller, local community groups, so this can be kept under review.**

Benefits: Infrastructure bodies directly and all CSOs indirectly.

**Funding Commission
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