

Consultation on new policy directions for the Big Lottery Fund

NCVO Response – August 2016

General comments and summary

The National Council for Voluntary Organisations (NCVO) is the largest membership organisation for the voluntary sector in England. With over 12,000 members, NCVO represents all types of organisations, from large ‘household name’ charities to small voluntary and community groups involved at the local level.

The Big Lottery Fund (BLF) represents a unique and invaluable funding stream for voluntary and community organisations and social enterprises, which would otherwise not be available. Its funding overwhelmingly supports smaller organisations and projects, with 91.3% of its awards being for less than £10,000. Grant income to the voluntary sector has fallen substantially over the last ten years¹, with this type of small grant becoming rarer, and BLF’s role accordingly being increasingly important.

Having the scope and flexibility to be responsive to changing circumstances and communities’ needs has always been an important characteristic of BLF’s nature as a funder. Recent economic and social developments underscore the need to retain this flexibility. In a funding environment characterised by a shift from grants to fewer, larger, and more tightly-defined contracts, BLF’s role as a high-volume grant maker characterised by flexibility is almost unique. It plays a different, special role in the funding ecosystem. Several changes proposed in the new directions would unduly focus BLF on government priorities, reducing this scope and creating the risk that the character of its funding as additional to and distinct from that of government would be undermined.

Whether or not such a risk were realised in practice, the perception of BLF’s independence is critical to maintaining the public’s trust and confidence in the good causes element of National Lottery proceeds. If the public were to develop the perception that the good causes funding was primarily being used to replace government spending – rather than to occasionally complement it where appropriate – then considerable damage would be done to the reputation of both BLF and the National Lottery more widely.

To preserve BLF’s flexibility, distinctiveness and independence, we make the following recommendations for the new policy directions:

- **Retain the current wording of the additionality and complementarity principles**

The additionality and complementarity principles are core to BLF’s constitution as a funder distinct from government, and to the perception of its independence. The new directions place considerably greater emphasis on complementing government funding, creating significant risks that additionality will be undermined. Furthermore, maintaining consistency in the implementation of these key principles is of paramount importance to the nature of BLF’s funding, and a strong case for changing their wording has not been made.

¹ See [NCVO Almanac income data](#)

- **Remove the issue-specific elements of the proposed spending priorities**

The spending priorities for England and Isle of Man devolved expenditure should be kept as broad and flexible as possible to allow BLF to adapt to community needs in the context of possible economic volatility over the coming years. This reflects BLF’s strategic commitment to “keeping open, demand-led funding at our core”. Highly issue-specific spending priorities will restrict this flexibility and should not be included in the directions. Additionally, such priorities also focus funding towards areas where the government is already funding work, directing money away from areas and issues where it is not spending and where need may therefore be greater. A characteristic of BLF’s distinct role is its ability to be counter-cyclical, addressing issues that may not yet have gained recognition in the policy-making cycle.

- **Codify BLF’s discretion across its spending priorities**

The policy directions should explicitly reflect the position set out in the consultation document that the balance of funding, the amount of funding, and the choice of programmes across the spending priorities set out at direction (3.C) remain entirely at BLF’s discretion.

- **Qualify the need to work with others to where it produces better outcomes**

The prescriptive terminology used in direction (3.E) with respect to collaboration, partnering and match-funding creates an obligation for BLF to do so without reference to considering whether doing so will produce better outcomes. The direction should be recast to refer to “desirability” instead of “need”, or be qualified to ensure BLF is only directed to work with others where it produces better results.

- **Clarify various changes to the terminology used in the directions**

There are a number of clarifications we ask the government to make, to ensure the directions are interpreted in a way that reflects and enables BLF’s strategic aims. Similarly, there are some minor adjustments to direction wording that would ensure the requirements BLF must place on grant applicants remain proportionate.

Response to questions

1. *Is there anything set out in these directions that the Big Lottery Fund should not be doing? If your answer is yes, please tell us what it is and why they should not be doing it.*

Fundamentally, the constitution of BLF as a provider of funding which adds to rather than replaces government spending is contingent on its independence and discretion in how it allocates that funding. In broad terms, the Big Lottery Fund’s work should therefore not be explicitly aligned with the agenda of the government of the day.

As presently drafted there are three aspects in the new directions that would have such an effect: changes to the wording of the additionality and complementarity clause; changes to the spending priorities; and changes to how BLF is directed to work with others. We recommend amendments to provide clarity and avoid these risks.

Beyond these significant concerns, we highlight a number of ambiguities in the proposed drafting which could, depending upon their interpretation, place obligations on BLF that would be at odds with its strategic objectives. We call on the government to provide clarity on how it intends these aspects to be interpreted.

Distinctiveness of funding

Additionality and complementarity

The National Lottery was established on the principle of additionality – that its funding should add value and be distinct from government spending. Much of the parliamentary debate on the National Lotteries Act 1993 concerned the challenges of implementing this principle in an effective way². Ensuring BLF's independence from undue political influence has been a recurrent concern in Parliament over the life of the National Lottery³.

Additionality was explicitly introduced into BLF's policy directions in 2013. The principle of complementarity was introduced alongside additionality to enable BLF to work more closely with others where desirable. The concepts of additionality and complementarity are necessarily linked; if in practice the latter is emphasised too strongly, it undermines the supposedly distinct nature of BLF's funding. The articulation of these principles was carefully developed over the course of the previous consultation on the directions, and in its response, the government introduced further measures to strengthen the clause in which they are expressed by making reference to the distinctiveness that BLF's funding⁴ should have.

The proposed directions change the clause in two significant ways, both of which alter its emphasis towards working more closely on current government priorities. Firstly, there is no longer any mention of funders other than government in the clause, diminishing BLF's ability to work jointly with the breadth of funders in the sector, which was a key reason for the original introduction of complementarity into the directions. Secondly, the new clause significantly expands the expression of complementarity by adding that government funding should be complemented in "areas of mutual policy interest".

In practice, the additionality principle is given force through the wide measure of discretion that lottery distributors are given to fund work across a broad range of areas within a *general* remit, which may or may not coincide with the work of other funders, government included. The government recently restated its commitment to this principle⁵, and the policy directions are the primary means for it to realise that commitment. Read in combination with the considerable expansion of the spending priorities at direction (3.C), the new clause represents an unprecedented level of alignment of BLF's funding with government priorities, which would appreciably undermine the distinctiveness of that funding.

For this reason, **we strongly recommend that the existing drafting of the clause under the 2013 directions is retained**. Moreover, as the clause defines principles so fundamental to the nature of BLF's funding, there is a strong case for maintaining consistency in its expression over time.

If the government considers that there is a compelling case for altering the expression of these principles, we would ask for greater detail to be provided than the general comments made on page 6 of the consultation, particularly given the consistent interest of Parliament and wider stakeholders on this issue throughout the lifetime of BLF.

² See for example the prevalence of additionality in House of Lords debate on the National Lottery etc. Bill in [Hansard, 27 May 1993](#)

³ See for example [The National Lottery – The first 15 years](#), House of Commons Research Paper 09/93 at section 4.4

⁴ See page 3, [Summary of responses to the consultation on the Big Lottery Fund 2011](#)

⁵ See statement by Parliamentary Under-Secretary of State for BIS and DCMS, Baroness Neville-Rolfe in [Hansard, 17 December 2015 at Column 2300](#)

Changes to spending priorities

The policy directions relating to England and Isle of Man devolved expenditure have been significantly altered in the new directions, again with a greater focus on government priorities. Existing direction (2.C) specifies three general priorities for BLF around social involvement, capacity of sector organisations and social investment. By contrast, the draft proposal extends this section to seven, often highly specific priorities.

We consider this specificity to be problematic for several reasons. Firstly, as outlined above, the changes to the directions both extend complementarity to emphasise mutual policy interests between BLF and government, and then go on to define what those areas of interest are in direction (3.C).

The degree of specificity is such that it creates inconsistencies with the consultation document. The commentary on the new direction states that “this section signposts the good causes and aims to be achieved through Lottery funding, rather than specific projects or programmes”, in contradiction to the first priority within the section that explicitly refers to the government’s Life Chances Strategy as a programme BLF funding should complement. Again, this scale of alignment with government priorities is inconsistent with the need for BLF funding to be distinct from that of government.

Secondly, the spending priorities should be sufficiently broad to provide scope for BLF to be responsive to developing needs among those it funds. The previous consultation on the 2013 policy directions recognised the necessity of this approach, stating that “it is important that the policy directions are future proofed and allow BIG the flexibility to fund a range of activities”⁶. The uncertain economic environment following the vote for the UK to leave the European Union re-emphasises the need for BLF to retain a broad measure of flexibility in its funding decisions over the coming years, during which the needs of the communities and the organisations it funds will very possibly change.

These developments also reflect how issue-specific spending directions are at risk of rapidly being superseded by new priorities. The directions are only updated every three to four years, and in this case, deliberately to coincide with BLF’s strategy to 2021. They should accordingly build in sufficient generality and flexibility to account for the possibility of substantial change to the funding environment over this period. In this regard, the policy directions issued to other lottery funders such as Arts Council England and the Heritage Lottery Fund provide exemplars of strategic oversight that have not required amendment in many years because they are sufficiently high-level to enable responsiveness. Directing BLF to prioritise funding on specific programmes necessarily constrains its ability to be responsive, and to deliver its strategic commitment to “keeping open, demand-led funding at our core”. Moreover, doing so also focuses BLF’s resources on areas in which the government is already spending, reducing the funding available for issues which receive little statutory funding and where need may therefore be greater.

We therefore **recommend removing the following issue-specific references in section (3.C):**

- “...including and supporting early years child development and parenting, and by complementing the Government’s Life Chances Strategy.”
- “...with a particular focus on engaging young people in this activity to give them opportunities to develop vital skills for life and work.”
- “Supporting communities to become stronger, more resilient and safer; including by promoting fundamental British values that support integration and unite communities, helping them become more cohesive, inclusive and tolerant.”
- “...particularly the youth sector.”

⁶ See footnote 3.

Furthermore, the consultation states that how BLF “balances its funding across these priorities, which funding programmes it implements and the amount of money to be distributed through each programme, all remain entirely at the Fund’s discretion”. This longstanding principle is so fundamental to giving effect to additionality that **we recommend it is incorporated into the body of the directions**.

We suggest the following wording:

“C. The need to ensure that the distribution of money addresses one or more of the following priorities, decisions over which are entirely at the Fund’s discretion:”

Working with others

Our concerns regarding the strengthened expression of complementarity notwithstanding, it is important that the directions enable BLF to work closely with other funders, where doing so improves its ability to achieve its strategic aims. However, the implementation of this concept at direction (3.E) uses the prescriptive terminology of “the need to collaborate, partner and match-fund”, with no reference to the circumstances where it would be advantageous to do so. Without such a reference, there is a risk of creating an obligation for BLF to collaborate regardless of whether this helps further its aims.

The current directions contain a similar clause on collaborative working, which is qualified by the statement “where this produces better results”. **We recommend similar wording is added to direction (3.E), to ensure BLF has the discretion to consider joint approaches in the context of where this improves outcomes**. We recommend using the terminology of “outcomes” over “results” as this is consistent with the language BLF in turn uses with its grantees. We suggest the following drafting:

“E. Where this produces better outcomes, the need to collaborate, partner and match-fund with other social sector funders, private, public and civil society organisations in order to increase the scale and scope of public and social benefit achieved.”

Alternatively, the reference to “need” in this direction could be changed to “desirability”, achieving a similar outcome.

Clarifications and minor amendments

Requirements for provision of funding

Direction (1.A.3.a) requires funding to be distributed for specific, time-limited purposes only. We would like the government to clarify that this direction should not be construed in a way that would interfere with BLF’s commitment to provide those its funds with full cost recovery, in particular, the funding of organisations’ core costs as part of specific project delivery.

Direction (1.A.3.c) requires applicants to demonstrate the financial viability of projects. This represents a departure from the current directions, where the onus is on BLF to be satisfied of the financial viability of project proposals. We consider the current position to be more aligned with BLF’s commitment to proportionate application processes, but if this approach is to be introduced, we would suggest the following amendment to retain proportionality within the requirement:

“(c) for applicants to demonstrate the financial viability of projects, having regard to the size and nature of the project.”

Direction (1.A.4) requires applicants seeking capital funding to provide a “clear business plan”. Capital funding is often an element within the small grants (<£10,000) that make up the

overwhelming majority of BLF's distribution of funds, and requiring a full business plan in each of these instances is likely to be a disproportionate requirement in comparison to the scale of the projects involved, and inconsistent with BLF's strategic aim of "backing ideas on the basis of flexible, proportionate applications". Our understanding is that this direction may be intended to refer to projects for which large amounts of *solely* capital funding are sought, and if so, we recognise that requiring a business plan in such instances is likely to be both proportionate and desirable. We suggest the following amendment to address these issues:

"Where only capital funding is sought, (a) for a clear business plan showing how any running and maintenance costs will be met for a reasonable period, having regard to the size and nature of the project."

Direction (1.B.3) directs BLF to consider the desirability of "requiring an element of partnership funding, or contributions in kind from other sources, to the extent that this is reasonable to achieve for different kinds of applicants in particular areas". We would like the government to clarify that this direction is not intended to create any general presumption that applicants should be expected to have found match funding or contribute toward the core costs of the projects that they are seeking funding for, but rather that this will only be required where BLF explicitly decides such an approach is desirable for a specific project.

Urban and rural issues

Direction (3.D.4) introduces the new requirement that BLF should have regard to the different social and economic issues experienced in urban and rural areas. We recognise the desirability of BLF having a strong understanding of the different issues such areas experience. However, we would like the government to clarify that the direction is not intended to create an expectation that the distribution of BLF's funding will necessarily change significantly across the areas as a result of its introduction, but rather that it is intended to assist BLF in appropriately understanding where need may be greater.

Removal of "over time"

The references to ensuring that the distribution of money by the Fund addresses particular issues "over time" at sections (1.A) and (2.C) of the 2013 directions has been removed in the new directions and have no apparent equivalent. We do not believe the wordings in the equivalent new directions raise any particular concerns as a result of the absence of this phrasing, but we would like the government to clarify that the removal of the words "over time" should not be construed as to require the work of the Fund to achieve impact on any shorter-term timescale than is currently the case under the 2013 directions.

Civil society organisations

References to "voluntary and community sector and social enterprises" have generally been replaced in the equivalent draft directions by the term "civil society organisations". While the new terminology is more succinct, we would like the government to clarify whether it intends this term to refer to any types of organisation beyond the previous definition of voluntary and community sector and social enterprises.

Specifically, the government is presently undertaking a review of 'mission-led businesses', and the support such organisations may need. In particular, the government should clarify that it does not intend the term 'civil society organisations' to include such 'mission-led businesses', that are primarily private profit-making organisations which do not reinvest the majority of their surpluses into their social mission.

The BLF strategy refers to “distributing the majority of our funding to voluntary, community, and social enterprise organisations as our core civil society partners”. It would be helpful for the government to confirm that the new terminology in the directions is intended to align with this definition of civil society.

2. *Is there anything else the Big Lottery Fund should be doing, not covered by these directions? If your answer is yes, please tell us what else they should be doing and why.*

Removal of reference to “need”

While the new directions refer to “improving the life chances and opportunities of communities and the most vulnerable in society”, the reference in current direction (1.G.2) to programmes taking account of “those most in need” has been removed. We ask the government to clarify that in changing this wording, it does not intend any substantive change to BLF’s focus away from communities and people with the greatest needs, as this is and should remain one of the fundamental principles by which BLF determines the distribution of its funding.

Full cost recovery

Many small and medium-sized voluntary organisations are currently undergoing significant capacity constraints⁷, and accordingly the need for funders to provide full cost recovery has never been greater. BLF has long been committed to full cost recovery, and integrates this into its funding approach and guidance⁸.

Including the principle in the directions would affirm the government’s recognition of the importance of full cost recovery as an approach to voluntary sector funding, and help promote it across the sector, both to other funders, and to those drafting applications. If the principle were integrated into the directions, we would suggest using less prescriptive wording under section (1.B), employing BLF’s terminology on full cost recovery⁹, for example:

“...the desirability of:

4. paying the full cost of work that the Fund supports.”

3. *What is your view of the Fund's international work? Are you content with the policy direction (2.E) covering this work - is there anything more you would expect to see or are there any limits or conditions you would expect the Fund to apply to this work, which should be included in the final policy directions?*

We have discussed this issue with BOND and agree with their views on the scope of international work BLF should be supporting.

⁷ See NCVO’s [Financial Sustainability Review of the Voluntary Sector](#)

⁸ See for example the BLF [website](#).

⁹ See BLF [guidance](#) on full cost recovery.