



National Lottery Funding

Decision Document

July 2003

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Foreword from the Secretary of State

The Lottery is a huge success story which has transformed the lives of thousands of people in the UK. Over £14 billion has been raised for good causes since 1994 and so many communities, towns and cities have been completely transformed. Projects like the Millennium Stadium in Cardiff and the Millennium Bridge in Gateshead have inspired us as much as watching our athletes achieve unprecedented Olympic success in Sydney in 2000. And over 50,000 UK charities and voluntary groups have been helped by Lottery money.

I want to build on that amazing success as we approach the tenth anniversary of the Lottery next year. Of course, the Lottery creates millionaires. But it does a lot more too. It has been said that playing the Lottery may not be the best way of gambling or the best way of giving to good causes, but it's a very good way of doing both. The message that came back loud and clear from our consultation was that people see Lottery money as the public's money. It is different from money raised from taxation. And people want to see it spent on different things that their taxes cannot fund. Because they feel a great sense of ownership over Lottery money, they want far greater openness, more accessibility and above all they want to be inspired.

My proposals will make it much easier to apply for and to use Lottery money. Distributors will be more transparent about the decisions they make and will have to be more accountable. In addition, they will have to take much more notice of how the public wants Lottery money to be spent. And they will no longer be allowed to build up huge reserves of cash in the bank which could easily be spent elsewhere.

Because Lottery money reaches the parts taxes cannot reach, we must enhance its ability to transform and inspire. This applies to national projects like the Eden Centre, where the local economy is thriving as a result and people are amazed at the centre itself, and locally, where many people's lives have been immeasurably improved by a new sports club or arts project. The Lottery provides a unique opportunity for innovation which we must not be afraid to exploit.

Not everyone will support every Lottery grant. One person may favour a grant to a touring dance company, another to restore a local park, a third to a children's hospice, a fourth to fund training for an Olympic athlete, a

fifth to an advocacy service for deprived children. The Lottery funds all of these and more and inevitably some grants will be more popular than others. Indeed some grants will be controversial.

We live in a pluralist society and the range and nature of projects funded by the Lottery should, quite rightly in my view, reflect that society. We need to respond to people's priorities but what we do not want is a "lowest common denominator" Lottery where no one is prepared to try new things and take risks.

The National Lottery has quickly become a national institution. It will continue to thrive by maintaining its hold on our imagination, by involving people more and by being a great source of inspiration to us all.

A handwritten signature in black ink that reads "Tessa Jowell". The letters are cursive and fluid, with a prominent 'T' and 'J'.

TESSA JOWELL

Executive Summary

1. What should Lottery funding be for?

Consultation has demonstrated a desire for Lottery funds to make a difference, to be different from mainstream public spending, and to be locally sensitive to the needs and interests of our nation's many communities.

Lottery funding will therefore focus on these themes:

- Increased openness, accessibility and public involvement
- Transformation and inspiration at both national and local level
- Innovation in thinking, in action and in mobilising voluntary effort.

We will protect the principle of “additionality”, that is that Lottery funding will not be allowed to become a substitute for funding that would normally fall to mainstream Government spending. (para 2.7)

2. Increasing public involvement

Lottery players everywhere should feel that they can influence where good cause money goes. The process of applying for Lottery money should be easy, straightforward and swift. We will revise the Policy Directions to ensure distributors reflect the public's priorities for how good cause money should be spent, seek simplification of the application process, and make the grants system more open and transparent:

- Each distributor will extend their work on involving the public in decisions about Lottery funding themes and local Lottery spending. (para 4.13)
- We will ask distributors to do more to work with the media – the press, radio and television – to explore the scope for fast-track consideration of Lottery applications in which the public, or Lottery players, have a chance to decide between competing projects. (para 4.17)
- Applying for Lottery money will be made easier by greater standardisation of Lottery application forms across distributors so that they acquire a common look, structure and terminology. (para 4.28)
- Distributors will adopt a common customer care charter which will be available in all application packs to ensure that those applying for Lottery money receive the best possible service. (para 4.29)
- Distributors will put in place a common complaints procedure offering independent external review, similar to an ombudsman review. (para 4.30)

3. Accessibility

We will continue to back the three good causes of arts, heritage and sport and introduce six new types of Lottery funding:

open grants – a demand-led programme for voluntary and community organisations, similar to grants currently offered by the Community Fund. The proportion of funding under this programme will be no lower than is presently guaranteed. (para 2.11)

national programme funding – along the lines of the New Opportunities Fund (NOF) programmes, where specific outcomes are defined in conjunction with Government and organisations are either invited to apply or money is allocated to achieve those outcomes. (para 2.13)

transformation grants – towards funding big transformational projects of national significance. (para 2.15)

a **Young People's Fund**, established within a year, with an initial budget of £200 million from the New Opportunities Fund. (para 2.16)

Awards for All (England) – we will double the current upper limit of the programme from £5,000 to £10,000. (para 2.18)

Micro grants – which we will initially pilot as a programme for awards of £500 or less in a sub-region of England as part of the Awards for All (England) scheme. (para 2.19)

We will also introduce a new funding stream:

an **Olympic Fund** – through legislation for new special Lottery games and a dedicated stream of funding for staging a spectacular and successful Olympic Games and an exciting programme of cultural, heritage and grass roots sporting activities around it. (para 2.17)

4. Streamlining the Distributors

A new distributor will take on the functions of the Community Fund and the New Opportunities Fund and assume the Millennium Commission's ability to support large scale regenerative projects. This new distributor will control 50% of the Lottery money intended for good causes, and will be a fund for transformation, from smaller grants through to big capital projects. It will be a true community distributor, funding projects to revitalise and regenerate communities.

- The new distributor will be able to handle non-Lottery funds, using its brokerage role to build a genuine community development in partnership with other funding agencies. (para 3.3)
- It will lead the way in introducing many of the improvements to the distribution of Lottery funding arising from the Review, establish best practice, and share knowledge with the other distributors. (para 3.7)
- It will provide a single point of entry for new applicants unsure of where to seek advice and guidance and will identify the most suitable grants programme for an applicant, including grants programmes provided by other Lottery distributors. (para 3.8)
- It will also be the first port of call for applicants who feel that their project does not fit neatly within the terms of reference of the other distributors. (para 3.9)
- We will legislate to transfer the assets and responsibilities of the Millennium Commission to the new distributor, along with any remaining balance of the Commission's budget, and any entitlements of the Commission from 1 April 2006, when the Commission will be wound up, or earlier. (para 3.15)

Many prospective projects can meet the criteria for more than one funder – a fine building being renovated with the help of the Heritage Lottery Fund can become a venue for the arts; a community centre funded by the Community Fund or NOF can include sports facilities. We will encourage projects like these that help us meet a number of objectives within a single scheme, and will put in place the appropriate arrangements:

- The new distributor will coordinate major cross-cutting projects as a centre of excellence on managing major projects, and as a funder itself. (para 3.17)
- Joint working across distributors ensures that best practice is shared and more effective ways of working can be implemented quickly. The existing informal group of key Chief Executives of Lottery distributors will be given a formal mandate to take forward more joined-up working under a new Lottery Forum. In addition the Secretary of State will meet Chairs of Lottery distributors regularly to ensure together that this strategy is working. (para 3.19)
- The new distributor will lead on developing a pre-application support process for all applicants, and common standards of service across Lottery distributors, including a common customer care charter, an independent external complaints process and developing a common applications process. (para 3.10)
- The new distributor will lead on developing a network for building capacity in communities across the UK and advising potential applicants. (para 3.10)
- To simplify procedures for those applicants who need to apply to more than one distributor for the same project, distributors will implement a Cross Distributor Applications Protocol. (para 3.22)

5. Greater efficiency

Many people find it baffling that Lottery distributors build up large balances of money which have yet to be passed on to the good causes. We will issue new Financial Directions, designed to remove obstacles to faster transfer of funds to grant recipients and so increasing the responsiveness of the Lottery. (para 5.6)

We will issue guidance to all Lottery distributors on managing their National Lottery Distribution Fund (NLDF) balances for speeding up the funding of projects, and making distributors responsible for setting rigorous individual targets for their balance levels. (para 5.7)

The Comptroller and Auditor General proposes to carry out an examination of balance management which will inform this process. (para 5.8)

We will introduce legislation to remove the perverse incentive for distributors to retain excessive balances. (para 5.9)

We intend to legislate to create a reserve power to reduce balances where they appear to be excessive and to reallocate them to other good causes in the usual proportions. (para 5.10)

6. Devolution of Lottery distribution in Scotland, Wales and Northern Ireland

Our provisional view is that we should retain a UK structure for Lottery distribution, but that the devolved administrations in Scotland, Wales and Northern Ireland should have more influence in setting specific priorities and strategies, taking account of the needs and wishes of local communities and service providers there. We will legislate to achieve this if necessary. (para 4.22)

7. Creating a single Lottery identity

All Lottery funding depends on the millions of people who play Lottery games. Everyone who plays should feel that not only does playing the Lottery give them a chance of winning, and perhaps winning a life-changing jackpot, but that a sizeable portion of their stake goes to good causes that they support. To make the link between the game and the good causes:

- All beneficiaries will display a common logo, giving it a high profile, as appropriate for the many different kinds of projects receiving Lottery help. Distributors will work with Camelot to develop designs using the crossed fingers logo. (para 4.5)
- The distributors will work together via a Joint Promotional Unit to increase the visibility of Lottery projects at local, regional and national levels. (para 4.7)
- We will create a National Lottery Day when major prizes will be available to Lottery players and Lottery funded organizations all over the UK will open their doors or otherwise celebrate the Lottery's contribution. (para 4.9)

8. Increasing Innovation

At the heart of Lottery funding is a desire to be different, to innovate, even to take risks. Taking risks means accepting that things can go wrong. Not every Lottery project will be a success. But tying up every project with bureaucracy in an attempt to eliminate risk is expensive and slow, and can stifle innovation.

Management of risk should be commensurate with the scale of projects being funded, and with the track record of recipients. This means more sophisticated risk management for large projects, and reducing the burden of bureaucracy on applicants for small grants.

Management processes for major Lottery projects will match those of the Office of Government Commerce's Gateway Reviews. We will simplify requirements to encourage managed risk taking in relation to smaller projects. We will use a limited number of spot-checks on recipients of small awards to check for levels of abuse and on value for money and ease requirements further if the case is made. (para 5.24)

1. Background and policy context

Why review the Lottery?

- 1.1 There can be no doubt that the National Lottery has improved the quality of life of people throughout the United Kingdom. Over £14 billion has been raised for good causes and more than 134,000 awards made so far. Large regenerative projects receive all the publicity but smaller grants have also transformed communities. Over 2,000 village halls have been completed. The Community Fund alone has helped more than 54,000 UK charities and voluntary groups since 1995. Lottery arts funding has helped to buy 14,000 instruments for young people, making it possible for them to make music and in 2002 the Summer Splash programme helped around 48,000 9-17 year olds from high crime estates with sporting and arts activities, cutting street crime as a result. £320 million from the Heritage Lottery Fund has transformed over 200 urban parks across the UK.
- 1.2 The changes we introduced in 1998, which were set out in “The People’s Lottery” in 1997, have worked well. As well as bricks and mortar the Lottery is now funding more people to do and lead things, to help make things happen or to care for vulnerable people. The straight-jacket of the first five good causes has been loosened: with help for improvements to neighbourhoods and innovation in healthy living and cancer care.
- 1.3 But no institution remains successful without periodically taking a long hard look at itself to see where and how it can be improved. Seven years on from when the Lottery started and well ahead of the next licence period in 2009 was an appropriate time to take stock, to analyse what was working well and what could be improved and – perhaps most importantly of all – to consider where the Lottery should be heading in the period leading up to 2009. And so the review of the National Lottery was launched last year. The changes are in two parts: licensing the operator of the Lottery and the distribution of money to good causes. This paper contains proposals for changes to how Lottery money is distributed.

The scope of the review

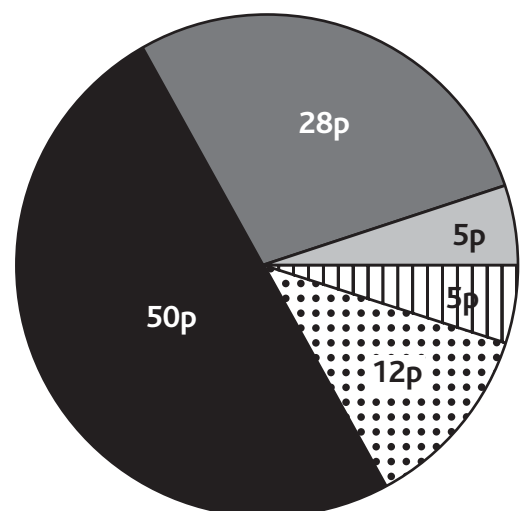
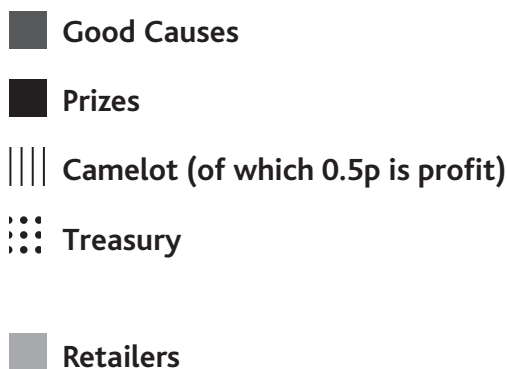
- 1.4 Some things will not change. Camelot’s licence to operate the National Lottery, for example, is to run until 2009. On the distribution side the Government has given a commitment that the percentage share of Lottery good cause money going to the arts, sport, heritage and the voluntary sector will remain at least at their current levels until 2009.
- 1.5 Otherwise the review of Lottery distribution was intended to be open and wide-ranging. The consultation paper published in July 2003¹ set out some of the issues and some broad options for tackling them but it was never intended to be prescriptive. We received over 400 responses to the consultation paper and these, together with further attitudinal research and discussions with specific sectoral representatives, including the voluntary sector and some work with Lottery players, have identified the issues of most general concern and informed the development of these proposals.

¹ “Review of Lottery Funding: A consultation paper on Lottery distribution policy” available on DCMS website www.culture.gov.uk.

Background

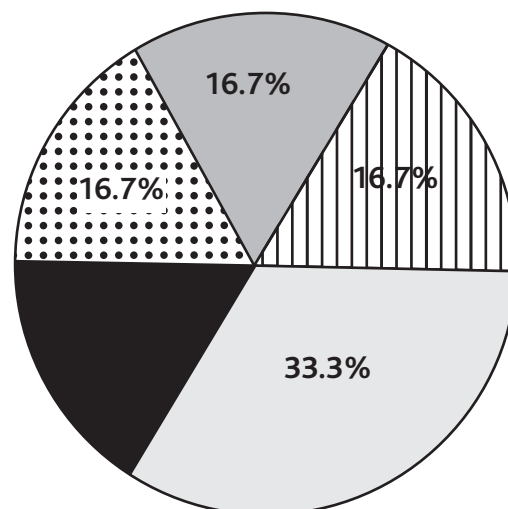
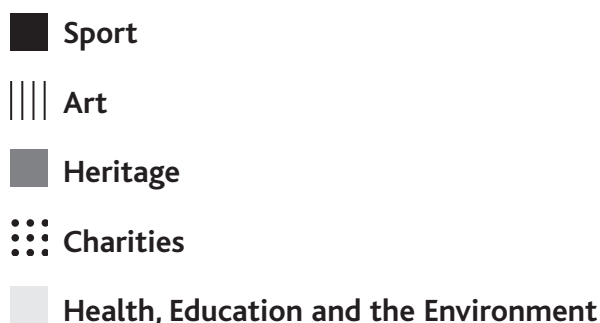
- 1.6 Before tackling the future it is worth reflecting on what the past and comparisons with elsewhere can tell us. In this country the first national Lottery was held in 1569 during the reign of Queen Elizabeth 1 and lotteries continued regularly (though not weekly) for over 250 years. They gradually fell into disrepute and became less popular, ceasing altogether in 1826. During those 250 years lotteries provided the funds for projects including the British Museum and Westminster Bridge. Although they fell into decline in the UK, the use of lotteries as a means of raising money for public works became increasingly popular elsewhere. By 1978 when the Rothschild Commission on gambling recommended that a National Lottery for good causes should be established to raise money for the arts, sport and other good causes, almost 100 countries had national or state lotteries, including every country in Europe except the UK.
- 1.7 In 1992 a Government White Paper proposing a National Lottery received widespread approval and the National Lottery Act was passed with the support of all parties in 1993. The Act established five areas to benefit from the proceeds of the Lottery: the arts, sport, heritage, charities and voluntary organisations and projects to celebrate the beginning of the new Millennium. Money was split equally between the five areas and was distributed by eleven Lottery distributors; existing arts and sports councils in England, Scotland, Wales and Northern Ireland and three new organisations; the Heritage Lottery Fund, the National Lotteries Charities Board (now the Community Fund) and the Millennium Commission. In 1998 the Government established a sixth good cause for health, education and the environment, distributed by the New Opportunities Fund (NOF) and set up the National Endowment for Sport, Technology and the Arts (NESTA).
- 1.8 By the end of April 2003 the National Lottery had raised £14.34 billion (including interest) for the good causes. So far across the UK £2.11 billion has been spent on the arts, £1.95 billion on sport, £2.29 billion on heritage, £1.98 billion on projects to support the Millennium, £2.0 billion on health, education and the environment and £2.59 billion on charities and the voluntary sector, a total of almost £13 billion. 134,000 projects have been funded by the Lottery, helping to improve quality of life for everybody.

For every £1 spent on a Lottery ticket*



*This breakdown is based on sales outlined in Camelot's bid for the current licence

Where does the good causes money go?



Responsibility for distributing proceeds from the Lottery does not rest with Government or Camelot, but with a number of independent distributing bodies.

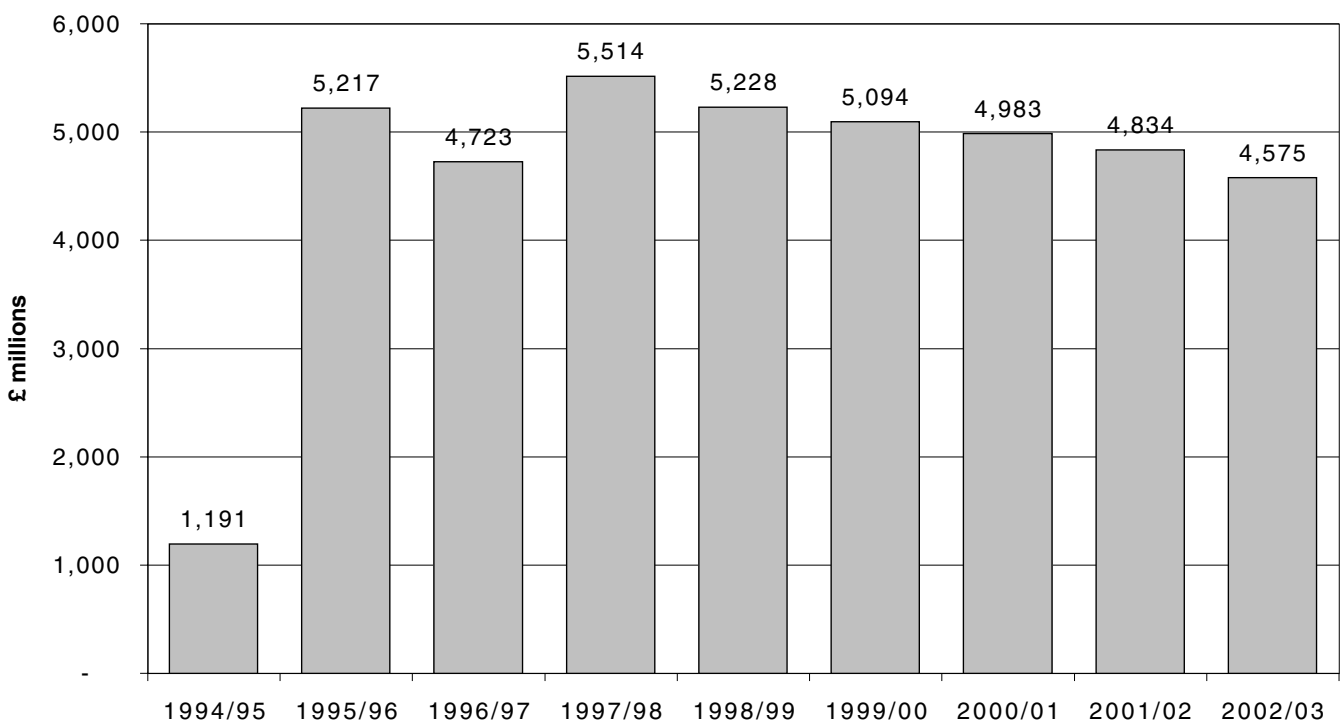
Learning from experience abroad

- 1.9 The UK National Lottery is unique both in terms of the range of good causes supported and the amount of funding it provides. Many lotteries in other countries appear to have been set up to provide funding for a single good cause or go straight into the equivalent of the Treasury.
- 1.10 In the United States, for example, education initiatives such as funding scholarships of school building programmes were the beneficiaries of about half the State lotteries. Most of the proceeds from the other State lotteries go to the State's general fund. In Europe, however, a greater variety of good causes tend to be supported, with many lotteries funding more than a single good cause.
- 1.11 Australian lotteries fund similar good causes to those in the UK but have different distribution mechanisms. The Western Australian Lottery's proceeds are earmarked for hospitals, sports and arts, the Festival of Perth & Film Industry and direct funding to charities. Different government departments control a significant proportion of the spending. For example, 40% of the proceeds go to the WA Health Department's Hospital Fund, 5% each to the Department for Culture and Arts and Department for Sports and Recreation.
- 1.12 In New Zealand, however, there is less government control in the Lottery funding process and it probably has the most similar funding environment to the UK with 20% of the ticket price (compared to 28% in the UK) going to good causes. A Lottery Grants Board determines the proportions in which the proceeds are allocated for distribution to the distribution agencies and the network of Lottery distribution committees. The Lottery Minister's Discretionary Fund accepts applications from individuals and groups for charitable projects that are not the responsibility of any of the eight Lottery distribution committees.
- 1.13 Comparisons with what happens in other parts of the world suggest that the good causes chosen and the arrangements for supporting those good causes grow out of the way government and the voluntary sector are organised and only make sense if they are seen in that context.

Lottery Income

- 1.14 Raising over £14 billion for good causes since it started in late 1994 makes the UK National Lottery a success in anyone’s book. This success has not been accidental. It has been delivered as a result of Camelot’s expertise, of prudent management by the Commissioners for the Reduction of the National Debt who invest the money raised by the Lottery until it is given out in grants and the National Lottery Commission who monitor and report on Camelot’s performance.
- 1.15 Ticket sales of £41.36 billion (by March 2003) have far exceeded the prediction laid out in the original White Paper, *A National Lottery Raising Funds for Good Causes* (Cm 1861), 10 years ago. Then it was thought that sales of £4 billion per year were at the very maximum of what was possible. We have exceeded this comfortably in each full year of operation.
- 1.16 Ticket sales had raised around £13 billion by March 2003, a remarkable figure supplemented by almost £1.5 billion in investment earnings. Good causes have benefited accordingly and many more projects have been funded than was initially thought possible.
- 1.17 From a high point of £1.952 billion in 1997/98, overall income for good causes has slowly reduced to £1.590 billion in 2002/03. That trend reflects the natural and expected decline in ticket sales for the main game from the very high levels in the mid-1990s. It is still an impressive figure as acknowledged by the La Fleur’s World Sales Report which puts the UK Lottery third in terms of overall annual sales. Worldwide experience of lotteries is that interest declines from an early peak. We do not accept that the decline in UK sales is irreversible, the gentle decline in sales is in line with this experience.
- 1.18 There are many theories about why Lottery revenues rise and fall. It is rarely down to just one factor for good or ill. There is some evidence that controversy may have some impact on ticket sales for a short period, but this may be more than offset by a big rollover. The National Lottery Commission consider that measuring the impact on sales of any one factor is very difficult because many factors have an effect.

National Lottery Ticket Sales 1994-2003



- 1.19 Camelot has taken steps to improve confidence and there are good prospects for growth in ticket sales from the end of this financial year from planned new games.
- 1.20 The Lottery has proved that it is a success, exceeding all expectations and raising income to provide many facilities that conventional funding cannot. It remains a strong and important source of funding for good causes and we fully expect this to continue.

What people think about the Lottery

- 1.21 We published a consultation paper on Lottery distribution policy last July and received over 400 substantive responses from a wide range of people including local authorities, charities, voluntary groups, individual members of the public and Lottery distributors. We considered these carefully and they helped to shape the proposals within this paper. A summary of the responses is available on the DCMS website at www.culture.gov.uk. Some of the key themes to emerge were:
- Camelot and the distributors should work together to raise awareness of Lottery funding and strengthening the Lottery brand, primarily at a local or regional level.
 - We need to increase public involvement with the distributors' priority setting and greater transparency of the application and awards processes.
 - There was some support, particularly from smaller organisations, to introduce micro grants using a very simple application process. This was seen as a 'first step on the Lottery ladder' which could be used for capacity building.
 - There was general acceptance that many deprived areas miss out because they do not have well developed organisations to apply for grants, but opinion was split between the need for addressing this generally and specifically targeting deprived areas.
 - There was support for a "single front door" to provide a streamlined way for applicants to make their case and the use of a single application form for cross-distributor projects, such as that used for the community buildings pilot scheme, was generally encouraged.
 - Many respondents outlined the need for early and honest feedback about the application's merits and for the opportunity to revise and re-submit it, with additional support and advice from the distributors if necessary. A single pre-application form was suggested by a number of respondents to facilitate this.
 - On the potential for providing one-stop-shops for advice on Lottery funding, most respondents gave more support for the provision of a "virtual" system rather than for fixed physical locations as the latter could be expensive and inflexible.
 - While there was overwhelming support for the concept of additionality and a strong belief that it was still relevant, there was recognition of the need for Lottery funding to complement other funding streams. There was, in addition, significant support for the continued independence of the distributors.

- There was general support for a reduction in red tape, with shorter application processes for projects with lower risks finding favour. While proper business planning and exit strategies were seen as essential there was also recognition that some projects, particularly those that are innovative, will inevitably fail.
- There was firm endorsement for the concept of major Lottery funded projects, with additional partnership funding, as these have often provided a transformational effect that would not have been possible from other funding sources.

- 1.22 DCMS also commissioned qualitative research jointly with Camelot with a cross section of Lottery players in two citizens' workshops during December 2002. These showed that there was a high level of distrust about the distribution of good causes money due to the lack of information about where it has gone. Respondents were unanimous in their view that all good cause projects should be branded with the crossed fingers logo of the National Lottery in order to provide a connection in local communities between the Lottery and good causes.
- 1.23 There was a call for greater transparency and accountability in the decisions made and a greater degree of public voice or involvement. They suggested, in common with some responses to the consultation paper, that some members of the public should be involved on the decision-making panels. There was initial support for using referendums, questionnaires and voting on the back of Lottery tickets, though these particular participants generally felt that they didn't want the responsibility as individuals for making decisions on specific awards.
- 1.24 We want to respond to these concerns and suggestions in developing the proposals in this document. We will continue to consult with Lottery players and the public.

2. What should Lottery funding be for?

- 2.1 The National Lottery supports many different things. It helps support the arts, sport and heritage, charities and the voluntary sector, health, education and the environment. It funds huge national flagship projects like the Millennium Stadium or Tate Modern and also puts a new roof on a village hall or pays for a local arts festival. Consultation has shown that people still want Lottery funds to make a difference, to be different from mainstream public spending, and to be locally sensitive to the needs and interests of our nation's many communities.
- 2.2 This variety inevitably means that while most people will like many of the things the Lottery funds, not everybody will like everything. And a minority of grants may be unpopular with some people. It is clearly important that decisions about where to spend the public's money are closely scrutinised, and it is equally valid for people to express their concerns if they believe that the wrong decisions have been made. But we need to ensure that people are aware of the wide range of projects which are funded so that they can set the decisions they don't like in context. For example, recently the Community Fund's grants of £336,000 to the National Coalition of Anti Deportation Campaigns (NCADC) sparked considerable debate. Lottery grants should be for good causes, not for doctrinaire activities, and steps have been taken to ensure this, but that grant has to be considered in the context of some of the other grants they have made: £305.5 million to projects for children and young people, for example, and £109.8 million given to over 2,000 village halls. Again, some have complained about the small amount of Lottery funding which goes to projects overseas, and yet the public give millions of pounds each year to overseas good causes.

Key themes for the future

- 2.3 What we want from the Lottery nationally also needs to be kept up to date. There are three key themes for Lottery funding for the future on which we intend to focus. The emphasis will be on positive change. Everyone knows how a Lottery win can transform the life of the winner. That same feeling of change and new opportunity needs to run through all the grants to good causes. These principles will apply to all Lottery grants but will be particularly important for the work of the new distributor described in Chapter three.
- 2.4 The Lottery must provide **streamlined and accessible funding for communities**. It is about local people identifying what they want to achieve and being given the freedom to do it for themselves. So it should be as easy as possible to apply for Lottery funding. We also need to look at new ways of getting money into communities and making best use of it when it's there, including funding other kinds of local and community organisations such as community interest companies and provident societies.

The Awards for All programme gives grants of between £500 and £5000 to small local groups in a quick straightforward way. In England the programme has given grants to groups from every local authority area in the country. Grants recipients have reported that Awards for All grants have helped their local projects reach new participants; that their groups were stronger as a result of the grants, with volunteer skills and confidence increasing; and that the grants have helped strengthened links in the community and increased local pride. Awards for All has had similar success in Scotland, Wales and Northern Ireland.

- 2.5 The Lottery should be providing **big transformational funding** of a kind which inspires and regenerates. These include major capital projects like the Eden Centre and BALTIC – the kinds of projects which would not be built without Lottery money. But they also include some of the major UK-wide programmes funded by the Lottery which offer people experiences over and above what would otherwise be available – things like out of school learning programmes and sport in schools.

BALTIC is a major new international centre for contemporary art. Unlike other galleries it has no permanent collection. Instead it presents a dynamic and ambitious programme of complementary exhibitions and events. Nearly 700,000 people have passed through its doors since it opened in July 2002. It now expects over one million visitors in its first year compared to an original target of 300,000. Its incredible success is the result of a constantly changing programme, a high level of repeat visitors from the region, as well as a growing tourism base in Newcastle Gateshead. Other galleries in the region have also benefited from the success of the BALTIC, with most seeing increases in attendances since it opened.

- 2.6 Finally the Lottery should be a force for **innovation**, funding new processes and new ways of engagement with communities and increasing people’s involvement with the Lottery, including celebrating what the Lottery has done. The Lottery is different from other sources of funding and it can operate in a different way. It should fund innovation, let people experiment, try new ways of doing things, and accept the risk that sometimes some things don’t work.

Youth Music provides music-making opportunities for young people out of school hours, but works closely with schools to complement their music provision. It was set up by the Department for Culture, Media & Sport, and launched by the Prime Minister in 1999 with a £30 million Arts Lottery grant. Its aim is to promote and develop music opportunities for young people up to and including 18 years old. In 2001 the Arts Council awarded a further Lottery grant of £30 million, to enable Youth Music to continue its work until 2005. Over 500,000 young people have received music-making opportunities, in 92% of local authorities in England.

Additionality

- 2.7 Since its inception in 1993 the principle has been that Lottery money should not simply pay for things which the Government would otherwise have paid for. John Major said in 1994 “...we will make no case on case reductions on conventional public spending programmes to take account of awards from the Lottery. The money raised by the Lottery will not replace public expenditure.” This Government has consistently remained committed to the principle of additionality. Tony Blair said in 1997 “We don’t believe it would be right to use Lottery money

to pay for things which are the Government's responsibilities." We intend to protect the principle of "additionality", that is that Lottery funding will not be allowed to become a substitute for funding that would normally fall to mainstream Government spending.

- 2.8 Health, education and the environment are high up on many people's list of priorities for attention. The changes to the Lottery this Government made in 1998, set out in "The People's Lottery" provided for Lottery funding of health, education and environment initiatives which were additional to mainstream expenditure. For example, Lottery money has funded additional health initiatives in deprived communities, but it has not gone to pay for mainstream Health Service activities, which remain the Government's responsibility. It has funded educational initiatives such as out of school activities for young people, but has not funded teachers' pay.
- 2.9 Paying for something extra is not the same thing as funding randomly. One of the weaknesses of early arrangements was that funding from Lottery grants overall was not coordinated properly to achieve the maximum results. Lottery distributors should continue to plan their work strategically. Where, like Arts and Sports Councils, they also have responsibility for giving out Government grants they ensure that Lottery funding works in synergy with Government grants, but they must also ensure that Lottery funding is doing something different from grant-in-aid. Inevitably there is some ambiguity about the precise dividing line, they must constantly work to protect additionality in this way, and the new promotional work referred to in Chapter Four will help the public distinguish between the two in practice at the point of delivery.

What kind of new grants should be available?

- 2.10 We renew our commitment to funding sport, the arts (including film) and heritage, retaining the existing percentage share of Lottery funding which goes to those good causes until the end of the present Lottery licence period in 2009. The Millennium Commission has done some outstanding work and we commit to completing that too as planned. Beyond that we propose seven new types of Lottery Funding.

Funding by the new distributor: open grants

- 2.11 First, there will be an open programme of grants, along the lines of those currently offered by the Community Fund. The new distributor described in Chapter Three will provide this. This funding will continue to be demand-led and can be used by voluntary and community groups and community businesses: eligibility will be at least as wide as for grants currently offered by the Community Fund. It will identify the projects which will transform and regenerate communities at a local, regional and national level.
- 2.12 There will be a number of different programmes of grant, based on the amount being applied for and the application process, assessment and level of monitoring of these grants will be appropriate to the level of grant. These grants will also be covered by the outcomes based approach and strategy developed by the Community Fund. Requirements for match funding from community groups will again be at least as flexible as those currently operated by the Community Fund. The proportion of funding under this programme will be no lower than is presently guaranteed, nor will it be subject to any higher control from the Government.

Funding by the new distributor: national programme funding

- 2.13 A second stream of national programme funding will be very similar to what the New Opportunities Fund has done up to now, using the established broad themes of health, education and the environment. Examples have been the PE and sport in schools, and healthy living centre programmes.
- 2.14 What the money should be spent on – expressed as tightly defined outcomes – will be agreed following consultation and will be set out in the new distributor’s strategic plan. These programmes will be open to statutory or commercial agencies and other non-political community-based agencies (such as schools, patient interest groups, primary care trusts) as well as voluntary and community organisations and social enterprises.

Funding by the new distributor: transformation grants

- 2.15 A third new programme of transformation grants will go towards funding big transformational projects of national significance, similar to some of those funded by the Millennium Commission. Some will be funded wholly by the new distributor but it will also use some of its funds to act as a catalyst to work jointly with other funders, including other Lottery distributors, on projects which have the capacity to transform and inspire. These could be themed social or community programmes as well as major infrastructure investments.

A Young People’s Fund

- 2.16 Earlier this year we announced that we were considering setting up a Young People’s Fund. We now confirm that this will be fully established within a year with an initial budget of £200 million. The Government will direct it to ensure that the fund focusses on projects promoting youth inclusion, particularly by providing facilities and activities – both after school and in holiday periods – for young people. Plans will be developed in more detail following consultation with representative groups of children and young people.

The Olympic Fund

- 2.17 A fifth new area of priority will be an Olympic Fund. At the core of this new initiative will be legislation for new Lottery games and a dedicated stream of funding for staging a spectacular and successful Olympic Games and an exciting programme of cultural, heritage and grass roots sporting investment around it. This will be the first time that a Lottery game has been specifically linked to one particular good cause and we will use this experience to test the approach and whether it would work in other circumstances.

An expanded Awards for All (England)

2.18 The Awards for All programme has been one of the Lottery's major successes. The programme provides a single point of entry for easily accessible grants of between £500 and £5,000 for the funding of a wide range of community activities. From a small pilot scheme in 1998, it has established itself as a key component in Lottery funding and a major supporter of local community groups. To build on this success and make it even easier for local communities to benefit from Lottery funding, we propose to double the current upper limit of the Awards for All (England) programme to £10,000. The programme will, however, continue to be a light touch scheme with a single application form and a quick turnaround. Indeed, we want that funding to reach communities even faster, and distributors are looking at how they can reduce the current 12-week turnaround time. Changes to current arrangements for Awards for All in other parts of the UK will be considered separately within Scotland, Wales and Northern Ireland.

Micro grants

- 2.19 Consultation produced a range of views about the proposal in our Review of Lottery Funding consultation paper to set up a micro grants programme, distributing grants up to £500 in value. Some felt it would be useful in bringing forward people and organizations who can deliver results in deprived communities, while others expressed the view that Lottery funding plugs a gap in larger additional funding and that is where the need is. However research commissioned by the Home Office Active Community Unit on their three-year Community Resource Fund (for grants up to £500) reported that there was a clear need for grants in this value range.
- 2.20 We propose, therefore, that Awards for All (England) pilots a light touch micro grants scheme in a sub-region of England. We intend to pilot alternative models which would include variously the facility to make grants over the telephone and the use of intermediaries to distribute funds. We would also like to pilot ways of getting local involvement in decision-making on individual grant applications as well as on funding priorities and would welcome views on this.
- 2.21 We will evaluate these various models with a view to developing the most successful into an England-wide scheme. At that stage we will also consider whether micro grants programmes should be set up in Scotland, Wales and Northern Ireland.

3. Streamlining the distributors

- 3.1 In the consultation paper published last July we asked people to consider whether there was scope to reduce the number of Lottery distributors, including considering creating a single distributor. In general responses were against the latter idea, setting out the advantages of having Lottery funding in a particular sector delivered by an organisation with specialist knowledge and expertise. The Heritage Lottery Fund in particular received many tributes to the advantages that this specialism had brought to Lottery projects. A single organisation delivering both Government grants and Lottery funding for Art and for Sport in each of the UK countries brings economies of scale, avoidance of duplication and synergy of grant making which are to be encouraged. It also means that decisions on Arts and Sports funding in Scotland, Wales and Northern Ireland can be taken in these countries and not in London.
- 3.2 Having said that, there was a recognition that even within existing structures, there is scope for distributors to make efficiency gains, for example by sharing premises and functions, and we would expect them to do so where possible. Identifying these possibilities will be one of the functions of the new Lottery Forum (described in para 3.19).

A single community distributor

- 3.3 Despite their different approaches to funding, there is a significant overlap between the work of the Community Fund and the New Opportunities Fund and there is an opportunity by merging these two bodies to create a new dynamic distributor which will take on the functions of the Community Fund and the New Opportunities Fund. The new distributor will continue funding for charities and the voluntary sector and health, education and the environment, but will also assume the Millennium Commission's ability to fund large scale regenerative projects. It will also be able, by agreement, to handle non-Lottery funds to build a genuine community development role.
- 3.4 We are ready to consider new models in framing the legislation within the following broad framework. The Chair and Board of the body must be appointed by the Secretary of State who is responsible to Parliament for the way Lottery funds are managed and spent. The body must also itself remain accountable to Parliament directly for decisions about funding and for the systems it puts in place to ensure those decisions are sound. We are committed to consulting with the voluntary sector and others about the new body as we prepare legislation.
- 3.5 The new distributor will be much more than the sum of its parts. Using its new powers of brokerage, and to lever other funds alongside Lottery grants, it will be something new, making a real difference to the lives of disadvantaged people and communities. It will take the lead in making it easier for the public to get access to Lottery grants and for the distributors to work together even more where necessary. It will be a fund for transformation, from smaller grants at a local level through to big capital projects, and will be a true community distributor, funding projects to regenerate and revitalise communities.

- 3.6 In this way half of Lottery money will go directly to communities across the country, acting as venture capital to enable them to fund for themselves things which are different and which would not be funded by government. And the new distributor will be empowered to support applications from the burgeoning community and social enterprise sector. This will include working with Community Interest Companies (CICs, which are described separately). We think that CICs could promote greater community ownership of Lottery projects and address the “orphan” status of many of them. We expect the new body to work closely with CICs and other social enterprises in funding innovative local initiatives tackling disadvantage and promoting social cohesion. The touchstone for the new distributor will be that funding should be for public benefit and that it should make real and sustainable improvements to the quality of life well-being of local communities. Like other Lottery distributors, its funds will be additional to current and planned expenditure by central government, the devolved administrations, local government and other statutory bodies. It will complement other sources of funding and will offer different approaches to deliver the programme outcomes. We also expect the new body will provide significant efficiency gains from current arrangements.

Community Interest Companies

The Department of Trade and Industry, the Home Office and the Treasury recently published a joint consultation on the introduction of Community Interest Companies (CICs). The CIC will be a new type of company, designed to benefit social enterprises who want to use their profits and assets for the public good. CICs will be easy to set up, with all the flexibility and certainty of a company, but will also have some special features to ensure they are working for the benefit of the community. As a new, tailor-made company form for social enterprises, the CIC is intended to sit alongside and complement charitable status and the Industrial and Provident Society form, which are already used by many social enterprises.

The introduction of CICs demonstrates further recognition of the increasing role social enterprises are playing in regenerating disadvantaged areas, empowering local communities and delivering new, innovative services at local level. Just as Lottery funding is used to fund projects for the public good, CICs, like other social enterprises, will pursue social objectives that are of benefit to the community or the wider public. The Government does not intend that CICs should deliver essential public services in core sectors such as hospitals and schools. Rather, CICs should develop to meet the needs of local communities, complementing core Government services in areas such as childcare provision, social housing, leisure and community transport.

CICs strike a careful balance; whilst the flexible form of CICs will allow enterprises to raise finance in order to grow and expand their activities, a lock on their assets will ensure that the main beneficiary of the CIC remains the wider community. We think that the CIC proposals are likely to be of interest to the new community distributor, and we hope that the new body will work closely with CICs and other social enterprises in funding innovative local initiatives tackling disadvantage and promoting social cohesion.

What role will the new distributor play?

- 3.7 The new distributor will lead the way in introducing many of the improvements to the distribution of Lottery funding arising from the Review, establish best practice, and share knowledge with the other distributors. It will have a key role in developing better working between distributors and will administer a Joint Lottery Forum (described in para 3.19) to drive forward these improvements.
- 3.8 It will provide a single point of entry for new applicants who are unsure where to seek advice and guidance and will identify the most suitable grants programme for an applicant, including grants programmes provided by other Lottery distributors. It will operate on behalf of all distributors the Lottery telephone hotline and website, which provide advice for potential applicants for Lottery funding, and will take the lead in expanding and developing the service offered.
- 3.9 It will also be the first port of call for applicants who feel their project does not fit neatly with the terms of reference of the other distributors.
- 3.10 It will develop pre-application support for all applicants, and common standards of service across Lottery distributors, including a common customer charter, independent external complaints process and developing a common applications process. It will lead on developing a network for building capacity in communities across the UK and advising potential applicants.
- 3.11 It will work to ensure that every country and region within the UK has equal access to Lottery funding. The Fair Shares initiative is already making good progress in addressing this objective. 77 areas have been chosen on the basis of deprivation and low levels of Lottery funding, and NOF and the Community Fund are delivering £176 million of special support over three years.
- 3.12 The new distributor will take a lead in promoting and publicising the good causes it supports directly and which are more generally supported by the National Lottery. The Joint Promotional Unit for the Lottery will be located within the new distributor, although it will continue to be managed by a board comprising representatives from Camelot, DCMS and distributors.
- 3.13 It will be responsible for taking forward the Young People's Fund, which we will establish now using NOF funds but which will grow into a genuine joint scheme under the new body.
- 3.14 It will enshrine some of the innovative and visionary aspects of the Millennium Commission within the new Lottery landscape.

Millennium Commission powers

- 3.15 The Millennium Commission's grant giving functions should be completed by 31 March 2006. After this, its residual functions – principally post completion monitoring of the capital projects, oversight of the Millennium Awards Endowment, plus powers of grant claw back, ownership of certain minor assets, and management of the Commission's extensive archive – will remain. We will legislate to transfer these assets and responsibilities to the new distributor, along with any remaining balance of the Commission's budget and any

entitlements of the Commission from 1 April 2006, when the Commission will be wound up, or earlier. The new distributor will also take on the Commission's prospective share of the income arising from the sale of the Millennium Dome, which should come on stream on a phased basis commencing about 2006/7.

Handling cross-cutting issues

- 3.16 However, the new distributor will not merely act as an administrator of the Millennium Commission's outstanding functions and duties. It will be an innovator and champion of communities and cultural regeneration, with broad powers to fund a wide variety of such projects. As well as funding projects itself, it will also have an essential role to play as a centre of excellence, advice and shared expertise on managing major capital projects. (para 5.20).
- 3.17 Many prospective projects can meet the criteria for more than one funder – a fine building being renovated with the help of the Heritage Lottery Fund can become a venue for the arts; a community centre funded by the Community Fund or NOF can include sport facilities. We wish to encourage projects like these that help us meet a number of objectives and fulfill a number of community needs within a single scheme. We will put in place the appropriate arrangements to make it easier. As a centre of excellence on managing major projects, and as a funder itself, the new distributor would logically be well placed to manage cross-cutting projects. This would also produce significant advantages for other distributors and for Lottery applicants. The new distributor will therefore be charged with developing such a role.
- 3.18 Consultation also showed there was the scope for the different Lottery distributors to work even more closely together, to share best practice and develop common standards, to reduce administration costs and to ensure that those applying for Lottery money achieve a seamless service, effectively acting as a single Lottery distributor while retaining their existing individual expertise. Areas such as joint schemes, more joined-up working, shared strategic planning and more cross-cutting programmes were also identified.

A new Lottery Forum

- 3.19 While distributors already work together in a number of areas, it is clear that there is scope to build and improve on this. Specific proposals are described below and elsewhere in this paper, but overall we believe there is a need to put existing arrangements for taking forward joint working on a more formal basis, England and UK distributors already meet to share information and agree joint policies: the Atrium group comprises Chief Executives of these distributors and meets every two months. We will give this group a formal mandate to take forward cross-cutting issues and more joined-up working as a Lottery Forum. The Secretary of State will also invite all the Chairs of the distributors to meet regularly to ensure together that the strategy is working.
- 3.20 We invite views on whether the Lottery Forum should be expanded to include Scotland, Wales and Northern Ireland distributors, or whether it makes more sense to have four separate teams of this kind, each representing a different country and reporting to the relevant Government or administration.

- 3.21 Distributors will continue to work independently where that is the most efficient way of proceeding. However acting collectively they will work to achieve the following objectives:
- share best practice and where desirable develop a greater consistency of approach;
 - provide a single front door and one stop shop for applicants, in part by developing the existing hotline and website;
 - develop common application procedures and common standards of service;
 - continue to oversee an expanded Awards for All scheme;
 - co-operate over funding and management of cross-cutting major capital projects;
 - increase efficiency by pooling resources in areas such as capacity building and targeting and joining forces where appropriate in areas such as research, evaluation and monitoring;
 - identify other areas for savings in administrative costs – e.g. by sharing premises where appropriate;
 - develop a shared risk management strategy in areas where interests overlap; and
 - engage with local authorities/the voluntary sector/regional agencies at a strategic level and develop shared network.
- 3.22 The group will operate by consensus and all distributors will engage equally. However, given their responsibility for 50% of all Lottery funding, we see the new distributor leading on many of these issues and in particular in the following areas. The new distributor will assist by developing a pre-application support process for all applicants, and common standards of service across Lottery distributors, including a common customer charter, independent external complaints process and developing a common applications process. The new distributor will lead on developing a network for building capacity in communities across the UK and advising potential applicants. To simplify procedures for those applicants who need to apply to more than one distributor for the same project, distributors will implement a Cross Distributor Applications protocol.
- 3.23 The Forum will draw up a shared strategy in agreement with the Secretary of State and then report back to her on the achievement of its objectives. Similar arrangements would apply in Scotland, Wales and Northern Ireland if separate groups were set up for each part of the UK.

4. Creating a single Lottery identity

Knowing what Lottery money has funded

- 4.1 One of the issues which emerged most clearly from consultation last year was the need for those who play the Lottery to know more about what Lottery money has funded. There are several reasons for this. Although people don't play the Lottery specifically to give to good causes there is evidence to suggest that if they don't win people find consolation in the fact that some of the money from their ticket goes to fund good causes. And because there is a direct link between buying a ticket and funding good causes it's important that Lottery players know what those good causes are and what their money has funded.
- 4.2 Knowing that other projects have been awarded Lottery funding can also encourage other groups to apply, and that can be important, particularly at a local level where smaller groups might not otherwise think about applying.
- 4.3 The National Lottery has a unique role in the life of the UK. All Lottery funding depends on the millions of people who play Lottery games. Everyone who plays should feel that not only does playing the Lottery give them a chance of winning, and perhaps winning a life changing jackpot, but should they lose, a sizeable portion of their stake goes to good causes that they support. We therefore want visibly to link the game and good causes.

Common branding

- 4.4 One of the simplest ways of making that link between buying a ticket and funding a project is to use the same brand for both. Over 90% of adults recognize the crossed fingers logo and associate it with the National Lottery. It makes sense to build on that recognition and use the same logo to identify projects which have been funded by the National Lottery.
- 4.5 All beneficiaries will display a common logo, giving it a high profile, as appropriate for the many different kinds of projects receiving Lottery help. Distributors will work with Camelot to develop designs using the crossed fingers logo. This will be offered to projects which have received Lottery funding, so that they can clearly display their Lottery win. This will initially be on a voluntary basis, but we will make it mandatory for most future Lottery awards. We don't actually believe that we need to force those who have been awarded Lottery funding to display a plaque. In our experience most projects are enormously proud of the fact that they have been awarded Lottery funding and welcome the chance to acknowledge their thanks to the Lottery and to celebrate their achievement. We believe this will also be popular with the public who will be able to see where their money has gone, as the crossed-fingers logo appears in towns and villages across the UK.
- 4.6 As a second step we will explore other ways of using the crossed fingers logo throughout the whole distribution process, from application through to award of grant, so that everyone recognises where the money comes from.

Joint Promotional Unit

- 4.7 But there are other ways of getting the message across and we can and should do more to let people know how their Lottery money is being spent. So we will set up a Joint Promotional Unit (JPU) where Government, Camelot and Lottery distributors will work together to improve awareness of where Lottery money is being spent. Initially the unit will be located within Camelot, but we will legislate to ensure that it can eventually form part of the new Lottery distributor. The JPU will identify ways that Government, distributors and Camelot, working together, can do a better job of telling people where the money goes.
- 4.8 Their first job will be to look at current levels of awareness of the National Lottery and what Lottery money is spent on, and find out what Lottery players and the public would like to know. They will use those findings to develop a work plan. Suggestions from Lottery players so far have included posters about local Lottery projects in Lottery retailers, and providing a short Annual Report for Lottery players and we look forward to receiving other ideas. A key task will be to make people more aware of their local Lottery funded projects, as well as the big national projects and we expect that the JPU will need to do different things in different parts of the UK.

A National Lottery Day

- 4.9 We will also create a National Lottery Day to be an annual focus on the Lottery and its achievements, starting off with the Lottery's tenth anniversary next year. Although it will be a National Lottery Day it will also have a strong regional and local focus, recognising the contribution the Lottery has made to our national life and to communities the length and breadth of the UK. Lottery projects will open their doors and let the public see the work they do. They might participate in a local Lottery event or help to publicise their award in the local press.
- 4.10 The primary focus of the day will be on celebrating the Lottery's achievements and we envisage a programme of local and national events across the UK, to show players what has been done with Lottery money, with a link to the National Lottery draw and major prizes available. But the day will also allow those who have benefited from the Lottery to say a personal "thank you".
- 4.11 We will also encourage those individuals who have benefited from Lottery funding, including some of our athletes to participate. This could include helping publicise what the Lottery has achieved for them as some have already done, or participating in schemes where they make a "gift of time" to pass on some of their skills to others. Some athletes have already offered to work with Summer Splash and other programmes for young people. National Lottery Day will build on that.
- 4.12 But just as importantly we want to use the day to boost local community interest and involvement with the Lottery and what it has achieved, perhaps encouraging the public to make their own "gift of time" for a day to support a local Lottery project by sharing skills or expertise, or local companies to lend staff and resources for a day. Lottery players are already connected to good causes when they buy their ticket each week and the National Lottery Day will be about recognising and strengthening that connection.

Getting the public more involved in priority setting

- 4.13 Lottery distributors already consult on their strategies as they are developed. This gives people an opportunity to have their say on the priorities for Lottery funding. But the results of our policy review suggest that in practice this is still not really bringing in the views of Lottery players and members of the public in the way we believe is right. So we have decided to go further and to ensure that views are sought more actively and that distributors act upon them.
- 4.14 Distribution bodies and those who take key funding decisions need to be representative of age, background, ethnicity and the different regions of the country. Distributors will use best practice from the recruitment industry to encourage people from throughout the country to come forward and join the regional committees which decide on grants. We will build on the experience gained from developing Community Interest Companies – the model by which customers and other stakeholders are represented on a panel which determines policies and priorities for investment and activity.
- 4.15 Each Lottery distributor will also extend their work on involving the public in decisions about Lottery funding themes and local Lottery spending. This will be particularly important for the open grants referred to in paragraph 2.11. We will encourage them to use the latest opinion polling and customer consultation techniques, including citizen's juries, to bridge the existing consultation deficit when preparing their distribution strategies and when deciding about local community awards.

Getting the public more involved in decision taking

- 4.16 The new distributor will also pioneer new ways of consulting local people about particular local decisions. Although there are practical challenges around any arrangement which seeks to involve the public in deciding local priorities we do not accept that they need be insuperable. Local government has pioneered many different ways of engaging the public in taking decisions. We do not set out a blue print here for how this should be done but we have decided that it should be an early priority for the new distributor, working closely with Camelot, to experiment with ways of engaging people in decisions and that this should include experimenting with simple tick box consultation slips made widely available, particularly through Lottery ticket retailers.
- 4.17 The Joint Promotional Unit will also consider innovative ideas to boost the public's engagement with the Lottery by increasing its involvement in the decision-making process. One example could be to use a similar approach to the bidding process for the European Capital of Culture 2008, where different cities and regions (following local referenda) might compete/campaign for the Lottery funding of a major capital project. There could also be runners-up prizes of smaller, but still significant, Lottery funding packages. Another suggestion from the consultation responses was that a small proportion of Lottery proceeds could be used for a fund where members of the public vote for projects to receive funding each week on a television show, following short presentations. We will explore these ideas further.

- 4.18 We think this will be particularly appropriate in the case of smaller grants of up to £10,000, but we also want to see new forms of decision taking with a selection of major capital projects. Properly designed, we believe that there is great potential here for using new technology and digital broadcasting resources to organise an exciting competition through which people could choose between competing major capital projects.
- 4.19 These arrangements would continue to be founded on proper checks about eligibility, value for money and capability to deliver, but we see no reason in principle why some of the decisions in future should not be taken directly by the public rather than by committee. Distributors have proved themselves well able to organise complex application and decision taking processes. Those organisational skills, applied in this new direction have the potential to create something which is both refreshing and involving. It could provide one answer for those who have said that Lottery decision making seems rather remote.

Devolution of Lottery distribution in Scotland, Wales and Northern Ireland

- 4.20 Currently the devolved administrations in Scotland, Wales and Northern Ireland² can issue policy directions to the Arts and Sport Councils in their countries, subject to consultation with the Secretary of State. They can issue policy directions to UK-wide distributors in as much as they impinge on devolved matters, subject to the agreement of the Secretary of State. (Examples would be giving priority to particular categories of recipients, to recipients in particular parts of their countries, or to the Executive or Parliament/Assembly's policy objectives.) The Secretary of State retains the power to vary the shares of distribution fund money between the good causes; to vary the shares between the different distribution bodies within the good causes and to create new, or remove existing distribution bodies. Devolved administrations do not have the power to make decisions on the allocation of resources (percentage share) between their countries and other parts of the UK.
- 4.21 Some responses to the consultation exercise, including those from devolved administrations, have suggested that Scotland, Wales and Northern Ireland should be given more direct influence over how Lottery money is spent in their countries. There are a range of views about how precisely this should be done and we will consider the options carefully.
- 4.22 We are committed to preserving the overall integrity of the UK Lottery and hence our provisional view is that we should retain a UK structure for distribution, but that the devolved administrations in Scotland, Wales and Northern Ireland should have more influence in setting specific priorities and strategies, taking account of the needs and wishes of local communities and service providers there. We will legislate to achieve this if necessary.

² For the purposes of this document Northern Ireland is discussed as though it were a devolved administrations.

Delegation of decision making

- 4.23 Most distributors have already devolved many decisions on Lottery awards to a regional level and our consultation showed general consensus that this achieved broadly the right balance between local priority setting and a regional strategic overview. There were mixed views on delegating decisions further. Some believed there was scope to do so, while others believed that regional decision making (with awareness of local needs) provided a good balance between cost and strategic overview.
- 4.24 The new distributor will recognise the distinctiveness of the four countries of the United Kingdom and will ensure that programme development and decision-making are devolved to the four countries unless there is a clear need for a UK approach. Decisions about individual grants will take place at a number of levels including UK-wide, country, English region, county, district and local community. Different programmes will need different levels of decision-making, but the principle of subsidiarity will apply. The new distributor will be structured so as to allow this.

Making it easier to apply for funding

- 4.25 One of the messages which came through clearly in the consultation was the need to make it easier to apply for grants – particularly for smaller groups who were less likely to be experienced in making applications for funding. Distributors have already worked on making their individual application processes easier, with some success. But there are particular problems when a project does not fit neatly with a particular distributor. People may have to make applications for different parts of the funding to different distributors, who have different forms and processes, or they may not be able to access funding at all, and good projects fail because they fall through the gap.
- 4.26 We intend to make it easier to apply for funding. Many of the proposals set out elsewhere in this paper such as the single front door will help. For example, the new distributor will be a first port of call for new applicants seeking advice or guidance, or those who are uncertain where to go and it will take the lead in developing a network for building the capacity to make successful applications in communities across the UK. Doubling the upper limit of Awards for All grants to £100,000 will make it easier for communities to benefit from Lottery funding and the micro grants scheme we will pilot has the potential to reach out to local groups and communities who have not had Lottery funding before. Other proposals directly related to the application process are set out below.
- 4.27 Another message to come through from the consultation was people's desire to access Lottery funding more quickly. Clearly the length of time taken to assess an application will vary depending on what it is for, but we want to improve turnaround times for smaller, straightforward grants. Big improvements are possible. For example, the Arts Council of England have recently transformed their grant making – both grant in aid and Lottery, with simplified application forms and fast turnaround times. They have achieved a turnaround of within 6 weeks for awards up to £5,000 and within 12 weeks for awards up to £100,000. We want to improve turnaround times for all Lottery grants, but particularly for small grants.

For example, the new Awards for All scheme will cut its current 12 week turnaround time, and we want the micro grants scheme which we will pilot to be even quicker at getting money out.

Standardising application forms

4.28 Application forms from different distributors often refer to essentially the same things, but use different words to describe them, or they may seek the same sort of information (e.g. about beneficiaries, status of charities etc) but there is no standardisation of these core information requirements. Respondents to our review consultation paper called for greater standardisation of Lottery application forms across distributors, requesting a common look, structure and terminology. Distributors are already working to achieve this.

Common standards of service

4.29 Distributors will also adopt a common customer care charter which will be available in all application packs. The charter will ensure that applicants receive the best possible service, committing distributors to being accessible, fair and transparent. The charter will be underpinned by a more detailed “Common Service Standards” document which will be published on distributors websites. The document will detail the steps distributors will take to ensure their commitment to: effective joint distributor working; transparency in processes and actions; acceptable levels of communication with the applicant; and effective support to the applicant from the very beginning of the application process through to the decision on a grant, and afterwards if needed.

Common complaints procedure

4.30 Sometimes people feel aggrieved not just that they have not received a grant but that the way they or their application has been treated has been unsatisfactory. This might be because they have been given reasons for rejection which are not adequate, or they had been led to believe that they were likely to succeed. At the moment some distributors give applicants the right to have an external independent review of decisions taken and others do not. In future distributors will put in place a common complaints procedure. The procedure will be clearly set out in a publicly available document. For the first time, this will give all applicants the right to have their case considered by an external and independent complaints reviewer who will be like an ombudsman. Applicants will continue to have the right to take a case, via their MP, to the Parliamentary Ombudsman.

5. Being more efficient

Reducing balances

- 5.1 There is widespread concern over how much of the money raised by the Lottery for good causes has not yet been distributed. There is often a gap between a project or organisation being awarded a grant and being in a position to use the money due to the time taken to get projects up and running. But sometimes there can be a considerable delay. Distributors know this happens and plan for it when they award grants. They commit more money to projects than they have in the bank, knowing that they will continue to receive income and so funds will be available by the time the grant is drawn down. For example, at the end of March 2003 the level of commitment entered into by distributors collectively totaled over £4.2 billion – over £1 billion more than the total of balances in the National Lottery Distribution Fund (NLDF).
- 5.2 However, we believe that some of the concern about the scale of balances is justified. Distributors must ensure that they will have sufficient money available in future to meet the commitments they have already made. But they also have a reasonable expectation that more funds will be available each year to meet new commitments. That is the importance of our pledge about existing good causes up until 2009. Distributors can plan with confidence for the future. Although it is true that interest earned on those funds is added to the money available for distribution to the good causes, it is also true that money which is sitting in the NLDF is not out benefiting the community.
- 5.3 For that reason, in March 2002, distributors agreed to try to half the overall balance held in the NLDF (which then stood at approximately £3.6 billion) by 2004. They have had some success: by the end of April 2003 the balance had fallen by almost an eighth, to £3.17 billion, its lowest level for over five and a half years. We expect further progress towards the target by next year, but it is unlikely fully to be met. So although there has been some movement progress is too slow.
- 5.4 We are therefore taking two key steps to make it easier to get money out to Lottery projects, while ensuring that the level of unspent funds (the 'NLDF balance') held by each distributor strikes a balance between the needs of communities to gain the earliest possible access to Lottery funds, and the business needs of Lottery distributors, who must manage funds with propriety.

Revised Financial Directions

- 5.5 The first of these steps is a fundamental review of the Financial Directions that control how distributors handle Lottery money, to ensure that they are consistent with the changing needs of the Lottery. The existing documents have evolved only gradually from those that were drawn up at the inception of the Lottery, before there was any experience of the practicalities of getting funds out to projects. They were naturally conservatively drawn, with the emphasis on safeguarding funds. But the need to ensure good financial control must not inhibit properly managed creativity and the development and implementation of funding programmes.

- 5.6 A review of the Financial Directions is under way, with the emphasis on giving distributors maximum flexibility, and avoiding repetition of controls that exist in other official texts (such as Government Accounting). In this way the Government aims to speed up funding to smaller low risk projects, and increase the responsiveness of the Lottery. This should help to facilitate the vision of the Lottery as a fund for innovation. We will issue revised and simplified Financial Directions, designed to remove obstacles to faster transfer of funds to grant recipients and so increasing the responsiveness of the Lottery.

Guidance on managing balances

- 5.7 The second key step should produce benefits soon. Given the relatively slow progress until now, we think it may now be helpful to issue guidance to all Lottery distributors for speeding up the funding of projects, and making distributors responsible for setting rigorous individual targets for their balance levels. These allow appropriate targets to be set for each body, as each has different business needs. The targets set should represent the minimum necessary balance reasonably to secure each body's finances, with the aim once again being to get Lottery funds more quickly to the communities which need them. Each distributor will be required to report on its target balances, and progress against those targets in its annual report and accounts. The rationale behind those targets must be rigorous, and will be examined in detail by DCMS.
- 5.8 Following discussions between the DCMS and the National Audit Office, the Comptroller and Auditor General proposes to carry out an examination of balance management which will inform this process.

Interest on Lottery balances

- 5.9 But targets alone are not enough. Under the present arrangements those distributors with the highest balances get the most interest added to their good causes. While it is clearly not the main reason for the high level of NLDF balances, it is a perverse incentive for distributors to retain funds in their balance. We will introduce legislation to remove this incentive for distributors to retain funds in balances. The legislation will provide that in future the interest on balances is shared in the same proportion as the proceeds from Lottery games and not directed to those with the largest balances.

Possible further measures

- 5.10 It may be necessary to go further. We also recommend that we should legislate to create a reserve power to reduce balances where they appear to be excessive and to reallocate them to other good causes in the usual proportions. This power would be exercisable by the Secretary of State, in consultation with the devolved administrations, after discussion with the distributor concerned and after analysis and reasons had been published. We seek views on the form this power should take.

5.11 We also seek views on whether we should introduce an automatic “spill-over” provision under which accumulated balances exceeding a proportion of the previous year’s Lottery income of the distributor would automatically be recycled into the funds of the other distributors in the usual proportions. These are radical proposals and it could be argued that they have the potential in some circumstances to reduce the percentage shares for good causes (which we have pledged not to change, so we are consulting widely).

Innovation and management of risk

5.12 In the consultation paper we published last year we sought reactions to the ideas that the Lottery should be a fund for innovation; that red tape should be reduced for low-risk projects; and that appropriate strategies should be adopted for managing the kind of risks associated with major capital projects. The last point, and the involvement of the Office of Government Commerce and its ‘Gateway Review’ processes is considered at paragraph 5.21.

5.13 At the heart of Lottery funding is a desire to be different, to innovate, to take risks. Lottery projects should excite and enthuse people, engage their interest and commitment, and make a difference to their neighbourhood, their community of interest, their village, town or city, their region, or even the nation as a whole. Taking risks means accepting that things can go wrong. Not every Lottery project will be a success. But tying up every project with bureaucracy in an attempt to eliminate risk is expensive and slow, and can stifle innovation. We want management of risk to be commensurate with the scale of projects being funded, and with the track record of recipients. This means more sophisticated risk management for large projects, and reducing the burden of bureaucracy on applicants for small grants.

Managing major capital projects

5.14 The National Lottery has been a great success story. Lottery-funded projects right across the UK have altered both the physical, and cultural, fabric of villages, towns and cities. The most obvious of these have been the major buildings and facilities – the grand capital projects. In many cases the iconic status of these facilities has produced a very positive, and often regenerative, impact on the surrounding area, city or even region. Buildings, bridges, stadia, science centres, healthy living centres, and even village halls, have become well known landmarks, and much used facilities.

Learning from experience

5.15 There are examples, particularly early on in the Lottery, of major capital projects which did not succeed. It is true that these are the minority, and it is also true that not every project will be a runaway success: if the Lottery is to be a force for innovation it has to take some risks. However, when a project fails it represents a loss of potential benefit to the public and can be accompanied by loss of public confidence. In addition, the negative publicity that it attracts can have a disproportionate impact on the public’s perception of the Lottery.

- 5.16 Difficult lessons have been learnt, across Government as well as within the Lottery, about the assessment and management of major capital projects. We need to ensure that all the partners in major projects clearly understand their own responsibilities and their obligations to other partners. There needs to be certainty that the partners can proceed, and where Lottery money is involved the project needs to be clearly additional and distinctive, and the public must be involved in defining the ambitions and objectives. It is vital that those lessons and that experience are kept and shared to minimise the risk of future projects failing: hence our proposals in this paper for sharing best practice in managing major capital projects.
- 5.17 But there have also been major successes. Against Wembley and the Dome we must set the Eden Project, Tate Modern and Gateshead Millennium Bridge. We have learnt lessons from these too. And while part of our confidence in mounting our bid for the London Olympics in 2012 comes from the success of the Commonwealth Games, part of it too comes from the experience we gained, from Wembley and the Dome as much as from Eden and Tate Modern.
- 5.18 And there is a balance to be struck between sensible risk management and stifling innovation. The primary aim of the Lottery will be to provide a fund for innovation for communities, and none of the measures set out below should detract from this purpose.
- 5.19 The Government recognises that the Lottery distributors have amassed a wealth of experience in managing projects great and small since their establishment. It is essential that this experience is shared and put to good use. It would also be highly desirable to ensure that the knowledge gained by the Millennium Commission during its role in creating many of the biggest projects becomes part of the collective consciousness of the Lottery distributors once the Commission is dissolved.

The role of the new distributor for major capital projects

- 5.20 As the biggest distributor, with access to 50% of Lottery income, the new body will clearly have a major role within the Lottery bodies. We therefore propose that this body will have several key tasks relating to major projects in the re-formed Lottery distribution landscape. It will:
- manage the review process and allocation of Lottery funds to those major projects which do not fit in with the specific remits of other distributors, but which will benefit community regeneration that might not otherwise be funded. In this way it will take on the Millennium Commission's mantle in terms of vision and innovation;
 - bring together other distributors where cross cutting projects have elements naturally falling to other distributors, and then to manage the review process and allocation of Lottery funds to those projects; and
 - act as a centre of excellence, advice and shared expertise on managing major projects, accessible to all distributors, and through them to projects on the ground.
- 5.21 In establishing these roles we will ensure that project evaluation and management processes for major Lottery projects match those of the Office of Government Commerce's Gateway (OGC) Reviews. Experience has demonstrated the value of external independent reviews to

ensure the viability of projects at key stages from development to delivery. The aim will be for the centre of excellence to be an active participant in developing this role in consultation with the OGC. In this way, OGC's limited resources can be put to best use.

5.22 However, we do not want to reinvent the wheel in cases where distributors already have well established processes. We shall therefore be asking distributors to work with the new centre of excellence to:

- share best practice
- audit current systems to ensure that they are consistent and effective
- consider establishing a formal accreditation for those systems, if the OGC goes down this route.

The new Distributor's centre of excellence will work closely with its opposite number in the DCMS in establishing its role.

5.23 These review processes will apply to all major or high risk projects. OGC will provide distributors with advice on appropriate thresholds via the DCMS's own centre of excellence which will liaise with that of the Lottery distributors and with OGC as appropriate to set up review teams for projects. The aim is to ensure that larger projects are successful.

Smaller capital projects

5.24 Each distributor deals with different kinds of projects, and with a wide diversity of clients. They will each therefore need to establish appropriate thresholds to establish where these processes should apply. They should not act as a barrier to innovation, or be placed in the way of small projects. We will use the revision of the Financial Directions referred to in paragraph 5.6 to simplify the requirements that distributors need to place on projects and to encourage managed risk taking in relation to smaller projects. We will use a limited number of spot-checks on recipients of small awards to check for levels of abuse and on value for money. We will keep these procedures under review and ease requirements further if the case is made.

6. Consultation and table of policy proposals

Points for consultation

Most of the proposals set out in this paper are firm recommendations. Many can be implemented quickly, and work has already begun on some key administrative changes. Other proposals will require legislation before they can be implemented. But there are other areas where we wish to carry out further consultation before coming to firm conclusions.

A list of the proposals set out in this paper is given overleaf. We invite comments on any of the proposals, but specifically on those areas where we are still developing our thinking.

Timetable for Legislation

We will bring forward legislation to implement our policy proposals at the earliest opportunity.

Comments on our proposals

We invite comments on our proposals in this paper. The consultation period will last until 31 October 2003.

We would prefer to receive these comments by e-mail, if possible in rich text or MS Word format. Such comments should be sent to lotteryfunding@culture.gsi.gov.uk

Written comments should be sent to:

Rachel Miller,
Review of National Lottery Funding,
Department for Culture, Media and Sport,
2-4 Cockspur Street,
LONDON SW1Y 5DH.

An initial Regulatory Impact Assessment accompanies this paper on which we would also welcome comments.

Under the code of practice on open government, any responses may be published or made available to third parties on request. Respondents should therefore indicate clearly if they wish any part (or all) of their response to remain confidential.

Table of Policy Proposals

The following table summarises our main policy proposals
(*indicates proposals requiring legislation)

Paragraph Number	Proposal
2.7–2.9, 3.6	We will preserve the principle of “additionality” for existing distributors and the new body
2.11	Funding by the new distributor: open grants
2.13	Funding by the new distributor: strategic initiative funding
2.15	Funding by the new distributor: transformational grants
2.16	A Young People’s Fund will be set up
2.17	An Olympic Fund will be established*
2.18	The upper limit of the Awards for All (England) programme will be doubled to £10,000
2.19	A micro grants programme is to be piloted
3.3	A new community distributor is to be created from merger of the Community Fund and the New Opportunities Fund*
3.3	The new distributor to be able to handle non-Lottery funds
3.8	New distributor to provide single point of entry for new applicants where needed and to operate telephone hotline and website on behalf of all distributors
3.9	New distributor to be first port of call for applicants whose project does not fit within terms of reference of other distributors
3.10	New distributor to develop a pre-application support service and lead on introducing a common pre-application form, introducing cross distributor applications protocol and developing a network for building capacity and advising applicants
3.12	New distributor to lead on promoting and publicising the good causes
3.15	The assets and responsibilities of the Millennium Commission are to be transferred to the new distributor*
3.16	Centre of excellence, advice and shared expertise on managing major capital projects
3.17	Managing cross-cutting projects
3.19	New Lottery Forum
4.4	Crossed fingers logo to be used to identify projects funded by the Lottery
4.7	A permanent Joint Promotional Unit is to be set up as part of the new distributor*
4.9	Creation of a National Lottery Day
4.13	Distributors to extend work on getting the public more involved in priority setting
4.16	New distributor to pioneer ways of consulting local people about local decisions
4.17	Joint Promotional Unit to consider innovative ideas to boost public’s involvement in the decision-making process
4.20	Government to consider options for giving administrations in Scotland, Wales and Northern Ireland more influence over how Lottery money is spent
4.23	Programme development and decision-making for new distributor delegated as far as possible and appropriate
4.27	Greater standardisation of Lottery application forms across distributors

Paragraph Number	Proposal
4.28	Distributors to adopt a common customer care charter
4.29	Distributors to adopt a common complaints procedure
5.5	DCMS to produce revised and simplified financial directions
5.7	DCMS to produce guidance on managing balances
5.8	NAO to carry out an examination of balance management
5.9	Interest on balances held in NLDF is allocated according to standard percentage split between good causes*
5.10 & 5.11	Creation of reserve powers to reduce excessive balances and reallocate them to other good causes
5.20	The new distributor will become a centre of excellence, advice and shared expertise on managing major projects, including acting as funding co-ordinator for major cross-cutting projects
5.21	Processes for major capital projects are to match those of the OGC gateway reviews
5.24	Procedures for smaller/less risky projects are to be simplified

Annex A: Regulatory Impact Assessment

1. Title of proposal

National Lottery Funding Decision Document

2. Purpose and intended effect of measure

(i) The objective

This document sets out the Government's proposals to change how lottery money is distributed. It also contains some specific points for further consultation. The Government does not envisage any changes to the basic concept of the National Lottery, and has given a commitment that the percentage share of Lottery good cause money going to the arts, sport, heritage and the voluntary sector will remain at least at their current levels until 2009.

These proposals are a response to a consultation – *Review of Lottery Funding* – carried out in July 2002. This review looked at four broad areas for improvement:

- To make the Lottery more responsive to the needs and priorities of communities
- To ensure that funding is fairly distributed to all areas and communities across the UK
- To manage the distinctive challenge of Lottery funding
- To make the delivery of Lottery funding more efficient and effective.

The proposals in this document take forward the recommendations of that response by focusing on policy aimed to achieve three main improvements:

- Increased openness, accessibility and public involvement
- Transformation and inspiration at both national and local level
- Innovation in thinking, in action and in mobilising voluntary effort.

Devolution: For the moment, the proposals in this document apply to the UK as a whole. Our provisional view is that we should retain a UK structure for distribution, but that the devolved administrations in Scotland, Wales and Northern Ireland should have more influence in setting specific priorities and strategies, taking account of the needs and wishes of local communities and service providers there. This is open to further consultation and we will legislate to achieve this if necessary.

(ii) The background

Previous consultation has demonstrated that there is a desire to see changes to the way Lottery money is distributed. Although the system of Lottery distribution is fundamentally sound, there do remain some areas that could be further developed, and given that the current licence period comes to an end in 2009 now seems to be the right time for such reforms.

There is a need to modernise Lottery distribution, in order to ensure that it continues to maximise the benefits these funds offer to the good causes. Although the present distributing bodies do a good job, there is concern that unless greater synergy is created within the system, inefficiencies will grow and begin to have a detrimental effect on those organizations who have the potential to use Lottery funds. By streamlining the application process, funds will become more accessible to those organizations that need them. There are areas where increased cross-distributor working would eliminate the potential for inefficiency in the more fragmented areas of the distributing bodies work. Finally, there is the danger that the public will increasingly feel disconnected with where their money is going.

The 1993 and 1998 Lottery Acts set down the framework within which the UK Lottery is established. Policy directions made by the Secretary of State for Culture, Media and Sport accompany this legislation. Legislation currently establishes the areas which are to benefit from the Lottery, the apportionment of the National Lottery Distribution Fund (NLDF) between these good causes, provisions for payments from the NLDF in respect of expenses and for investment of the funds, provisions for governing the licensing of the operator, powers of the Secretary of State and the number and form of distributing bodies.

The Government feels that change to this legislation is necessary in order to solve the current problems with the distributing system. Crucial changes to streamline, transform and innovate the system all require legislation. This includes primarily the creation of a new distributor from the merger of the Community Fund and the New Opportunities Fund, but also the enabling of all distributors to be able to distribute non-Lottery funds; the setting up of a permanent Joint Promotional Unit; making interest on balances held in NLDF to be allocated according to standard percentage split between good causes; creating a reserve power to reduce excessive balances and reallocate them to the other good causes in the usual proportions; and the establishment of an Olympic Fund.

(iii) Risk assessment

If we don't do something to revitalize the present system, for example by improving efficiency, simplicity and transparency, we run the risk of losing the potential to maximize funds available to good causes. Worldwide experience of lotteries is that interest declines from an early peak. There has been a gentle decline in UK sales but we do not accept that this decline is irreversible. However, we feel some updating of the system is necessary. Increased synergy in the work of the distributing bodies coupled with increased public involvement will curb the potential for Lottery income decline.

The Government has also considered the potential risk that our proposed action might fail. We consider this risk to be very slight, particularly given the current efforts made by the distributing bodies to address some of the inefficiencies in the system.

3. Options

There would appear to be 3 options:

Option 1: *Do nothing – Rely on existing legislation*

There is the option to do nothing and rely on existing legislation and current practices. However as the Lottery matures, it would be difficult for it to remain successful without any modernisation of how Lottery money is distributed.

Option 2: *Take forward proposals without legislation*

Another option would be to seek to achieve the aim of the reforms without legislating. We recognise that whilst it is desirable to keep legislation to a minimum, certain necessary proposals need to be enacted. Some administrative changes are possible, but key proposals such as the merger of the Community Fund and the New Opportunities Fund, the setting up of the Joint Promotional Unit and changes to the balances cannot be achieved without legislation.

Option 3: *Introduce a Bill to set up a new distributor and ways to create more joined up working*

This proposal will modernise the way Lottery money is distributed. It will bring about legislative and non legislative reforms to streamline processes, reform grants, increase efficiencies and encourage innovation. This will carry long term benefit to many groups; including distributing bodies, charities, voluntary organisations, Lottery players and communities.

We recommend that Option 3 should be taken.

4. Benefits –

Option 1:

There would be little perceived benefit in leaving the current form of Lottery distribution unchanged. Various consultation exercises undertaken by the Government have highlighted the need for improvement in the way Lottery money is distributed. To ignore this need and make no change to this system would certainly be a missed opportunity, and would leave many of those seeking to apply for Lottery funding disadvantaged.

Option 2:

Taking forward proposals without legislation would have limited benefit. Whilst some of the proposals can and will be implemented without legislation some of the necessary changes, for example the merging of the Community Fund and

New Opportunities Fund will require legislation. Furthermore the impact of the proposals would be limited if restricted to non-legislative change.

Progressing with only the non-legislative changes would have the benefit of saving the short term costs to the distributors caused by the merger and setting up more cross cutting methods of working. However it is the Government's view that these would be outweighed by the long term costs of not having a more streamlined system of distribution.

Option 3:

It is the Government's view that the proposals in this document will offer benefit to the voluntary sector and charities seeking Lottery funding. We welcome responses to help us quantify these benefits. Broadly, the proposals will create a more streamlined and simplified way for communities to access Lottery funding. Distributors too will benefit from the efficiency savings brought on by the changes. These proposals will also ensure that the Lottery can provide large transformational funding and encourage innovation.

Potential recipients of Lottery funding will benefit from the increasingly joined up nature of the distributor's work. Funds will be easier to access; primarily because of the proposals to create increased joined up work. This will be facilitated in particular by the existence of a single community distributor, a formalised Lottery Forum and a Joint Promotional Unit. We would welcome views of estimated savings from streamlining the application process.

The distributors too will reap the benefits of joined up working, for example through the potential to cut administrative costs and the ability to pool resources in order to maximise the capacity for achieving large joined up projects. In particular, we anticipate that there will be significant administrative savings from the merger. The level of these savings is difficult to quantify as they will be dependent on the form the new body takes. However, we will continue to assess benefits as part of the consultation process and welcome views.

The proposal to give distributors the ability to distribute non-Lottery funds will bring some benefits to **charities and voluntary organisations**, who will have the opportunity to maximise the benefits of Lottery funding by combining it with other funds. Again, we would welcome views on the value of this proposal.

Lottery Players and the public will benefit from having greater input into how Lottery money is spent; for example by becoming involved in decisions about major capital projects or participating in schemes to determine local priorities. We welcome views about the benefits offered by the various suggested schemes.

Business sectors affected

We have consulted widely on these proposals and had lengthy discussions with a variety of stakeholders. The Government is of the view that that these proposals will have very little negative effect on small businesses, voluntary organizations and charities. However, voluntary organizations, charities, local Government, the distributing bodies, ticket buyers, the operator (Camelot) and the community as a whole will all benefit from the proposals.

Issues of equity and fairness

None at this stage.

5. Costs –

(i) Compliance costs

Option 1:

If there were no changes made to the current system of Lottery distribution, the distributors would not benefit from efficiency savings. Furthermore administration costs for applicants would remain and this would include costs for charities and the voluntary sector.

Option 2:

The implementation of only the non-statutory measures would bring with it some short term costs to the distributors. For example the initial costs of standardising Lottery forms, the customer care charter and the complaints procedure will fall on the distributing bodies. This is explored further under option 3. Methods to involve the public in deciding people's

priorities will also bring increased costs to the distributors. We welcome all views and estimates to help us quantify these costs.

Option 3:

There will be some costs to implementing option 3 and we welcome responses to help us quantify these costs.

We estimate that these proposals will bring short term costs to the distributors. However, as we are still consulting on the form of the new merged distributor it is difficult to quantify exactly what these costs might be. Anticipated costs include: the costs of setting up the merger; the initial costs of setting up increased cross distributor working; some costs associated with common branding; the cost to the distributors of consultation and exercises to enable them to respond to people's priorities for Lottery funding. The initial costs of standardising Lottery forms, the customer care charter and the complaints procedure will also fall on the distributing bodies. We welcome all views and estimates of costs for these proposals.

Our proposal to eliminate the existing perverse incentive for distributors to retain funds in their balance may have some cost to Lottery funds. The proposals will help achieve a longstanding target of reducing balances and getting money to projects more quickly. An accepted side effect of this is a likely reduction of investment income. The unpredictable nature of investment income due to the existence of a number of factors make the exact reduction difficult to calculate.

Furthermore, it should be noted that as the NLDF is invested as a whole, not distributor by distributor, the overall income will not be affected by changes in the breakdown. Further to this, these proposals will require changes to the Commissioners for the Reduction of the National Debt (CRND) computer systems which will carry a short term, one off cost to be reimbursed through the NLDF.

There will be some recourse cost to the distributors of setting up a system of OCG review for major projects. We welcome views on these of the likely costs, particularly from groups with experience of the OCG review process.

6. Consultation with small business

We are interested to seek the views of small businesses as to whether they think that they may be impacted by these proposals. We will discuss these impacts further with the Small Business Service.

7. Competition Assessment

We have looked at the market for the distribution of charitable funds and our view is that our proposal to allow the new distributing body to handle non-Lottery funds will not have an impact on the current market position. However, we would welcome information about any existing private distributing bodies which may be impacted by this proposal.

8. Enforcement and sanctions

These proposals will be enforced by legislation backed up by powers given to the Secretary of State for Culture Media and Sport. These proposals will not impose any new sanctions.

9. Monitoring and review

We will monitor and review these proposals in advance of the next Lottery licence period which begins in 2009.

10. Consultation

In developing this document we have taken account of the responses received in response to the consultation paper – *Review of Lottery Funding*. We received 400 responses to the consultation including responses from the voluntary sector and charities. We have also taken note of recommendations from further attitudinal research and discussions with specific sectoral representatives, including the voluntary sector and work with Lottery players. In addition we have consulted a number of Government departments.

These proposals will be subject to 12 weeks consultation.