1.   About the Big Lottery Fund and our evidence

1.1   The Big Lottery Fund (BIG) is responsible for distributing 40% of the money raised for good causes through the National Lottery and supports projects in the fields of health, education, environment and the community. We currently distribute between £40-£50 million each year in Wales. Our programmes reflect Welsh strategic priorities and have been developed in consultation with stakeholders in the third and public sectors. Currently, over 90% of the investments made by BIG in Wales are awarded to the third sector. In recognition of the need for cross-sector funding to address the challenges faced by communities, we also support projects led by the public and private sectors.

1.2   The National Lottery Act 2006 confers powers that enable BIG to deliver funding from third party sources. This provides an opportunity to co-ordinate our funding with that of others, including government, applying our extensive experience to benefit new areas of activity. We expand on this in our evidence.

1.3   BIG adopts an outcomes approach to funding. This means that our main interest is in the social changes brought about by the projects we fund, rather than the means by which these are achieved.

1.4   Although the WAO's report, *Grant Management in Wales* focuses primarily on the administration of grants distributed by the Welsh Government, we have considered the recommendations both in the context of our own grant funding programmes and the wider role we can play in supporting grant administration across Wales.

1.5   We have framed our evidence so that it considers the Auditor General's recommendations, and those from the Public Accounts Committee's Interim Report into Grant management, where we have a contribution to make, either directly or indirectly.

2.   Wales Audit office Recommendations

2.1   Look to simplify their grants portfolio more rapidly, by combining schemes where this is appropriate, in order to realise efficiencies in administration cost and in the hidden costs to the public purse borne by unsuccessful applicants.

2.2   The National Lottery Act (2006) gave us the power to handle non-lottery as well as Lottery funding. Our experience, infrastructure and expertise position us to be able to deliver wider community funding over and above that generated from the Lottery Pound. We distribute funding on behalf of other agencies through our distinctive non-lottery arm, 'BIG Fund'. In Wales, we are already distributing funds on behalf of the Welsh and UK Governments:

- money from dormant bank and building society Accounts through the *Sustainable Steps* and *Getting Ahead* programmes; and
- the Coastal Communities Fund, money to support the economic development of coastal communities by promoting sustainable economic growth with money generated through the Crown Estate's marine assets.

2.3 In Wales we have used our non-Lottery powers to pioneer the delivery of joint schemes, combining lottery and non-lottery funding to maximise strategic impact and add value to our Lottery portfolio:

- The Community Asset Transfer Programme is jointly funded with the Welsh Government and is supporting the transfer of viable public buildings to community ownership using a social enterprise model.
- Our Life Skills Project broke new ground by combining European Social Fund money with Lottery funding to deliver interventions designed to support hard to reach groups back into work or training.

2.4 In relation to all of these we have brought our grant making and grant management expertise to bear by developing, delivering and managing these programmes on behalf of our partners. We continue to welcome approaches to deliver funding on behalf of others where they add value to our work, or where we can maximise strategic impact through joint funding initiatives. We would particularly welcome the opportunity to engage in further work with the Welsh Government.

2.5 In relation to unsuccessful applicants and the administrative costs associated with them, we have found a two stage application process to be helpful. An 'outline' first stage followed by a more rigorous second stage allows us to identify weak or ineligible applications early on. This both reduces the assessment burden on us and is more customer friendly as the amount of time spent by the applicant on an unsuccessful application is reduced.

2.5 ***Develop systems to ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments and, where possible, with other funders.***

2.6 We do not have the Welsh Government problem of multiple departments, but we do have to ensure consistency across a range of programmes and schemes; across the UK we spend some £800m. We are going further in this direction through our new I.T. based business re-engineering project. Consequently we are introducing a number of

new developments over the next few months, all designed to make the experience of applying for, and managing, funding clearer, simpler and more efficient. Our new online funding management system will aim to improve the customer's experience by making us more efficient in processing and managing grants. It will include streamlining the funding process, allowing customers to track progress and allow us to provide better support to customers.

2.7   The system is currently in development and should be in place by spring 2013. We expect our customers to be experiencing some of the benefits of the new system soon after it comes into operation and these will build over time.

2.8   The UK Parliament's Public Accounts Committee recommended that 'grant-makers should work together to explore how to increase the use of online applications in their processes[1]. As a starting point, the development work being carried out by the Big Lottery Fund to introduce online applications should be shared with others.'

2.9   In the spirit of this recommendation, we will be happy to share the lessons from implementing our new system with the Welsh Government to support the work of its Grants Management Programme, with which we are already engaging to share our good practice and experience.

2.10 Work with other funders to learn from experience, develop complementary schemes and co-ordinate bidding timetables.

2.11   Through the non-Lottery and joint-funded programmes referred to previously we already have a track record of developing complementary schemes with other funders, primarily the Welsh Government and Wales European Funding Office (WEFO). We have also previously worked with the Heritage Lottery Fund to deliver joint funding through our small grants scheme, *Awards for All*. Our appetite for developing complementary funding programmes that meet mutual strategic objectives and priorities is strong and we are open to approaches from other funders.

2.12   The recent investigation into the All Wales Ethnic Minority Association (AWEMA) revealed significant failings in that organisation's governance structure. Our discussions with other funders and the WAO suggested that weak governance was an issue of wider concern. We have convened a 'Good Governance' group with the intention of working with colleagues to identify governance good practice and to support its implementation more widely across the third sector. This group includes representatives from the Charity Commission, Museum

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[1] http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/641/64104.htm

of Wales, Heritage Lottery Fund, Welsh Government, The Arts Council of Wales, Community Voluntary Councils and the Wales Audit Office.

2.13 **Work singly and together to improve the clarity and accessibility of grant-related information to bidders and encourage appropriate community involvement.**

2.14 At an individual level, we make information on all the grants that we award and the programmes that we run publically available through our web site[2]. We augment this with the work of our Communications Team, which combines press work with outreach work to ensure that we do all we can to reach those who are interested in our funding. We have a regular presence at local and national funding fairs, often working in conjunction with our colleagues at Arts Council for Wales, Heritage Lottery fund and Sports Wales through the Lottery Forum. We also liaise closely with WCVA, county voluntary councils and others to reach as many people as possible. It is an essential part of our work that helps us to be open, transparent and accountable. Our blend of grant schemes, large, small and strategic, helps us to address the needs of a wide range of community and national groups. It helps us to be as accessible to as many communities as possible.

2.15 Working in conjunction with other funders through the Wales Funders' Forum, for which we provide the secretariat, we keep abreast of developments in other organisations to enable us to have a fuller picture of funding across Wales and to signpost our customers to other opportunities where it is relevant to them.

2.16 **Ensure that risks relating to bidders' viability, capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery**

2.17 We take a balanced risk based approach to grant application assessment and our requirements are proportionate to the amount of money being requested. Our risk based approach means that we expect organisations applying for large grants to provide more detail than smaller organisations applying for modest funds.

2.18 For larger strategic grants we require a detailed plan that generally covers the following:

- Project need
- Delivery Partners
- Intended outcomes
- Project delivery method
- How the project will be managed

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[2] http://www.biglotteryfund.org.uk/wales

- Sustainability plans
- Clear and transparent project budget
- Staff and volunteer positions

2.19 On occasion, we also require a business plan. In such cases, we often award development funding to allow the applicant to further develop their proposals before a final funding decision is taken. Whilst some of those who receive development funding do not subsequently go on to receive full grants, this is balanced by the strong, credible and deliverable proposals that we do ultimately fund.

2.20 We provide additional support to both applicants and grant holders where there is a proven case for doing so. Our demand led programme, People and Places, offers support to applicants to help them compile their applications. We have put in place a self-evaluation support service in response to a general deficit in monitoring and evaluation skills that we identified.

2.21 *Ensure that project outcomes and standards of project and financial management are clearly defined and agreed in writing with recipients before releasing funding.*

2.22 As a matter of course we require those organisations that we fund to sign up to a legally binding agreement that contains our standard terms and conditions of grant. Should there be any issues that were identified during the assessment or decision making process that we wish the project to address we add additional terms and conditions as appropriate.

2.23 *Consider the relative merits of approaches other than grant funding, such as procurement, loans and investments, before committing to a new or continued grant scheme as the most appropriate mechanism for achieving the stated objectives.*

2.24 Grant Funding remains at the heart of our approach, and we recognise that the third sector in Wales, and indeed parts of statutory services, are predominantly reliant on grant funding. However, we recognise the need for organsations to diversify their income streams and to that end we have been exploring options other than grant funding for distributing both Lottery and non-Lottery funds.

2.25 Our Life Skills Project, jointly funded with ESF funds through WEFO, awarded funding through contracts as opposed to grants. Although clearly delivering against its objective of supporting hard to reach groups into training or employment, the contract approach is not without its challenges. Many third sector organisations lack the infrastructure or expertise to successfully bid for and deliver contracts. The smaller ones often lack the capital to provide sufficient cash flow where payments are either made retrospectively

or are exclusively connected to the end outcome. Of those that do apply for and secure contracts, they often need support to do so. We recommend that in considering other funding arrangements, the Welsh Government and other funders consider the capacity and associated support needs of the organisations for which the funding is intended.

2.26 Our Strategic Framework Refresh, *Fresh Thinking,* commits us to supporting the development of social investment[3]. The growth of the social investment market is a good example of where we can look to develop our funding beyond traditional grant-making approaches. For some VCS organisations and social enterprises, social investment may be a complementary or alternative source of funding that helps them achieve their mission. The Welsh Government (WG) has also signalled its interest, having made a £1m contribution to the Community Investment Fund II, WCVA's £6m loan fund launched in October 2011[4].

2.27 It is challenging for us to roll out Social Investment in Wales given the very different policy context compared to that in England. We feel that social investment is not suitable for the vast majority of the organisations which currently apply to us for funds, but we are continuing to monitor the appetite for, and understanding of, social investment across the third sector in Wales.

2.28 Our thinking on Social investment in Wales is still emerging. We held a 'round table event' of funders and interest groups earlier this year and our collective view was that:

- the current level of demand for social investment in Wales was very low, and there were adequate funds to meet the demand from investible proposals;
- it was the shortage of investible proposals, and not a lack of funds, that was the constraint on the growth of the market in Wales; and
- a key constraint on investibility was the lack of opportunities to access secure income streams from the delivery of public services. Different policy with respect to the reform of public service delivery was likely to mean a slower growth in demand for social investment in Wales compared to England.

2.29 Take robust action when grants have been overpaid or misused, by suspending funding where necessary, recovering appropriate sums and, where funding is continued, strengthening requirements on recipients and monitoring arrangements before releasing further funding.

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[3] http://www.biglotteryfund.org.uk/fresh_thinking-4-april.pdf

[4] http://www.sustainablefundingcymru.org.uk/fundingportal/funding-sources/loan-finance/loan-finance-providers

2.30 We take all allegations of malpractice very seriously and always ensure a thorough investigation is carried out so that funding is spent appropriately. Once alerted to possible malpractice or misappropriation of funds we put the grant into 'dispute' pending the outcome of an investigation into allegations that have been made or evidence that has been presented to us.

2.31 Our robust grant assessment process means that it is very rare that we need to withdraw funding from an organisation, but where we need to do so we act swiftly and decisively. In December 2011 we were alerted to evidence of maladministration at AWEMA. We suspended grant payments immediately as the seriousness of the allegations raised questions about whether AWEMA was fit to hold a grant from us and immediately launched a joint investigation with the Welsh Government. When the investigation revealed significant breaches of contract we formally withdrew the grant that they had secured through our AdvantAGE programme in 2011.

3. <u>Public Accounts Committee – Interim Report Recommendations</u>

3.1 We recommend that the Welsh Government should adopt a target of no more than 5% of its overall grant funding going towards administration costs

3.2 Whilst we are on course to achieve our own 5% administration cost target, it is not without its challenges. For example, the costs associated with grants involving capital development are significant. Our Capital Support Unit (CSU) must provide specialist advice throughout the organisation to assist with the development and delivery of significant capital projects. This is essential to minimise the risk of projects involving capital works from failing and is a key control that helps us ensure that they are delivered effectively. The CSU undertakes technical reviews of individual capital projects at key stages throughout their lifecycle with the aim of achieving value for money and delivering quality building projects.

3.3 For the purposes of our 5% administration cap, certain "value added" functions such as our outreach, and evaluation work, are not included.   It is often these additional measures that ensure we effectively reach and support the organisations and outcomes we want to fund, all of which are essential aspects of the service that we provide to our customers. *We would therefore suggest that this recommendation by the Committee includes a definition of what falls within administration costs. It should make clear where appropriate additional value added activities are permitted to maximise the effective delivery of desired outcomes.*

3.4 **We recommend that the Welsh Government establishes a single-point of contact for advice on funding applications (including, but not limited to, grants)**

3.5 We offer a dedicated bilingual helpline to our applicants that offers guidance, help and support on our funding programmes and application processes. Once an application has been submitted, the applicant has an ongoing relationship with the funding officer allocated to assess their application.

3.6 **We recommend that, taking into account the need for proportionality and proper procurement processes, the Welsh Government should include in its terms and conditions for grants and other forms of funding, a requirement that recipient organisations participate in the National Fraud Initiative.**

3.7 Our new funding management system has anti-fraud processes built into it and is designed to detect and disrupt any attempt to obtain funding from us for fraudulent purposes. This process begins from the point at which we receive data from applicants and it continues throughout the duration of any grant they may receive from us. The approach consists of two elements: 'verification' and 'alerts'.

3.8 At verification we confirm that the organisation exists and that the bank details provided belong to the organisation. We will also verify the identity of the people seeking to play key roles on the project by checking names, dates of birth and home addresses against external authentication services. We will also check that they have a genuine link to the organisation they claim to represent.

3.9 Alerts can occur at any point during the lifetime of a grant and their purpose is to:

- identify multiple uses of the same or similar data;
- contribute to the identification and investigation of potential multiple application fraud attempts; and
- identify information that would impact on our willingness to assess or release funding.

3.10 Our new system is designed to recognise and capture all of these.