



House of Commons
Committee of Public Accounts

Managing National Lottery Distribution Fund balances

**First Report of
Session 2005–06**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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Summary

Since its launch in 1994, the National Lottery has raised over £15 billion for good causes. Proceeds from the sale of lottery tickets are held in the National Lottery Distribution Fund until they are required by the 15 distributors (listed in Figure 1) to make payments to grant recipients or to meet their own costs.

Although the balances in the Distribution Fund may already be committed to particular projects, there are often significant time lags between projects being awarded funding and their incurring expenditure and drawing down the money. Meanwhile distributors continue to receive new income from the sale of lottery tickets. The balances earn interest but the intended public benefit is delivered only when the money is spent in the community.

On the basis of a Report by the Comptroller and Auditor General,¹ our predecessors examined the Department for Culture, Media and Sport and two of the largest distributors, the Heritage Lottery Fund and the New Opportunities Fund, about progress in reducing balances and managing risk.

Progress in reducing balances

The balances in the National Lottery Distribution Fund built up in the early years of the National Lottery, peaking in 1999 at £3.7 billion. In 2002 the Secretary of State for Culture, Media and Sport announced a target for total balances to halve by 2004 but in the event they fell by only 24% and the balances held by five individual distributors increased.

At May 2005 balances stood at £2.4 billion, with two distributors (the Heritage Lottery Fund and the New Opportunities Fund) together holding 64% of the total. The Department's aim is to drive balances down as fast as it can and, although the target for total balances to halve was not disaggregated, it would like distributors to set their own targets and some have done so.

To reduce their National Lottery Distribution Fund balances distributors need to increase the amount of money that they pay out in grants. The most significant impact on balances would come from distributors making more commitments to pay grants. It would also help reduce balances if projects were delivered, and thereby grants paid, more quickly.

Distributors should not draw down more money from the National Lottery Distribution Fund than they will need to cover payments in the coming period. In 2003–04, however, eight distributors carried forward average cash balances of over £1 million at the end of each drawdown period. The financial benefits of distributors making more accurate drawdown requests could be sizeable as the money earns a higher rate of interest in the Distribution Fund than in distributors' own bank accounts.

1 C&AG's Report, *Managing National Lottery Distribution Fund balances* (HC 875, Session 2003–04)

Managing risk

At 31 March 2004 distributors' total grant commitments exceeded the balances in the National Lottery Distribution Fund by £873 million. But there was considerable variation in the proportion of their balances that individual distributors had committed and in the maximum level of commitments distributors were prepared to make. Within their own policies, at March 2004 distributors had scope to make additional commitments totalling nearly £450 million. The Heritage Lottery Fund and the New Opportunities Fund, the two distributors furthest away from their maximum acceptable level, both expect to increase their commitments in the coming year. While accepting that each distributor should judge its own risks, the Department wants distributors to make commitments up to the maximum their own policies allow.

The lottery income that distributors will receive in the future is uncertain and most rely heavily on the income projections that the Department provides. A key cause of uncertainty at present is the impact that the planned Olympic lottery games and other aspects of the Olympic funding package are expected to have on the existing good causes, now that London's bid to host the Olympic and Paralympic Games in 2012 has been successful. Beyond 2009, there is also uncertainty about how lottery proceeds will be allocated between the good causes. Ministers have agreed to set a timetable for making decisions and the Department will seek to give distributors two years' notice of any changes.

Conclusions and recommendations

1. **Lottery money does no good sitting in the National Lottery Distribution Fund since the public benefit is delivered only when the money is spent in the community.** Distributors should not keep money in the Distribution Fund just in case it is needed for as yet unidentified future projects when they already have applications worthy of funding and when their balances are constantly being replenished as lottery tickets continue to be sold.
2. **Slow progress has been made in reducing the balances held in the National Lottery Distribution Fund.** Not only was the overall target for balances to halve by 2004 missed by a wide margin, but the balances of some individual distributors actually increased. By May 2005 total balances had still fallen by only 31% to £2.4 billion from the level of £3.6 billion in March 2002.
3. **A significant reduction in the overall balances depends on action by the Heritage Lottery Fund and the New Opportunities Fund.** Between them these two distributors held over £1.5 billion, 64% of the total balances at May 2005. In the case of the New Opportunities Fund, which is merging with the Community Fund to create the Big Lottery Fund, the Department also has an important role to play in giving directions which allow more grant commitments to be made.
4. **The Department should set a new target and clear milestones for reducing the balances.** For an overall target to be effective, it needs to be underpinned by targets for individual distributors. Each distributor should calculate how much money it needs to hold in the National Lottery Distribution Fund for cashflow purposes, taking account of expected levels of income and expenditure.
5. **To reduce their balances distributors need to be less risk averse.** In deciding how much money they have available to commit to new projects, distributors face inherent uncertainties relating to future income and expenditure. Well managed risk taking would be supported by:
 - **distributors assessing their capacity to commit funds to new projects and the likely impact of their decisions on their balances.** To help distributors, the Department needs to provide regular and reliable projections of lottery income, which incorporate up to date assessments of the effect of the funding arrangements for the Olympics in London in 2012. Distributors themselves must judge the likely rate at which money will be spent once it has been committed to projects. Historic trends are a good starting point but distributors should also work with the organisations they fund to help them provide more reliable forecasts of their expenditure.
 - **each distributor having a clear policy on the extent to which it is prepared to commit future lottery income.** Some distributors do not have explicit policies on levels of commitment and should set them. And those distributors whose policy is not to make commitments against future income should review whether this approach remains appropriate given the level of balances they currently hold.

- **distributors making grant commitments up to the maximum allowed by the policies they have set.** At the time of the National Audit Office report, according to their own policies, distributors could have made additional commitments of nearly £450 million.
6. **Distributors should stop withdrawing from the National Lottery Distribution Fund more money than they need.** At present some distributors draw down a standard amount each time and most over-estimate how much money they need, which can result in a loss of interest. In 2003–04 four distributors carried forward average cash balances of over £5 million in their own bank accounts at the end of each period.
 7. **The successful bid to hold the Olympics in London in 2012 could have a significant impact on the distributors, and therefore the pattern of balances.** The introduction of Olympic Lottery games to help fund the Olympic and Paralympic Games could result in players switching from existing Lottery games, and up to £410 million could come from changes to the shares of Lottery proceeds allocated to existing good causes. The five sports distributors are also expected to spend some £340 million on the Games.

1 Progress in reducing balances

1. Since its launch in 1994, the National Lottery has raised over £15 billion for six good causes: the arts; sport; national heritage; charities and voluntary organisations; projects to mark the year 2000 and the Millennium; and health, education and the environment. Responsibility for distributing lottery proceeds to the good causes rests with 15 distributors, which operate within a framework set by the Secretary of State for Culture, Media and Sport.²

2. Proceeds from the sale of lottery tickets are paid into the National Lottery Distribution Fund where they remain until they are required by the distributors to make payments to grant recipients or to meet their own costs. The balances are invested by the Commissioners for the Reduction of the National Debt and earn interest. But while it remains in the Distribution Fund, lottery money is not delivering the intended public benefit in the community.³

3. In the early years of the National Lottery, the balances in the National Lottery Distribution Fund built up steadily, reflecting the time lag between money being paid into the Distribution Fund, and being awarded to and drawn down by grant recipients. Balances peaked in July 1999 at £3.7 billion.⁴

4. The Department for Culture, Media and Sport (the Department) explained that since the late 1990s there had been successive and increasing efforts to reduce the balances in the National Lottery Distribution Fund. In March 2002 the Secretary of State for Culture, Media and Sport announced a target for the total balances (which then stood at £3.6 billion) to halve by 2004. In the event, by March 2004 balances fell by 24% to £2.7 billion. Since then balances have fallen further to stand at £2.4 billion in May 2005. Of this total, two distributors, the Heritage Lottery Fund and the New Opportunities Fund, together held 64%. The nine distributors with the smallest balances held just under 10% of the total (**Figure 1**).⁵

2 C&AG's Report, paras 1.1–1.2, 1.6

3 *ibid*, paras 1.3, 1.5, 2.5

4 *ibid*, paras 2.2–2.3

5 *ibid*, paras 2.8–2.9; Qq 2, 46

Figure 1: Distributors' National Lottery Distribution Fund balances at 31 May 2005

Distributor	National Lottery Distribution Fund balances (£ million)	Percentage of the total National Lottery Distribution Fund balances
Heritage Lottery Fund	883.4	36.1
New Opportunities Fund ¹	676.7	27.6
Sport England	198.4	8.1
Arts Council England	175.1	7.1
Community Fund ¹	171.5	7.0
Millennium Commission	102.2	4.2
Sport Scotland	56.7	2.3
UK Film Council	48.0	2.0
Scottish Arts Council	35.5	1.5
Arts Council of Northern Ireland	34.3	1.4
Sports Council of Northern Ireland	25.0	1.0
Arts Council of Wales	19.6	0.8
Sports Council for Wales	11.8	0.5
UK Sport	6.8	0.3
Scottish Screen	4.8	0.2
Total	2,449.8	100.0

¹ The New Opportunities Fund and the Community Fund were administratively merged in June 2004 and are now known as the Big Lottery Fund.

Percentages do not cast correctly due to rounding.

Source: Department for Culture, Media and Sport

5. In setting the target for balances to halve, the Secretary of State for Culture, Media and Sport drew on information provided in September 2001 by 12 distributors,⁶ eight of whom forecast reductions of 60% or more in their balances by March 2004. In the event the progress made by individual distributors was varied.

- The balances of 10 distributors fell, including three (the Community Fund, the Millennium Commission and Sport England) by more than 50%. But with the

⁶ Three distributors (Sport Scotland, the Sports Council for Wales and UK Sport) did not provide information.

exception of the Scottish Arts Council, who had forecast a fall of just £0.1 million, no distributor's balances fell to the level they had forecast.

- The balances of five distributors increased, including the two with the largest balances. The balances of the Heritage Lottery Fund rose by 1% against a forecast reduction of 15%, and those of the New Opportunities Fund rose by 30% against a forecast reduction of 36%.⁷

6. The Heritage Lottery Fund explained that the model it had used for forecasting had turned out not to be a good predictor. The New Opportunities Fund said that with hindsight it had been over-optimistic in making its forecast, partly because as a fairly new organisation it had lacked historical data and had relatively little experience of delivering its grant programmes. Having peaked in 2003 at £953 million, however, its balances were now falling steadily.⁸

7. Although the target of halving the total balances was not met, the Department considered that setting a target had been a clear signal that it was determined to get to grips with the issue, and that the progress might not have been achieved without the explicit target. The Department's aim is to drive down balances as fast as it can, and it has not given up the target for balances to be halved. Although the overall target announced in 2002 was not disaggregated into targets for individual distributors, the Department would like distributors to set targets and some have done so. The New Opportunities Fund said that its merger with the Community Fund to create a new distributor, the Big Lottery Fund, offered the opportunity to set new and challenging targets for reducing balances.⁹

8. The greatest impact on the level of balances in the National Lottery Distribution Fund would come from distributors making more grant commitments, but speeding up the delivery of projects and thereby the payment of grants would also help. The time taken to complete projects can vary considerably depending on the type of grant and the particular circumstances of the project in question. The Heritage Lottery Fund confirmed that projects in receipt of large grants to fund capital work could take four or five years on average. Sometimes the scale of the work required, for example in relation to church renovation, was not clear at the outset.¹⁰

9. Responsibility for managing lottery funded projects rests with the grant recipients but there are ways in which distributors can influence the time taken to complete projects. In 2003 the Department circulated good practice examples of steps some larger distributors were taking to pay grants more quickly. For example, for low risk grants under £50,000 the Heritage Lottery Fund pays half the money in advance, which is particularly helpful in cash flow terms for small community groups.¹¹

7 C&AG's Report, paras 2.7, 2.10

8 Qq 3-4

9 C&AG's Report, paras 2.12-2.13; Qq 1, 6, 83, 114-115

10 C&AG's Report, paras 3.1, 3.13; Q 19

11 C&AG's Report, para 3.14; Q 20

10. Projects are required to provide distributors with forecasts of when they expect to incur expenditure and claim their grant. The Heritage Lottery Fund said that if distributors did not draw down in line with the forecasts, its grant officers would get in touch to find out why. Where projects were delayed, distributors had to make a difficult judgement between continuing to support a project or withdrawing funding partway through.¹²

11. To obtain cash from their National Lottery Distribution Fund balances to pay grants or meet their own expenses, distributors submit 'drawdown requests' to the Department on a weekly or monthly basis. The National Audit Office found that most distributors over-estimated the amount of money they would need and some estimated the same standard amount each time. In 2003–04 eight distributors carried forward average cash balances of over £1 million at the end of each drawdown period, including four which had average balances of over £5 million. The Department confirmed that distributors should not draw down more money from the Distribution Fund than they will need during the coming period.¹³

12. The financial benefits of distributors making more accurate drawdown requests could be sizeable since the money earns a higher rate of interest in the National Lottery Distribution Fund than in distributors' own bank accounts. The New Opportunities Fund's switch in 2002–03 to more frequent and accurate drawdown was expected to lead to a benefit of between £1 million and £3 million a year.¹⁴

12 C&AG's Report, para 4.22; Q 20

13 C&AG's Report, paras 4.25–4.27; Q 82

14 C&AG's Report, para 4.28

2 Managing risk

13. Under lottery legislation, the 15 distributors make their funding decisions independently, within a policy and financial framework set by the Secretary of State for Culture, Media and Sport. Each distributor is a non-departmental public body with its own Accounting Officer, responsible for ensuring lottery funds are distributed with due regard to regularity, propriety and value for money.¹⁵

14. Increasing grant commitments could have a significant impact on distributors' National Lottery Distribution Fund balances. Each distributor must, however, keep sufficient money in the Distribution Fund to be able to cover its grant expenditure and its own costs, as individual distributors are not underwritten by other distributors or the Department. At 31 March 2004 distributors' total grant commitments exceeded their balances by £873 million (32%), but the position of individual distributors varied considerably. Eight distributors had commitments that exceeded their balances, while seven did not.¹⁶

15. There is also considerable variation in the maximum level of commitments that distributors are prepared to make. Of those distributors which have specified a maximum, six are prepared to make commitments that exceed the level of funds they hold in the National Lottery Distribution Fund, while five are not prepared to commit against future income in this way. According to their own policies, at March 2004 eight distributors had scope to make additional commitments totalling nearly £450 million. The two distributors furthest away from their maximum acceptable level of commitments were the Heritage Lottery Fund by £243 million and the New Opportunities Fund by £142 million (**Figure 2**).¹⁷

16. The Heritage Lottery Fund confirmed that it was steadily increasing its commitments and expected to reach its maximum acceptable level by the end of 2005–06. The New Opportunities Fund's level of commitments is determined by the policy directions it receives from the Secretary of State for Culture, Media and Sport. The New Opportunities Fund said it had committed as much as it could at present against the directions received, but its merger with the Community Fund to create the Big Lottery Fund would enable it to start making commitments again under new grant programmes.¹⁸

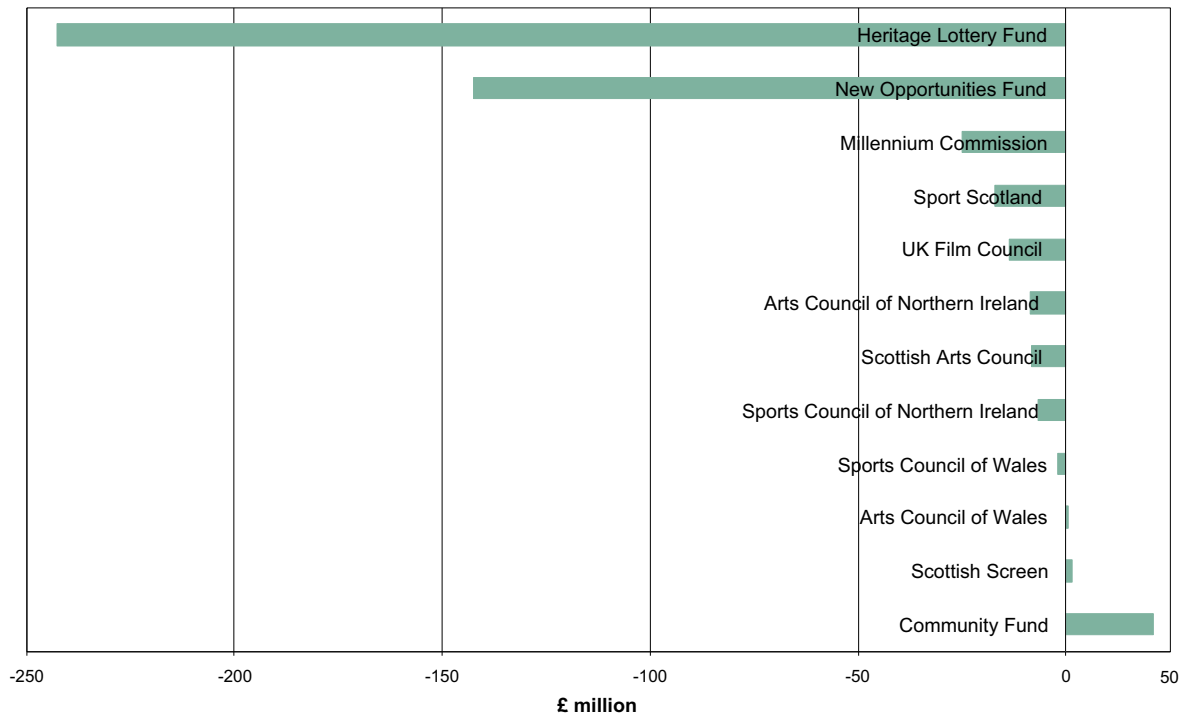
15 C&AG's Report, paras 1.6; Q 26

16 C&AG's Report, paras 5, 7, 3.3–3.4

17 *ibid*, paras 3.5, 3.7

18 Qq 6, 8

Figure 2: The extent to which distributors' grant commitments were more or less than the maximum level they were prepared to accept at 31 March 2004



Source: National Audit Office

17. The Department said that varying approaches to making commitments were the result of having 15 different distributors, involved in different kinds of businesses ranging from major capital projects to small community schemes. While the board of each distributor had to decide on its own appetite for risk, the Department considered that excessive caution had a cost in terms of lottery money not reaching the community as quickly as it might. What the Department wanted was for all distributors to set their policies carefully and then commit to the maximum that those policies allowed. All distributors had confirmed to the National Audit Office that they could attract sufficient, suitable applications to make more commitments without compromising value for money, and all but two had said they had the internal capacity to manage more grants.¹⁹

18. To identify the scope they have to make further grant commitments, distributors need to make an assessment of their likely future lottery income. Future income is uncertain since it depends on the sale of lottery tickets, and most distributors rely heavily on the projections the Department provides of annual income for the remainder of the current lottery licence period which runs until January 2009. The Department has taken steps to enhance distributors' confidence in the projections, including issuing them on time each quarter and reviewing how accurate they have been in the past.²⁰

¹⁹ C&AG's Report, paras 3.8–3.9; Qq 12, 33, 96

²⁰ C&AG's Report, paras 4.7, 4.9; Q 88

19. The planned introduction of Olympic lottery games to help fund the Olympic and Paralympic Games in London in 2012 is a key cause of uncertainty for distributors. The Department reported that, according to the latest estimates, the Olympic lottery games are expected to raise some £779 million over seven years, of which £467 million might come from players switching from existing lottery games. The funds available to the existing good causes would therefore be reduced. In addition to the money raised by the Olympic lottery games, £340 million towards the cost of the Games is expected to come via expenditure by the five sports distributors (mainly from Sport England) and up to £410 million could be derived from changing the shares of lottery proceeds allocated to the existing good causes after 2009.²¹

20. The Government has given a commitment that until 2009 the percentage share of lottery proceeds allocated to each of the arts, sport, national heritage, and charities and voluntary organisations will remain at least at their current levels. No such guarantee has been given about the share of proceeds received by the remaining good cause – health, education and the environment – and beyond 2009 no commitments have been made about how proceeds will be split between the existing good causes or whether any new good causes will be added. The Heritage Lottery Fund said that if it continued to make grant commitments as it was doing now, there would come a point where any significant change in its share of lottery proceeds after 2009 would have a disruptive effect.²²

21. The Department explained that the allocation of lottery proceeds between distributors was a matter for Ministers, who had agreed to set a timetable for making decisions. The Department would do its best to make sure distributors had at least two years' notice of any changes to distribution arrangements.²³

21 C&AG's Report, paras 4.14, 4.17; Ev 12, footnote to Q 106

22 C&AG's Report, para 4.6; Q 90

23 Q 11

Formal minutes

Monday 18 July 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mrs Angela Browning
Greg Clark
Helen Goodman
Ms Diana R Johnson

Mr Sadiq Khan
Sarah McCarthy Fry
Jon Trickett
Mr Alan Williams

Draft Report (Managing National Lottery Distribution Fund balances), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 12 October at 3.30 pm]

Witnesses

Wednesday 12 January 2005

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Ms Sue Street, Department for Culture, Media and Sport, **Ms Carole Souter**,
Heritage Lottery Fund, and **Mr Stephen Dunmore**, New Opportunities Fund

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HM Treasury

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The Big Lottery Fund

Ev 14

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 12 January 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mrs Angela Browning
Mr Frank Field

Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, further examined.

Ms Paula Diggle, Second Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Managing National Lottery Distribution Fund balances (HC 875)

Witnesses: **Ms Sue Street**, Permanent Secretary, Department for Culture, Media and Sport, **Ms Carole Souter**, Director, Heritage Lottery Fund and **Mr Stephen Dunmore**, Chief Executive, New Opportunities Fund, examined.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts where today we are looking at managing National Lottery Distribution Fund balances. We are joined, once again, by Ms Sue Street, who is the Permanent Secretary of the Department for Culture, Media and Sport, Ms Carole Souter, who is the Director of the Heritage Lottery Fund and Mr Stephen Dunmore, who is the Chief Executive of the New Opportunities Fund. You are very welcome. Perhaps, Ms Street, I can start by asking you a question. If we look at page 9 of the Comptroller and Auditor General's Report, figure 4, you will see the process by which the money goes from the Lottery player through the operator, Camelot of course in this case, down through the National Lottery Distribution Fund and finally to help the public. Of course, it is quite important that the money goes through as quickly as possible to the public, that is the whole point of it. If we turn, now, to page 15 and we look at paragraph 2.9, we see that: "At 31 March 2004 the balances in the National Lottery Distribution Fund stood at £2.7 billion, a fall of 24% since March 2002 against the Secretary of State's target of 50%." Why have you made such poor progress in meeting this target?

Ms Street: Firstly, I think it is important that the Secretary of State did set a target which was a big and bold signal that we were determined to get to grips with this. We are 30% down now from the 1999 peak, which might not have been the case if we had not set an explicit target. We did miss the full 50% since 2002. Paragraph 2.10 of the report shows that while the balances of 10 distributors did fall, the balances of 5 others went up, including some of the big ones. There is good news in this which is that revenue went up more than expected, which is excellent, but drawdown was slower than expected. As of now I think it is important to note 85% of the cash raised for good causes has been spent and 133%

of the remaining balance—ie 33% over committed—has been committed. We are back at the 1997 levels of around £2.57 billion but we are determined to press down hard.

Q2 Chairman: These are not small figures, are they? You have missed this target by a mile, maybe up to around a billion pounds. This was money which was sitting around not doing anybody any good. There was a maximum in 1999 with a build-up of a staggering £3.6 billion held by the National Lottery Distribution Fund, a huge sum of money. You had the Secretary of State's target, which I would have thought was a reasonable one, and you have fallen far short of it.

Ms Street: As I said, we are 30% down from the peak and we wanted to be 50% down. In the last eight months the balance has fallen by 6%, so we are encouraged by that. There is no doubt that setting the target has driven us in the right direction but not as far as we would like to be.

Q3 Chairman: Let us try and investigate why this happened. Ms Souter, can I please refer you to figure 11 on page 16. You will see if you look at the Heritage Lottery Fund its actual balance is £929 million, the forecast was supposed to be £791 million for 31 March 2004, but if you look at the actual balance of 31 March 2004 you will see it has risen to £942 million. That is not very good is it?

Ms Souter: Certainly the model that we have been using to forecast what will happen turned out not to be a good predictor of what happened in fact. One of the key reasons for that was that we found that the model was based on what happened historically and in practice the large projects, which are a very big element of what we do, were taking longer to deliver than they had in the past. Now, that is a matter of concern and I should make clear that we are totally

12 January 2005 Ms Sue Street, Ms Carole Souter and Mr Stephen Dunmore

committed to reducing the balances. If we had known at the time that those large projects were going to take longer than expected to deliver, undoubtedly we would have increased our level of over-commitment in those years and done so earlier than we did in fact.

Q4 Chairman: All right. Mr Dunmore, let us look at the New Opportunities Fund which is below that. The New Opportunities Fund's financial balance at 31 March 2001 is £568 million, forecast balance for 31 March 2004 is £361 million, actual balance at 31 March 2004 is £737 million. What has gone wrong?

Mr Dunmore: Like the Heritage Lottery Fund, we are very committed to reducing the balances and we welcome very much the target setting. I think when we contributed to the target setting in 2001 clearly we were very optimistic about what we could achieve, and that was partly—rather like the Heritage Lottery Fund—because of a lack of historical information. It was also because we were a very young organisation. We have only been around since 1998 and, in fact, four months before the target was set we had only just received our Round 3 policy directions from the Government which was £1.5 billion worth of programmes. We were consulting on them, we did not know what shape those programmes would take, particularly in terms of delivering, and the way in which you deliver the programmes can have a great impact on the actual drawdown and the speed with which you can commit. There are a lot of variables that we did not know the answers to, and I freely admit, in retrospect and with hindsight, we were over-optimistic. However, since then, and I think this is an interesting fact, our balances peaked in 2003 at £951 million. Since then we have been on a very steady downward path until December 2004 when our balances were at £692 million. From that peak in 2003, I think we are now making very good progress and we are determined to make more.

Q5 Chairman: Mr Dunmore, if you look at page 21 and figure 15, you will see that in terms of March 2004 your commitments were some way short of the maximum acceptable level you set yourselves. In fact, the New Opportunities Fund was £142 million short. Why was that?

Mr Dunmore: Certainly we were very pleased to set ourselves a target for commitment—

Q6 Chairman: There is no point setting targets if you are way short. This is money which the Lottery player imagines is going to good causes but is hanging around doing nothing.

Mr Dunmore: It is money, also, however, which is committed and we have over-committed on our balances by 55%. We are committing to the maximum we can at the moment on our current programmes within the terms of the policy directions that we are given. As I say, because we are over-committing we have reduced the balances by £259 million since January 2003. I think it will be a real opportunity with the money available to the Big

Lottery Fund over the next four years to create new programmes. It will be an opportunity for us to start afresh on this and to set ourselves realistic and challenging targets for reducing the balances.

Q7 Chairman: On the same point, Ms Souter, on the same figure, the Heritage Lottery Fund was £243 million short of its maximum.

Ms Souter: Of its maximum over-commitment?

Q8 Chairman: Why?

Ms Souter: Our trustees discussed its over-commitment policy within the last month and confirmed that a two year maximum was what they would stick with. Where we are at any given time in relation to that maximum is a matter of judgment because if we were to suddenly increase our volume of commitments in one year, the inevitable result would be a big reduction in future years because obviously we can only spend money once. We have to take a judgment about how far we can go. By the end of this financial year we will be £280 million over-committed and by the end of the financial year 2005–06 we will be £410 million over-committed, which will take us to the maximum.

Q9 Chairman: You are going to deal with the problem?

Ms Souter: Yes.

Q10 Chairman: You give that commitment to this Committee, do you?

Ms Souter: Yes.

Q11 Chairman: Fine. Thank you. That is what we like to hear. Ms Street, if you look at paragraph 4.6 on page 27—this is the last detailed question I want to ask you—you are leaving distributors uncertain about whether they will continue after 2009 and what their Lottery proceeds will be. Why is that?

Ms Street: The shares that might pertain to each Lottery distributor is a matter of policy for ministers, and they have not made any decision yet to change the shares that are currently set out. They have given a guarantee that nothing will change until 2009 so that is already a considerable level of certainty, we are only at the beginning of 2005, there are four years of absolute certainty. Ministers have agreed that we will set the timetable by the end of March so that will give some clarity. I will do my level best to make sure that distributors have at least two years' notice of any change and that will be better than they had either at the launch of the Lottery or at the beginning of the licence. I think my colleagues would be content with a full two years, that is what I am willing to do, and will say unless and until anything different happens the shares will continue as they are even beyond 2009.

Q12 Chairman: Can I ask this general question: you set up this vehicle to help these good causes, in fact you are frustrating them. We have heard about butter mountains, we have grant lakes where there is money sitting around doing nothing. Are you going to accelerate this process of reducing balances now?

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Ms Street: As I say, firstly, we welcome the NAO Report, and it is what we want to help us drive those balances down, not that it does not give us a lot to do. I do not think it is a grant lake, all the money and more, 133% of the money in that balance is committed. What I would like to see is that all the distributors implement their own policies and commit to the maximum that their own policies allow.

Q13 Mrs Browning: Mr Dunmore, you wrote to me on 4 January and I have your letter here. I would be grateful if you could clarify what changes you are going to make. You mentioned the changes coming up with the Big Lottery Fund. I was concerned—just on a point of principle, if you just explain it to us—you say “We will meet our commitment to provide £40 million for voluntary and community activity in eight rural districts in England between 2002 and 2007, the countryside communities.” My understanding is that people from all communities purchase Lottery tickets so I am just wondering, generally, if people across all rural communities purchase Lottery tickets why the proceeds of those Lottery tickets are going to be restricted to eight districts? It sounds rather like a Government department prioritising rather than how I would expect Lottery funds to be distributed.

Mr Dunmore: I hope I can explain that clearly. What we need to do as we move from the Community Fund and the New Opportunities Fund into the Big Lottery Fund is to meet all of our existing commitments under the programmes that both of those funds are running currently. Now one of the programmes, and I imagine I have mentioned it because it must have arisen in your letter, is the Countryside Communities programme, which is a £40 million programme.¹

Q14 Mrs Browning: Eight areas.

Mr Dunmore: In eight areas but not eight times £40 million.

Q15 Mrs Browning: No.

Mr Dunmore: A total of £40 million for eight areas. All I was pointing out was that whatever the changes are that happen in the Big Lottery Fund and whatever the new programmes are that we introduce for the next four years we will meet our commitments on the existing programmes that we have made already.

Q16 Mrs Browning: Yes. I do not think you have quite understood me, I will rephrase it. My point is the point of principle that across the country people in all rural communities would purchase Lottery tickets but the distribution of those funds from the purchase of those Lottery tickets is being restricted to eight rural districts. Why is the input general but the output being restricted geographically?

Mr Dunmore: The output is being restricted geographically in that case because we are targeting eight particular areas where we want to make a

difference and areas which have particular problems and particular incidences of rural deprivation. However, across all of our programmes generally we target on disadvantage in a variety of different ways, and that is both in an urban context and a rural context. Also, we have programmes that are more general in their impact and the Community Fund’s large and medium grants programme, which is still running at the moment although it will be phased out when we get our new programmes, is targeted on particular groups in need but it has a wide geographical distribution. I think there is always an instance there where we need to balance the general distribution of Lottery funding—because, you are quite right, people from all sorts of backgrounds and localities buy tickets—with a commitment which certainly the Big Lottery Fund and its constituent parts have had to target social disadvantage particularly.

Q17 Mrs Browning: I have got no difficulty with the principle of when the applications come in to prioritising and assessing on the grounds of need and your criteria there, it just seems the principle of people across the board in rural areas buying Lottery tickets but knowing—or perhaps they do not know and I am telling them now—that even if you have a worthy cause in your particular rural locality, if you are not one of the designated eight rural areas, because most rural areas have some deprivation of some sort or another, that somehow, although you have bought your ticket, your community could not even apply for a grant because they are outside a geographic area.

Mr Dunmore: I think I am making the point in response to that, that we have a wide range of programmes. They are targeted in different ways and some of them are relatively open, so wherever you are you will have an opportunity to apply for one programme or another.

Q18 Mrs Browning: Could I bring you on to something else which was earlier in your letter and that is you have said here: “We are winding down our voluntary and community funding programmes (the medium and large programmes in England) and the UK wide strategic grants programme.” Now, I am a bit concerned because I realise that the heart of this report by the National Audit Office does highlight the fact—and it has been mentioned already by the Chairman—the difficulties, for example particularly with the Heritage Lottery Fund, of the amount that is held in balances. It is a huge amount of money. I had another letter this week from the Bishop of Exeter and I would like to share this with you. I think he too has been a recipient of one of your letters. One of the points he makes about the Heritage Lottery Fund—and I think it is well made and I just wonder how you are going to manage this at the same time as bringing these balances down—is that the sort of grants which are being sought, for example by churches, are grants whereby the timescale—the lead time from the time they get permission to have a grant and actually drawing down the money and carrying out

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the work—can be extremely long for very legitimate reasons. For example, the Bishop tells me—and I am sure he is absolutely right in this—on our historic churches that even once you get permission to carry out renovation because of the need to use skilled craftsmen, and they are in short supply, they have to wait their turn until they have finished off projects and that in itself, quite legitimately, can delay the drawdown on money. I just wonder, you are under some pressure for very good reasons to reduce these balances but how are you going to enable these more sustainable projects to still get their fair share of the Lottery money without suddenly feeling you are under pressure to provide money for what I would call quick fix type grants whereas the more sustainable need for longer term funding, such as the historic churches the Bishop mentioned, are really quite legitimate causes?

Mr Dunmore: Perhaps my colleague could answer part of that also?

Q19 Mrs Browning: Yes, of course.

Mr Dunmore: You have really concentrated on a very relevant point. The degree to which, following a sensible risk assessment, you believe you have to keep a certain amount of balance is in part—only in part—dependent on the sorts of programmes you are delivering. It is certainly clear, and I know from Carole’s experience and from mine with a couple of our capital led programmes, that programmes which involve a large amount of capital spend are going to take longer to deliver, so we recognise that. There are all sorts of reasons to do with planning permission and the whole raft of other things to do with capital projects which can delay the process. When we are delivering those sorts of projects, and certainly there is no intention to stop doing that, we need to take that into account.

Ms Souter: In relation to churches, certainly one of the factors that is often found with the churches, for example looking at roof works, is quite often you do not know what the scale of the problem is until you have uncovered the roof in the first place and found what is underneath and what has happened. That can lead to complications for people. It is terribly important once we have said yes to a project that the applicant knows the money is there and that is why we hold money in the balances. We need to be able to respond to any issues which come up for them. Certainly part of the judgment for the Heritage Lottery Fund, in thinking about the level at which it can over-commit, is exactly the fact that the majority of our funding has gone to capital projects over a million pounds. So we know that it will take four to five years on average for those projects to come to completion and they are starting to benefit the community from the very moment that we say yes to the application because that means people can start to work and plan.

Q20 Mrs Browning: How do you differentiate between those longer term projects where there is a legitimate reason for a slow drawdown or a delayed start, which are quite legitimate, and those where they have not got their act together in the end? What

monitoring do you do to ensure that you draw stumps when there is something which is not going to get off the ground?

Ms Souter: Obviously we use different approaches depending on the scale of the grant. Grants under £50,000 are delegated to staff decision making and we have tried to take a much lighter touch approach there. As part of our efforts to move money out of the balances more quickly with those low risk projects we pay half the grant upfront and we have been working very hard on making that possible. It is particularly helpful for small community groups which tend not to have much cash. With the larger grants, if they are coming in at over a million pounds, we have a two stage process where we will give an initial approval and then they may take up to 12 months to work out the further detail knowing that they have got the money if they get things right, and then they come back to us. We will ask for forecasts of drawdown of funds and our systems now identify when people are not coming to us and asking for money at the time that we expected them to do so. Our grant officers will then be back in touch with them, asking them what is happening and making sure there is a reason and they understand what is happening. As you said, very often there is a perfectly good reason, they may not be able to find the right hedger or thatcher or whatever it may be, but it is an issue which needs to be kept under close attention. The other balance of judgment for us is we want to see the projects happen because they are important. We want them to take place on the ground and there is a very fine judgment about whether to stick with the project and help them through or whether to withdraw money when they might be half way through delivering a project.

Mrs Browning: Thank you. My time is up. Could I just make a plea to you. I am totally supportive of the decision making about how Lottery funds are distributed and spend being quite separate from political influence, and I hope that will always be the case. However, in my experience as an MP representing a large rural constituency, and also a Lottery player myself, part of our culture seems to be developing in a way that worries me, and it is this: very often funds, not just Lottery funds but funds that people can apply for in their local communities, seem to have an emphasis on anything which has the prefix “new”. If they have an idea that is “new” they seem to be able to channel funds into it whereas actually maintaining and sustaining something that is of value and ongoing value to communities is somehow denigrated in preference to “new”. Could I say to you that conservatism, with a small “c”, should receive equal treatment as to anything with a “new” prefix added to it? I will leave you with that thought, if I may.

Q21 Jon Trickett: There seems to be one word which is riddled through this Report and that is variable or variations, is it not, between the different operations doling out Lottery money. Why is there so much variation?

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Ms Street: There are 15 different distributors and they are involved in very different kinds of businesses. If you think at one end of the Heritage Lottery Fund there are very large capital projects, long drawdown times—actually so far no major capital project has failed under the HLF arrangements so it is quite a heavy long term business—and at the other end we have the Community Fund awards which are intentionally very small, fast moving—maybe to paint a hall—and then you have got things like the UK Film Council where if they fund a blockbuster they return the money to the Lottery pot and, therefore, keep more in their balances, there are genuinely different kinds of businesses. I think there are three big imponderables. One is what will Lottery sales do? Is it going to be a good year or a bad year? Those trends are now steady but you never know exactly how many people are going to buy tickets. You then do not know how many applications are going to be made to each distributor and you do not know the way to drawdown from the grants made. I do not want to give a glib phrase but there is not a one-size-fits-all.

Q22 Jon Trickett: No, I accept that. There seem to be variations in policy, for example, about the maximum grant which they will allocate relative to resources available. Some are saying they will go over, some are saying they will not, and then of those some break their own policies and some do not break their own policies, most of them do in different ways. Some spend more than the maximum, some spend less than the maximum. Surely there ought not to be those kinds of variations between, firstly, policies and, secondly, implementation of policies. Would you not expect them all to have a policy but the policies to be more or less the same and to be implemented in the same way?

Ms Street: I think it is very helpful that the report draws out the fact that if boards simply implemented their own policies that would have a very good effect on reducing the balances. I am clear from the Department's point of view that I would like to see the boards implement their own policies.

Q23 Jon Trickett: Even after you have said what you want the policy to be it seems to me that they may agree a policy but then break it almost immediately, do they not, or they fail to achieve it?

Ms Street: My view is they should implement their own policies, that is what I think boards should do.

Q24 Jon Trickett: I will tell you what I am driving these questions to. I think I read somewhere, but I cannot spot it, each chief executive—or whatever title they have—is an accounting officer in their own right. That is quite striking really because they do not employ huge amounts of staff and, by comparison with the permanent secretary in a large department such as Defence or Health or something like that, they are not managing huge amounts of staff or money either. Why are each of the heads of each of these organisations accounting officers in their own rights?

Ms Street: Why are they?

Q25 Jon Trickett: Yes, because it seems to me once you have that then you have this unilateral declaration of independence almost by each of the funds, do you not?

Ms Street: Obviously Lottery money is different from taxpayers' money and it is the taxpayers' money that goes through departmental accounting officers.

Q26 Jon Trickett: They are each accounting officers, are they?

Ms Street: They are each accounting officers. I am responsible for the overall framework and ensuring they have proper financial directions and there is a longer or shorter arm depending on which body. You are right, in the end the board has to decide—and I would like to see this even more rigorously done—on their appetite for risk for their kind of business.

Q27 Jon Trickett: Is that 15 separate boards?

Ms Street: That is 15 different distributors.

Q28 Jon Trickett: Why though? Why not have one single accounting officer who has 15 people reporting to them operating the same policies accepting the difference between the kind of market place? It seems to me you can have a policy which allows a heterogeneous application, why not have one accounting officer and them all reporting to him? That would allow you to have a greater input, would it not, on behalf of the public?

Ms Street: It would. I do not know if that would give confidence that all those different kinds of businesses were really pushing their expertise out to the front line. I think the kind of expertise we get in the HLF, for example, would not be found in the department.

Q29 Jon Trickett: Who decided they should all be separate accounting officers?

Ms Street: This stems from the 1993 Act, the framework which is very clearly set out.

Q30 Jon Trickett: It is a statutory requirement that each one has a separate accounting officer? That is on the face of the Bill presumably?

Ms Street: I would need to check the face of the Bill but the position is they are all set up as non-departmental public bodies.

Q31 Jon Trickett: Yes, I understand that.

Ms Street: Each of those has to have an accounting officer.

Q32 Jon Trickett: There is another note being passed to you which might be helpful.

Ms Street: This is very helpful. We did consult on this and there was no support for a one-size-fits-all.

Q33 Jon Trickett: I am not suggesting that. That might be regarded as a caricature of what I have said because I am only asking questions to try to help you to manage this process and achieve your objectives.

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Are there alternative management arrangements which might help you to achieve what you would want which we might be able to recommend to strengthen your arm in relation to these 15 separate independent entities? Can I tempt you into commenting.

Ms Street: What I would like to see—and this is where the Report helpfully gets us, and indeed the deliberations of the Committee and its conclusion could help us—is a very clear signal that the boards of the different distribution bodies need to position themselves very, very accurately on that difficult line between excessive caution and recklessness and waste, decide exactly where they are going to be and implement that and set targets and meet them.

Q34 Jon Trickett: Probably for diplomatic reasons you are ducking the answer to my question. When we come to write the report I hope the report might reflect on the future of management arrangements if you are able to secure the objective which you have just set out. I want to ask you one other question which is about the management of the surplus fund which the Report says the Treasury decided should be handled by this body—which I have never heard of before—called the Commissioners for the Management of the National Debt. Is that the right title?

Ms Street: Yes, it is.

Q35 Jon Trickett: At 1.5 “. . . the Commissioners for the Reduction of the National Debt . . .” manage the surplus, do they not?

Ms Street: They do.

Q36 Jon Trickett: Are you satisfied with their management of it or is it something you do not have to deal with?

Ms Street: I have looked at the table with interest. It is clear that gilts fluctuate almost inversely to the market, so if shares drop gilts go up. I have a colleague from the Treasury here who could answer.

Q37 Jon Trickett: I am going to ask her.

Ms Street: I do think it is important that we do not think that this money is just sitting about doing nothing, it is actively managed and it does earn interest.

Q38 Jon Trickett: We do not want the public to form the view that the Lottery is being used to reduce the National Debt by producing a continuing surplus, do we, because that would be entirely inappropriate. You might conclude if you did the figures carefully that was what was happening.

Ms Street: Would it be helpful for my colleague from the Treasury to answer?

Q39 Jon Trickett: Yes. I want to ask why the Treasury decided to nominate.

Ms Diggle: I think it was seen as a very safe haven for the funds. You have to think how fast the funds would need to be used. As Carole Souter said a few minutes ago, the typical time horizon is something like five years, on average. It may be less than that

for some funds. Putting the funds into a mix of instruments that would be subject to fluctuations might not yield a good return on the time horizon required for the monies which are being held for the various funds. Therefore one needs to think about using just debt instruments. I do not think there is sufficient volume of corporate debt instruments in safe form available to manage the size of balances we have here.

Q40 Jon Trickett: In accounting terms, this amount of money, which is significant, how is it accounted for in terms of the National Debt? Is it something that is handled by these Commissioners because they are a safety first body of people or is it having some macro-economic or macro-fiscal effect in some way, the fact there is a surplus?

Ms Diggle: I think there are two effects to look at here. First of all, interest accumulated on behalf of the funds actually goes back to the funds as and when they draw it. While it is parked in the CRND it does reduce the National Debt because Lottery money is public money. It has been raised from the public, it is to be used for the public good, and while it is being held for use for the public it is being parked in the National Debt and holds the National Debt down.

Q41 Jon Trickett: Is that a statutory requirement or is it something that has been decided by the Treasury?

Ms Diggle: It is in the Lottery Act 1993.

Q42 Jon Trickett: It specifies that it will be used to reduce the National Debt or that it will be managed by the Commissioners?

Ms Diggle: It is specified in the Lottery Act 1993, I think it is Section 32, that it is to be held in the CRND who are then to manage it in accordance with a direction agreed by the Treasury.

Q43 Jon Trickett: Can I just ask one further question. Does the Treasury publish accounts and make assumptions about the amount of surplus which will be used to “help” with the National Debt? Are there assumptions made? I can easily check in future years.

Ms Diggle: I think I will need to give you a note on that to give you a full answer but certainly the interest accumulated on the balances held on behalf of the various funds appears in their resource accounts.²

Q44 Jon Trickett: I understand that but I am trying to work out if the Treasury is making assumptions about the use of the National Debt by mismanagement or under-management of resources.

Ms Diggle: For the purpose of forecasting, the Treasury forecast will always make the best realistic projection on the information available.

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Q45 Jon Trickett: You do not hope we will be successful, do you really? You hope we will be unsuccessful.

Ms Diggle: It is not a question of profiteering, but of efficient management of public funds.

Q46 Mr Steinberg: If you turn to page 13, figure 7, it is quite clear that when the Lottery first started the income was much greater than the actual distribution. What are you doing about the huge discrepancy in the first few years? What has happened to that money?

Ms Street: Firstly, I think paragraph 2.3 is a really seminal paragraph, it sets out fairly clearly that the current level of balance is a result of the low rate of drawdown compared with income in the first four years. That was where it all built up. Then, as this report sets out, there have been successive and increasing efforts to reduce that so that is why we can over-commit now by 133% because there is more in the balance than is called upon at present.

Q47 Mr Steinberg: I did make some rough calculations. I worked out that the fund had taken something like £15 billion over the life of the Lottery up to now, is that right? The drawdown has been something like £13 billion.

Ms Street: It is very close. I think we are £16.6 billion and the drawdown has been £14.2 billion

Q48 Mr Steinberg: That £2 billion is still in balances?

Ms Street: £2.57 billion.

Q49 Mr Steinberg: That is the total balances?

Ms Street: Yes.

Q50 Mr Steinberg: The reason why I ask is how quickly is that being used up?

Ms Street: I think the graph at table one shows a much too gentle decline from 1999 but since we began to get a grip and really challenge this, as I have said, in the last eight months it has fallen to 6%, which if we can keep that up will bring us through.

Q51 Mr Steinberg: The reason why I ask this question—there is a purpose behind it—many of my northern colleagues and myself are very worried about there being big balances at the present time because there is this thing called the Olympic Lottery Fund, is there not?

Ms Street: Yes.

Q52 Mr Steinberg: How much of this money is destined for the Olympic Lottery Fund?

Ms Street: The money is not intended to come from the balances. I am wearing my badge for the Olympics.

Q53 Mr Steinberg: I noticed that which worries me a great deal.

Ms Street: We can debate this. The virtues of the bid have cross-party support but clearly not everyone wants it.

Q54 Chairman: That is no guarantee.

Ms Street: I just mention it. We will know in six months' time on 5 July whether or not we have won the bid.

Q55 Mr Steinberg: I was coming on to that. How much money are you using from the Lottery money before you even know whether you have got the bid or not?

Ms Street: No money from the Lottery.

Q56 Mr Steinberg: No money at all?

Ms Street: No.

Q57 Mr Steinberg: Okay.

Ms Street: If we do win the bid there is an argument to say that the Lottery funds exactly this kind of celebration of sport and the arts that the Olympics is.

Q58 Mr Steinberg: We had a celebration of the year 2000 and it was called the Dome. Can you remember that celebration?

Ms Street: Unfortunately I was not at the celebration but, of course, I do remember the difficulties.

Q59 Mr Steinberg: Just remind us how much was spent on the Dome?

Ms Street: I think it was £750–800 million. I do remember, of course, appearing before this Committee, and you will have a chance to talk with one of my colleagues next week on that. We will be returning about 13% of the sale of the proceeds back to the Lottery but, of course, it left a scar on my back as I have said to you before. It is important to be clear that if we win the Olympic bid the projection is that the possible diversion from the current good causes will be around 5%.³

Q60 Mr Steinberg: How much is that?

Ms Street: That is what we are looking at. That is around £750 million.

Q61 Mr Steinberg: £750 million. I am very worried, therefore, bearing in mind how much London has had already, not including the Dome. That means good causes in my part of the world is going to dip out again because the money is going to be concentrated in the South of England and particularly in the Olympic bid. Have we got worries about that or not?

Ms Street: I think that, of course, constituency MPs and Members of this Committee will want to look to their own constituencies. From the information I have Durham has benefited a lot, £46 million in the past.

Q62 Mr Steinberg: How much did you say the Dome was again?

³ *Note from Witness:* I indicated that £750–£800 million was spent on the Millennium Dome (actual total £789 million), but later Sir John Bourn confirmed that the figure was £600 million (Question 66). The discrepancy here is between the total cost and the Lottery contribution (£604 million to date), to which Sir John was referring.

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Ms Street: Several hundred million.

Q63 Mr Steinberg: Right.

Ms Street: But some very important projects in Durham. Of course, all of my colleagues in the distribution funds will have to look to distribute across the geographic spectrum.

Q64 Mr Steinberg: Are you saying that if we are successful with the Olympic bid that the distributors can look forward to a lot less money?

Ms Street: I have explained, our projections are 5% could be diverted.

Q65 Mr Steinberg: What was the original expectation the Dome was going to cost?

Ms Street: I do not have that. I think the Dome came in on budget but the visitor projections were extremely optimistic.

Q66 Chairman: We had a report on this this morning, actually, so we know a bit about it. It cost about £600 million, is that right, NAO?

Sir John Bourn: Yes.⁴

Q67 Chairman: £600 million because of the shortfall in visitor numbers. That is the answer to the question.

Ms Street: No doubt you will be discussing that next week, Chairman.

Q68 Mr Steinberg: I am very worried that my good causes in the North of England are going to end up as good causes for the Olympics?

Ms Street: I note your concerns.

Q69 Mr Steinberg: I hope you will do more than note it. Can we move on. Would you agree, therefore, that there is this danger looming, it would be advisable for the distributors to spend as much as they can at the present time and give out more grants?

Ms Street: My reasoning would not be the same as yours. Parliament will have the opportunity to take a view on the Olympic Games and whether they want it. That is why I cannot answer your concerns, because it is a matter for Parliament and for ministers. As a matter of good financial management, as I have said, we are extremely keen, and we have had robust discussions with the Lottery distributors to reduce balances.⁵

Q70 Mr Steinberg: How can you ensure that the distributors now move much more speedily to allocate grants?

Ms Street: I think the movement has to be not necessarily in speed. HLF in particular is very fast in getting money out of the door. The move has to be to implement their own policies and for some of them to see if they want to move a little bit along that spectrum of caution and over-commit more than they do now which the NAO clearly signals—

Q71 Mr Steinberg: Clearly the two organisations sitting either side of you have something like half a billion pounds in surplus, is that right?

Ms Street: A bit more than that.

Ms Souter: Our balance is just over £900 million but if I can explain, it is not surplus. All of that money, and by the end of this financial year another £280 million on top, is committed to specific projects, Woodhall Colliery and things like that, projects which are either being developed and shortly will be ready to go or have spent some money but not yet spent all of it.

Q72 Mr Steinberg: I understand your problem, I do. With the new National Lottery Bill there could be problems, clearly, particularly with yourselves. Do you think it is fair that with the new recommendations any interest being held separately should be shared equally amongst the distributors?

Ms Souter: I can understand perfectly the Government's thinking behind it.

Q73 Mr Steinberg: Do you think it is fair?

Ms Souter: It would be for Parliament to decide.

Q74 Mr Steinberg: Yes, but do you think it is fair?

Ms Souter: I think at the moment the need for heritage projects is so great that I would be very sorry to see any loss of income to heritage projects. Clearly that is a matter that will be put before Parliament and for Parliament to decide.

Q75 Mr Steinberg: You see I have a great deal of sympathy with the argument that has been advocated that you should be spending the money more quickly but also what worries me as well is money should not be given out willy-nilly and that money is given to the projects. How do you assess that projects are doing what they said they were going to do?

Ms Souter: We have very clear published criteria for each of our grant programmes which we provide in all sorts of different formats for people and obviously we are working within terms of our strategic plan which runs to 2007. The assessment process is a very formal process and we look at each of the criteria and assess against those. Obviously it is a recorded process as we are distributing public money, we have to be accountable for what we are doing. With the largest projects we will employ a monitor to make sure that what is happening on the ground is what people said they were going to do in their project. Now the degree to which we check projects, and the frequency with which we check

⁴ *Note by Witness:* The New Millennium Experience Company which built, fitted out and ran the Millennium Dome received Lottery grants totalling some £600 million.

⁵ *Note by witness:* I can confirm that the situation is essentially as described in paragraphs 4.15–4.17 of the NAO's Report. The National Lottery is expected to provide up to £1.5 billion to help meet the cost of the Games. Of this, about half would be raised by special Olympic Lottery Games, running over seven years, and the remaining £750 million would come from sports distributors (£340 million) and changing shares to good causes after 2009, should any of the remaining £410 million be needed.

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projects, obviously depends on the size of the project we are talking about. If we are talking about a £20,000 local history project, which might be run through our Local Heritage Initiative programme with the Countryside Agency, there will be a very light touch monitoring assessment there. If we are talking about a £20 or £25 million grant, thinking about the £20 million given to the Royal Festival Hall, for example, there will be inevitably a much greater degree of monitoring and detailed assessment as the programme goes along. We have talked about risk a lot already, I think it is right that we assess the risk of the various projects and apply a degree of monitoring accordingly.

Q76 Mr Steinberg: A final question to Mr Dunmore: what do you hope the Bill that is going to come before Parliament shortly will do in terms of the distribution of the interest and the distribution of the balances?

Mr Dunmore: Certainly we welcome the Bill and the particular reason why we welcome the Bill is because it will legitimise the Big Lottery Fund which will be very helpful. We welcome the fact, also, that in the Bill the Government is committed to giving us a much more flexible framework than the framework that the New Opportunities Fund had which will enable us to add value to the programmes that we have developed and to respond to the views of our stakeholders.

Q77 Mr Steinberg: Can you answer two specific questions?

Mr Dunmore: On the reallocation of the interest, I feel fairly neutral I think it could be regarded as being a fairer way of doing it. I do not think it will make a great deal of difference to the way we behave. I do not look at my balances in the NDLF every week and say: "This bit of it is interest and this bit is principal", I just work on the basis of the balances that we have got and the firm targets that we have for reducing them. I am not sure that will make a great deal of difference to me. Again, I feel fairly neutral about the other process that is proposed in the Bill as well.

Ms Street: I wonder if I could correct something: I said £750 million but I am advised—I do not know if this brings you small comfort—it should have been £450 million not 750 million.

Q78 Mr Williams: For the Olympics?

Ms Street: That would be the diversion from the good causes.

Q79 Mr Steinberg: 5%?

Ms Street: Yes.

Q80 Mr Allan: Can I start, Ms Street, by just trying to get the relationship between yourself and your colleagues on either side straight. The structure is set up in primary legislation and then the broad guidance to the boards is set up, I assume, in regulations, is that correct?

Ms Street: Financial directions, yes.

Q81 Mr Allan: Does that include, for example, what their view should be of risk and how much the balances should be? Do you give them direction that that is the board policy?

Ms Street: Yes.

Q82 Mr Allan: Your relationship is as an adviser and you are not providing money either, are you, so you have not got the usual DCMS responsibility, as you have, say, to English Heritage where you say "Unless you do this be advised you will not get your funding"? You cannot say that to the Lottery board, can you?

Ms Street: There are certain things which I can say: you must not drawdown in advance of need; you must observe obviously the proprieties and regularities; you have to have procedures which are transparent and accountable and you have to have policies. It is that sort of framework not "and your policies will be such and such and your appetite for risk is X".

Q83 Mr Allan: When you are telling them—as you are trying to do at the moment—that they should reduce their balances, that is purely a state of advice, you have got no ability to make that happen?

Ms Street: We issue guidance, and that is the status, it is guidance. It includes an exhortation to set targets, to which I do attach importance, and then we use all the muscle we have got to go through the individual figures with the big spenders. You are right, absolutely.

Q84 Mr Allan: If the board unilaterally said "No, we want this amount of balances, we do not care for DCMS's targets", they are entitled to take that view? You would not like it but they would be entitled to take it?

Ms Street: Certainly we have not found that sort of view. I do not think they start from the balances really.

Q85 Mr Allan: It is the risk?

Ms Street: It is the risk and the kind of business they are in.

Q86 Mr Allan: If they think you are encouraging them to take greater risks than they feel are appropriate they are entitled to take their own view of the risk rather than yours?

Ms Street: Yes, and I think the Report points out that there are risks associated with over-commitment that the board has to shoulder.

Q87 Mr Allan: There seems to be an inconsistency here. I put myself in Ms Souter's shoes—I will ask her in a minute to put herself in her own shoes—I am there and I am getting this instruction from DCMS saying "Ah, the scandal of the excess balances, reduce them by 50%" and at the same time I have a review coming down the track which means that in 2007 I may be told I have only got two years left at my current rate and most of my problems take five

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years, I have got this Olympic uncertainty coming down the track. I have got these rubbish projections I keep getting from DCMS that for the last few years have all bid out and I am sitting there and you are telling me to take greater risks. It just seems an inconsistency between the two.

Ms Street: I think all accounting officers in the public sector are used to balancing probabilities with risks. There are no certainties here. I would defend our projections, certainly in the last year we were 1.36% out. I think colleagues on the whole have reasonable confidence, it is not a science but it is not way out. Good management is having more or less the right amount in your account to meet your commitments and outgoings. In the end it is about where you choose to be in order to get to the Recommendation Nine position of the NAO which is that you do not keep more that is not being used for public benefit than you need on the balance of probabilities.

Q88 Mr Allan: There was an extraordinary statement—I just have lost it—which said that most of the distributors did not have confidence in your projections.

Ms Street: I think it said that they had confidence in the short term, less confidence in the long term. That was last March, since then we have implemented all Recommendation Two: we have issued them on time, we include an analysis of the accuracy in the past, we include an Olympic scenario and as I say we were 1.36% out overall. I cannot guarantee them but—they will speak for themselves—the level of confidence has increased.

Q89 Mr Allan: Ms Souter, you will sit there with your trustees, and you have all your missives coming in from the Department, is it tough then to sit there and try and work out more or less risk?

Ms Souter: It is the job we are there to do and obviously the balance of judgment we come to is one which the Department will agree with to a greater or lesser degree depending where we come out. There is no doubt, as Sue says, the underlying projections from the Department are not an issue for us, I think we are comfortable with that.

Q90 Mr Allan: Do you commission your own projections independent of the Department?

Ms Souter: No. What we do find, of course, is sometimes we are the victims of others' success. For example, when Camelot does very well and increases sales, which is a great thing and we want it to happen, our balances go back up because our income increases. Certainly I want that to happen but if it happens in an unexpected way that will have an impact. I think the issue for trustees to think about very carefully is that whilst we are quite clear about our percentage share of income to 2009, and we have confidence that the Department is forecasting as well as it could be expected to in a very uncertain world, there will come a point where if we have over-committed to a certain level and there is a significant change in our percentage share after 2009 we would have to make a very disruptive change to

our policy of commitments. I think the absolutely crucial thing for us is we are here to support good quality heritage projects and the tenth birthday celebrations in November were a wonderful opportunity for people to demonstrate how much they appreciated that. The challenge for our trustees is to keep providing a level of commitment to the heritage sector so that people can plan for their applications to us. Some of those big applications can take two years to put together.

Q91 Mr Allan: Can we be clear about that. In July the decision on the Olympics will be announced and if you are purely interested from a heritage point of view and you want HLF funding, the HLF spending ability is going to be reduced if we get the Olympics, there will be less money spent on heritage products by HLF. That is the likelihood, is it not?

Ms Souter: HLF itself is expected to have a smaller income as a result of that. On the other hand, given that the nature of the bid is to emphasise London as a city, the UK as a very cosmopolitan world, then the heritage and history that has gone into that is a tremendous opportunity.

Q92 Mr Allan: Something like modernising the underground might be a heritage project given the state of it.

Ms Souter: The underground is something I am definitely not responsible for.

Q93 Mr Allan: Irrespective of the actual sums, your board will have to sit down in August and take a more cautious view of risk if the Olympic bid goes ahead.

Ms Souter: The DCMS projections already give us a good basis for what is expected to happen if an Olympic Games is introduced. I think perhaps it works the other way round, that we are clear we have already factored that in and we need to get the most benefit out of winning the Olympics that we can for the heritage and culture generally.

Q94 Mr Allan: Mr Dunmore, in a similar sense, as a newer bit of the Lottery funding do you find yourself pulled in different directions by DCMS?

Mr Dunmore: I would not characterise it in that way. What I would say is that, after all, my board is appointed by the Secretary of State and I do not think my board has a problem with the fact that as an NDPB it is perfectly right and proper for the Government to set the overall strategic framework and the financial framework. I would not characterise the relationship in quite the way that you did perhaps. It is much more of a dialogue. For example, one of the reasons that DCMS changed the way it did the financial projections for Lottery income was precisely because of the dialogue about those projections. The guidance that is referred to in the NAO report here from the DCMS on ways in which we might act to speed up drawdown of grant and reduce balances was very much the result of a dialogue between us and the Department. I think that is really the way it tends to work.

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Q95 Mr Allan: This is probably to Ms Street but to anyone else as well about when things do go wrong. In Sheffield we are very good at doing Lottery projects. We have got the City Hall going on at the moment and we have got some great sports projects like Ice Sheffield and the Institute of Sport. We do them on time and within budget, he says touching wood, even when things are difficult, and yet there seems to be no reward for that. You do see other projects that are going astray. It does seem odd to me that if you have got a grant allocation and if you are good you do not see a reward potentially. I would have thought it would be nice if one could benefit additionally. All of these projects could do with further funding if they are good. It seems to be a regime where you can reward something that is bad but you cannot reward something that is good, I guess other than their next bid will be more likely to be successful. Do you look at the track record?

Mr Dunmore: I think one of the things we always look at when we are assessing a grant application is the ability of the particular body that is applying for the grant to deliver, so the track record is one of the things which we would consider when awarding grants.

Q96 Mr Allan: Sport England are not here themselves but we had trouble with Sport England. Sport England completed a capital project, which was great, and then this panic happened—this is in box 28 on page 33—and they said, “We have not got the money to run it, will someone please help us out?” What happens when things do go wrong? You encourage them all to over-commit, Ms Street, but ultimately who picks up the pieces if they do a Sport England but perhaps worse?

Ms Street: I think it is very clear in the Report that in the end it is the responsibility of the boards to meet their commitments and that is why you will find, particularly with the big capital projects, that they are much more at the cautious end. It is for the boards, that is why we do not dictate to them their appetite for risk. There is a cost in terms of public benefit from an excessively cautious approach because the money is not reaching the citizens as fast as we would like.

Mr Allan: Thank you.

Q97 Mr Williams: I have only a couple of follow-up questions. I am fascinated by some of the information on the Lottery. You said it is a dialogue—that was your term—your relationship with the Minister and the Department. In arriving at the £450 million, to what extent were you consulted on the level and to what extent were you told the level of provision that you might need to make?

Mr Dunmore: I would take responsibility for that, that was our commitment as a result of discussions with the Department; it certainly was not imposed upon us.

Q98 Mr Williams: It is a figure that you volunteered?

Mr Dunmore: It is a figure that at the end of discussions we volunteered.

Q99 Mr Williams: Any bruises on the wrists?

Mr Dunmore: On my wrists?

Q100 Mr Williams: Yes.

Mr Dunmore: None whatsoever.

Q101 Mr Williams: None whatsoever, okay. £450 million is 30% of your annual income. No, it cannot be. Yes, £1.4 billion, so it is 30% of your annual income.

Mr Dunmore: Sorry, what was 30%?

Q102 Mr Williams: £450 million is 30% of your annual income.

Mr Dunmore: I think that was the figure by which we said we would aim to reduce the balances. As has already been said, the level at which you pitch your balances—

Q103 Mr Williams: Sorry, there is a division that has just been called. We were given a figure a moment ago of £450 million in relation to the Lottery, as I understood it.

Ms Street: That was in relation to the Olympics. We may have a misunderstanding. The £450 million is the assessment that we make of the diversion from the good causes.

Mr Williams: That is a third of a year’s income.

Chairman: Is that a third of the year’s income? Behind you they are nodding, Ms Street.

Q104 Mr Williams: It looks like it on page 13. Anyone can work it out, as I can.

Mr Dunmore: Are you talking just about the Big Lottery Fund or about all of the distributors?

Q105 Mr Williams: It says “income” down here. This is purely income into the Distribution Fund, that is what I am talking about. On page 13 it shows income for the Distribution Fund of £1.4 million as of 2003–04 and, therefore, what you are committing, just to get a comparator, is equivalent to one-third of a year’s income.

Ms Street: I think the calculation that we have made, and it is an estimate, is that there will be a 5% diversion, that is a £450 million diversion, over the seven years up to 2012. It is not really taking it out of one year’s income. I do not know if that helps for clarification.

Mr Steinberg: These figures are just not what we were told about. These figures are not the ones that we have been given in the report. The report says: “In total the National Lottery is expected to provide up to £1.5 billion to help meet the costs of staging the Games, should London’s bid be successful. In addition to the £750 million to be raised from the new games, the Government proposes that: £340 million. . .” *et cetera, et cetera.*

Chairman: I think we will have to vote. We will adjourn for five minutes.

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The Committee suspended from 4.35 pm to 4.41 pm for a division in the House.

Q106 Mr Steinberg: The response was, you said, something like £400 million but I can remember when I read the report at the weekend (but I could not remember where I had read it so I have had to quickly go through it) at 4.17, on page 29, it does not say anything about £400 million, it says: "... the National Lottery is expected to provide up to £1.5 billion to help meet the cost of staging the Games, should London's bid be successful. In addition to the £750 million to be raised from the new games..." That is £2.5 billion. That is a little bit more than £400 million, is it not?

Ms Street: I will try and clarify to what I was referring. The £450 million is referred to in paragraph 4.15. Part of the way down you will see "59% of the £750 million to be raised from the new games over their seven year life might come from players switching from existing lottery games." 59% of the £750 million is the £450 million I was putting on the record which over the years (I think it is about £64 million a year) from the Report might be diverted. It is then set out very helpfully in the report that of the £1.5 billion we expect £750 million to be from the new games, but not all of that will be diversion, and £340 million mainly from Sport England, so it is exactly as set out in the report and I probably did not express it very well. It was the 59% that I missed.⁶

Mr Steinberg: That is as clear as mud.

Mr Field: Beat that one.

Q107 Mr Steinberg: Give us a yes or a no; does that mean that in fact £2.5 billion will be taken from the Lottery to pay for the Olympic Games?

Ms Street: No, £1.5 billion is the expected total, of which a large amount, £340 million, will come from Sport England and the estimate is a £440 million diversion from the current causes.

Q108 Mr Steinberg: So I am right that it is going to cost £2.5 billion to stage the Olympic Games here?

Ms Street: No, that is not correct but I would be happy to write to you.⁷

Mr Steinberg: There are two questions I wanted to ask but I am hoping to come back on that.

⁶ The £450 million I quoted related to the impact of the proposed special Olympic Lottery Games on the existing good causes. Camelot now estimates that about 60% of the tickets sold would come from sales diverted from other Lottery products, and that about £779 million would be raised in total by these games (note that these figures are slightly revised since the report was published) > 60% of £779 million is £467 million, representing a loss of about 5% in total Lottery income to the existing good causes over those seven years, though this would naturally vary from year to year.

⁷ *Note by Witness:* The situation is essentially as described in paragraphs 4.15–4.17 of the National Audit Office's Report. The National Lottery is expected to provide up to £1.5 billion to help meet the cost of the Games. Of this, about half would be raised by special Olympic Lottery Games, running over seven years, and the remaining £750 million would come from the sports distributors (£340 million) and changing shares to good causes after 2009, should any of the remaining £410 million be needed.

Chairman: Roll them into one.

Q109 Mr Steinberg: Ms Souter, the National Lottery sent us a briefing which makes quite desperate reading if you were to believe it, and I am not saying it is not true. You told us that clause 7 of the new Bill would create a power that would, if used, force the Heritage Lottery Fund to either tell projects that have already been awarded grants they cannot have the claim or even to close the doors to new applications altogether. In clause 8 you told us that if the invested income were to be shared, you would lose something like £15 million a year. Do you still stand by those two points that you made in the briefing?

Ms Souter: Yes, what we were attempting to do was draw attention to what we thought the impact of the clauses as currently drafted (in our understanding of what they meant) would be, and we subsequently, as we do on a regular basis, had further discussions with the Department, and I am sure that the Department will be clarifying and Ministers will be clarifying during the second reading and other stages of the Bill exactly what that will mean. I think that it is clear that the clause which reallocates interest will have the impact that the NAO itself estimated to be £15.7 million in 2003–04 so I think that can be factually calculated. The way in which the other clause on possible reallocation of interest is handled I am sure is something Parliament will explore further in the next stages of the Bill.

Q110 Mr Allan: To come back to the Olympics again briefly. In Sheffield our plan A is to host a team for the London Olympics and our plan B is to host a team for the Paris Olympics so we intend to get in on the act either way. The expectation is that bodies like Sport England that do have a national focus would be spending more sports money in the run-up to the Olympics all around the country so it not just London expenditure. Is that a correct understanding of what we have just been discussing?

Ms Street: Yes.

Q111 Mr Allan: The other point is this sting in the tail which now I have looked at it looks like quite a big sting—the remaining £410 million, which should it be needed to meet the cost of the Games will come from the decision that is taken for the post-2009 distribution, and that will come out of presumably the three years 2009 to 2012 so that would be the big hit, and that would mean taking £140 million-odd a year out of the funds available to people like HLF between 2009 and 2012, should it be needed?

Ms Street: Should it be needed, that is where it might come from.

Q112 Mr Allan: If that is the case, then the advice to bodies like HLF has to be to build up their balances in the run-up to 2009 just in case? They should be reversing the trend if they are going to be responsible managers presumably?

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Ms Street: As I say, our projections set out Olympic scenarios and we discuss those constantly and we will know in six months whether we get the games or not.

Q113 Mr Allan: There are some scenarios (just for us to know) where the only responsible course of action for them is to reverse the current trend and start increasing their balances? That is what it looks like here.

Ms Street: I would not interpret it that way. I think with balances of £900 million now there is a good case for reducing that. We have to assume that if Lottery sales hold up the pool is being filled all the time, so you can turn the tap on for a few years yet.

Q114 Mr Allan: Just on the 50% target—and any round number like that sounds a bit arbitrary—is that anywhere in anything like a public service agreement or is it a target that can be quietly dropped? Is there any compulsion on you to meet the 50% target or can you come back next year and say we think 25% is okay or 10%?

Ms Street: The intention is to drive down the balances as fast as we can.

Q115 Mr Allan: It is an indicative target?

Ms Street: We have not met the target that was set for 2004 and I have to be clear about that but we are down 30% from a peak. We are not letting go of that target but we did not meet it in the timescale we set.

Q116 Mr Allan: It is nothing like a public service target, there is no special status to it?

Ms Street: No it is not, but it was an announced target and we will drive it down.

Q117 Mrs Browning: Chairman, with your permission I wonder if Mr Dunmore would write to us outlining exactly the geographic locations of these eight rural districts under the Countryside Communities, together with the criteria that were used to decide where they should be, because I do have on-going concerns about these geographic areas specifically being opened for bids and other areas not.

Mr Dunmore: I would be pleased to do that.⁸

Mrs Browning: Thank you.

Chairman: Mr Field?

Q118 Mr Field: Chairman, I apologise for being late but I do not apologise if my questions have been asked before because it will show how centred the Committee is on some of the issues before us. I do declare an interest. I chair an organisation which is in receipt of some large Heritage Lottery Fund grants and I am very grateful for that. The two questions which I would like to ask the Heritage Lottery Fund are although there is an argument between the Department and the Fund about the

size of balances and the rate at which money should be spent, am I right assuming that the Fund has set a budget so that if when the new licence is granted and heritage is actually not going to be one of the good causes, the Fund will have enough money and will spend its money in the last month of its activities?

Ms Souter: Yes. What we have been aiming to do is to make sure that up to our over commitment level of two years, which we think we need to be careful about when we implement (and I should be clear that we are not breaking our policy, our policy is to have a commitment up to two years) that we take account of that when we are looking forward and thinking about what degree of certainty we have about forward income. Once we know what our share of the income is going to be after 2009 there is no doubt that trustees will want to look again at overall commitment levels, as indeed they will when we are clear about the Olympics and a number of other uncertainties. What we are very, very concerned to do is to make sure that those projects that are planning on the basis that there will be funds from us for their projects to happen are not disappointed and, equally, we want to carry on being able to offer new applicants the opportunity for funding in a flexible way. It is that area where with the Department we will have a discussion about how far we should be going. I should say, as Sue has said already, it will take an intervention to change the share of income coming to the Heritage Lottery Fund and given the level of need that exists for heritage I am sure that the Government will continue its funding at a comparable level, but I am not in a position as Accounting Officer to take that for granted and hope it will just be alright on the day.

Q119 Mr Field: My second question, Chairman, is about your paying of bills. Our experience from the Churches Conservation Trust is that you pay them really rather quickly. Could you give us some idea of the average time it takes, when an organisation is dependent on the Fund to pay its contractors, to pay the bills?

Ms Souter: On average it takes us six days which I think is a pretty good record.

Q120 Mr Field: Could I ask the Permanent Secretary how long does it take the Department to pay its bills?

Ms Street: I know that we pay 99.9% of our bills on time. I think it is something like 20 days but I would happily give you details. We do, as it happens, have a very good record on invoice payment but I highly commend the HLF and indeed our guidance on the speed with which payments can be made is based almost entirely on their good practice.⁹

Mr Field: Thank you.

Chairman: That concludes our questioning, thank you very much.

⁸ Ev. 14

⁹ *Note by witness:* We do not record an average payment time but we monitor prompt payment. The DCMS Resource Accounts 2003–04 show that 99.3% of our invoices were paid within the contract term of 30 days.

Supplementary note from HM Treasury

Question 43 (Mr Trickett): Does the Treasury publish accounts and make assumptions about the amount of surplus which will be used to 'help' with the National Debt? Are there assumptions made? I can easily check in future years.

At the hearing on 12 January, you asked several questions about how the undistributed balances of the National Lottery Distribution Fund (NLDF) are forecast and accounted for. I am writing to complete the explanation I offered at the hearing.

I understand that my colleagues who deal with the forecast consult DCMS when assessing flows of lottery income and disbursements from the NLDF. In turn DCMS' advice draws on information from the lottery operator and the various lottery distributors. The objective is to make the most realistic forecast that can be drawn up.

Projections of lottery income score as revenue and disbursements from the funds score as public expenditure since lottery income is public money. Total payments by the distributors form part of annually managed expenditure (AME). Of this, capital grants (typically more than half of the total disbursements) are classified as public sector net investment. The most recent figures were set out in tables B16 and B20 of the Pre-Budget Report of December 2004, copies of which are enclosed.

As you observed from the NAO report, the Commissioners for the Reduction of the National Debt hold the undistributed balances. The Debt Management Office manages these funds and the amounts involved appear in their Resource Accounts. I attach a copy of the most recent Report and Accounts of the Debt Management Account (for 2003–04), which sets out the details of stock and flows relating to the NLDF.

Paula Diggle
Second Treasury Officer of Accounts

25 January 2005

Supplementary memorandum from the Big Lottery Fund (Formerly the New Opportunities Fund)

Questions 13 to 17 and 117 (Mrs Browning): Geographic locations of the eight rural districts chosen for Countryside Communities

The Committee asked for further details about the availability of funding by the Big Lottery Fund in rural areas and the relationship to the Community Fund's *Countryside Communities Initiative*. The Committee was concerned that only the eight rural areas covered by the initiative could apply for and receive grants.

Countryside Communities is a small initiative targeted at eight rural areas, which are both disadvantaged and have not historically received their fair share of Community Fund grants. The initiative is an addition to the Fair Share programme (a joint programme run by the New Opportunities Fund and the Community Fund which aimed to target Lottery funds on disadvantaged areas that had not received their fair share of Lottery money) and came partly as a response to concerns from rural stakeholders that rural areas were under-represented in that programme. Through *Countryside Communities*, the Community Fund made a commitment to invest £14 million in voluntary and community group activity in eight rural districts between 2002 and 2007. The districts are:

- | | |
|-----------------|--------------------------------|
| — South East | — Shepway, Kent |
| | — Dover, Kent |
| — Eastern | — King's Lynn and West Norfolk |
| | — Fenland, Cambridgeshire |
| | — North Norfolk |
| — East Midlands | — Boston, Lincolnshire |
| | — West Lindsey, Lincolnshire |
| — South West | — Sedgemoor, Somerset. |

The Big Lottery Fund, like its predecessors, is committed to ensuring fair and equal access to our funding. *Countryside Communities* provides targeted assistance to eight areas which have missed out in the past. This is not to the detriment of other rural areas, which continue to be able to access funding through other Big Lottery Fund programmes. In identifying areas on which to target our efforts, Big Lottery Fund uses a robust methodology which combines data on disadvantage (using the Index of Multiple Deprivation 2000, a standard measure used by the Government and Local Authorities) and Lottery funding per head. The eight areas targeted by *Countryside Communities* were identified using a methodology similar to that of Fair Share, which was agreed with the Countryside Commission.

To enable the Fund to launch new programmes, the current programme for the voluntary and community sector (formerly known as Community Fund's Medium, Large and Strategic Grant programmes) will close to applications on 31 May 2005. However, the commitment made under *Countryside Communities* will remain. When the new programmes open, they will take up the targets for each of the eight districts and make grants to meet these targets (probably over the period 2005–07).

The Big Lottery Fund will distribute half of all good cause Lottery money and is currently consulting on the range of new funding programmes that will be run. Some of the funding will be targeted in various ways on disadvantaged groups of people but, since a large proportion of Lottery players come from those groups, this is entirely justified. However, it is envisaged that there will continue to be significant funding available for every area across the UK, whether rural or urban. Spend will continue to be monitored by region and local authority area.

Stephen Dunmore
Chief Executive

25 January 2005