

Big Lottery Fund

Corporate plan 2005–2006



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We care about the environment	The Big Lottery Fund seeks to minimise its negative environmental impact and only uses proper sustainable resources
Our equal opportunities commitment	The Big Lottery Fund is committed to valuing diversity and promoting equality of opportunity, both as a grant maker and employer. The Big Lottery Fund will aim to adopt an inclusive approach to ensure grant applications and recipients, stakeholders, job applicants and employees are treated fairly. It is the responsibility of all staff and Board members to uphold and implement our equality policy
	Big Lottery Fund is the joint operating name of the New Opportunities Fund and the National Lottery Charities Board (which made grants under the name of the Community Fund)



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Big Lottery Fund Corporate plan 2005–2006

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Section 1: Introduction

Strategic context

1.1 Launched on 1 June 2004, the Big Lottery Fund is the joint operating name of the New Opportunities Fund (NOF) and the National Lottery Charities Board which made grants under the name of the Community Fund (CF). Our new organisation brings together the work of these two National Lottery distributors, as well as taking on the Millennium Commission's role in supporting large-scale regeneration projects and, eventually, its residuary responsibilities. We are now responsible for distributing half of all the funding the Lottery raises for good causes (over £600 million a year between 2005–09).

1.2 We have conducted two major UK-wide consultations since June 2004, the first on how we should work and what sort of funder we should be, and the second on the themes, outcomes and priorities announced by the Department for Culture, Media and Sport (DCMS) in 2004. (Different outcomes and priorities have been suggested in each of the four home countries.) As a result of these consultations, the Big Lottery Fund has identified three overarching themes that provide the focus for all of our future funding. They are:

- 1.** Community learning and creating opportunity.
- 2.** Promoting community safety and cohesion.
- 3.** Promoting well-being.

1.3 In addition we have four outcomes that we hope our funding will support overall. As at April 2005, the outcomes were:

- 1.** People having better chances in life, with better access to training and development to improve their life skills.
- 2.** Stronger communities, with more active citizens, working together to tackle their problems.
- 3.** Improved rural and urban environments, which communities are better able to access and enjoy.
- 4.** Healthier and more active people and communities.

As a result of continuing consultations, the wording of the aforementioned outcomes may be changed. The outcomes may be different in each home country.

1.4 The findings of the consultation will help to shape a strategic framework for our future grant programmes with cross-cutting outcomes and appropriate delivery mechanisms designed to deliver our mission and values as effectively as possible.

1.5 The Big Lottery Fund will come into being formally following legislation. The exact timing will depend on the Parliamentary timetable but is not now expected before April 2006. Therefore 2005–06 will continue to be a transitional year during which both legacy organisations will work as one administrative body and lay the foundations for the new organisation, using the existing legal powers of the National Lottery Charities Board (Community Fund) and the New Opportunities Fund.

Section 1: Introduction



Mission

1.6 The Big Lottery Fund is committed to bringing real improvements to communities, and to the lives of people most in need.

Values

1.7 To achieve this, the Big Lottery Fund has seven values that will underpin all our work:

- 1. Fairness** – putting equality and diversity at the heart of our work.
- 2. Accessibility** – making it easier to access our funding and providing help to grant applicants and recipients.
- 3. Strategic focus** – working in partnership and joining up with existing strategies, developing programmes that are focused on the outcomes and the difference they make for communities.
- 4. Involving people** – involving local communities in our work and making sure the public know and care about our work.
- 5. Innovation** – building evidence-based programmes, sharing what we learn and considering new ways of making grants.
- 6. Enabling** – working with communities, partners and other funders to help achieve lasting change.
- 7. Additional to Government** – our funding should be distinct from Government funding and add value.

1.8 The Big Lottery Fund is also developing a set of internal values about the way we work and value our staff.

Section 1: Introduction

The 2005–2006 corporate plan

1.9 This document sets out what we aim to achieve during this transitional year, the associated costs and the funding context.

1.10 Building on the successful administrative merger of the two legacy organisations, we are working to create a new organisation fit to deliver the mission and values, as well as being an accountable, effective and efficient funder. The key challenges facing us in 2005–06 are:

- to develop and launch a new portfolio of grant programmes underpinned by the main themes, outcomes and priorities
- to meet delivery targets on all existing grants programmes, while restructuring the England regional offices, our grant management and our corporate services
- to design and develop a strategic and corporate business planning model and process for 2006–09, linking and strengthening the governance, management and performance of the new organisation
- to continue integration, development and implementation of coherent strategies and policies to align and deploy resources to support the delivery of our business.

Table 1 provides the 2005–06 corporate objectives and key performance indicators.

1.11 The business plan for 2005–06 will form the internal working document for the organisation. It will include more detailed plans from all directorates, which will enable the organisation to deliver against the corporate objectives and key performance indicators.

1.12 Until the new legislation is enacted to create the Big Lottery Fund in statute during 2005–06, the Community Fund and the New Opportunities Fund will continue to account for their income streams as separate legal bodies established by Parliament. Policy and other Directions issued by DCMS to the two organisations will continue to apply.

Section 1: Introduction

Table 1 Corporate objectives and key performance indicators 2005-06

Corporate objectives	Corporate performance indicators
1. To achieve a new organisation which is fit for its purpose by:	a. creating a coherent governance structure b. developing a strategic plan with approved performance management model and process for 2006-09 by March 2006 c. developing and applying consistent management and quality standards by October 2005 d. applying the programme and project management frameworks to support the management of the organisation e. carrying out the England and Operations restructuring f. consolidating HR policies and procedures by September 2005 g. providing training for staff
2. To develop and manage new and existing programmes and deliver them throughout 2005-06:	a. launching a new portfolio of grant programmes throughout 2005-06 b. meeting delivery targets on all grants programmes
3. To make continuous improvement in being an effective and intelligent funder by:	a. developing overarching themes, outcomes and priorities by December 2005 b. re-developing and delivering the grants programmes by aligning them with the organisational outcome framework by December 2005 c. identifying best practice in funding to ensure internal learning d. developing a grant programmes development toolkit by December 2005 e. developing the potential delivery of non-Lottery funding by December 2005 (subject to legislation) f. developing an evaluation and research strategy (for individual programmes and whole) by July 2005 g. ensuring high quality publications that deliver organisational objectives
4. To continue being an accountable and financially efficient organisation by:	a. planning for a more cost effective organisation and achieving 10 – 20 per cent saving on running costs by the end of 2007-08, by meeting target savings agreed by Senior Management Team (SMT) and the Board for 2005-06 b. attaining minimum balances consistent with agreed risks c. developing and operating effective risk management throughout 2005-06
5. To work in partnership by:	a. developing and delivering a public involvement strategy throughout 2005-06 b. developing decision making and public involvement mechanisms for grants programmes by September 2005 c. developing and maintaining a good working relationship with stakeholders including other Lottery distributors
6. To comply with legislative requirements and apply good practice in equality by:	a. developing and delivering an integrated equality strategy by March 2006.

Section 2: Community Fund grant budgets 2005-06

2.1 The Community Fund sets annual grant budgets that reflect income available from funds raised through the National Lottery for good causes and management of its National Lottery Distribution Fund (NLDF) balance.

2.2 The Community Fund Board agreed the apportionment of the grant budget between programmes, Countries and Regions in (February 2005).

Table 2 Community Fund apportionment of the grant budget

	£m	2005-06 £m
Strategic		14.0
Research		6.0
International ¹		24.0 ¹
Scotland		19.5
Wales		11.0
Northern Ireland		7.6
England		
● Awards for All	11.0	
● Eastern	9.4	
● East Midlands	9.4	
● London	19.5	
● North East	9.0	
● North West	21.9	
● South East	13.0	
● South West	9.9	
● West Midlands	15.0	
● Yorkshire and Humber	13.9	132.0
Total		214.1

¹Includes £12m budget for grants to assist reconstruction in South East Asia after the tsunami. The whole sum of £12m for the tsunami is included in 2005-06 for planning purposes, but it has yet to be determined how and when it will be distributed.

Section 2: Community Fund grant budgets 2005-06

Income

2.3 Total income will be determined by the level of sales of Lottery tickets over the plan period and, to a lesser extent, by the interest rate the NLDF receives on the balance invested in its account. The figures for income (set out in Table 3 below) are based on the projection for income flows provided by the Department for Culture Media and Sport (DCMS) in January 2005. The projections assumes ticket sales increase from £4.5 billion to £4.6 billion per year following sustained improvements over the past year, and that an Olympic Lottery will be established after July 2005 if London is successful in its bid to host the Olympics. The substitution effect of the Olympic Lottery is estimated to reduce funds going to the good causes by £144 million over the lifetime of the existing licence.

2.4 We will monitor closely actual income generated for the good causes against this projection and will make adjustments to cashflow plans as required.

2.5 The Community Fund receives 16.7 per cent of all good cause Lottery revenue.

2.6 Until legislation the Community Fund and New Opportunities Fund will continue to account for their income streams separately. For the purposes of planning we have assumed that the Big Lottery Fund comes into being on 1 April 2006.

Table 3 Community Fund income estimates – DCMS projection 28 January 2005

	2003-04 £m	2004-05 £m	2005-06 £m
	Actual	Prediction	
Income from the National Lottery (including share of interest)	224	224	213
Investment performance assumptions	3.05%	4.25%	4.5%

Section 2: Community Fund grant budgets 2005-06

Grant commitments

2.7 Table 4 below compares the effect of the grant budget on available funds.

Table 4 Community Fund commitment forecasts

	2004-05 £m	2005-06 £m
Grant commitments brought forward	400	285
New commitments made	180	214
De-commitments	(11)	(9)
Grants met (paid out)	(284)	(248)
Grant commitments carried forward	285	242
Over commitment (outstanding commitments less available NLDF balance)	115	131
Over commitment represented in months of income	6.1 months	7.4 months

2.8 The Community Fund has committed funds in excess of available funds. This policy is considered to be prudent because: the risks associated with the certainty of income streams have been identified and are being closely monitored, and a number of the Community Fund's grant programmes fund three year projects. Therefore a certain level of commitment can be funded from future income.

Cashflow

2.9 The balance in the National Lottery Distribution Fund (NLDF) was £168 million (31 January 2005), unpaid commitments at that date were £335 million.

2.10 Although the balance in the NLDF is over-committed, the Community Fund is continuing to reduce its balance. This reduction is being managed while maintaining adequate cash to meet existing grant commitments.

Table 5 Community Fund cashflow projections

	2004-05 £m	2005-06 £m
	Forecasts	
NLDF balance brought forward	213	170
Income from the Lottery	230	213
Other income	7	9
Grant payments	(262)	(248)
Non grant payments	(18)	(22)
NLDF balance carried forward	170	122

Section 3: New Opportunities Fund – funding by initiatives 2005-06

3.1 The Government defines the scope and value of the New Opportunities Fund's grants programmes through policy directions. By 31 March 2005 the New Opportunities Fund has received policy directions against 14 broad initiatives to distribute £3,417 million. This excludes the transformational grants policy directions, which we have yet to receive.

3.2 Table 6 below, sets out the funding allocated and the target date for commitment for each initiative. The table also shows the funding available to be committed in the plan period.

Table 6 New Opportunities Fund funding by initiative (as set out in the policy directions)

Initiative	Total funding allocated (gross) £m	Target date for commitment to projects as set out in policy directions	Funding available to be committed in the plan period
First round			
Healthy living centres	300.0	Sept 2002	Fully committed ²
Out of school hours learning, including school sports coordinators (additional funding through YPF)	205.0 25.5 28.4	Dec 2001 Dec 2004 March 2007	Fully committed Fully committed To be committed 2005-06
Out of school hours childcare	220.0	Sept 2003	Fully committed
ICT training for teachers and school librarians, including ICT training for home and hospital service teachers	230.0 1.0	Sept 1999 ³ Dec 2004	Fully committed Fully committed
ICT training for public library staff	20.0	May 2000	Fully committed ²
Digitisation of learning materials	50.0	May 2001	Fully committed ²
Veterans reunited (Heroes Return and Their Past Your Future)			Commitments utilising underspends on ICT programmes

²A small contingency is retained

³Date not set out in policy directions; the target has been set by the Board

Section 3: New Opportunities Fund – funding by initiatives 2005-06

Initiative	Total funding allocated (gross) £m	Target date for commitment to projects as set out in policy directions	Funding available to be committed in the plan period
Second round			
Cancer detection, prevention, treatment and care	150.0	Sept 2001	Fully committed
Green spaces and sustainable communities	130.0	Dec 2002 ⁴	Fully committed except for £5 million relating to the Scottish Land Fund
Fair Share	50.0	Dec 2005	Fully committed
Community access to lifelong learning	200.0	Dec 2002	Fully committed
Third round			
Opportunities for young people – PE and sport including Community Sport Initiative	750.75 100.00	Dec 2005 Dec 2005	£169 million to be committed in 2005-06
Opportunities and activities for young people and PAYP	55.75 12.75	Dec 2004	Fully committed ²
Reducing the burden of coronary heart disease, stroke and cancer	213.5	Dec 2004	Fully committed ²
Palliative care	84.0	Dec 2004	Fully committed ²
Childcare	198.5	Dec 2006	Fully committed, small balances within some of the countries ²
Transforming communities	159.0	March 2004	Fully committed ²
Small scale grants schemes including Home Front Recall	60.0	Dec 2005	Fully committed
Young People's Fund	172.6	March 2007	

⁴Scottish Land Fund to be committed by December 2007

Section 3: New Opportunities Fund – funding by initiatives 2005–06

3.3 The policy directions specify how the total funding should be committed across the countries. With certain exceptions specified in the Policy Directions funding is allocated as 77.5 per cent to England, 11.5 per cent to Scotland, 6.5 per cent to Wales and 4.5 per cent to Northern Ireland.

3.4 During 2005–06 the New Opportunities Fund will make commitments of:

- £169 million on the new opportunities for PE and sports programme
- £5 million on the Scottish Land Fund
- a significant proportion of the £200 million on Young People's Fund
- approx £40 million on Awards for All
- approx £20 million utilising contingency funding on various programmes.

Income

3.5 Total income will be determined by the level of sales of Lottery tickets over the plan period and, to a lesser extent, by the interest rate the National Lottery Distribution Fund (NLDF) receives on the balance invested in its account.

The figures for income (set out in Table 7 below) are based on the forecast for income flows provided by the Department for Culture Media and Sport (DCMS) in January 2005. The projections assumes ticket sales increase from £4.5 billion to £4.6 billion per year following sustained improvements over the past year, and that an Olympic Lottery will be established after July 2005 if London is successful in its bid to host the Olympics. The substitution effect of the Olympic Lottery is estimated to reduce funds going to the good causes by £144 million over the lifetime of the existing licence.

3.6 We will monitor closely actual income generated for the good causes against this forecast and will make adjustments to cashflow plans as required.

3.7 From August 2001 the New Opportunities Fund has received 33.3 per cent of all good cause Lottery revenue.

3.8 Until legislation the Community Fund and New Opportunities Fund will continue to account for their income streams separately. For the purposes of planning we have assumed that the Big Lottery Fund comes into being on 1 April 2006.

Table 7 New Opportunities Fund income estimates – DCMS projection 28 January 2005

	2003-04 £m	2004-05 £m	2005-06 £m
	Actual	Prediction	
Income from the National Lottery (including share of interest)	457	464	437
Investment performance assumptions	3.05%	4.25%	4.5%

Section 3: New Opportunities Fund – funding by initiatives 2005–06

Grant commitments

3.9 Paragraph 3.4 above sets out our forecast of grant commitments by existing programme areas. Table 8 below compares this forecast with available funds.

Table 8 New Opportunities Fund commitment forecasts

	2004-05 £m	2005-06 £m
Grant commitments brought forward	1,113	1,006
New commitments made	440	434
De-commitments	–	–
Grants met (paid out)	(547)	(702)
Grant commitments carried forward	1,006	738
Over commitment (outstanding commitments less available NLDF balance)	311	395
Over commitment represented in months of income	8.0 months	10.8 months

3.10 The New Opportunities Fund has committed funds in excess of available funds. This policy is considered to be prudent because: the risks associated with the certainty of income streams have been identified and are being closely monitored, and the majority of the New Opportunities Fund's grant programmes fund projects over three to five years. Therefore a certain level of commitment can be funded from future income.

Cashflow

3.11 The balance in the National Lottery Distribution Fund (NLDF) was £697 million (31 January 2005), unpaid commitments at that date were £1,147 million.

3.12 Although the balance in the NLDF is over-committed, we are looking to reduce its balance, while maintaining adequate cash to meet existing grant commitments. We are actively investigating appropriate mechanisms to enable grant recipients to start their approved projects as soon as possible and to promptly draw down the cash they have been awarded.



Table 9 New Opportunities Fund cashflow projections

	2004-05 £m	2005-06 £m
	Forecasts	
NLDF balance brought forward	737	695
Income from the Lottery	474	437
Other income	7	–
Grant payments	(486)	(683)
Non grant payments	(37)	(36)
NLDF balance carried forward	695	413

Section 4: Big Lottery Fund – looking ahead

4.1 In this section we look ahead to a number of developments affecting our funding and the way we are organised to deliver it.

4.2 Following extensive consultations during 2004, ending in January 2005, the Board has started to take decisions about its future grants programmes. At the time of writing in April 2005, the Board had announced an initial range of demand-led and strategic funding programmes in England with further announcements to be made after the May Board meeting. Also, similar announcements are to be made later in 2005 setting out the new grants programmes in Scotland, Wales and Northern Ireland.

4.3 The overall future funding available is set out in paragraphs 4.10 to 4.15 below. The March announcement in England included the following:

- £155 million to develop and improve play facilities and activities
- £354 million to enhance rural and urban environments which communities are better able to access and enjoy, including £90 million to fund parks
- £163 million to projects promoting well being, including tackling mental health issues, improving physical activity and preventing alcohol abuse (this sum includes £25 million to projects promoting healthy eating for children, families and their communities)

- £155 million to help develop the voluntary sector by providing funding advice workers, resource centres and support to areas which have little or no voluntary and community sector capacity. In addition, the funding will help organisations to share learning and get involved in local partnerships and strategies and will promote good governance in the sector
- £160 million to Awards for All
- £140 million to a transformational grants programme supporting large capital projects across the whole of the UK
- £60 million for projects which help people in need overseas, again as a UK-wide programme.

4.4 We are working up the first new programmes expected to open for applications in late 2005. Consultations and liaison with key organisations and partners will continue as the programmes are developed. The aim is to be an intelligent funder, adopting a variety of different delivery methods and ensuring that accessibility and support for applicants and recipients is at the heart of our approach.

Section 4: Big Lottery Fund – looking ahead

4.5 In recent months we have also announced a series of measures for its new programmes which will help communities access funding. We will:

- adopt a mixed portfolio approach to funding with no less than one third of income distributed by a demand-led, lightly prescribed, accessible funding stream, including the expanded Awards for All scheme
- introduce more flexibility in the length of funding
- adopt the principle of full cost recovery by allowing all legitimate overhead costs to be recovered by voluntary and community organisations
- ensure that 60 – 70 per cent of our funding will go to voluntary and community organisations
- strengthen our regional offices to increase the emphasis on policy development, outreach, partnerships and external relations. Plans include the creation of Stakeholder Advisory Panels in each England region in England and new regional programmes and communications as appropriate
- establish two operational centres for England in Newcastle and Birmingham to make it easier to access funding and to ensure a strong, unified funding policy
- make efficiency savings of 10 – 20 per cent on running costs to be ploughed back into funding of projects.

4.6 Public involvement is an important development for us and new ways are being piloted to involve people in deciding where money for good causes should go. Under the Young People's Fund we have recruited young people to sit on national and regional Committees to help make funding decisions. We have conducted extensive consultation on new programmes, including commissioning research into how Lottery players think Lottery money should be spent. We are also exploring how we can encourage wide-scale public involvement in deciding which projects will be funded under our Transformational grants programme.

4.7 We are committed to evaluation and learning, sharing good practice and influencing policy nationally and locally.

4.8 Where appropriate, we will work in partnership and complement Government priorities and programmes to achieve maximum impact. Our commitment to helping people and communities in need has been reaffirmed. We recognise this will continue to mean making tough choices to support projects which improve the lives of people in need, even if that means funding projects which are unpopular in some quarters. At the same time, we will support popular causes and be proud to do so.

4.9 Most important of all, the Big Lottery Fund will be neither the Community Fund nor the New Opportunities Fund. It will be a new and different funder concerned not with who we give the money to (whether specific sectors or organisations) but what we fund and who benefits from it.

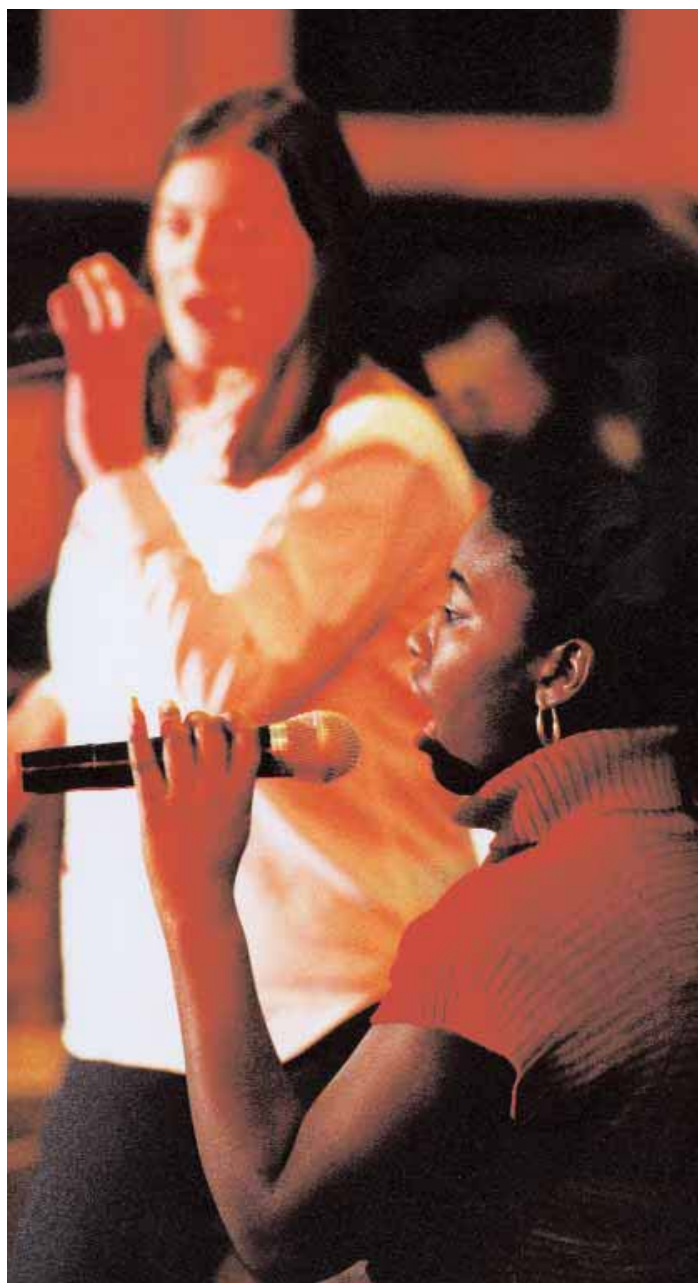
Section 4: Big Lottery Fund – looking ahead

How we forecast our funding

4.10 The Big Lottery Fund will receive the income currently allocated to the New Opportunities Fund and Community Fund. It will take on the legacy activities of these two organisations and the Millennium Commission. For the purposes of this plan we have assumed that the Big Lottery Fund comes into being on 1 April 2006.

4.11 For planning purposes we have assumed that the grant budgets available from the legacy Community Fund programmes will be available for new Big Lottery Fund programmes. The draft policy directions for the Young People's Fund will also be a Big Lottery Fund programme, although it is expected that the commitment and some spend will occur on this programme during 2005–2006.

4.12 Income going to the Big Lottery Fund as forecast by DCMS is set out in the table below. This table shows two scenarios. The first scenario calculates interest receivable based on our outstanding balances held in the NLDF (the current basis of interest apportionment) – this is the scenario currently used for planning. The second scenario shows the effect if the proposals set out in the draft Bill are implemented, that is, interest is apportioned to distributors based on their share of income.



Section 4: Big Lottery Fund – looking ahead

Table 10 Big Lottery Fund income estimates – DCMS projection

	2006-07 £m	2007-08 £m	2008-09 £m
Scenario 1 – Income from the National Lottery (including share of interest based on share of balance in the NLDF)	616	612	596
Scenario 2 – Income from the National Lottery (including share of interest based on share of income)	642	637	618

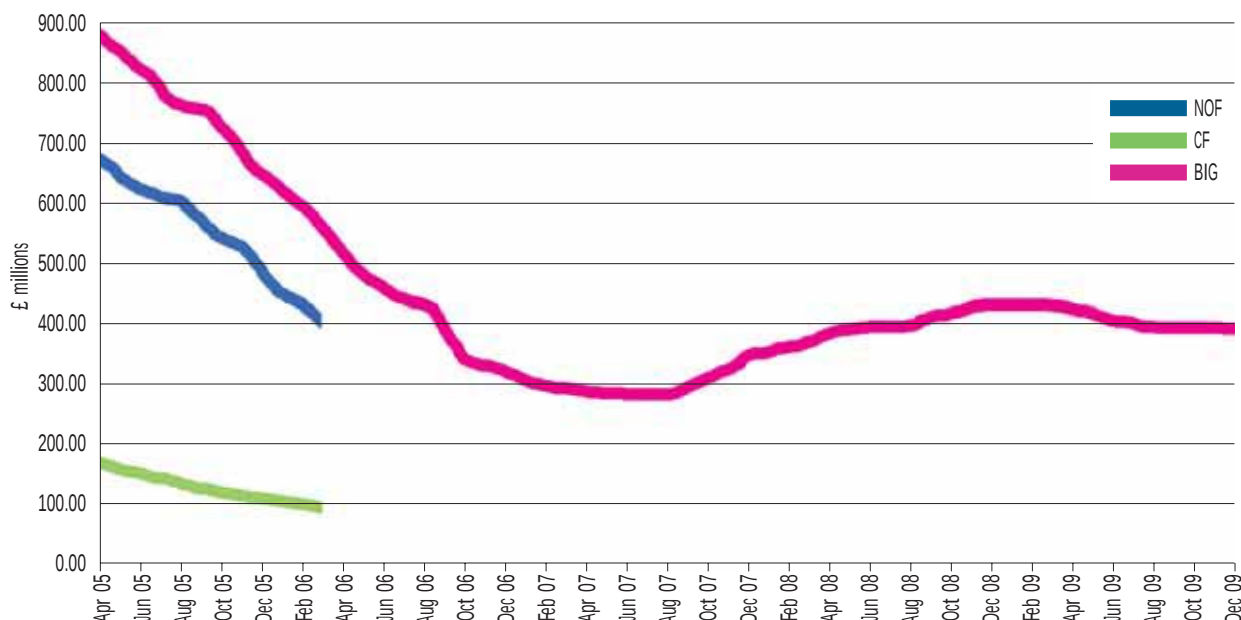
4.13 This income is not wholly available to the Big Lottery Fund. The Community Fund is forecasting an over commitment of available funds by £115 million at 31 March 2005. The New Opportunities Fund will still require £745 million to meet the requirements set out in existing policy directions, although this includes £200 million for the Young People's Fund.

4.14 The Big Lottery Fund will be able to develop and launch new programmes on receipt of Directions from Parliament. Based on current forecast for income and grant payments, and initial plans for new programmes, the graph below shows the Big Lottery Fund's predicted NLDF balances.

4.15 Graph 1 Cashflow forecast – NLDF balances

Cashflow – legacy NOF and CF programmes and proposed BIG programmes

This assumes that NOF and CF will formally merge on 1 April 2006



Section 5: Operating expenditure for 2005–06

Context

5.1 The Big Lottery Fund is required to agree a 12 month corporate plan and budget. The budget process complements the business planning process as managers identify the resources they need to achieve their proposed business plan.

5.2 The high level budget context is:

We are expected to deliver administrative savings of between 10 – 20 per cent by 2007–08 as a result of the merger. This target will be measured from the baseline position of the 2003–04 budgets for New Opportunities Fund and Community Fund adjusted for one off non-recurring costs ie a reduction in annual running costs of between £6.2 million – £12.3 million.

The budget context for 2005–06 is to focus on delivering further savings to bring us towards the expected administrative savings targets.

5.3 A certain amount of the required level of savings will be achieved corporately, for example property reorganisation through the structural review and consolidation of the provision of IT services.

5.4 The setting of budgets and the achievement of savings targets for 2005–06 has been problematic due to:

- 1.** The continuing rate of change within the organisation. In particular the recent announcements of the outcomes of phase two of the structural review and the future management of Awards for All mean that the structure and scale of certain business units, notably grant-making units are unknown at this time. The costs of delivering this revised structure are excluded from these budget figures due to uncertainties.
- 2.** The uncertainty around the timing of legislation and in particular receipt of policy directions meaning that the delivery mechanisms of new programmes have yet to be determined.
- 3.** The expectations set out in the Decision Document issued by DCMS that we would take an active lead on joint working and joint projects with other distributors has increased work load and is resource intensive.

5.5 This budget must be seen as a continuation of the transitional arrangements in establishing the Big Lottery Fund and as such is not seen as an end point but rather as the starting point for discussion about future strategic options. It is intended that as decisions on the restructuring and relocation of parts of the Fund, and decisions about new grants programmes, are recommended to the Board, the full budget implications of these will be presented to inform decisions.

5.6 As part of this budget exercise we have considered where the required savings will come from, these are set out in section 5.

Section 5: Operating expenditure for 2005–06

Summary

5.7 The operating cost budget for 2005–06, excluding costs arising from the structural review, totals £63.1 million. This represents 9.7 per cent of annual income. This budget is £0.2 million (0.3 per cent) higher than the 2003–04 baseline and £4.3 million lower than the 2004–05 forecast outturn. The detail schedules are set out in tables 11 and 12 at the end of this section.

5.8 This increase in expenditure comprises:

- a rise in expenditure of £3.7 million (5.9 per cent) towards delivery of additional tasks not included in the baseline
- a saving of £3.5 million (5.6 per cent) generated through assimilation of the two organisations and efficiency savings. This saving is achieved after absorbing annual pay inflation (provided at 3 per cent) and significant increases in employer's contributions to the PCPS pension scheme averaging 5.4 per cent.

5.9 This budget is apportioned between the two legacy organisations for statutory financial management and reporting purposes. We use a methodology that attributes direct costs to the relevant organisation and apportions joint costs based on a share of income or baseline expenditure as appropriate.

5.10 The budget for the Community Fund is £24.6 million (2003–04 £24.1 million), which represents 11.5 per cent of forecast annual income. Over the lifetime of the Community Fund expenditure represents 7.7 per cent of income received.

5.11 The budget for New Opportunities Fund is £38.5 million (2003–04 £40.0 million), which represents 8.8 per cent of forecast annual income. Over the lifetime of the New Opportunities Fund expenditure represents 6.3 per cent of income received.

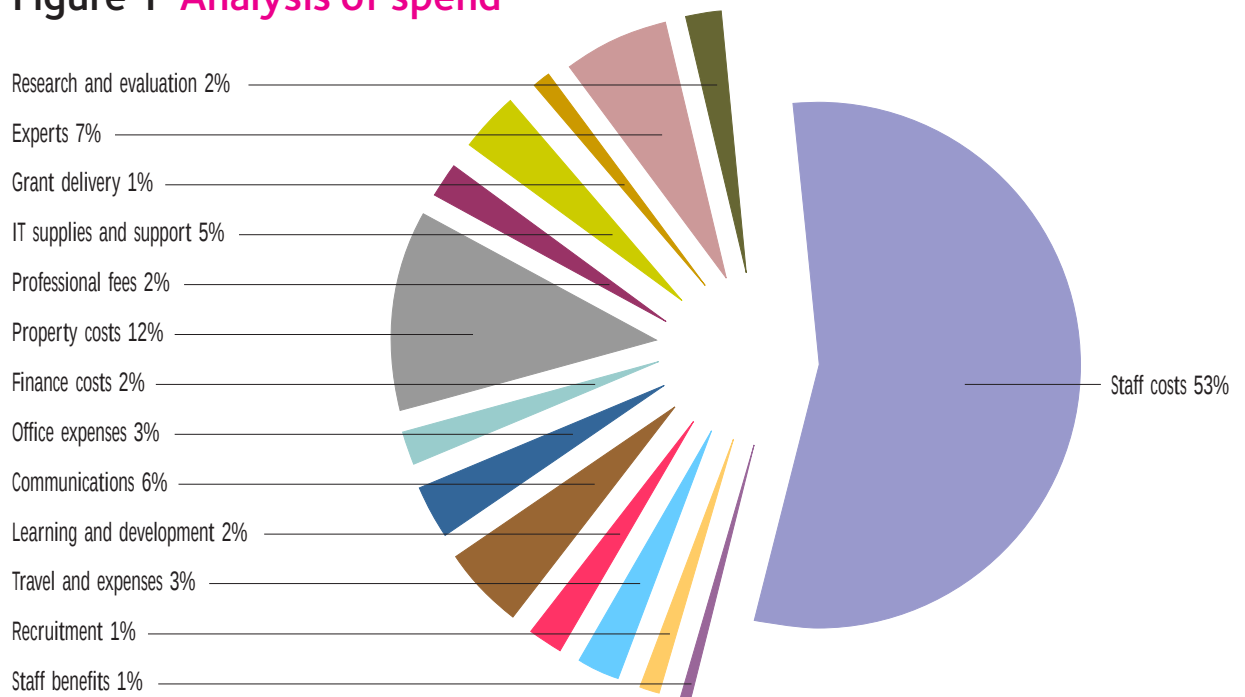


Section 5: Operating expenditure for 2005–06

Budget overview

5.12 Figure 1 shows analysis of the 2005–06 budget by expenditure heading. The significant change compared with baseline is the increase in staff cost from 46 per cent of total expenditure to 53 per cent. This reflects the move in-house of IT, design, public relations and grant making (assessor) functions. This is reflected with corresponding decreases shown against IT costs, communications costs and grant delivery.

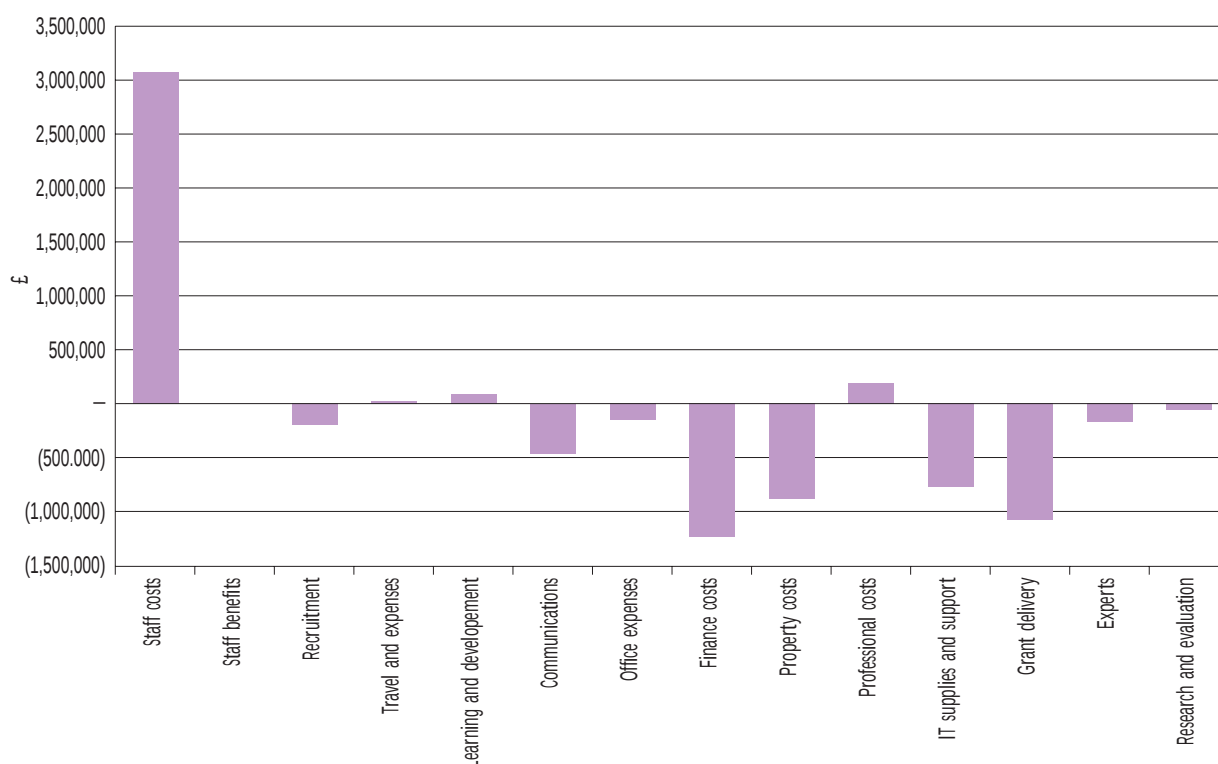
Figure 1 Analysis of spend



Section 5: Operating expenditure for 2005–06

5.13 Absolute costs have increased within the staff costs, professional fees, learning and development and the cost to the Big Lottery Fund of operating Awards for All in England. Savings have been achieved in all other areas Figure 2 shows the change in spend between the 2003–04 baseline and the 2005–06 budget.

Figure 2 Difference between budget and baseline



5.14 Staff costs have increased by £3.1 million despite little change in head count. The table below looks at the change in average staff cost. As described above staff costs as a percentage of the total budget have increased. The implications of this will be significant in controlling future costs, especially annual pay inflation and dependency on external drivers such as pensions and NI changes. Flexibility to react to changes in work patterns will also be dependant on natural wastage of appropriate staff at the right time or a potentially expensive redundancy policy.

Average cost of employing a member of staff

Average staff cost – baseline		£32,271
Pay award	3.0%	£968
Pension increase	5.4%	£1,743
Increase of staff mix	1.7%	£537
Average staff cost – budget	10.0%	£35,519

Section 5: Operating expenditure for 2005–06

5.15 The reduction in external recharges of £1.7 million reflects the increase in BIG's contribution to Awards for All in England and the loss of income from the first floor of Plough Place (£0.7 million).

5.16 Savings have been achieved from:

- rationalisation of property through co-location in London, Belfast and Glasgow (£0.9 million)
- net savings in IT of £0.8 million reflecting the cancellation of the LogicaCMG contract offset by one off costs relating to bring the 2 IT networks together and a general technological update and refresh
- savings in grant delivery of £1.0 million reflecting a significant reduction in the use of external assessors and the completion of a number of legacy NOF service contracts.

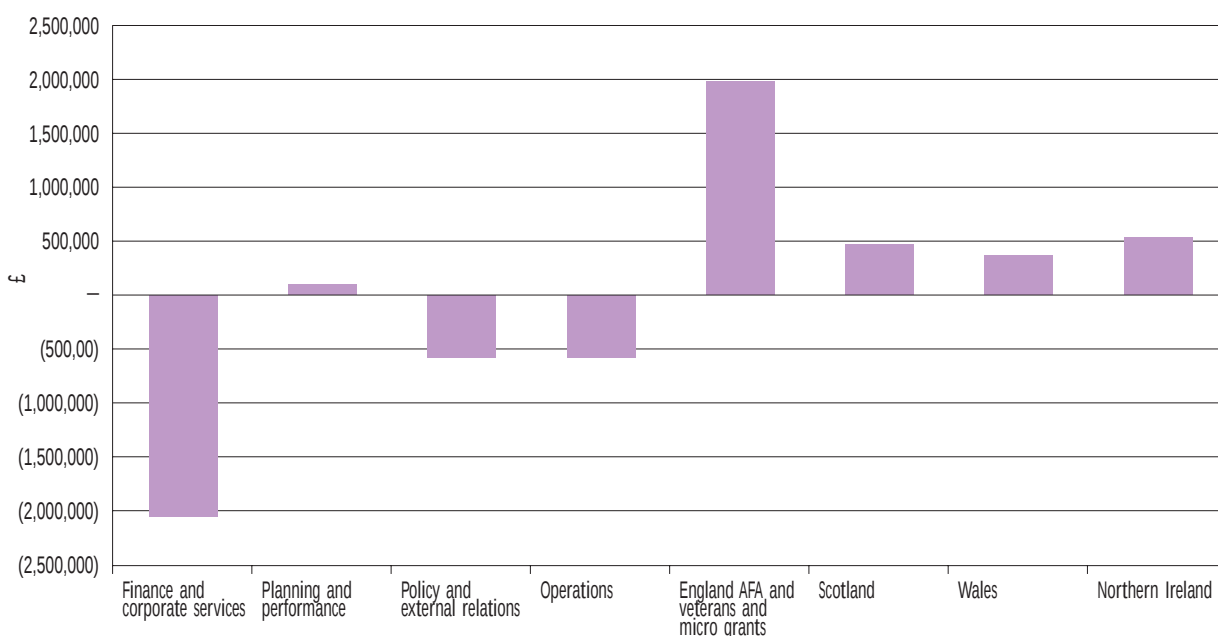
5.17 Figure 3 shows the change in budgets by business activity – costs have grown in Planning and performance, programmes run through the Awards for All structure and the three Country Offices.

5.18 The growth in Planning and performance reflects the increased resources placed to develop a robust governance, planning and project management structure in the centre.

5.19 The growth in Scotland, Wales and Northern Ireland reflect resources to lead on policy and programme development of country specific programmes.

5.20 The increase in Awards for All is based on 2 key interlinked assumptions – the introduction of the £10,000 in England from 1 October 2005 and the increase in BIG's contribution to £40 million (71 per cent of the total pot). The increase in budget and introduction of the new programmes are budgeted to require 50 per cent more staff and support costs reflecting increased volume of activity and a more robust assessment process. The increase in BIG's share of the pot will mean that we will bear proportionally more of the administration costs – historically allocated on the basis of income contribution.

Figure 3 Change in budgets by business activity





5.21 Costs have reduced in Policy and external relations, Operations and Finance and corporate services. These reductions are due to economies of scale in bringing together the two organisations and the start of rationalisation of service delivery. Operations has yet to start its assimilation and savings to date reflect in part efficiencies but also a reduction of costs associated with the assessment phase of legacy NOF programmes. 14 per cent (£3.3 million) of the Operations budget is identified to assist the delivery of the NOPES programme and in particular the draw down of funds from the NLDF.

5.22 Whilst overall a net figure of £3.5 million of savings has been achieved, this budget has not delivered the required savings. In part this reflects that 2005-06 is a continuation of the transitional period, with the restructuring of operations, external relations and Awards for All, the closure of legacy programmes and the launch of yet to be determined new programmes.

Changes in baseline activities from additional and one off integration activities

5.23 £3.7 million has been identified as relating to activities not in the baseline. We have taken a strict approach to placing costs within this heading - being work not previously undertaken by either organisation or one-off integration activities.

Section 5: Operating expenditure for 2005–06

Table 11 New activities

Costs of supporting the Lottery Forum central office	£50,000
Costs in supporting the Lottery Forum single front door project	£321,000
Costs of supporting the Lottery Forum capital centre of excellence	£146,000
Costs of increasing the A4A scheme to £10,000 from October 2005	£590,000
Costs of Big Lottery Fund increasing its proportionate share of budget to Awards from All from 52% to 71%	£693,000
Costs of piloting a micro grants programme	£77,000
Costs of devolving policy and programme development activities to each of the Country offices to reflect the principles of the decision document and draft legislation.	£729,000
Contingency sum for costs of public involvement exercises	£200,000
	£2,806,000
One off integration costs	
Merger of the two payroll databases to support the single organisation – residual merger activity	£120,000
Change management support for operations – residual merger activity	£92,000
One off projects to integrate the 2 legacy IT systems (merger cost)	£200,000
One off IT projects, ERDM, web and intranet (residual merger cost)	£467,000
	£879,000
Total new activities not in the baseline and one off integration costs	£3,685,000

Consideration of future savings

5.24 In this section we consider where future savings will be generated and the possible timeframe. There is a gap in expected savings, over the three years to 2007–08, of £1.25 million (2.0 per cent of the baseline), which we will need to identify through continued efficiency savings in all business units.

5.25 The “obvious” savings have been identified. Additional savings are likely to be structurally driven and SMT have agreed to promptly identify any changes required in order to effect the saving by 2007.

Section 5: Operating expenditure for 2005–06

Table 12 Future savings on baseline expenditure

	2005–06 £m	2006–07 £m	2007–08 £m
Savings already identified	3.5		
Planned staff cost savings	0.1	1.4	1.4
Planned property savings			1.2
Planned efficiency savings		0.6	
Total	3.6	2.0	2.6
Cumulative total		5.6	8.2
Savings yet to be identified to achieve a 15% reduction on baseline			1.3

Structural review

5.26 The costs of merging the two legacy organisations are continuing. During 2004–05 costs were incurred relating to the establishment of Big Lottery Fund (forecast outturn of £3.9 million). These costs included redundancy payments and property costs in co-locating the two organisations, the associated professional fees to support these two tasks, one off costs relating to re-branding public consultation and start up costs relating to the integration of systems and policies.

5.27 During 2005–06 and following years there will be continued costs arising from bringing together the two organisations. This activity will be managed through the Structural Review project team and the focus for 2005–06 is to integrate grant-making activities to support delivery of Big Lottery Fund programmes. Costs from this activity will be subject to business case review as and when decisions are made.

5.28 A process of approving budget will be agreed with the Resources Committee.

Section 5: Operating expenditure for 2005–06

Table 13 Estimated costs of the structural review

	2005–06 £m
Project manager	113,250
Staff restructuring provision (redundancy and relocation)	504,000
Property costs (fit out, dual running costs, move costs)	To be agreed on a case by case basis

Capital Expenditure

5.29 Capital expenditure, procurement of assets over £2,000, has only been identified within the IT cost centre. There will also be capital expenditure incurred with the fit out of new offices identified through the Structural Review. Planned capital expenditure is as follows:

Table 14 Proposed capital expenditure

Oracle application server	£17,625
* Replacement file and print servers (x12)	£211,500
* Replacement email servers (x12)	£211,500
IPT telephony for remainder of Plough Place – budget approved for 2004–05 but not spent	£178,000
** IPT telephony for remaining eight offices	£517,000
** Web and intranet servers (x2)	£35,250
** Contacts database server	£17,625
** EDRM server scanners and associated equipment	£46,413
	£1,234,913

*Catch up projects due to two years limited investment during merger discussions and integration.

**New projects. Business case for expenditure will be made prior to the commitment to purchase.