

**FINANCIAL DIRECTIONS ISSUED UNDER SECTIONS 36E (3) OF THE NATIONAL LOTTERY ETC. ACT 1993 (AS AMENDED BY THE NATIONAL LOTTERY ACT 2006)**

The Big Lottery Fund was established under section 36A of the National Lottery etc. Act 1993 (“the Act”) and became fully functional on 1 December 2006.

The Big Lottery Fund shall comply with the requirements contained within the attached Statement of Financial Requirements, which have the status of directions under section 36E(3) of the National Lottery etc. Act 1993. The Statement of Financial Requirements complements, and should be read in conjunction with, the Big Lottery Fund’s Management Statement, which deals with corporate governance and management matters.

**Signed by authority of the Secretary of State for Culture, Media and Sport**

**ANDREW RAMSAY**  
**Director General, Economic Impact**  
**Department for Culture, Media and Sport**

## **STATEMENT OF FINANCIAL REQUIREMENTS**

### **BIG LOTTERY FUND**

*This Statement of Financial Requirements is effective from 1 December 2006*

#### Introduction

1. This statement of Financial Requirements (SFR) replaces previous SFRs issued on 1 February 2006 to the National Lottery Charities Board and to the New Opportunities Fund, the predecessor bodies of the Big Lottery Fund. It complements the Big Lottery Fund's Management Statement (MS). It also complements and should be read in conjunction with the Accounts Directions issued to the Fund under section 36E(3) of the Act, with other appropriate guidance such as that contained in "Dear Accounting Officer" letters, and with any guidance on matters such as fraud issued from time to time by DCMS. The Big Lottery Fund must report all suspected fraud beyond a de minimis limit of £10,000 immediately to DCMS.
2. The Fund must operate within the principles of administrative law. Lottery proceeds are public monies and shall be used only to make grants and loans or other arrangements in connection with successful Lottery applications, to defray administration expenses incurred in the distribution of those funds (including those connected with delegation of Lottery distribution), or to meet the cost of non-cash grants. The Fund should have regard to value for money, and to additionality principles, in all aspects of its administration of Lottery funds.
3. Risk management principles should be applied to all aspects of the Fund's distribution activities. Systems of internal control deployed by the Fund should be designed to manage risk to a reasonable level rather than eliminate all risk of failure to the achievement of policies, aims and objectives. Systems of internal control should be based on an ongoing process to identify and prioritise the principal risks to the Fund not achieving its objectives, to evaluate the likelihood and impact of those risks and to manage them efficiently, effectively and economically.

#### Applications & Allocation of grants

4. The Fund should make guidance on how to apply for Lottery funds widely available. It may distribute funds in response to applications. It may also, where it is clear that there are strategic benefits to be gained, distribute funds without the need for an open application. In such cases, the Fund must allocate grants according to clear, set and transparent formulae or criteria agreed in advance by the Fund's Board, which should be made publicly available. Separate internal procedures, and a decision-making process, for allocating grants should be established. These procedures and processes should be designed to avoid creating a system of allocation that could be construed as being unfair, random or arbitrary and should ensure that those involved in making decisions avoid actual or perceived conflicts of interest.
5. The Fund may co-ordinate applications with other distributing bodies and/or other organisations and may exercise as it sees fit, putting appropriate management and accountability arrangements in place, its powers under the Act to:
  - participate in a joint scheme;

- solicit applications;
  - delegate, internally or externally, decisions as to whom Lottery money is to be distributed.
6. The Fund should ensure that, where appropriate, applicants are informed of the circumstances in which they will have to satisfy European Union (EU) and World Trade Organisation (WTO) procurement rules. Links to the appropriate websites are included in the schedule attached to this SFR listing relevant Government and other guidance.
  7. The Fund should adopt appropriate policies for the appraisal of applications, depending on the nature, size and complexity of the project proposed. These should follow the best current practice and utilise, where appropriate, the Treasury “Green Book” and the Office of Government Commerce’s Project Profile Model (PPM), used to determine the need for Gateway reviews.
  8. The Fund should notify the Secretary of State whenever it receives an application that falls under section 27 of the Act, and where possible should inform the Secretary of State as soon it becomes aware that such an application is likely to be made. Where the Fund is minded to approve the application, it should submit a clear analysis of why the Secretary of State should not exercise section 27 powers, and should not finally approve the application until it receives written notification of the Secretary of State’s decision not to exercise section 27 powers.
  9. The Fund should collect what information it considers appropriate on each application it receives, and on each successful application. It should supply such information to the Secretary of State as and when requested. It should have effective measures in place to detect and counteract fraud in relation to all its distribution activities, and it should share information on applications with other distributing bodies where it judges that there is a significant risk that an applicant could fraudulently apply to more than one body. The Fund should keep a record of all frauds and thefts discovered and report them to the Department as specified in any of the guidance referred to in para. 1 above.

#### Successful applications and payments of grant

10. The terms and conditions with which each grant or loan recipient must comply should be clearly set out. The Fund will determine the grant term and, if appropriate, the security period and the asset monitoring period by reference to the period during which it expects the grant purpose to be carried out. The grant agreement should include a provision that the grant can be clawed back if there is a change of purposes from the one originally intended, and/or that an appropriate proportion of the value of the asset should be repaid; and a provision that Lottery finance can be guaranteed only to the extent that the National Lottery continues to operate and the Fund continues to receive sufficient funds from it. They should also include a provision for access by the Comptroller and Auditor General; requirements for the applicant to pay to the Fund a share of the proceeds from the disposal of assets (including their transfer to the private sector) purchased or enhanced with the assistance of Lottery funding; and for the applicant to repay the grant in full or in part if any of the grant conditions are breached, including instances where the purpose for which the grant was made is not fulfilled, or

seems unlikely to the Fund to be fulfilled. The Fund may vary the terms and conditions of a grant or loan by written agreement with the recipient.

11. Where a grant is made to a building preservation trust, or for a townscape project, or an umbrella project, or portfolio project, the conditions need not be framed in such a way as to prohibit sale of the property acquired, improved or conserved by the grant or to require repayment on the property's change of ownership. In deciding whether to apply this derogation the Fund should consider carefully the particular circumstances of each case.
12. The Fund may waive such requirements and 'write off' the grant if it considers that this would be appropriate having regard to all the circumstances. However, individual write-offs and special payments exceeding £100,000 must be reported to the Secretary of State.
13. In addition, where a body is participating in a joint scheme with other distributing bodies, the Accounting Officers of the participating bodies may, by mutual agreement, delegate grant decision-making authority, and the authority to authorise write-offs and special payments, to the Accounting Officer of one of the bodies or, under an external delegation to a suitably qualified person empowered to act for an external delegate. The person so authorised should report back to the Accounting Officers of the other participating bodies on the achievements of the joint scheme or external delegation.
14. Grants paid to successful applicants must come from a separate bank account(s) maintained specifically for the transfer of funds from the NLDF to approved projects. This, the Distributing Body's Lottery Account(s) (DBLA(s)), should also be used to cover any costs incurred in administering the Lottery by the Fund or any delegates.
15. The Fund may hold funds for a short time in DBLA(s) (which may be an interest-bearing instant access account) but may not otherwise invest Lottery money on its own behalf. Draw down requests should reflect the Fund's best estimate of the amount needed during the following week. The DBLA(s) should not be overdrawn at any time. The Fund must not have a bank overdraft or borrow money in any other way.
16. Grant distribution may also be made using non-cash methods (for example, vouchers redeemable for goods and services from an approved supplier or contractor). Grants may be made to set up or augment endowments.
17. Grants should not normally be issued to successful applicants in advance of need. However, the Fund can and should have regard to the flexibility provided for in relevant DCMS and other Government advice and guidance. The Fund should also bear in mind the need to release funds without undue delay so that the applicant can pay bills promptly in accordance with best commercial practice.
18. The Fund should set up appropriate arrangements for monitoring and evaluating projects both while they are in progress and after completion.

#### General administrative & financial matters

19. The Chief Executive of the Fund is normally designated as the Accounting Officer for the Lottery funds under the Fund's control, and the responsibilities are set out in the Accounting Officer's designation letter. In addition to satisfying him/herself on an

ongoing basis of the adequacy of the Fund's internal control systems, as reflected in the annual Statement on Internal Control, the Accounting Officer should seek assurance at appropriate intervals that the Fund's administrative and financial systems as a whole remain adequate for the purpose of discharging the Fund's Lottery distribution functions. He/she should notify the Head of the Fund's sponsoring division in DCMS if he/she has any concerns that this is not the case. The Accounting Officer is also responsible for signing the accounts for the Fund's Lottery distribution activities, and for ensuring that:

- Lottery money is distributed with due regard to regularity and propriety;
- Bodies engaged as partners or agents for the purpose of processing Lottery applications and paying funds, or delegated to make decisions on the Fund's behalf, are fit and proper and have established appropriate management arrangements;
- Lottery money is used economically, efficiently, and effectively even though grant decisions may have been delegated to an outside person, organisation, committee, or are distributed under a scheme in conjunction with other distributors.
- Cases of significant fraud are reported to the police, and, as appropriate to the Serious Fraud Office and other authorities.

20. In line with the Public Sector Pay Policy Guidelines, the Fund will submit its annual pay remit to the Department for formal approval. The Fund will seek the approval of the Department for the pay, terms and conditions and any subsequent changes to the contract of the Chief Executive. Additionally the Department should be consulted if the Fund intends to pay the same or more than the Chief Executive to other senior officers.

The Department must be consulted about proposals to pay redundancy or severance payments or compensation for loss of office in accordance with the requirements of DAO (GEN) 11/05 (or its replacement(s)).

The Fund will ensure that:

- its rules for the recruitment and management of staff provide for appointment and advance on merit on the basis of equal opportunities for all applicants and staff;
- the level and structure of its staffing, including gradings and numbers of staff, is appropriate to its functions of efficiency, effectiveness and economy;
- the performance of staff at all levels is satisfactorily appraised for the purposes of performance pay, and, where appropriate, promotion;
- staff are encouraged to gain appropriate professional management and other expertise necessary to achieve the Fund's objectives;
- proper consultation with staff takes place on issues affecting them e.g. pay, health and safety etc;
- adequate grievance and disciplinary procedures are in place;
- a code of guidance for staff is in place, based on the Cabinet Office document: *Model code for staff of executive Non-Departmental Public Bodies*.

21. The Fund will develop and operate a system for analysing its own administrative efficiency and performance. Performance measures and targets should be agreed with the Department and included in the Corporate Plan. Progress against targets should be reported to the Department annually.
22. In making forward commitments the Fund must have due regard to past and projected income flows and to the need to keep its cash balance in the NLDF to a level which is consistent with safeguarding its commitments, without being unnecessarily large. In meeting this requirement, the Fund should have regard to the DCMS's formal guidance "Managing National Lottery Distribution Fund Balances" (Lottery Guidance Note 1/03).
23. The Accounting Officer should make sure an effective internal audit service for the Fund is in place, operating to standards defined in the Government Internal Audit Manual. He/she should send a copy of the Fund's Annual Internal Audit Report to its sponsoring division in DCMS by 31 July each year.
24. The Comptroller and Auditor General is the statutory auditor of the Fund's accounts. The Fund's statement of accounts, along with the books, documents or papers of the Fund that relate to them, shall be open to inspection by the Comptroller and Auditor General and to any persons so authorised by the Secretary of State.
25. The Accounting Officer is responsible for ensuring that the Fund's banking arrangements meet the requirements of Government Accounting and are carried out efficiently, effectively, and economically. He/she should review these arrangements at least every two years, with a comprehensive review, usually leading to competitive tendering, every three to five years.
26. The Fund must maintain an asset register for its Lottery related operations, which should include details of those capital assets valued above the capital threshold agreed with the NAO that are employed in the administration of the Lottery. Where assets are used for a joint scheme operated with other distributing bodies, the Fund should keep a register of any jointly held assets.
27. The Fund must not issue any guarantee, indemnity, or letter or statement of comfort which creates a financial commitment, nor incur any other contingent liability (whether or not in legally binding form) except as approved by the Department. Liabilities entered into in the normal course of the Fund's business (see Government Accounting for definitions) will not be classed as contingent liabilities for this purpose.
28. The Fund must not use Lottery funds for the purpose of giving gifts, except where the total value of gifts to any one person in a financial year is £50 or less. Board members or members of staff should only accept gifts where they are worth less than £25.

## SCHEDULE OF GUIDANCE

Title	Website link (if available)
Government Accounting	<a href="http://www.government-accounting.gov.uk/current/frames.htm">http://www.government-accounting.gov.uk/current/frames.htm</a>
<p><u>DCMS Lottery Guidance Notes</u></p> <p>2/96 Lottery Funded Projects and the European Communities Procurement Regulations (formerly 96/2)</p> <p>2/97 Risk Management (formerly 97/2)</p> <p>3/97 Project Appraisal (formerly 97/3)</p> <p>4/97 Recovery and Write Off of Lottery Grants (formerly 97/4)</p> <p>1/98 Private Finance and the National Lottery</p> <p>2/99 External Delegation</p> <p>3/99 Solicitation (formerly 12/99)</p> <p>1/01 Performance Indicators</p> <p>2/01 Annual Reports</p> <p>7/01 Strategic Plans</p> <p>1/03 Management of National Lottery Distribution Fund Balances</p> <p>2/03 Lottery Grants to Endowment Funds</p>	
Non-Departmental Public Bodies – a Guide for Departments (the “NDPB Guide”), published by the Cabinet Office;	<a href="http://www.civilservice.gov.uk/the_future_of_the_civil_service/agencies_and_public_bodies/guidance_for_departments/non_departmental_public_body_guidance/index.asp">www.civilservice.gov.uk/the_future_of_the_civil_service/agencies_and_public_bodies/guidance_for_departments/non_departmental_public_body_guidance/index.asp</a>

The Treasury's Fees and Charges Guide	(No electronic version. Order from <a href="http://www.tsoshop.co.uk">www.tsoshop.co.uk</a> )
The Treasury's guidance Departmental Banking: A Manual for Government Departments	(Order from <a href="http://www.tsoshop.co.uk">www.tsoshop.co.uk</a> )
Relevant Dear Accounting Officer letters	All extant DAO letters available at <a href="http://www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_dao.cfm">www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_dao.cfm</a>
The Treasury guidance document Regularity, Propriety and Value for Money	<a href="http://www.hm-treasury.gov.uk/documents/financial_management/pss_aud_regprop04.cfm">www.hm-treasury.gov.uk/documents/financial_management/pss_aud_regprop04.cfm</a> )
Recommendations made by the Public Accounts Committee or other Parliamentary authority which have been accepted by the Government and which are relevant to the OLD	
Guidance on Codes of Practice for Board Members of Public Bodies	<a href="http://www.publicappointments.gov.uk/publications/index.asp">www.publicappointments.gov.uk/publications/index.asp</a>
The Orange Book: Management of Risk – Principles and Concepts (October 2004)	<a href="http://www.ogc.gov.uk/sdtoolkit/reference/ogc_library/related/orange-book.pdf">www.ogc.gov.uk/sdtoolkit/reference/ogc_library/related/orange-book.pdf</a>
Selling Into Wider Markets: A Policy Note for Public Bodies	<a href="http://www.partnershipsuk.org.uk/information/commercialisation/selling_into_wider_markets.pdf">www.partnershipsuk.org.uk/information/commercialisation/selling_into_wider_markets.pdf</a>
<u>Fraud</u> Managing the Risk of Fraud – A Guide for Managers	<a href="http://www.hm-treasury.gov.uk/media/404F9/managefraud_304.pdf">www.hm-treasury.gov.uk/media/404F9/managefraud_304.pdf</a>
<u>Annual Reports and Accounts</u> Treasury's Financial Reporting Manual	<a href="http://www.financial-reporting.gov.uk">www.financial-reporting.gov.uk</a>
<u>Internal Audit</u> Government Internal Audit Standards.	<a href="http://www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_gias.cfm">www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_gias.cfm</a> )
<u>Procurement</u> European Union (EU) and World Trade Organisation (WTO) procurement rules (add links to the appropriate websites)	<a href="http://www.government-accounting.gov.uk/current/frames.htm">www.government-accounting.gov.uk/current/frames.htm</a>
<u>Appraisal of applications</u> Treasury "Green Book"	<a href="http://greenbook.treasury.gov.uk">http://greenbook.treasury.gov.uk</a>
The White Book (formerly "Option Appraisal	available on DCMS website

of Expenditure Decisions”)	
Office of Government Commerce (OGC) Project Profile Model (PPM)	contact OGC by e-mail at ServiceDesk@ogc.gsi.gov.uk
<u>State aids</u> DTI’s State Aid website is the best starting point and their State Aid unit can give further help.	<a href="http://www.dti.gov.uk/ccp/stateaid/">http://www.dti.gov.uk/ccp/stateaid/</a>
Any other relevant instructions and guidance issued by central departments and the Department	