**THE NATIONAL LOTTERY COMMUNITY FUND BOARD**

**MEETING OF THE NATIONAL LOTTERY COMMUNITY FUND BOARD**

**HELD VIRTUALLY ON**

**31st MARCH 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **PRESENT:** |  | **IN ATTENDANCE:** |  |
| Blondel Cluff CBE | Chair | John Rose | Interim Chief Executive |
| Emma Boggis  | Vice-Chair | Neil Harris | Corporate Services Director |
| Tony BurtonPerdita FraserSandra McNamee | Board memberBoard memberInterim Chair,  | David KnottMatthew Green | Senior AdviserTechnology and Data Director (Items 7.1– 7.7) |
|  | NI Committee | Harnish Hadani | Interim Finance Director (Item 7) |
| John Mothersole | Chair, EnglandCommittee | Catherine RobertsAlex Howell | Head of Governance (minutes)Deputy Director, Public Bodies |
| Elizabeth Passey | Board member | (Observer) | Appointments and Awards, DCMS |
| Rachael Robathan | Board member |  |  |
| Kate Still | Chair, Scotland Committee |  |  |
| Danielle Walker Palmour | Board member |  |  |
| Adrian Webb  | Chair, Wales Committee |  |  |
|  |  |  |  |
|  |  |  |  |

1. **CHAIR’S WELCOME AND REPORT**
	1. The Chair opened the meeting and welcomed all. She gave the following introduction:
* *Thank you all for taking the time to participate and support my induction.*
* *I would also like to thank Tony Burton for having served as Interim Chair and the role of Chair of the UK Fund, by convention, and to confirm my adoption of both roles.*
* *As you all appreciate, we have a number of URGENT matters in hand:*
1. *I am working hard to address the EXISTENTIAL RISK entailed in the current Spending Review, preparation for which has already commenced;*
2. *Working in collaboration with DCMS to devise the first Policy Directive the Fund has had since 2012;*
3. *Mapping and evolving so as to remain FIT FOR PURPOSE in supporting communities as we hopefully emerge from the global pandemic and address its economic aftermath;*
4. *The selection and securing of a permanent CEO who will work closely with me during this critical period that is destined to last several years.*
5. *Relocation of our London HQ in response to the end of our lease at Plough Place in June, taking into account the predicted changes in office use;*
6. *In addition, it has come to my attention that the reputation of the Fund may not be as untarnished as some of you may wish to believe. This largely surrounds our inability to account for the impact of 87% of its grants. I know sterling work is being done to resolve this, but it is a race against time due to the imminent Spending Review.*
* *I have now met with:*
	+ - *the Secretary of State, Oliver Dowden*
		- *Permanent Secretary of State, Baroness Barran*
		- *The two new Director Generals, Ruth Hannah and Polly Payne; and*
		- *Alex Howell, Deputy Director of Public Appointments from DCMS who is kindly joining us today from DCMS.*

***THE TIMES ARTICLE***

*Much has been made of the article in the Times published on the 1st March, including its juxtaposition with my recent arrival – which I can only assure you in coincidental. However, I welcome the insight it has provided me with.*

*Suffice to say, unlike myself, many of you were present at the Fund during the period referred to in the article, and as such will be conversant with the situation referred to in the article, unlike myself.*

*What is clear is that the article contains unequivocal evidence of a DCMS investigation that is now termed an Enquiry. The department is in the preliminary stages of that Enquiry, and I shall work with them in framing its scope.*

*The Enquiry will generate a series of recommendations that the Fund will act upon in its best interests.*

*Another issue that appears to have concerned some of you is the creation of a Transformation and Improvement Group (TIG). This is an executive body that I have been asked to chair as a means of ensuring that the strategic direction set by the Board is observed and to facilitate a means of reporting and challenging its work.*

*TIG will enable the Fund to take transformational measures that will enable us to:*

1. *Address the Spending Review challenge;*
2. *Help devise the new Policy Direction;*
3. *All whilst efficiently supporting communities as the post pandemic landscape unfurls, and will no doubt take its toll on the vulnerable.*

*The model has been chosen as it is tried and tested and has been used in similar scenarios effectively.*

***NEW CEO***

*Thirdly, the appointment of a permanent CEO. I can report that there has been no ‘****significant****’ change as suggested by some Board members, instead we have launched an enhanced search with new headhunters that will include additional skills that will prove beneficial to the Fund, namely:*

* + - *Change management and*
		- *quantitative data analysis skills essential to retaining our 40% and any new approaches we must undertake to retain it.*

*I understand that during the course of 2020 members of the Board were* ***advised against recruiting before my arrival and received strong recommendations from DCMS to include the two skills that I also recognise as necessary for the CEO to have experience of****. As you will appreciate it is imperative that we find a CEO with the correct qualities and with whom I shall work closely over the years during a critical time for the Fund.*

*With regards to the process I have adopted, I have based this on clear legal advice on the constitution of the Fund, together with technical support from DCMS.*

*For those who wish further assurance, I refer you to the Board Terms of Reference.*

*I will ask Neil to present on the appointment later in the meeting but now turn to the two substantive decisions we need to make today.*

* + - *Corporate plan*
		- *Budget*

*I will also invite Alex to field any questions on the DCMS Enquiry, although I fear you will be disappointed in that there is little detail we have to share at this stage.*

*I cannot emphasise enough that my sole focus is the communities we are here to serve during this critical time for them and the world at large, and as such the future of the Fund.*

1. **APOLOGIES FOR ABSENCE**

2.1 There were no apologies for absence.

1. **DECLARATIONS OF INTEREST**

3.1 There were no declarations of interest. A disclosure was made at paragraph 7.28 by Elizabeth Passey.

1. **APPROVAL OF MINUTES**

4.1 The minutes of the Board meeting held on 10th December 2020 were approved as an accurate record.

4.2 In relation to the Permanent Secretary’s visit, John Mothersole queried whether follow up correspondence had been sent and whether there had been any developments. Any update would be shared in due course.

 **ACTION:** Governance

1. **MATTERS ARISING**

5.1 The Action Log was reviewed and updated.

5.2 It was noted that deadlines would be added and an updated version of the log would be circulated.

**ACTION:** Governance

1. **CORPORATE PLAN**
	1. Neil Harris introduced the corporate plan, in addition inviting the Board to also look at the designed copy which had been circulated to them previously.
	2. The Board were informed that two years ago the Fund had committed to a 3-year rolling plan which would be updated annually. However, there had been fundamental shifts in the environment over the past year with significant challenges arising. Therefore, the plan had been updated taking into account the new circumstances and the situation the communities we serve find themselves in. Furthermore, there is a degree of ambiguity as to what the post pandemic world will look like.
	3. The Board noted that most of the themes and focus areas had been carried over. The goals had been streamlined from 4 to 3, simplifying our aims in terms of supporting the sector and ensuring that communities are better connected with each other. As a result, there had been some consolidation of the strategic focus areas, enabling us to streamline our priorities against the goals. Some of the strategic focus areas had been updated, in particular to reflect the importance of inclusive funding and to underline a renewed focus on data and insight.
	4. Neil Harris highlighted that this was a period of significant challenges in the external environment which would necessitate an early review of the strategy so that we continue to respond with agility to the needs of communities. Furthermore, it was likely that a new Chief Executive would wish to review the corporate plan, potentially outside of the usual review cycle. The post pandemic community impacts would also need to be taken into account in the ongoing articulation of our strategy and priorities.
	5. In their response the Board were pleased to note that the EDI focus was more prominent in the plan and rephrased in a way that is more impactful. Given the recent allegations there was a suggestion that the plan was too focussed on reputation internally whereas it should emphasise the need to maintain our reputation as trusted partners with senior stakeholders. It was also suggested that we should articulate more strongly how to use the Fund’s learning and data to inform government policy but also engage with other sectors and the wider external environment.
	6. The Board felt that the visuals in the designed copy should reflect more diversity and people from different ethnic backgrounds. This would be relayed to the design team who were still refining the document.

**ACTION:** Neil Harris

* 1. The teams were recognised for all their work and it was noted how the changes discussed at the December Board meeting had been included. The Board again commented that the corporate plan was created to be flexible and adaptable and therefore we should not anticipate any major changes. Neil Harris re-emphasised that there remains a degree of ambiguity as to the post pandemic impacts on communities and therefore our role in the recovery. Neil also emphasised that the arrival of a new Chief Executive would very likely lead to further changes.
	2. The Board queried the lack of prominence of the people related risk given latest developments around the Times article, increase in FTE, leadership uncertainty, etc. Neil highlighted the timing of the development of the plan in relation to new concerns that had arisen recently, the fact that the corporate plan is a public document articulating our strategy and an important internal document which outlines the organisation’s functional priorities. The Board were reassured that there will be a programme of activity to address the Fund’s culture involving staff and this in due course would be reflected in the plan in a thoughtful way.
	3. Three members of the Board felt that they wanted to have sight of the scope of the Inquiry prior to signing off the corporate plan. The executive emphasised the timing of the plan which is normally published at the beginning of the financial year. The Chair also stressed that the fine details of the investigation would not come to light for a considerable time. The Chair felt that it would not be appropriate to delay the publication of the plan and that in any event the investigation was separate and distinct from the corporate plan, that is likely to be adjusted once a new CEO had been appointed and/or post pandemic developments arise, as Neil Harris had described.
	4. The Chair invited Alex Howell to share his views. Providing more context on the proposed investigation he outlined that it would be a response to the concerns raised in the Times article but not a review of TNLCF activities. Referring to the policy directions and review of good causes share allocation more generally, ministerial advice had been given in the broadest terms and the timeframe for any decisions as much as they may impact on the plan would stretch beyond the arrival of a new chief executive.
	5. The Board queried whether the information received by the Chair could be considered as material non-public information. The Chair reminded the Board that the Inquiry had been announced to the public at large through the Times article on 1st March and all that had been received by the Chair so far were broad headlines for the Inquiry, which would not impact the day to day work of the organisation.
	6. It was stressed that the concerns raised by three members of the Board were not to express disagreement with the plan per se but a concern of not being sighted on everything discussed here and mentioned in the Chair’s introduction. The Chair confirmed again that she would circulate all the information she was allowed to share, the details of the DCMS inquiry only having been received by her last evening and highlighted again that this information would not impact the plan. The Board proceeded to a vote.

**ACTION:** Governance

* 1. Based on the discussions the corporate plan 2021/24 was approved.
1. **CURRENT PERFORMANCE AND FINANCE**

**KPI Performance Report**

* 1. Presenting the report, Matthew Green pointed to the improved format in response to previous feedback from the Board asking for better trend data and metrics. He invited further comments.
	2. Commenting on KPI3 the Board conveyed their thanks to the team for having delivered the commitments in the budget, and additional government funding.
	3. Looking at KPI4 in Annex C to the Corporate Plan, it was pointed out that the 76% target was above the Civil Service and DCMS benchmarks. This was due to a change to the metric in the future moving from an employee net promoter score to a more standard employee engagement measure, which is the engagement index. We are currently at 76% on our employee engagement survey as run in December. Neil Harris confirmed that over the past 3 years there had been a 2% rise on both metrics.
	4. Neil Harris confirmed that the benchmark for KPI4 could be a global benchmark for engagement as the provider we use are signed up for this and their statistical analysis align to the global great place to work index. The Board acknowledged that 76% was a great result comparing against the best performing organisations worldwide achieving 80%, so the staff should be commended and acknowledged for the impressive work they have accomplished. The Chair and Interim Chief Executive would follow up.

**ACTION:** John Rose

* 1. The Board were reassured that the survey includes specific questions on any incidence of bullying or harassment witnessed; an inclusion survey was also conducted eighteen months previously that provided further in-depth data on colleagues’ experience at the Fund. There were a number of routes to raise such concerns, formally and informally, but there had been little report of such incidents. This would be looked into further.

**ACTION:** Neil Harris

* 1. With regard to the relevance of KPI7, the executive felt that it had been useful to test that the strategic intent of the organisation was being delivered. For further context John Rose added that the Fund had been requested in the past to commit to an undertaking that 85% of the funding would be directed to the voluntary sector but clearly plans had developed over the years and we have supported community organisations.
	2. Adrian Webb commended the staff for their remarkable efforts during the Covid period. He also asked for more benchmarking across the KPIs, particularly against other funding bodies, and that more trend data over the past 2 years be provided.

**ACTION:** Matthew Green

**Financial summary – P04**

* 1. Harnish Hadani presented the financial summary to the end of January 2021. The summary recorded a stronger position for the Fund than was anticipated at the outset of the financial year. Lottery income was above budget and Lottery ticket sales had continued to perform well. Third party income showed an increase mainly due to the cost recovery for delivering the Coronavirus Community Support Fund (CCSF) on behalf of Government.
	2. Actual awards for the year to date at the end of January were £73m below the financial budget set. However, the updated financial outturn anticipated that we would be within budget, within tolerance of KPI3. Harnish echoed the appreciation for the excellent effort made by staff given the circumstances.
	3. The awards variance was largely due to the under commitment within the England portfolio. Cash payments were ahead of forecast as a result of payments being released more quickly due to Covid. Operating costs were £11.6m below budget, with £9m attributed to the additional income for delivering the CCSF. There was significant underspend in travel and staff cost due to the changes in the way of working since lockdown. The NLDF balance was on par with the original forecast and being monitored regularly.
	4. As a result of the positive income position and lower costs, the year-end position was expected to be within the 8% threshold.
	5. The Board queried where the impact of flexibilities applied to staff such as the HMRC approved home working allowance, additional carers leave, etc. was evidenced in the costs. It was confirmed that a large proportion would lie in salary costs, and contingency allocation to incorporate the home working allowance. Where they cut across, they were being incorporated in operating costs.
	6. The Board also noted that the underspend was proportionately more sizeable this year principally as we had redeployed staff who otherwise would have been working exclusively on Lottery funding to undertake additional funding on behalf of DCMS. The operating costs associated with delivering the CCSF in England along with some recovery of operating costs to deliver government funding in Northern Ireland and Scotland were exceptional. The Board asked where the underspend would be redeployed and were informed that any money not incurred in operating costs would be redeployed to grants in communities, in line with the Fund’s normal distribution.
	7. Looking at the 5-year income and expenditure trend chart, the Board queried where the consistent difference of £200m over the past 4 years between commitments and Lottery proceeds was being re-allocated. Where there are under allocations these were carried forward for future years. It was also pointed out that the significant awards made earlier in the decade on large strategic programmes were still being borne out.
	8. The Board requested asked that the staffing breakdown be presented more clearly to help understand the staff turnover in the organisation.

**ACTION:** Harnish Hadani

**Income update and Risk – P05**

* 1. The Board received Board(21)P05 providing a summary of income projections and consideration of the income risk using a new methodology agreed in December which puts greater emphasis on scenario based income modelling using a weighted average of the previous historical results. This new approach supersedes the previous mathematical model. The Board were informed that the main advantage of the new methodology is that it incorporates much greater flexibility in order to establish a range of outcomes from the historic position.
	2. The Board noted the total income available for allocation and the income figures attributable to the Fund. The Fund’s projection had performed overall marginally above the Gambling Commission forecast. These projections were based on the assumption that the Fund retains its 40% share of the total Lottery income and the risks associated with this were underlined.
	3. A further question was raised as to what had driven the change to a new method, particularly in view of the high level of uncertainty in the external environment. The Board were reminded that the change had been presented to Board in December and had been through the Audit and Risk Committee. The mathematical models were less reliable and it was more difficult to take into account historic trends to project with a degree of accuracy and flexibility. The new method was based on weighted average of previous historic results; it offered more flexibility and was easier to understand.
	4. Having reviewed Board(21)P05, the Board confirmed the current approach to income projections proposed by the Fund.

**Grant Award Budget – P06**

* 1. 7.19 Harnish Hadani presented Board(21)P06 setting out the award allocations from 2021/22 and beyond following the last Q3 review. The paper considered the impact of grant allocations on the cashflows and how this will impact the minimum NLDF balance, with key concern that the income does not match the levels set out in the budget. In terms of the current financial outturn the key conclusion was that the cash outflows can support the proposed award allocations.
	2. With regard to forecast payments, Board were informed that Finance had reviewed the cash models following changes to grant programmes. The forecasts compared with the maximum cash outflow permitted indicated that the forecast outflows will be sufficiently covered. The payment forecasts also showed that the Fund will be able to meet the indicative awards for current and future years.
	3. The overall assumption for revenue and grant awards allocation forecasts had been prepared on the basis of the Fund retaining its 40% share.
	4. Overall, the awards and payment forecasts showed that the NLDF balance will remain above minimum accepted levels. Should income fall significantly the Board asked for reassurance that longer-term commitments would be recognised and there would sufficient lead time.
	5. The board noted that if the latest income projections materialise, then an additional £162.8m would become available for allocation compared with the previous projection. It was confirmed that this would follow the usual split between countries. Further clarity on the figures presented at Annex G surrounding the additional share of projected income could be provided out of the meeting.

**Operating Costs Budget proposals – P07**

* 1. Board reviewed the proposals set out in Board(21)P07 for the 2021/22 budget. Harnish Hadani explained that these were set after a detailed planning exercise with the directorates earlier in the year and following on from the indicative budget set at the end of 2020. Revenue assumptions underpinning this budget were consistent with the latest income projections and the grants forecast. In preparing the budget for 2021 all of the savings from the directorates had been captured as well as other initiatives to enable appropriate choices to be made for the future.
	2. The Board noted at Annex A the proposed budget for 2021/22 and at Annex B the proposed list of contingency, with the largest component being the estimated dilapidation on Plough Place, although it is hoped that the cost will be lower. The 21/22 operating costs as budgeted will be 7.55% of revenue which is within the cost threshold of 7.75% from 1st April including the contingency.
	3. The Board asked for further detail on the London property move. Neil Harris provided an update explaining that the Fund would have to move to a civil estate property at the end of its current lease in June. Discussions were ongoing with the Government Property Agency with 3 options considered and the likelihood was a move to the Whitehall Estate. Considerations were not solely financial but encompassed other elements such as staff welfare, as well as the benefits of co-location with relevant departments and stakeholders. The Board were reassured that plans were being developed to ensure staff could continue to work flexibly and efficiently from home. The future working model would also make use of community settings which is consistent with the Fund’s approach to work closely with the communities we serve.
	4. Elizabeth Passey disclosed that she had introduced the Fund to the managing director of Canary Wharf. She had not been in touch with anybody since the initial enquiry a year ago.
	5. Having discussed the above, the Board approved the operating cost budget for 2021/22.
1. **CEO Report – P08**
	1. The CEO report was taken as read. The Board nonetheless thanked John and commended him for having maintained regular contact since he became interim Chief Executive. Asked to share the learnings in his interim role so far, he stressed the large number of priorities to address in a very dynamic environment.
	2. With regard to the recently released report on the NAO investigation into funding charities during the pandemic, John explained that he was preparing for the Public Accounts Committee’s appearance in April and to that end was meeting with the Permanent Secretary shortly.
	3. Sandra McNamee thanked John for the reports that highlight the large amount of progressive work being achieved and commended staff for their hard work.

1. **Audit and Risk Committee Report – P09 and AR(21)M01**
	1. The Board noted the minutes of the last Committee meeting on 15 March 2021. Emma Boggis explained that going forward the Committee would also present a short paper calling out the key points discussed at the meeting.
	2. Two topics were raised in the report, the first on the scope of the DCMS investigation and assurance that we have the processes in place and are managing the investigation from a governance perspective, the second being the relationship to government, including the link to evaluation and demonstrating impact.
	3. The Audit and Risk Committee had approved the Internal audit plan 2021/22 and the ability to deep dive into areas of specific interest such as the work on data, and any other areas the Board would be interested to explore in more depth.
	4. The Board noted that the full Organisational Risk Register had been reviewed at the Audit and Risk Committee and there had been a suggestion that some of the risks had moved. More detailed information on risks related to recent areas of concerns would be brought to the next meeting. The Board were reassured that the Audit and Risk Committee reviews the register quarterly and the Senior Management Team reviews risks monthly, so risk is actively managed with consideration for controls in place.

**ACTION:** Harnish Hadani

* 1. A query was raised on the concerns expressed regarding the delivery of the internal audit plan. Over the last quarter some problems had arisen in the relationship with our external providers and the delivery of the plan. The executive had held robust conversations and were confident that the plan would be delivered during the year without impact on future years. Although the relationship with the internal audit providers has been difficult, the Board were given reassurance that the Interim Finance Director and his team were addressing issues. There was recovery in place to ensure that as much as possible is done this year and realistic expectations are set for next year, also taking onboard any feedback from the providers on potential areas of frustration.
	2. It was noted that safeguarding was a topic for a future deep dive, acknowledging the significant reputational risk it for TNLCF as a funder, as such it would be presented to Board in due course.

**ACTION:** Kate Beggs

* 1. Elizabeth Passey reminded the executive of the corporate sector’s requirement to involve smaller accountants in the audit, which at some point could affect organisations such as the Fund. She also suggested when referring to the people risk that we are mindful of risks to Board members and suggested to look into appropriate provisions for directors’ liability insurance or similar requirements for an NDPB.
	2. These points would be followed up.

**ACTION:** Head of Legal

**10. Board forward look – P10**

* 1. The Board noted the forward look until March 2022. They suggested that the Annual People Report explain the changes in FTE following the earlier point on staff numbers in Scotland. They also raised whether closed sessions could be re-introduced at future Board meetings.

**11. UK portfolio annual report – P11**

* 1. Cassie Robinson introduced the progress in the UK portfolio over the past year and its evolving role moving forward. She highlighted two areas of work, the funding programmes focussed on funding UK-wide and the specialist funding programmes and thematic areas such as climate action, digital, leaders with lived experience, as well as a more explicit function around innovation policy and practice.
	2. The Board noted that the UK portfolio sits within the new Funding Strategy directorate offering a service to other directorates, with special expertise in the methodologies of innovation to embed new or better practice such as how we fund digital better or bring a climate lens to all of our grant making.
	3. In addition, the wider funding strategy directorate along with other parts of the Fund are pulling together the Civil Society Strategy, in addition to an ongoing process of collective sense making across the Fund.
	4. The Board noted that the partnership agreement with IKEA, the first such partnership with a corporate body, would be signed imminently. An explicit part of the partnership will be to create a learning lab to enable the Fund to further explore how to work better across sectors, including the private sector.
	5. The Board welcomed the partnership and were reassured that the paper on Private Sector Engagement would be presented at a future meeting, as more thinking was required particularly on opportunities arising post lock down.

**ACTION:** Emma Ackerman

* 1. The Board were informed that some of the programmes that had been standing alone so far could in the future feed into all our funding programmes. The innovation drive would enable the team each year to do smaller funding as a way of prototyping policy and new ideas which could potentially be scaled out and spread across the Fund.
	2. The Board felt that the process of collaboration is very important and noted that there is a wealth of knowledge, skills and experience across the UK to be shared, with COP 26 presenting an exciting opportunity for that UK approach. The upcoming new policy directions should also be taken into account.
	3. The Chair thanked Cassie and Emma for their contribution.

 **12. CLOSE**

* 1. The Chair acknowledged the meeting had run over considerably and several participants had other urgent meetings to attend that had been postponed twice during the meeting. In terms of the Inquiry, having received the outline from DCMS last evening she would ensure that the Board receive as much of that information verbatim once she had received clearance from DCMS as to what elements could be shared, and verified that she is working within the parameters set by the department as it is a DCMS Inquiry, and not that of the Fund.

12.2 She reiterated the position which had been made clear on two issues mentioned in the introduction and emphasised that we were working intra vires. The legal advice was available to anyone who wished to see it. She expressed her sincere hope that going forward the Board would work collegiately as a team, looking ahead and focusing on the extremely uncertain and difficult future faced by the people that we are here to serve. She also hoped that the organisation would not dwell on the past and instead learn from it and use it to devise a better future for all concerned. She undertook to share the details of the Inquiry by the end of the day, subject to DCMS approval.

12.3 A request was made by a member of the Board to continue the meeting in the Chair’s absence with the Vice-Chair, however the Chair expressed the importance of fully transparent sessions henceforth with the entire Board in attendance. To another suggestion of holding a separate Board meeting in the near future to further discuss the points raised at the beginning of the meeting, the Chair advised that Board members should digest the written information first and make sure they have a full understanding of where we stand before pressing for another meeting, and did not anticipate the need to meet in the absence of additional developments.

12.4 There being no further business, the Chair thanked all very much for their time and closed the meeting at 10.51am.

Minutes agreed

Blondel Cluff CBE, Chair of the National Lottery Community Fund