

Digital, Culture, Media and Sport Committee

Oral evidence: What next for the National Lottery?, HC 619

Tuesday 1 March 2022

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Members present: Julie Elliott (Chair); Kevin Brennan; Steve Brine; Clive Efford; Giles Watling.

Questions 94-147

Witnesses

I: Dr Darren Henley OBE, Chief Executive, Arts Council England, and Chair, National Lottery Forum; David Knott, Chief Executive, National Lottery Community Fund.

Examination of witnesses

Witnesses: Dr Darren Henley and David Knott.

Q94 Chair: Welcome to the first evidence session of “What next for the National Lottery?” We are pleased to have with us Darren Henley, chief executive of Arts Council England and chair of the National Lottery Forum and David Knott, chief executive of the National Lottery Community Fund. Thank you for joining us this morning, particularly given that there are so many transport problems today. We have a number of set questions that we will ask you this morning, but if there is anything particular you think we are missing, I am happy for you to mention it at the end. This is your opportunity to tell us what you think is next for the National Lottery. I will start with asking the following: other than to distribute funds, what role do you as distributors play in your individual sectors?

Dr Henley: Good morning and thank you for the warmth of your welcome. Arts Council England is a national development agency for culture across the country. We work as part of a family of National Lottery distributors, which take the good cause money from the National Lottery and right across the country, making a positive difference in people’s lives in towns, villages and cities across England. We are obviously here to represent England, but alongside us are arts bodies across the country in the devolved nations, and the same goes for sport. I will let David explain what they do for the UK-wide distributors.

David Knott: Good morning. My name is David Knott. I am chief executive of the National Lottery Community Fund. You mentioned distributing, which is our key role. We distribute £600 million a year—40% of the good cause money from National Lottery—to charities and community causes. The role we play is, of course, to distribute money to brilliant causes across the UK. We are a UK-wide organisation. We also have a strategic role around the strength and vitality of the voluntary community social enterprise sector. As an example, one of our indicators is that at least 80% of our funding is going to registered charities and community groups. That is a very important part of our responsibility to strengthen charities and communities right across the UK.

Q95 Chair: How do you support organisations that lose National Lottery funding?

Dr Henley: We work on three levels. We have an open project grant programme, which works with small grants and grants of over six figures, so it ranges from small to quite large amounts. That is a continuous rolling programme. Then we have strategic funds. Those will be things like our Creative People and Places programme, for example, which you will know of through Sunderland, where we work on the Cultural Spring programme. That is about long-term investment in places around the country where there has been low engagement with arts and culture. We are putting in infrastructure, bringing people in, co-curating with them and creating arts and culture in those places.

Then we have a set of strategic funds on top of that. Other big programmes we support through the National Lottery are ones such as Youth Music, which has £9.5 million a year in funding and is working in every constituency across the country.

- Q96 **Chair:** Is the guidance on how that money is allocated publicly available? Is the way you prioritise giving out money made public?

Dr Henley: Absolutely. If you go to our website, you can see how that is set out. We set it out as part of our 10-year strategy. From the Arts Council's point of view, we have a 10-year strategy called "Let's Create", which is looking at 2020 to 2030 and that sits with our National Lottery funding, alongside our grant and aid funding, so we have a strategy for both.

David Knott: At the Community Fund, we have three funding products. First, our small grants, which are between £300 and £10,000. That is our National Lottery Awards for All, which is the majority of our funding. About 80% of all our grants go through those small, grassroots grants. We then have something called our standard product, which is between £10,000 and usually about £500,000. They are often longer-term grants. Then, we will also engage in strategic or partnership programmes that might be multi-year. You asked about the criteria for those; they are all publicly available. We get huge demand for all those funding products and we get many new organisations. Over covid, almost half of our awards were to organisations that came to us for the first time. We are incredibly proud of that ability to bring new organisations and, often, we will see that the small award may be an entry point into longer awards, either through the Community Fund or other National Lottery partners.

- Q97 **Chair:** Over the years, how have you managed the changing trends in returns for good causes over the current National Lottery licence period?

Dr Henley: One of the things that has happened relatively recently is that we get a much better quality of financial data and forecasting from the Gambling Commission, which is one of the things that the Public Accounts Committee made as a recommendation in 2018. We get that and that has made our business planning, as you can imagine, a lot better. That is something that is important for us because, obviously, we need to know about that income. Income has held up well. We will probably come on to talk about the fact that we are very keen to make sure the money that comes to good causes is allied to profits of the operator, but we have seen a growth in recent years. So the lottery is in good shape at the moment in terms of our business planning.

David Knott: Similarly, we are using those Gambling Commission estimates. We take a five-year forecasting view. When we make an award to an organisation, we score that as expenditure, so it is really important that we take that longer-term view there to make sure that those managing the charities and communities' incomes can be absolutely certain about the grants that we are entering into. We take that five-year



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view and allocate money into our country and regional programmes accordingly.

Q98 Clive Efford: Thank you for coming to give evidence to us. Returns to good causes were 2% higher in 2016-17, but Camelot's profits were up by 122% in that same time. Do you feel that you are being hard done by?

Dr Henley: We are really keen that the new licence allies the returns to good causes with the profitability of the sector. It's a big operator. It is clear that we cannot affect the terms of the current licence, but we have made it very clear that we think that is really important for the new licence.

Q99 Clive Efford: It goes without saying that it is important, but are you confident that that situation will change? Returns to good causes per pound spent have fallen from 27p in 2009-10 to 22p in 2016-17. That is not what Camelot was given the contract to deliver, is it?

Dr Henley: With the next licence, what we are hoping to see is gambling safety and propriety at the top, and then returns to good causes. We are really keen that there is a substantial return to good causes and that it is absolutely allied to the lottery operator's profits.

Q100 Clive Efford: But how have the returns for good causes affected the funds you distribute? For example, funds you distribute on behalf of the Government or devolved Administrations.

Dr Henley: The more money we bring in, the better the distribution levels we can maintain, so it is absolutely in all our distributors' interest to have the largest amount of money coming into the good causes.

Q101 Clive Efford: When you just said that you thought that the lottery was in good shape, you were referring to the period of covid, not overall. Or are you suggesting that the situation that we currently have with the profits of Camelot being higher and the amount per pound going to good causes falling—you cannot possibly be saying that that is a good situation?

Dr Henley: Absolutely, we want to see the profitability tied to the amount of money we get. It is obviously working under the terms of the third licence, and we, as lottery distributors, can't affect that. However, we have been very clear, when asked on our position for the fourth licence, that we absolutely agree with what you are saying; we want to see it tied completely to the distributors' profitability.

Q102 Clive Efford: How do the fluctuations in income for good causes affect your funds?

David Knott: As I said in my previous answer, we have taken that five-year view on our grants profile. During covid, we actually had a record year of funding. For the first time, over £1 billion of funding went to the grassroots communities that we are here serving, so it is vital that we have a strong National Lottery brand that people are confident will continue to be part of our national life in the years ahead.



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Q103 **Clive Efford:** Do you have a view on Camelot's profits going up while the share for good causes has gone down?

David Knott: Absolutely. What we have said, here, is that the Gambling Commission has got the process there and has put that alignment of the incentives for good causes at the heart of the next licence, and we are ready to work with that operator.

Q104 **Clive Efford:** This is what we were told last time—that it would deliver for good causes—but it hasn't. Are you confident that you have been engaged enough, by the commission, in drawing up the new contract, and that the issues for you, in maximising money for good causes, have been addressed?

Dr Henley: We have been very clear. We have spoken to the Gambling Commission; they have come and talked to us, and they talk regularly to our finance directors too. We have been very clear that we absolutely see that alignment, between revenue coming into the good causes and profitability, as being central. We also want to see clarity of income, going forward. We think that any new operator—or any operator—should ensure that they can give us very good forward planning, enabling us to make investment decisions. We also think that safe gameplay, and the ethics around it, is an important part of that too. We have made that very clear in the consultations that we have had.

Q105 **Chair:** Are the returns that you get going up more than inflation? In real terms, is funding going up or down?

Dr Henley: From the top of my head—I am just working it out—they would be below inflation. Sorry, I just had to work that through.

David Knott: That is correct.

Q106 **Steve Brine:** Welcome. The National Audit Office and the Public Accounts Committee here, as you know, back in 2017 and 2018, respectively, made a number of recommendations about the way that the National Lottery system operates. I think the best way to summarise it, for those watching, is probably with three pillars.

First, it was around affordability of the grant programmes, so they were concerned that you were making commitments to good causes faster than the distribution fund balances allowed. Secondly, it was about information sharing. They were concerned about the Department withholding information around the volatility of sales from week to week. Thirdly, raising awareness of returns to good causes was a concern that the PAC raised. It said: "Camelot should work with the Lottery Distributors to better publicise the link between good causes and the Lottery".

How have things changed in the four or five years since those reports? I will start with you, Dr Henley.

Dr Henley: On the quality of the financial information that we now get, that is there on a weekly basis, and we see that, so that was a big change, which I think has made our business planning much better. With the link



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and work we do through the National Lottery Promotions Unit around tying gameplay to good causes, and, really, that cause and effect—if you buy a ticket, you make something good happen in your locality, or more nationally—we have done a lot around that.

Some of the big things, to give you an example of what we are doing there, are coming up around the platinum jubilee, the Commonwealth games, and actually with covid too. There was more than £1 billion with covid. It was a very good example, I think, of where we moved things very quickly and were actually able to say that there was a relationship between buying tickets and keeping the infrastructure going in those early days.

From our point of view at the Arts Council, we changed up our lottery programmes and created a £190 million programme for individuals, organisations that we do not usually work with, and our national portfolio organisations. That came in before the Government's culture recovery fund, so in that crucial period in March 2020 and the two or three months after that, we were able to make a big difference, and that was thanks to lottery players.

David Knott: I was appointed in October of last year, so I have not been here for all of that history. I do know, on the point about the forecast that we are getting from the Gambling Commission, they have increased the regularity. My finance team feel that they have the information that they need to look, as an organisation, at how we are allocating our grant profile.

Q107 **Steve Brine:** Can I ask you about the operator? How much of an impact would it have for you if there was a change in the license holder?

Dr Henley: There are two periods: the period of wind-down, where the operators are changed, and then the period when the new operator kicked in afterwards. In our minds, we see those as the two periods where there would be potential volatility in the marketplace. We know that DCMS and the Gambling Commission have put in place plans were the operator to change. That is the risk. If the operator changed, we would want to make sure that any outgoing operator maximised revenues—kept going, basically—and that there weren't then teething problems with a new operator. There is going to be a big infrastructure change at that point, if you think about the number of terminals that would need to change.

Q108 **Steve Brine:** Tell me some more practicalities. You just mentioned terminals; there are tens of thousands of terminals in tens of thousands of small and large retail outlets all over the country. Tell me some more practicalities of the impact on your work if there was a change.

Dr Henley: That is a role for the Gambling Commission. From our point of view, we look at the outcome. What we want to do is maintain revenue streams all the way through—that is our crucial thing. Anything that changes or risks revenue streams means that there is potentially less money for good causes. We have been assured by DCMS and the Gambling Commission that they are thinking about that.



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Q109 **Steve Brine:** What do you think, Mr Knott. Would you prefer that there was not a change?

David Knott: Obviously, all I would say on the distribution side is that it is for the Gambling Commission to run that process. As Darren has said, I know that they look very hard at a smooth transition period. Ultimately, our goal is having a really strong National Lottery brand, that is part of our national life and continues to give us resources. Over the last 28 years we have given £45 billion to amazing causes right across the country. We are ready to work with whoever is selected as the next operator of the National Lottery.

Q110 **Steve Brine:** Let's talk about the awareness of good causes. What responsibility do you have as distributors of National Lottery money to educate punters who pay their £1, £2 or £3 a week playing the game about where their money goes? I have to say, as a constituency MP, I feel very well informed about where money goes in my constituency—I hear about it from you. What is your responsibility in this area?

David Knott: All of us in the National Lottery family have a key and enduring role of connecting the good causes to those who are playing the National Lottery. We have information that is publicly available. You can go on to both the DCMS grants website and our own website as a distributor and type in where you live, the cause you are interested in or the constituency you are part of, and you will see all of those local causes. In the case of the Community Fund, it will often only be several hundred metres away from where you live or work; we have put in 72,000 over the last five years right across the country. We work with the National Lottery Promotions Unit on spreading that message in key moments; for example, the recognition of the National Lottery brand has risen quite significantly during covid, because people have seen the difference that the causes have been able to make. Darren spoke about the jubilee, which is another key moment in our national life. There are others, such as the Commonwealth games. We work collectively as a family to really bring out the value and the impact we are having on local causes.

Dr Henley: On things such as the 25th birthday of the National Lottery, and the 30th in 2024—which, by coincidence, will be at the start of the new licence—we hear those organisations who are recipients talk about them. That is really important. David gave examples on a community basis, but we also have the BFI with film, we have sport—whether it is grassroots or Olympic athletes—and we have the Arts Council with arts and culture organisations. We are always trying to tell that story and get that link so that people understand that buying a ticket and playing the game is making a big difference in everyone's lives. As someone who spends a lot of time thinking about the National Lottery, all the things that make life a little bit more worth living are being funded by the lottery, and that is amazing.

Q111 **Steve Brine:** Tell me if I'm wrong, Mr Knott. You say it is on the website and you can go and put in your postcode and so on. Why do I think that most regular punters who play their £1 lottery ticket each week are not



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going to your website and putting in their postcode to find out the answer? It is a very “Come and get it if you’re interested” system. Is there a way, maybe through people playing through the app—you clearly know who they are—that you can be more push-focused?

David Knott: That is a really interesting question, actually.

Steve Brine: It is just data management, isn’t it? That is all it is.

David Knott: I think there is an opportunity for us to see what more we can strengthen here. In the Community Fund, as part of the strategic renewal that we want to start in the spring, one of the questions that we want to get to is what our role is in being able to make that connection back to those who are playing the lottery.

You are right that there are ways that we could look to get even stronger on that—getting ready for the digital age, making sure that all those who are benefiting from local projects are talking about and showing the impact that they have. Every month, something like 1.8 million people across the country are benefiting directly just from Community Fund projects alone. Nearly 300,000 volunteers each year are given opportunities because of the funding that our grant recipients enable. I really want us to be part of that story even more strongly than perhaps we have been in the past. You can see it, of course, in sports and arts—the incredible legacy we have had over many decades. I agree that I want us to get even better and sharper at bringing that focus back to those who are playing the lottery.

Q112 **Steve Brine:** You said, “getting ready for the digital age”. With respect, we are some way into the digital age. How much work is actually going on? If I play the lottery on the app in Winchester, my constituency, you would know my name, my postcode, my habits of playing the game. Would you envisage a situation whereby you could push information to my email address, which I would have to give when I registered on the app, about recipients close to where I live in Winchester?

David Knott: That is exactly the sort of thing that—

Steve Brine: That doesn’t happen now, does it?

David Knott: We have greater potential for us to be able to do so, to look at the geographies and where people are applying, where projects are awarded and who is benefiting from those.

Dr Henley: I would agree with what you said in your question, which is that it is a data issue. We now have a chief data officer. One of the things he is looking at is how we can maximise the data and build that relationship more with consumers as we go forward. We hope the new licence will allow that to happen.

Q113 **Steve Brine:** Do you think too much focuses on the lottery’s funding of the Olympians and the Paralympians?



Dr Henley: From my point of view, and I am no sportsman, I think it is fantastic that that link is made. It is a really important thing. It is a moment and it happens, and we think it is a very effective communication, but there is a lot more that the National Lottery does beyond that and we have to make sure that we get those moments as well.

We mentioned things like the jubilee and the Commonwealth games. We have a whole cultural festival around the Commonwealth games. There is heritage work on it. You are doing community and volunteering work. It is not just about the sport.

Q114 **Steve Brine:** Mr Knott, I think you mentioned smaller awards being given during the covid era to new entrants—people who have not received awards before. Does that create an expectation problem for you, in that there are now a lot more organisations that think, dare I say it, “It could be me”?

David Knott: Our small grants—80% of grants that we give—to those small organisations of between £300 and £10,000 are usually for within year, one-off programmes. That can be an entry route into longer term grants and support that we will give. During covid, nearly half of all those awards were to new organisations. It is actually a good thing that we are bringing new organisations into the National Lottery family. As part of our grant support, we are also helping organisations think about what other routes of funding there are, whether that is from the lottery or elsewhere, that they are able to go and reach. Of course we are not able to fund all the organisations that come to us, and we have to be realistic about draws on our demands and the expectations that we can meet. Fundamentally, I see it as a very positive challenge for us to have that we are bringing new organisations into the National Lottery.

Q115 **Steve Brine:** It is probably a good thing, isn’t it, that demand for your fund outstrips the supply of the fund, because you want it to be a competitive process, don’t you? You don’t want to be the lottery version of “Brewster’s Millions” do you, where you just give it out to get rid of it?

David Knott: Exactly. That is our fundamental problem and challenge. We see huge demands from our communities for National Lottery funding, and we are not always able to meet that, and we will have competitive processes to make those awards.

Q116 **Chair:** Could I just go back to what was said about publicity and how people know what is happening? We had a session a while ago with some athletes who had benefited from National Lottery funding. I am paraphrasing, but there was certainly a feeling that individuals did not always know that the National Lottery was funding various things that they were doing. In terms of the publicity, the big organisations know where the money comes from, but do you think that the National Lottery is effective and the organisations that give out the money are effective in letting the people who benefit at the very end of the chain know where that money comes from? Or do you think it is very much just a publicity thing that the big organisations know where that money comes from?



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Dr Henley: Some are better than others, and there will be a variability out there. When we are communicating grants to people, we ask them to tell that story. When I look at the National Lottery—

Q117 **Chair:** Do you do any follow-up on that to see if they actually do that?

Dr Henley: Yes, we do. It is a part of the terms and conditions, so when they give us a grant report, they have to tell us what they have been doing in that work. For me, the National Lottery is a set of really powerful stories, and the more we can get those stories out there, the better. It is something that we have worked on as a family quite a lot now to see either how thematically we can bring those stories together—the jubilee is an example of that—or what we can do in individual areas, geographically, to tell the National Lottery story. Actually, we are all investing in places simultaneously, too.

David Knott: It is exactly the same as in our terms and conditions. We put a lot of effort into making sure that we are helping organisations to tell that story. When you go round to see the projects that we are backing, you will often see the National Lottery logo on the signage on the buildings. When you talk to people they are often aware of it. Can we do even better at telling that story? We all have a common interest in making sure that those who are benefiting from and those who are playing the lottery see that impact.

Dr Henley: We try very hard to thank the players as well. I think that is really important because it is not just an entity, a thing, it is about individuals doing that. To take the Fire Station in Sunderland as an example, the National Lottery Heritage Fund funded one part of it, and Arts Council England funded another part. We thanked the National Lottery players; it would not have happened without them.

Chair: And it is fantastic.

Q118 **Kevin Brennan:** Happy St David's Day everybody. Are you frustrated, Darren, with how long the process has taken to award the new lottery licence?

Dr Henley: It has certainly taken a long time. It is not, though, for us to set that process; we are at the other end of it, if you like. The Gambling Commission and DCMS have set that process, and we will follow it.

Q119 **Kevin Brennan:** There has been quite a lot of speculation in the media about who will take over, and most of the speculation says that a decision has already been taken and a recommendation has been made, and that it will be Camelot again. Have you heard that on the grapevine?

Dr Henley: I have read the newspapers that you have read, but we have had no insight into the process. We have been kept very much away from any decision making, so we genuinely have no idea.

Q120 **Kevin Brennan:** Okay. The Gambling Commission has written to the Committee and said, as of a couple of days ago, that no decision had been made and no recommendation has even been made to the board.



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Have you heard the same thing?

Dr Henley: I have had no communication from them on that basis. My entire knowledge is based on what I have read in the papers, although I do not know how accurate that is.

Q121 **Kevin Brennan:** Okay. Steve Brine has asked some questions about data and so on, so I will leave that, but I am quite interested in your opinion of society lotteries and the larger umbrella-type society lotteries. What is your opinion, both of you?

Dr Henley: The small lotteries are a good thing, and we understand that they are part of the marketplace. We are concerned about umbrella lotteries, particularly when they market themselves on having big prizes—very much moving into the area of the National Lottery. We think that there can be some confusion in the marketplace there. We worry about umbrella lotteries and what they might do in terms of harming the National Lottery going forward.

Q122 **Kevin Brennan:** As public policymakers, what do you think we should do about that concern?

Dr Henley: Our view is that they should be limited in what they can do. It was set up as a monopoly, and anything that damages the National Lottery risks damaging the good causes in the end. We are interested in what money we have to distribute as good cause distributors.

Q123 **Kevin Brennan:** So the current rules around large society lotteries need to be tightened.

Dr Henley: Some changes were made relatively recently, as you know, and it would be—

Q124 **Kevin Brennan:** More of a liberalisation than a tightening up, weren't they?

Dr Henley: They were more of a liberalisation. The interesting thing is that they came just at the start of covid, so it hard to see exactly what the marketplace was doing at that point. We know that data is being captured, and we would want to understand what effect that has had. We certainly would not want to see any further liberalisation until there is a real understanding of how that may have impacted on the National Lottery.

Q125 **Kevin Brennan:** David, I see you nodding. Is what Darren said broadly what you think on the subject?

David Knott: Precisely, and we have given evidence when consulted as a family on this. The only point I would add is that, at a local level, society and local lotteries are often an important part of the funding ecology. In lots of our projects, you will see National Lottery funding working alongside smaller local lottery funding, so it is absolutely part of the funding ecology. As Darren was saying, the distinction is important given the National Lottery brand and the way that we operate.

Q126 **Kevin Brennan:** Would you go so far as to say that issues around large



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umbrella or society lotteries of this kind might turn out to be the biggest challenge facing returns to good causes from the National Lottery in the next period, or are there other challenges that you think will be more important?

Dr Henley: Further liberalisation would definitely challenge the lottery. We are interested in having as much money as we can to give out to good causes, and we know that anything that threatens that is a risk. We would definitely not want to see that under threat.

Q127 **Kevin Brennan:** So would you describe it as potentially one of the largest challenges?

Dr Henley: It is certainly something, yes, were there to be further changes.

David Knott: The basis of the evidence we have given before is that we recognise that it is a significant issue.

Q128 **Kevin Brennan:** While I've got you here, Darren, I just wondered, in the context of what is going on in the news around Russia, are the Government's policies on sanctioning various individuals, companies and so on going to have an impact on arts funding and the Arts Council? Is that something you're assessing and have an opinion about?

Dr Henley: Just to clarify, which parts of arts funding would you be particularly—

Kevin Brennan: There are sponsorships of various museums and galleries, etc. I am not talking about sports funding, but specifically money that might be coming from sponsorship or philanthropy that might be associated with Russian oligarchs and so on. Is that an issue for the Arts Council? Is there potential loss to art and culture as a result of what has happened?

Dr Henley: Philanthropy, given where we have been on a macro level for the past two years, is going through a period of lots of people assessing it. There are potential challenges for organisations' income streams from high-net-worth individuals across the piece. We are working with that and trying to understand how that is going to play out. Often it is quite short term, and decisions can change from week to week, but it would be fair to say that there are challenges around philanthropy, both here in London and across the country.

Q129 **Kevin Brennan:** But as far as you're aware, there are no major cultural institutions who could be impacted in a huge way by—

Dr Henley: I have not had any conversations in the last week about that, no.

Q130 **Kevin Brennan:** Okay. I just want to ask you about one other thing. We are a bit creative on this Committee and can go slightly off piste—as we should be, being DCMSC. What is your response to the recent announcement by the Department about additional funding to support



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the so-called levelling-up agenda in arts and culture?

Dr Henley: Arts Council England has new money to spend outside of London to a total of £45.3 million over our three-year funding period. That is good news. It means that there will be more cultural activities and artists and that more organisations will be funded around the country. We will also be moving some money from London outside London, because there has been a historical imbalance. That will create challenges in London. We understand that and we are working through that with people in London.

There are other programmes. Often people forget about the cultural investment fund, which was announced in the Budget and which will mean more work in more places around the country. Of our National Lottery funding, 75% is now spent outside London, and of our grant-in-aid funding, 60% is spent outside London. That is a historical shift. We will continue that process. We believe that everybody, everywhere, wherever they live in the country, should have access to projects that allow their own creativity to come to the fore. They should have access to great professional arts and culture on their doorsteps.

Q131 Chair: If the amount of money raised that came to your organisations from the lottery suddenly declined, do you think the Government would step in and support those organisations, or do you think that good causes would just suffer?

Dr Henley: I have never had a conversation in which anyone has suggested that they would step in.

David Knott: We are fully funded by the National Lottery, so we have not had any conversation about that. Taking a step back and thinking about the charity and community sector as a whole, it is a £50 billion sector in the UK. We are very lucky to be able to fund charitable and community causes with £600 million. There are many other sources of income alongside that for the charity and community sector, such as philanthropy and earned income. I think your question is right; we do want to see that continued income for all our good causes, because we know that it is a vital source of support for those causes—in our cases charity and community causes we support locally.

Q132 Giles Watling: First, I want to pick up on the 25% disbursement to London that Kevin Brennan was talking about. By any measure, that would appear to be imbalanced. There are other major cities up and down the UK, and London, with 25%, would be getting the lion's share, wouldn't you say?

Dr Henley: I think there will always be a need to invest in our capital city and to have a world-class city. That will be part of what we do, but 75% of the money going to places outside London is, we think, a positive step.

Q133 Giles Watling: You think it is a good proportion?

Dr Henley: Yes. It is probably not the final proportion, but it is certainly the direction of travel. When I started at the Arts Council England, it was



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around 60%, and we are moving to 75%. We feel that it is a good investment. I believe passionately in arts and culture in towns, villages and cities up and down the country. Before covid, I spent half my working week travelling the country. That was part of what I did, and I think it was really important. We need to continue to build on that. There has been historical underfunding in places, and we need to correct that over time.

Q134 Giles Watling: Is there a particular target you would like to achieve, or is it forever flexible?

Dr Henley: There is going to be a period when we will get to the right number. I am not sure we are there yet, but I am not sure also what the right number will be. We will need to be looking at what is out there, where demand is and how we can grow it, but it needs to feel fair. We talked about Creative People and Places, which is a programme that is creating infrastructure and creating demand, if you like. It helps people go to places where we can then co-curate with them. We ask them what they would like, and we then create that demand. I like that. I want them to be more demanding of us as an arts council. I want them to bang the table and ask for more. One of the challenges, whether we are talking to National Lottery players or to Government, is in saying, "Look, we have got this demand, and we know we can do more." Then we ask for more.

Q135 Giles Watling: You have headed me off at the pass, because that is exactly where I was going—creating demand by that disbursement.

I would like to move on to your work on disbursing the funds from the CRF. I understand that you did that. Did you learn any lessons from that? It was suddenly dumped on you. We suddenly had covid and this £1.57 billion package, a great part of which you had to disburse, which is a massive undertaking. You clearly had to change the way you worked, and you would have had to take on, I would imagine, more staff to deal with it. Is there anything you learned from that that you can apply to National Lottery disbursement?

Dr Henley: We learned a lot. It is a really good question, which we have spent a lot of time thinking about. You accurately talked about speed. Nobody imagined a sector where all revenue streams were just going to turn off overnight, and we had no real visibility about when they were going to come back. Speed was very important. Like David, we also worked with a lot of people we had never worked with before. That is quite interesting. We now have a relationship with them, which is a positive thing. It fits very much with creating our 10-year strategy, which is about reaching out to new audiences and new creative people, and understanding different people's definition of what their own arts and culture is, not having a central one that we impose on them. Again, that is the idea of co-curation.

We have learned a lot about our systems and processes, and have modified them. They will not be big showbiz moments, if you like, but they will be something that for us inside the organisation we have really seen and understood. All of that has gone into our National Lottery grant giving and our new national portfolio organisations funding round.



Q136 Giles Watling: To be fair, there were criticisms, because some funds went to causes that people questioned. I would like to think that there would be lessons learned from that disbursement of funds, and that you would be—how do I put it?—more accurate in the way that you disburse them. David, do you have any comments on that?

David Knott: Let me just go back to explain what we were responsible for distributing in the voluntary and community sector. The Government made £750 million available. We were responsible for delivering £200 million of that in England. Most prominently, the coronavirus community support fund was doing a mix of supporting charities to deal with income volatility and the new demands to reach frontline communities over covid.

Similarly to Arts Council England, we have a huge series of lessons and learnings. We published a comprehensive evaluation in the autumn that says that for every £1 that was invested, £1.70 in value was returned. We supported 4,000 charities to continue to operate that would not otherwise have been able to operate through that period.

Similarly to Arts Council England, there are a lot of important lessons about the way that we work, and the shifts in models. For example, before covid our systems of controls required us to visit, and receive paper-based materials from, organisations. We have started to apply a lot of different systems inside our organisations.

Again, that speed was incredibly powerful and critical. In both our organisations, the fact that our staff were able to pivot so quickly—working from makeshift desks, and balancing home schooling alongside a significant increase in funding—was rather incredible. As we return and start to say, “What does this mean for us going forward?”, we are going to look carefully at our own ways of working.

One thing in particular inside the Community Fund is that it put a real spotlight on the importance of our smallest community grant funding. We reached nearly 11 million people during covid. We looked quite comprehensively in the autumn at the different beneficiaries that our different funding products reach. It is actually some of those smallest grant programmes that are reaching the most beneficiaries; the sixth of funding that is our smallest grant funding is actually reaching two thirds of our beneficiaries. That was the particular focus during covid. In our strategic renewal we want to look at the balance of our small, community, grassroots funding, which was vital during covid.

Dr Henley: The arts and cultural infrastructure of this country remains because of the culture recovery fund. That funding is probably one of the most significant interventions in arts funding in history.

Q137 Giles Watling: Do you have any regrets? We have heard a lot about the 3 million freelancers who fell through the cracks. I know that particularly affected the worlds of theatre and so forth, where technicians were leaving. We had a talent drain, if you like, with people leaving industries because they had to find other ways of making a living. Is there any way



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that we could have addressed those issues and got funding towards those people?

Dr Henley: When we did our emergency response fund right at the start, which was National Lottery funded, we did have funding for individuals. It is a really hard conundrum, because those individuals are in the end employed by the organisations, by and large, and without the organisations you could see there was going to be a real challenge. What we have seen—I don't in any way belittle how tough it has been for freelancers in the sector. I absolutely, completely understand that, but what we have seen is that as work has started to be created again, employment has started again as well, and that is coming through. Our fear would have been that, had those institutions gone under, we would have been in an even worse situation in terms of the renewal of work, but—

Q138 **Giles Watling:** The preservation of the institutions has helped the freelancers.

Dr Henley: Yes, but I do not in any way diminish the challenges that freelancers have had.

Q139 **Giles Watling:** The picture is positive, as far as you are concerned, regarding freelancers.

Dr Henley: It certainly seems to us that what is happening now is that people are being employed again as more work is being created again, so yes.

Q140 **Giles Watling:** Thank you for that. I have just a couple of questions about the fourth National Lottery licence. Did you have much engagement or did your individual organisations have much engagement with the Gambling Commission on the design of this licence?

Dr Henley: The Gambling Commission consulted us as a family of lottery distributors, and there was a series of things—we very much talked to them. As was said in relation to Mr Efford's questioning earlier, we were very, very keen to make sure we got that alignment between the revenues we got and the profitability. We are no experts in terms of gameplay and design of that, but we understand the value of safe gameplay and awareness of gambling harms, and we do not want to do anything that is unethical. However, we will still want to maximise the revenue that is coming in to us, so we made that very clear. And we did talk a lot about that relationship and what more we can do. The Committee has questioned us a lot—it is right to do so—on that relationship between good causes and gameplay. The thing that makes the National Lottery special is that it makes all these great things happen.

Q141 **Giles Watling:** Do you think that the Gambling Commission gave you sufficient involvement? Were you consulted sufficiently?

Dr Henley: Yes. They talked to us and asked us questions. Again, we are not experts in developing a licence, so we fed in where we could. We have not been party to any decision making. The licence applicants were



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enabled to talk to us—with the Gambling Commission in the room—to understand our businesses, so we were able to explain to them what the good cause distributors do, how we operate and what is important to us. So we spoke to all the applicants on that basis.

Q142 **Giles Watling:** Finally, there has been a bit of talk about the potential 15% weighting against the new bidders as opposed to Camelot. Do you have any comments to make on that? The weighting, I understand, is purely and simply because they are new.

Dr Henley: Again, we are not the designers, so it is not one that I have any expertise on, to be honest with you.

Giles Watling: Fair enough. Thank you.

Q143 **Chair:** That brings to an end our formal questioning, but I did say earlier that if there was anything that you wanted to add when looking at “What next for the National Lottery?”, you could. Is there anything else that you would like to add?

Dr Henley: Thank you for the opportunity. From our point of view, the National Lottery is a really important part of UK life. We think it makes amazing things happen, and we want to see a strong and vibrant National Lottery with the fourth licence.

David Knott: I absolutely agree with that.

Chair: Steve Brine just wants to come in finally.

Q144 **Steve Brine:** Dr Henley, I just want to ask you about a wider point. I suppose you could describe a sort of butterfly effect on the future of the creative industries. Arts subjects in schools are not as central as they may have been, and the arts premium does not appear to be appearing. Obviously, money is important and the grants that you give are crucial and life giving, but they are not the be-all and end-all in the supply, the pipeline, of talent to the creative industries. I just wondered whether you had any reflections on that.

Dr Henley: Well, I did a review for the Government back in 2010 or 2011 on music education and cultural education—I am unambiguous in my absolute support of the importance of cultural education for every young person. Subjects like music, dance, art and design, drama and film making are an important part of this, and not just for those young people who are going to get jobs in the creative industries, but for creativity overall. We need creative engineers and scientists. That is really important.

From my point of view personally and from the Arts Council’s point of view, we are very supportive of every young person having the opportunity to live their best creative life. Part of that will happen in school; part of it will happen out of school. Clearly, from our point of view, we do a lot of work around the “out of school”. I mentioned Youth Music, for example, who do some amazing work. Also, we have a range of projects like In Harmony, which is a community-based orchestral project in places like Stoke and Liverpool. There is a whole range of organisations



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that we continue to fund to deliver young people's work. It is really important that there is the school element of it, and we believe that the curriculum element of that is important, too.

Q145 **Steve Brine:** Has your review, which you rightly mentioned, been taken forward with the level of vigour that you would like?

Dr Henley: Well, with regard to music education, we had a national plan for music education that was put in place. That is actually being renewed at the moment; DfE is working on that. I recommended a national plan for cultural education and I still think that would be something that would be really powerful.

Q146 **Steve Brine:** Finally, when were you last in Winchester?

Dr Henley: I have not been to Winchester for two years—I can tell you that because I haven't been many places except my back bedroom for two years. But I promise to come to Winchester. Maybe I should come for the Hat festival.

Q147 **Steve Brine:** This will be fixed.

Dr Henley: Excellent.

Chair: That concludes our session for today. I thank Dr Darren Henley and David Knott for attending and giving evidence.