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Research Study into Outsourcing Grantmaking: Final Report

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Final Report

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FINAL REPORT

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August 2012

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The study was undertaken as a partnership between CRESR and Baker Tilly, with CRESR leading on the research and Baker Tilly on the development of a decision model for outsourcing. The research team at CRESR was led by Professor Peter Wells and involved Chris Dayson, Elaine Batty, Tony Gore, Jan Gilbertson and Sarah Pearson. Jim Clifford led Baker Tilly's work in conjunction with Chris Theobald and Thorin Ward.

The evidence presented and conclusions drawn in this report, however, remain the responsibility of the authors.

Contents

ES

Executive Summary

Introduction

This report presents the findings of the Research Study into Outsourcing Grant Making. The aim of the research is:

> ***'to increase BIG's understanding of the rationale for outsourcing grant making and the circumstances under which it makes best sense for BIG to use this approach.'***

This study considers the following forms of outsourcing used by the Big Lottery Fund (BIG):

- **Award Partner:** where an organisation is selected to operate a funding programme on BIG's behalf
- **Portfolio:** where a lead organisation applies to BIG and is responsible for the delivery of a group of projects
- **Trust:** where a Trust is formed and enacted by a trust deed. Within the terms of the trust deed, the trust is able to distribute the funding.

The study considered 22 programmes, all launched since 2004 and with a combined value of £1.082 billion. This is made up of six award partners with a value of £263 million, nine portfolios with a value of £419 million and seven trusts with a value of £400 million.

BIG has identified the following areas where there are benefits in it using an outsourced approach to better achieve its mission: **greater value for money; greater reach; and to enhance learning**.

Understanding Outsourcing

There is rich and well-developed literature on outsourcing. Interviews with staff in BIG implicitly reflected on many of the issues raised in the wider literature: managing costs, achieving strategic objectives, and the importance of relationships and tight contract management. The wider literature on outsourcing pointed to:

- **rationales for outsourcing**: the main private sector rationales appear to be cost reduction and efficiency improvements. Second-order factors are improvements to wider business performance, to exploit the capacity of an outsourcing provider, to divest the organisation of a problem, or to follow the lead of others
- **success factors in outsourcing** include: careful selection of which functions to outsource; involvement (and building) of cross-organisational teams; understanding and management of all relevant costs (direct, indirect and opportunity costs); contract duration, detail and flexibility; managing relationships; and retaining key skills within the outsourcing organisation.

But BIG’s concern and approach entail some important different issues from those described in the literature. These tend to arise from the fact that BIG is a non-profit organisation. Nonetheless, broad principles in terms of cost and strategy provide some lessons.

A further issue, which also occurs in the literature, is that in the case of Trusts and Award Partners, BIG is relinquishing its direct relationship with its (third sector) grant holders (its 'customers') and enabling another organisation control of grant distribution for a programme.

Lessons from BIG’s Experience of Outsourcing

Four overarching lessons emerged from the research into individual programmes:

- **BIG has sophisticated approaches and substantial capacity for the development and delivery of programmes** which largely, but not entirely, apply to all forms of outsourced programme. BIG's own systems and capacity for programme delivery were frequently more developed than those of the partner organisations it contracted with
- **BIG's approach to outsourcing has evolved and lessons have been learned.** Good programme development was the key to subsequent relationship management issues and such practices have improved
- **BIG could usefully do more to consider how outsourcing might affect its position in relation to wider policy fields, including the question of how far BIG does and should align its policy objectives with those of its partners.**
- partner organisations had their own strategies, motivations and objectives which may include delivering a programme on behalf of BIG to promote a particular issue, gain competitive advantage and market position, and secure resources
- **outsourcing provides BIG with a mechanism to manage its Lottery funding balances,** particularly through the scheduling of large programme payments to partners, although it does not necessarily provide a means to release funding-quickly.

Costs of Outsourcing

Lottery distributors are under increasing pressure to deliver grants in the most cost-efficient and effective way possible. Evidence from this and other research provides evidence on the costs of different models of grant making.

Grantmaking costs

On the whole it usually costs more (per £ of grant) to administer low value grants, smaller grant programmes and grants to individuals.

When compared with other lottery distributors and grantmaking foundations operating in a similar field, the Big Lottery Fund's administrative costs appear reasonable and proportionate. Outsourcing grantmaking functions is uncommon among funders, but where it does exist the administration costs appear proportionately higher than in-house grantmaking.

BIG has access to economies of scale and scope that enables it to keep costs down. Nonetheless, the rationale for outsourcing programmes includes purchasing additional expertise, reaching harder to reach groups and individuals, and to innovating, so it is likely that such economies may diminish – and the added value of outsourcing may increase.

Outsourced Grantmaking Costs

The costs of outsourced grantmaking are more complex than in-house grantmaking; not least because programme development and operating/administrative costs are borne by both BIG and its delivery partners. BIG's development and operational costs tend to be *outside* the programme budget whereas partner costs tend to be *within* it. Nonetheless, we found the following:

- **development costs:** For most outsourced programmes the chosen delivery partner receives a development grant from BIG to develop their business plan for the programme in more detail. Development grants are currently limited to £250,000 and account for a small fraction (typically less than one per cent) of the overall programme costs, and represent necessary expenditure for the outsourced partner, although in some cases BIG could have developed a broadly comparable in-house programme more cheaply
- **BIG development and support costs:** BIG also incurs costs during the development and delivery of an outsourced programme. For programmes currently in development BIG estimates these costs through a generic template for developing an operating cost budget. Our findings suggest that the cost to BIG of managing outsourced programmes is relatively low as a proportion of the total programme budget: less than five per cent in the examples we explored
- **programme delivery costs:** As with in-house programmes, the majority of the cost associated with outsourced programmes is incurred at the programme delivery stage. Our findings suggest that these costs can be anything from four per cent of programme expenditure for larger outsourced programmes to 14 per cent for smaller programmes. However, these costs did not always include expenditure incurred by delivery agents administering grants at levels below the outsourced partner. In addition, we found a cost advantage from the trust model, which through expendable endowments typically generated (or were hoped to generate) investment returns sufficient to cover direct delivery costs. These returns were directly used to increase the programme budget. Of course, BIG also generates interest on its balances, although such interest is most likely to be used to benefit subsequent programmes.

The data on costs can be qualified by interview respondents. Three general sets of comments were made. First, that development costs incurred by partners in the development of outsourced arrangement were only partly met by BIG; second, that delivery costs were generally seen to be reasonable; and third, previous delivery of programmes for BIG helped partners better meet BIG's needs.

Conclusion

Our research into the costs of grantmaking demonstrates that outsourcing grantmaking is likely to result in greater operational costs than in-house delivery due to extra layers of administrative and other transactional costs involved. Moreover, BIG may lose such economies of scale by outsourcing. However, there are exceptions to this, notably the £200 million Big Local Trust which has lower proportionate costs than other Trusts.

Under the current treatment of costs there is also the potential of a perverse incentive to outsource. Administrative costs incurred by partner organisations can be treated as programme and not operational expenditure under BIG's accounting rules and therefore may mask the true cost delivering grants through this route.

BIG's Outsourced Approaches

There was considerable variation within approaches, with few programmes or approaches being entirely alike. Nonetheless, they did contain common features, notably the importance of good and tight contracts (and in the case of trusts, trust deeds), well-specified programmes and of relationship management.

This research study found that each outsourced model did indeed bring benefits including access to **expertise, infrastructure and reach (BIG's current rationale for outsourcing)**. However, this alone does not provide a case for these types of outsourcing (for instance expertise could also be sourced through support and development contracts) nor necessarily the rationale for which outsourcing approach should be used. These issues are explored further in the main research report and are subject of a decision-making model, developed alongside this research.

Each outsourcing model has particular advantages as outlined below:

- **Trusts** enable BIG to address a need over the longer term (over five years) where such a commitment is required for change, and by being able to deliver activities which BIG cannot or would find it difficult to do, including micro grants, loans and grants to individuals, or community development and capacity-building work that is needed to achieve further outcomes for particular disadvantaged groups
- **Award Partners** worked well where partner organisations had access to a particular group and technical expertise or could provide effective support to applicants and grant-holders. Effective award partners have expertise in grant-making, particularly in ensuring appropriate grant management, supporting capacity and handling assessment and monitoring. It was noted that BIG's requirement for Award Partners to comply with its grant making system Merlin had sometimes added unforeseen processes to grant management
- **Portfolios** do not involve BIG delegating grant making and management powers. They enable BIG to deliver a broad strategy which includes support across policy fields. They were also found to be effective in promoting networking and leverage of additional funds.

The research found a range of practice in terms of outsourcing, and this suggested lessons for its further development. As with in-house programmes, **good programme development** was of critical importance. The risks of poorly specified programmes which were outsourced were greater and as experience of a small number of programmes showed, resulted in considerable unforeseen additional management, legal and audit costs.

Relationships between BIG and partners mattered, and were valued by partners. Again, interviews, evaluations and Lessons Learned papers highlighted the importance of good and tight specification of programmes with tight contracts and good communication.

All models provided the basis for **innovation** in some way, although a critical issue here was the importance of capturing lessons for future programmes and for wider policy impact.

All models relied on external expertise existing or being able to be built to deliver the programme. Where this is not the case or BIG has concerns in this area, then consideration of in-house delivery needs to be made.

Conclusion: lessons from the research

We conclude from our study:

1. Actual **costs** of developing and delivering programmes are ultimately higher than expected in many outsourced programmes. This is for a variety of reasons, but key factors are to do with additional costs incurred following programme launch. Some of these could have been anticipated and addressed at the programme design stage. However, it was found that costs had reduced with successive programmes, suggesting considerable learning from experience.

2. **Relationship management** is an important component of effective delivery of outsourced grant making. BIG's practices in this field have evolved with a dedicated team in place for high value/low volume contracts. Nonetheless, interview respondents in BIG reflected on the implications of 'losing control' of grant making, to some extent in award partners and almost entirely in trusts.

3. **Outsourcing grantmaking does not occur in a policy vacuum:** BIG outsources to help meet its mission, and in doing so works with other organisations that have their own missions, priorities and relationships. BIG needs to recognise the tensions that can arise from this both at operational and delivery level but also in terms of BIG's wider role as a policy actor.

4. **Outsourcing arrangements are typically long term** and may cover different programmes. This presents operational issues for BIG in terms of ensuring continuity in relationships and also in understanding the full life-cycle of outsourcing.

5. There is an assumption by BIG and its partners that outsourcing brings **access to expertise** and with this the benefits of **reach** and **innovation**. Whilst evidence was found of both, this was not always the case. Outsourced partners enabled BIG to do things it might not be able to do in achieving its mission, for instance awarding grants to individuals, forms of social investment and support at the boundary between social and economic interventions. However, BIG is often equally able to innovate through in-house programmes and has more flexibility here to adapt in-house programmes during delivery stages.

6. **Outsourcing grant making provides BIG with a means to manage and forecast future expenditure**. Trusts and Award Partners enable BIG to release funding in large tranches. While it used to take BIG up to three years to develop new Trust programmes, it now typically takes 12 to 18 months – a situation that may make this benefit more attractive.

7. BIG has experienced some **unsuccessful outsourced arrangements** and it has drawn lessons from these, from evaluation evidence, Lessons Learned papers, and internal and external audit. The main lesson is the importance of robust programme development in highlighting and addressing unresolved issues at programme launch, as well as fully testing the capacity of partners to deliver.

8. A rationale for outsourcing is that it enables BIG to **reach** target groups with particular needs, and so to help deliver **outcomes**. Reach may either be through expertise, through access and legitimacy, or through building capacity. The concern here is that decisions about whether to outsource need not just consider reach and outcomes, but also the likelihood and scale of impact. But while these are important concerns, BIG also needs to consider how effective partners and approaches adopted will be at achieving change, and what the scale of that change will be.

9. This research study **does not provide a full evaluation of different models of outsourcing or a comparison with in-house delivery**. It has provided an assessment of costs, appropriate processes, and where possible identified evidence of reach and outcomes. The report outlines suggestions for how this might be addressed in the future.

10. This research finds that **it is appropriate for BIG to continue to have a balance between programmes managed in-house and programmes which are delivered through a range of outsourced arrangements**. The main lessons are that decisions around outsourcing, and the subsequent practice of outsourcing, can be improved and continue to build on an extensive base of research evidence and experience.

Recommendations

1. BIG should continue to ensure that the **capacity of partner organisations** to deliver programmes, and where necessary to make grants, remains a central consideration in decisions to outsource.

2. In deciding whether to outsource, BIG should undertake more explicit and **formal consideration of questions of outcomes and impact**, noting in particular assumptions and evidence about how outsourcing will enhance these.

3. BIG should work closely with partner organisations to ensure **effective recording and sharing of lessons, evidence of performance, and progress towards outcomes and impact**. Evaluations, monitoring information and stakeholder consultation and feedback are all of great value. BIG should work closely with partners to ensure that systems developed meet both BIG's and partners' needs.

4. **Relationships between BIG and organisations running outsourced programmes are an essential factor for success** and should be managed at three distinct levels:

   - customer relationship management at an operational level
   - continuing relationships with other functions, notably to manage BIG's requirements in regard to such questions as branding, publicity, external relations and public accountability, and evaluation and learning
   - higher-level strategic relationships between BIG and its partners as to how Lottery funding can be most effectively used to deliver BIG's mission, involving senior staff on both sides.

   BIG should also ensure that there is appropriate internal communication to ensure consistent approaches.

5. BIG should ensure that it pays sufficient attention to **relationship management throughout the lifecycle of outsourced approaches**. To avoid risks to BIG's reputation, it is particularly important to consider arrangements for programme closure and ending relationships.

6. All BIG staff involved in working with partners running outsourced programmes should be aware of the **specific nature and boundaries of the arrangements in place**. This is particularly important for staff working with Trusts, given the very different legal and working arrangements that they entail.

7. BIG should **define relationships with outsourcing partners more widely than through a narrow set of programme delivery issues**. These relationships might best be seen as types of strategic alliances.

8. Consideration about whether to outsource should explicitly consider such issues as **BIG's wider strategic role, reputation and brand**.

9. **BIG should make decisions about whether to outsource on the basis of evidence and documented considerations**. Doing this requires input from BIG staff, committees and stakeholders. The software developed alongside this research study is a resource that will facilitate this process; its use should be promoted through the funding development framework.

1

1. Introduction

1.1. Introduction

This report presents the findings of the Research Study into Outsourcing Grant Making.

The aim of the research is:

> ***'to increase BIG's understanding of the rationale for outsourcing grant making and the circumstances under which it makes best sense for BIG to use this approach'***

The research also considers whether there are other approaches to outsourcing grant making, which might be considered in the future. The research was conducted between October 2011 and March 2012.

The Big Lottery Fund (BIG) is the largest distributor of funds from the National Lottery. BIG is sponsored by the Office for Civil Society and operates across all four countries of the UK. BIG's mission states that it is committed to bringing real improvements to communities and to the lives of people most in need.

BIG uses a range of approaches to distribute funds. One approach is outsourcing, where BIG makes use of another organisation or other organisations to undertake some or all of the grant making and management process. This study considers the following forms of outsourcing:

- **Award Partner:** where an organisation is selected to operate a funding programme on BIG's behalf. Grant administration including distribution is undertaken by award partner to agreed standards including the provision of management information to BIG
- **Portfolio:** where a lead organisation applies to BIG and is responsible for the delivery of a group of projects. Project selection is undertaken by BIG and the portfolio manager will be responsible for ensuring the delivery of projects, providing aggregated management information to BIG
- **Trust:** where a Trust is formed and enacted by a trust deed. Within the terms of the trust deed, the trust is able to distribute the funding. The trust is independent of BIG although the trust deed will state the terms of the relationship between the parties (e.g., around branding and management information).

The study considered 22 programmes all launched since 2004 with a combined value of £1.082 billion. This is made up of six award partners with a value of £263 million, nine portfolios with a value of £419 million and seven trusts with a value of £400 million. Summary details of the programmes are contained in Annex 1.

1.2. Rationale for Outsourcing

As the largest distributor of Lottery funds, BIG has developed sophisticated processes for the in-house development and implementation of programmes. For programmes which have a wide variety and high volume of applications, there is likely to be considerable value in BIG doing its own grant making. Its size also gives it economies of scale and scope as well as considerable knowledge around the management of programme development and implementation.

However, BIG has identified the following areas where there are benefits in it using an outsourced approach to better achieve its mission:

- outsourcing provides **greater value for money** enabling BIG to realise efficiency savings and thus to retain and strengthen its focus on those most in need
- outsourcing may offer **greater reach**, again helping it to better target funding to those in greatest need
- outsourcing may **enhance learning**, and in particular enable BIG to use the relationships, expertise, and reputation of a third party.

1.3. Research Objectives

The research study has the following five objectives:

i. To test BIG's assumptions about the rationale and benefits for outsourcing outlined above, by exploring a selection of outsourced activity over the last five years

ii. To produce a working model that will allow BIG to compare the costs of running outsourced and in-house programmes or grant making functions and thereby determine value for money

iii. To identify what approaches are used to make the most of outsourcing organisations' expertise and to maximise reach

iv. To provide evidence of the positive and negative impact of outsourcing in terms of value for money, reach and third party expertise

v. To advise BIG on the circumstances when outsourcing of some or all of its funding powers would be appropriate, and the factors it should take into account in determining this.

Objective ii. is briefly considered in this report with the model outlined in a separate document and associated spread sheets.

1.4. Study Approach and Limitations

The following research methods have been used:

i. Scoping interviews with staff from across BIG, including policy, programme, legal, audit, finance, operational and country teams

ii. Two separate literature reviews: one on approaches to outsourcing from other contexts (including private and public sectors and of other functions); and of outsourcing used by other grantmakers

iii. Research into 23 programmes which have been 'outsourced' in some way. This strand of the research included interviews with programme management staff in

BIG, the lead contact in the outsourced organisation and a review of associated documentation (including programme guidance, evaluation reports, audit reports, lessons learned reports and management information on costs and outcomes).

There were three main limiting factors to the study. Firstly, we did not undertake research with final grant recipients to solicit their views although we have drawn on evaluation reports where available. Secondly, many of the outsourced arrangements are relatively new with some still in negotiation stage. Thirdly, and more generally, we did not undertake a full evaluation of outsourcing, which include a full cost benefit analysis. This could potentially be done in the future through a comparative study of a small set of in-house and outsourced programmes which have a common theme.

1.5. Report Structure

The report is structured as follows:

- **Section 2: Understanding Outsourcing Grantmaking** provides an overview of the conceptual underpinning of outsourcing decisions, lessons from other grant makers, and how cost and value should be considered
- **Section 3: Approaches to Outsourcing** presents findings on trusts, award partners and portfolios as used by the Big Lottery Fund
- **Section 4: Lessons from Outsourcing** considers findings on how outsourcing is managed within the Big Lottery Fund
- **Section 5: Costs of Outsourcing** compares the costs of developing and implementing programmes using different grant making models
- **Section 6: Conclusion: lessons and recommendations.**

The report also contains three annexes:

- **Annex 1: Outline Details of Outsourced Programmes** considered in this study
- **Annex 2: Lessons and Value Added** from outsourced programmes
- **Annex 3: Case Studies** of outsourced programmes.

2. Understanding Outsourcing Grantmaking

2.1. Introduction

This section of the report compares the rationale BIG has for outsourcing with the wider literature on outsourcing. Outsourcing has a very well established literature. It primarily focuses on outsourcing in manufacturing and of particular functions (especially information technology services and support), with some interest in frameworks to understand outsourcing in the public sector.[1] Outside of the public sector, there is very little consideration of outsourcing in the third sector, except for a small US literature on charitable foundations' use of outsourcing to make grants.[2]

2.2. Conceptual Underpinning of Outsourcing

The earliest examples of frameworks being developed to consider outsourcing date from the 1950s and focus on quantitative approaches applied to guide manufacturing firms' decisions as to whether they should **'make'** or **'buy'**.[3]

However, from the 1970s, **transaction costs** have become the most established approach for considering outsourcing. This follows Williamson's transaction cost economics models. Williamson's transaction cost approach seeks to understand decision making around the nature of contractual relationships and organisational structures and roles: that is the relationship between governance structures (for instance the capacity of the outsourced partner and how it is contracted) and the attributes of the transaction (for instance the goals of a programme).[4]

Transaction cost approaches go beyond a narrow consideration of cost issues. The following set out the main problems with any transactional relationship such as outsourcing:

- **bounded rationality** of organisations and how outsourcing decisions are seen as transactions to reduce or at least manage costs and risks effectively
- **opportunism**, on the part of the contracting and contracted organisations pursuing their self-interest

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[1] For an overview see: Cordella, A. and Willcocks, L. (2010) Outsourcing bureaucracy and public value: Reappraising the notion of the "contract state". *Government Information Quarterly,* 27, pp. 82-88.
[2] See for example, Snow, P. (2011) Sorting out the Differences between Private Foundations and Donor-Advised Funds, *Investments and Wealth Monitor* May/June pp. 33-35.
[3] See for example Culliton, J.W. (1956) Make or Buy: A Consideration of the Problems Fundamental to a Decision Whether to Manufacture or Buy Materials, Accessory Equipment, Fabricating Parts and Suppliers. *Harvard Business Research*; and Higgins, C. (1955) Make-or-buy re-examined. *Harvard Business Review*, 33 (3) pp. 132-139. A more recent example of the quantitative approach to outsourcing decision making is in: Liou, J.J.H., Wang, H.S., Hsu, C.C., and Yin, S.L. (2011) A hybrid model for selection of an outsourcing partner. *Applied Mathematical Modelling*, 35, pp. 5121-5133.
[4] See for example: Williamson, O.E. (1979) Transaction-cost Economics: the governance of contractual relationships. *Journal of Law and Economics*, 22 (2), pp. 233-261; Williamson, O.E. (1981) The Economics of Organization: The Transaction Cost Approach. *American Journal of Sociology*, 87 (3), pp. 548-577; and Williamson, O.E. (2008) Outsourcing: Transaction Cost Economics and Supply Chain Management. *Journal of Supply Chain Management*, 44 (2) pp. 5-16.

- **small numbers bargaining** whereby it is not possible for the contracting organisation to effectively obtain full information, and
- **asymmetric information** between both contracting parties.[5]

Each of these would appear to have some power in explaining outsourcing issues at the Big Lottery Fund (BIG). For instance, an example of bounded rationality is that BIG has limited (relative to other organisations) understanding of the technical aspects of some of its programmes (whether this is to do with reach to a disadvantaged group or to do with environmental technologies). Conversely, as an example of opportunism, although BIG engages with other organisations on a collaborative and partnership basis, different organisations will have sometimes competing and rivalrous missions and aims. This is not a reason against outsourcing but an issue which may have cost implications, which are subsequently revealed through additional contracting and relationship management costs.

Whilst BIG distributes to grants to thousands of organisations each year, it engages a relatively small number of outsourced partners (an example of small numbers bargaining). As a result, it has a smaller pool of information on their performance and makes investments with the assistance of audit, due diligence and assessment procedures, as well the role of governance arrangements to effectively select outsourced partner organisations. However, it does so without perfect information and therefore any decision is also risk based.

Other models developed to understand and to guide outsourcing decisions consider both comparative advantage (typically where there are cost benefits to outsourcing to a third country) and competitive advantage (and notably the importance of organisational factors).[6] In broad terms, in a market situation private organisations may act to secure objectives such as market share over short term profit maximisation. This may appear to be a less relevant consideration to BIG, as a not for profit organisation. However, it may wish to seek to retain its pre-eminent position in grant distribution for strategic reasons.

More recent research (from the 1990s onwards) has sought to understand outsourcing in terms of the **core competences** of an organisation, and therefore see outsourcing as seen as a strategic business decision. This is in response to perceived weaknesses of the transaction cost based approach and was supported by survey evidence over the last 20 years that relatively few firms saw high levels of benefits from outsourcing and that decisions were rarely taken within a thoroughly strategic perspective.[7]

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[5] See for example the work of Ronan McIvor on practical frameworks for understanding outsourcing decisions: McIvor, R. (2000) A practical framework for understanding the outsourcing process. *Supply Chain Management: An International Journal*, 5, (1), pp. 22-36; McIvor, R. (2009) How the transaction cost and resource-based theories of the firm inform outsourcing evaluation. *Journal of Operations Management*, 27, pp. 45-63;and, McIvor, R. (2008) What is the right outsourcing strategy for your process? *European Management Journal*, 26, pp. 24-34. See also Sanders, N.R., Locke, A., Moore, C.M., and Autry, C.W. (2007) A Multidimensional Framework for Understanding Outsourcing Arrangements. *Journal of Supply Chain Management*, Fall, pp. 3-15; Vining, A. and Globerman, S. (1999) A Conceptual Framework for Understanding the Outsourcing Decision. *European Management Journal,* 17, (6), pp. 645-654; and Kettler, K. and Walstrom, J. (193) The Outsourcing Decision' *International Journal of Information Management*, 13, pp. 449-459.

[6] Prahalad, C.K. and Hamel, G. (1990) The Core Competence of the Corporation. *Harvard Business Review*, July-August, pp. 79-91. Arnold, U. (2000) New dimensions of outsourcing: a combination of transaction cost economics and the core competences approach. *European Journal of Purchasing and Supply Management,* 6, pp. 23-29.

[7] See for example, PA Consulting Group (1996) *International Strategic Sourcing Survey,* London: PA Consulting, and Lonsdale, C. and Cox, A. (2000) The historical development of outsourcing: the latest fad? *Industrial Management and Data Systems,* 100 (9), pp. 444-450.

Put simply, the core competence approach argues that organisations protect core competences and only seek to outsource more peripheral functions. At face value this appears consistent with the approach which has emerged at BIG where a key driver for outsourcing has become the need to use specialist expertise and know-how which BIG may not have, the importance of delivering programmes cost effectively, but also to protect its brand value (notably the trust that other organisations have in it as a grant maker).

Research in the late 2000s begins to recognise the following trends in how outsourcing is understood:

a. outsourcing may take different forms in relation to strategy and cost (i.e. it is not just a 'make' or 'buy' decision and may involve some form of partnering)[8]

b. greater attention is being paid to outsourcing as a strategic and not an operational decision. Decisions are therefore taken in line with an organisation's longer term goals and its mission, rather than shorter term expedient reasons such as cost reduction. Outsourcing is then managed at a strategic rather than operational level[9]

c. a consistent theme to emerge from the literature is around the importance of relationships, and therefore of relationship management.[10] More specifically, there is some research evidence which flags up the prominence of contracts and what is termed 'tight contracts'[11]

d. attention is also being given to the timescales of decisions and organisational trajectories. Again, this indicates that outsourcing needs to be seen over a longer time scale, and longer than the length of individual contracts or programmes. Reflecting on this, some research has explored how outsourcing may evolve over time and how different approaches may emerge. For instance, there is evidence that there are various learning curves required for successful outsourcing and that outsourcing competences that need to be built (from contracts and legal support, IT and strategic capacity). Moreover, it cannot be assumed that successful outsourcing can be achieved immediately[12]

e. there is an interesting literature on ending outsourcing relationships and the risks of not planning for this or doing so strategically. This may take the form of additional costs (for instance legal, audit and management costs) but also in terms of the damage to an organisation's reputation and brand value[13]

f. following this, some research has sought to consider service and manufacturing outsourcing decisions separately, in the former, the outsourcer is likely to be relinquishing some of its direct relationship with the customer, while in the latter this is unlikely to be the case[14]

g. there is some acknowledgement that much of the debate crosses academic disciplinary approaches (such as accounting, economics, strategic management,

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[8] Mudami, S.M. and Tallman, S. (2010) Make, Buy or Ally? Theoretical Perspectives on Knowledge Process Outsourcing through Alliances. *Journal of Management Studies*, 47 (8), pp. 1434-1456.
[9] Hätönen, J. and Eriksson, R. (2009) 30+ years of research and practice of outsourcing - Exploring the past and anticipating the future. *Journal of International Management,* 15, pp. 142-155.
[10] Wognum, P.M., Fisscher, O.A.M., Weenink, S.A.J. (2002) Balanced relationships: management of client-supplier relationships in product development. *Technovation*, 22, pp. 314-351.
[11] Kern, T. and Willcocks, L. (2000) Exploring information technology outsourcing relationships: theory and practice. *Journal of Strategic Information Systems,* 9, pp. 321-350.
[12] Fisher, J., Hirschheim, R. and Jacobs, R. (2008) Understanding the outsourcing learning curve: A longitudinal analysis of a large Australian company. *Information Systems Frontiers*, 10, pp. 165-178.
[13] Kern, T. and Willcocks, L. (2000) Exploring information technology outsourcing relationships: theory and practice', *Journal of Strategic Information Systems,* 9, pp. 321-350.
[14] Li, M. and Choi, T.Y. (2009) Triads in Services Outsourcing: Bridge, Bridge Decay and Bridge Transfer. *Journal of Supply Chain Management*, 45 (3), pp. 27-39.

systems approaches). The relevance of this is that outsourcing decisions often need cross-team working and the combination of different specialisms.[15]

In summary there appear different rationales and 'success factors' which can be drawn from the literature. These include:

- **rationales for outsourcing**: the main private sector rationales appear to be around cost reduction and efficiency improvements. Second order factors considered are improvements to wider business performance, to exploit the capacity of an outsourcing provider, to divest the organisation of a problem including the transference of risk, or to follow the lead of others
- **success factors** include: careful selection of which functions to outsource; involvement (and building) of teams from across the organisation; the understanding and management of all relevant costs (direct, indirect and opportunity costs); contract duration, detail and flexibility; the management of relationships; and retention of key skills within the outsourcing organisation.

Outsourcing arrangements were also found to be improved where decisions went beyond a narrow assessment of costs.[16] Further success factors therefore included decisions where the outsourcing arrangement would enable the organisation to change the operating environment (e.g. to provide new products or services), to manage service demand (e.g. to target a particular group) and to develop new systems for work (e.g. to innovate through a joint venture).

2.3. Relevance of Outsourcing Concepts to BIG

There is a rich and well developed literature on outsourcing and this review has only touched the surface. Interestingly, interviews with staff in BIG spoke implicitly of many of the issues (e.g. core competences, expediency vs. strategy) raised in the literature. It also appears that the literature helps to provide a strategic and conceptual framework for understanding outsourcing, even for the very specific context of grant making.

Outsourcing of grant making by the BIG Lottery Fund involves some important differences with the mainstream literature. The BIG Lottery Fund is a non-departmental public body (NDPB), a non-profit organisation whose mission and approach focus on reach and social outcomes. Nonetheless, both the cost and strategy type approaches provide some lessons, albeit with greater acceptance that BIG’s outcomes are not measured in financial terms (or necessarily quantitatively).

A further issue is that BIG is relinquishing its direct relationship with its (third sector) grant holders (its 'customers') but enabling another organisation control of grant distribution for a programme. This raises some shorter term branding issues and questions of whether retaining the BIG brand on all relevant funds is important, but also longer term issues around BIG's position in both the grant making landscape and broader third sector policy agendas.

There are some lessons from the literature about widening the scope of decision making beyond cost and value/outcome factors. These include considerations of:

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[15] Hätönen, J. and Eriksson, R. (2009) 30+ years of research and practice of outsourcing - Exploring the past and anticipating the future', *Journal of International Management,* 15, pp. 142-155.
[16] See Varadarajan, R. (2009) Outsourcing: Think more expansively. *Journal of business research*, 62, pp. 1165-1172.

- strategy (how BIG sets its strategic objectives)
- core competence (around delivery of large programmes of grant funding to third sector organisations)
- market position (as the largest grant maker in the UK, but entering a period when new approaches to funding such as social investment might be required)
- risks (e.g. establishing a pool of rival grant makers)
- issues of time (short term delivery vs. longer term interventions to change the policy field)
- of (organisational) learning and partnership (it appears that outsourcing practice improves with experience)
- relationships with partners and the management of these.

2.4. Lessons from Outsourcing in Other Grantmakers

Formal outsourcing of grant making functions by UK funders does not appear to be widespread, compared to for example practice in the US or in international aid programmes. An initial review has revealed the following.

2.4.1. Government funds

The majority of Government funding programmes targeted towards voluntary and community sector organisations are outsourced in one way or another, including a significant number that are currently being delivered by the Big Lottery Fund's non-lottery funding operation, the Big Fund. Recent examples include Transforming Local Infrastructure, Transition Fund (both Cabinet Office) and MyPlace (Department for Education in England). Other prominent funders in receipt of outsourced Government funds include Social Investment Business (Futurebuilders, Department of Health Social Enterprise Investment Fund, Social Action Fund) and Community Development Foundation (Grassroots Grants).

2.4.2. Other public funds

Other (non-central Government) public sector bodies often outsource their grant programmes. For example, local authorities in former Neighbourhood Renewal Areas often outsourced their Small Grants programmes to local CVSs or Community Foundations. Local arrangements for the administration of the Children's' Fund also often involved elements of outsourcing. Likewise the Regional Development Agencies occasionally outsourced specific voluntary and community sector funds, for example the Yorkshire Forward investment in Charity Bank in the North delivered between Charity Bank and Key Fund. A further example is the ESF Global Grants Programme (2000-2006) which enabled small organisations to access ESF funds through grants administered via local intermediaries (such as Community Foundations).

2.4.3. Other funds

Some large grant making trusts and benevolent foundations outsource the administration of their grant application and award process to specialist grant administration organisations. One such example is Charis Grants, who administer a range of grant programmes for a number of Energy and Utility Trusts.

2.4.4. *What are the rationales and benefits associated with outsourced grantmaking?*

Different rationales for outsourcing grantmaking functions emerge from the material reviewed:

- **economy and efficiency:** for some funders it is more economic and efficient for them to outsource the grantmaking process to third parties. This is particularly the case when a grant management company can provide a Trust with significant economies of scale and handle a large volume of applicants and awards. An example here is Charis Grants which applies common application and administration processes to a number of Energy and Utility Trust grant programmes, thus reducing the 'unit cost' of awarding a grant
- **expertise/impact/reach:** certain funders have expertise in a specific type or field of grant making/funding. For example the Government works with BIG to administer high volume generalist voluntary and community sector funding programmes due to their expertise, track record and established systems in this area. The Office for Civil Society has contracted the Social Investment Business for similar reasons (when looking to provide loan based funding). Likewise, local authorities choose to work with CVSs/Community Foundations when making small grants because they have processes already in place to deliver these types of programme. In these examples the decision to outsource funding to experts in a particular field is also likely to be motivated by the need to achieve maximum reach and impact through the funding
- **expediency:** sometimes outsourcing grantmaking provides the funding provider with expediency, particularly if the funding is in support of a particular or time sensitive policy or strategy imperative. This includes cases where Government has needed to make a funding programme operational within a particular time period, and does not have the time or capacity to implement the programme themselves, or establish a suitable delivery vehicle. An example here includes the Government's 'Real Help for Communities' funding programmes (in response to the recession), which were delivered by existing fund holders such Capacitybuilders and Futurebuilders.

Although there is a relatively small literature on outsourcing grant making in the United Kingdom, there is some evidence that it is being used more by government, private foundations and third sector organisations. However, there is no available evaluation evidence or performance data to suggest which approaches are most effective and when.

2.5. Understanding Cost and Value

When BIG makes decisions about whether to outsource, it needs not only to take account of its own current practice and standards, but also current best practice in outsourced grant-making and indeed wider approaches to outsourcing across private, public and third sectors.

Considering costs in making this decisions about outsourcing needs to be based upon an appropriate selection of bases across two sets of factors.

The **first** set of factors includes:

- conventional accounting measures based upon financial costs and benefits: this looks at the conventional cost or financial benefit of outsourcing

- social impact measures relating to both social cost and social income: these measures focus on how effective and reliable the approach is in achieving or enhancing outcomes
- brand development in the sense of service user engagement, positioning and relationship and profile building, all of which can enhance future effectiveness and growth.

The first two points are covered in, amongst other sources, the REDF models for Total Cost Accounting. (REDF are the original authors of Social Return on Investment). The third arises from more recent original research into non-profit transactional decision-making by Jim Clifford at Cass Centre for Charity Effectiveness, which is also taking further the concepts of measurement of social impact, and the interaction between the three.

The **second** set of factors includes a range of cost calculations. Taking the conventional accounting range, the following are relevant basis of cost allocated against relevant income for different decision types:

- direct cost incurred at the point of delivery
- total direct cost incurred
- contribution costing – that is the incremental cost from a decision being taken
- partial absorption of overheads – as in many public sector local authority and central government systems
- full absorption of overheads (and different bases of allocation within each of these last two).

Determining which costing basis should apply must be derived from:

- an understanding of the decisions for which this analysis is to form the basis
- an understanding of how materially accurate the outputs and hence the inputs to that equation need to be
- an understanding of the inherent information asymmetry within most multi-party or multi-agency situations: the information on which one party decides will be different (by selecting different data, by analysing it differently and by interpreting or using it differently) from that on which another does
- an understanding of what is therefore relevant and what is not…
- ...and over what range of outputs that data is relevant: typically different data sets are needed for different decisions, which may be as simple as the size of grant fund to be administered, or the size and frequency of individual grants to be made from it
- an understanding of how easily the input data can be gathered, and how it can be tested for validity, and
- how risk and risk management affect the whole decision tree.

This is a regular pattern of data support for decision-making experienced across non-profits, and to a large extent the commercial arena as well.

2.6. Conclusion: lessons for Outsourcing Grantmaking at BIG

There is a rich and well developed literature on outsourcing from which to draw. In our interviews with staff in BIG many spoke implicitly of many of the issues which are raised in the literature, including:

- core competences of BIG
- expedient and strategic reasons for outsourcing
- challenges to measuring transaction costs and full cost accounting
- the importance of tight contracts, including trust deeds in the case of trusts
- and issues of imperfect information, for instance around how monitoring and compliance regimes are structured.

The outsourcing literature helps to provide a useful strategic and conceptual framework for the study.

Outsourcing of grant making by the BIG Lottery involves some important differences with the mainstream literature. Nonetheless, both the cost and strategy type approaches provide some lessons, albeit with greater acceptance that outcomes are not measured in financial terms (or necessarily quantitatively).

There are some lessons from the literature about widening the scope of decision making beyond cost and value/outcome factors. This might include considerations of strategy, core competence, market position and risks (e.g. the risk of establishing a pool of rival grant makers), issues of time (outsourcing decisions may have implications for up to ten years, and even longer in the future with the possibility to establish trusts in perpetuity) and of (organisational) learning (namely that decision should improve through doing and drawing on experience).

3

3. Approaches to Outsourcing

3.1. Introduction

This section presents the research findings on each of the outsourced models considered. It outlines the range of approaches BIG has used to each model, and considers a combination of commons factors (around relationships, cost and risks) together with model-specific issues (for instance the treatment of investment income by trusts).

3.2. Trusts

Trusts take **different forms and play different roles** in relation to BIG. The following help to illustrate this:

- **Legacy Trust**: a time limited Trust with the principal aim of supporting the legacy of London 2012. Co-funded by DCMS, Arts Council, BIG and Millennium Commission, the trust has a clearly defined programme of supporting legacy activities in relation to London 2012
- **Fair Share Trust** and **Big Local Trust**: programmes designed to reach disadvantaged communities which had received less Lottery or other funding. The programmes combine support for capacity building and community engagement with grant making. The Big Local Trust also has greater potential to innovate in response to need, for instance through making small loans to individuals. Importantly, the trusts may become and act as partners of BIG in the future
- **JESSICA (Scotland)**: designed to complement the European Regional Development Fund of the same name, JESSICA Scotland is intended to provide a range of funding support in disadvantaged communities, and notably through economic interventions that may be outside the remit of BIG's mainstream programmes
- **Forces in Mind Trust**: this Trust is intended to help build strategic infrastructure in the support provided to ex-service people and their families. FiMT is intended to be a strategic policy actor which helps to bring together a disparate sector of organisations, as well as making grants in what are identified to be key areas.

In each of the above, a **rationale** for outsourcing is that the Trust model builds expertise and the support mechanisms to target support at a specified social need which BIG would find it difficult to achieve through an in-house programme.

Relationships with Trusts have developed over time. Whilst an independent body is established to administer the programme, BIG retains a series of strategic and operational relationships. These include ensuring that the Trust continues to fulfil the conditions of its Trust Deed (overseen by a Trust Protector), providing assurance to BIG around the use of Lottery funding, and as appropriate promoting appropriate external communications and public relations. (This is not just about branding, but also joint communication and media and influencing work).

Interviews with officers in BIG also highlighted issues arising from the **independence** of the Trust. In approving a proposal for Trust delivery, a BIG committee accepts that it will establish a separate legal entity that will have its own independent voice. However, trusts are not organisations without interests, it is normal for individual organisations or consortia to bid to establish a trust, with the trust either then contracting its parent organisation for the delivery of the programme (as in the case of Big Local Trust or Fair Share Trust) or establishing new delivery arrangements in-house. Nonetheless, the independent status of a trust means that BIG has to develop a different set of relationships with a trust than it does for instance with an award partner. This was found to be a challenge both to BIG and trusts.

Interviewees felt that trusts could be effective at **building capacity** in their sector. The Year 1 evaluation report of the Building Change Trust in Northern Ireland highlights:

> *The establishment of the Trust has helped to increase capacity by drawing together a consortium of like-minded individuals who will collectively have a positive influence within the C&V sector. The extent of this influence will be increasingly evident upon further implementation and roll-out of interventions.*[17]

This was reflected in further comments that the trust had raised awareness with interest from the third sector greater than anticipated.

It was also noted in the interim evaluation of the Building Change Trust that the programme had enabled **innovation** in the support of the third sector. Examples included work to develop social capital in two pilot communities and in partnership with Charity Bank the development of a loan fund for the sector. These approaches were concerned respectively with community resilience (through social capital) and sustainability (through considering new funding models).

There were differing views about the appropriate level of **monitoring information** trusts should provide BIG: on the one hand Trusts are required to monitor activities to fulfil the terms of the trust deed, but on the other BIG may require information on what is being funded. Monitoring and relationship issues were often framed around how far relationships should be **transactional** and how far they are a **strategic** or an **operational** relationship. BIG's understanding and approach to these issues appears to have evolved over time. In particular, there is a greater focus on relationships being both strategic and operational and in being subject to engagement by senior policy staff and customer relationship management practices with a dedicated contact points within BIG. Some felt this could go further with relationships focusing more on strategic issues in the future. Such a shift would reflect the independent nature of trusts.

Perceived **risks** relating to trusts arose from the lack of control BIG could exercise because of the absence of a contractual relationship. Trusts also contain potential **audit and reputational risks to BIG.** In comparison with award partners and portfolios these risks were not seen to be great, primarily because safeguards had been put in place through extensive audit and due diligence prior to the establishment of the trust. As BIG's internal guidance on trusts notes: *A trust is independently regulated by trust, charity and company law. This is arguably a tougher set of controls than for direct grants*. A review of trust governance

[17] McClure Watters (2010) *Evaluation of the Building Change Trust*: *Year 1 Interim Evaluation*.

arrangements undertaken for BIG[18] found appropriate systems to be in place, noting moderate level of risks in relation to:

- risk assessments not being presented to Committees to help inform decisions
- no verification of Development grant expenditure
- inappropriate set-up of BIG's grant management system Merlin by trusts.

Good practice in trust set-up includes: joint procurement exercises in Scotland helping to save costs; effective selection of protectors, and clear and comprehensive guidance materials.

BIG had delivered, and was planning to deliver, a wide range of programmes through trusts. Although trusts were seen as a vehicle to allow for experimentation in grant making and in areas such as social finance and social investment, they also required **a coherent programme design** combined with a delivery partner or partners capable of realising the goals of the programme. This was held to be a strength of trusts such as Building Change and the Legacy Trust. However, some concerns were raised around the Life Changes Trust, originally intended as a programme to support young care leavers in Scotland, but which now also includes support to dementia sufferers and their carers, following support from the Scottish Government to focus on this additional area. Whilst the focus of the programme is on care and carers, the two groups are very different. Finding a single organisation to set up a trust and meet the two needs of the two target groups has been difficult.

There were differing viewpoints on the extent to which programmes needed to be fully defined before the trust is established. In the case of the Legacy Trust, a strength of the trust was seen to be that the trust deed and work programme were very clear at the outset and enabled the trust to have a strong focus on delivery. Conversely, in the case Fair Share Trust or Big Local Trust, there was a view that that trustees (often from the original sponsoring organisation(s)) needed flexibility as the rationale of the programmes was to support community capacity building and the bottom-up development of projects.

As discussed elsewhere, the administration **costs** of trusts were seen as high by some within BIG. However, our findings suggest that there is considerable variation in the delivery or operational costs of trusts. Key issues here were around the extent to which capacity building support was seen as an operational cost and the extent to which new systems needed to be established. More complex programmes such as Big Local Trust had higher costs. Conversely the costs of the Legacy Trust were relatively low.

Considerations of financial expediency might encourage BIG to choose a Trust as a delivery model, because the approach enables BIG to plan for and release large blocks of funding.

A unique feature of Trusts in comparison to Award Partners and Portfolios is the treatment of **investment income**. Either with one off or staged endowments, Trusts are in a position to invest the fund. During the 2000s, the Fair Share Trust was able to receive an additional income of over £10 million from an initial investment of £50 million. Following the financial crisis, this level of return now seems high but it does remain an opportunity for trusts in the future. Investment income is normally required

[18] BIG Lottery Fund Internal Audit report 2011/12: Trusts Set-up and Governance Arrangements, Final Report, October 2011.

to be reinvested for the purposes of the trusts, and therefore increases programme expenditure.

Other unique features of trusts are that they have a trust deed and a trust protector. In the case of the former these tend to be, out of necessity, complex and technical documents. There was a need, as one interviewee suggested, 'for these to be translated into plain English in a delivery plan'.

BIG has to date used trusts in a range of ways. However, some aspects of trusts remain **untested.** A notable area here is trusts being established for a longer term (over 20 years) or even in perpetuity, whereby they would be able to raise funds independently. Indeed some may become a partner to BIG in the future delivery of programmes.

Trusts can take **time** to develop before they are in a position to disburse grants. Both the Big Local Trust and Building Change Trust took over two and a half years to develop. Once established they help BIG to release large sums of funding, but they are not a means to do this quickly.

3.3. Award Partners

Award Partners can take **different forms and play different roles** in relation to BIG although to a lesser extent than Trusts. The following help to illustrate this:

- **Changing Spaces** supported five award partners: Natural England (Access to Nature), Groundwork (Community Spaces), BRE (Community Sustainable Energy), Mind (Ecominds) and RSWT (Local Food)
- **Big Deal** was a £4million[19] award partner programme funded under the Young People's Fund programme which launched in Northern Ireland in 2005. The Big Deal programme was delivered through a partnership, with the Voluntary Youth Network for Northern Ireland, operating as Youthnet, as the lead organisation.

We have also considered several programmes which did not develop as originally planned.

- with Growing Community Assets, BIG brought assessment back in-house in the latter years of the contract in order to support better decision-making by BIG, although a consortium of agencies continued to provide support throughout. Although it was not developed as an Award Partner programme, not least because BIG never delegated decision-making, its hybrid approach makes it most comparable with Award Partner programmes
- Research Grants was brought back in-house in its entirety
- Space and Place was originally intended to be a portfolio programme but is now being delivered by an Award Partner. This is because delays to local government re-organisation in Northern Ireland risked undermining BIG's desire to involve communities in planning and managing projects.

In each of the Award Partners, a **rationale** for outsourcing is that the Award Partner is primarily bringing expertise (including infrastructure and capacity) to achieve something more effectively than BIG.

[19] Increased to £4.5million to allow an additional £0.5m to be distributed via small grants.

Relationships with Award Partners are more clearly defined than in trusts. Award Partners are acting under contract to BIG for the delivery of all or part of a programme. Whilst the programmes considered highlighted that contract compliance issues of cost control and monitoring were largely managed satisfactorily, softer factors such as relationship management could be overlooked, notably in the arena of branding. As the Lessons Learned paper for BIG Deal highlights:

> *Effective relationship management was key and required increased staff resources over the grant period. For example, the Head of Communications and other communications staff needed to invest additional resources and time to ensure that the Communications and Branding Protocol – that the Award Partner had signed up to – was being delivered effectively.*

Compared with trusts, there was far greater involvement by BIG in the different **stages of the programme cycle**. Organisations were required to have grant management systems (application and monitoring) consistent with those of BIG. This was probably the single area which had caused greatest concern for BIG. Many award partners were found to have had long-standing relationships with BIG which covered a number of programmes. Many interviewees noted that this helped considerably with the 'steep learning curve' required to implement each new programme. New monitoring systems, for instance requiring monthly performance monitoring to BIG, were seen as problematic by some Award Partners. Conversely, BIG saw benefits in more consistent and transparent approaches to performance management – not least in identifying potential problems.

Where Award Partner relationships cover **successive programmes** concerns were raised (by BIG and the Award Partner) of the challenges of transition, to meet new modes of working by BIG (such as grant assessment) but also new programme objectives. The main example of this was seen in the Growing Community Assets (GCA) programme in Scotland which followed the Scottish Land Fund (SLF). The changing focus of the programme to include urban areas and changing performance requirements presented problems. A lesson here is that whilst there is a need for negotiation between BIG and the partner, programmes need to be fully specified at contract sign off stage. A further point is that the Award Partner may not have the expertise to deliver the new programme.

Where partnership relationships cover **successive programmes** both BIG and partners highlighted the challenges of transition, to meet new modes of working by BIG (such as grant assessment) but also new programme objectives. The main example of this was seen in the Growing Community Assets (GCA) programme in Scotland which followed the Scottish Land Fund (SLF). The changing focus of the programme to include urban areas and changing performance requirements presented problems. This underlines the importance for BIG of fully re-specifying its requirements rather than simply relying on negotiation with an existing partner.

Award Partners in many cases combined **support and development** with **grant management.** This raises a series of issues both around the structuring of application processes and the extent of separation between support and assessment. On the former, award partners had used both one and two stage application processes, with programme marketing being conducted through well-established channels. This provided additional reach (for BIG) and allowed the Award Partner to target support for applicants. However, this was found to be with mixed success especially where the Award Partner had most but not all the requisite skills to provide support. On the second issue Award Partners which are smaller organisations may lack the capacity to have a clear separation between support and development and project appraisal. Award partners, as suppliers of services on BIG's behalf, need to meet BIG's requirements. This was found to be a problem in a small set of programmes where the pressures of managing a complex programme, requiring support and appraisal aspects, meant grant assessment was sometimes delayed and inconsistent feedback provided to applicants. These issues can largely be resolved through tighter specification of programmes and client relationship management.

BIG was found to have moved towards a model of **customer relationship management** for Award Partners which combined attention to risk, performance and relationship management. The change in approach from BIG meant that Award Partners were managed less as individual grants but more as high value/low volume contracts which required more dedicated support from a CRM team. The setting up of Award Partners was also found to need to go beyond narrow issues of contract compliance to do with cost control, audit and monitoring and to include issues of branding. The following is taken from the FDF Stage 2 paper for Space and Place:

> *Due to the specific nature of the programme it will be important to develop a robust communications and branding protocol for the Award Partner that sets out at an early stage BIG's expectations in relation to recognition of funding and the importance of separating our funded projects from the Award Partner's substantive work. The protocol must also explain clearly that branding is wider than just the use of a logo.* (FDF Stage 2 Paper for Space and Place, October 2010.)

This reflects learning from programmes such as BIG Deal.

As with Trusts and Portfolios, programme **governance** has allowed for more wide ranging partnerships to form than might otherwise have been the case. As the evaluation of Big Deal highlights:

> *A Children and Young People's Forum (CYPF) was set up by the award partner to put young people at the forefront of the programme management. The evaluation shows that through appropriate sub-structures, regional participation can be accessible to all young people. The CYPF has impacted positively by building capacity which equips young people to make informed and mature local decisions. It has also provided a skills base and platform for them to engage in other structures, whether these are other youth service providers, or participative structures such as local Youth Councils* (Lessons Learned paper, 2012).

This governance extended to a small grants programme where it was found that:

> *Over the period September 2006 to September 2010, 128 young people aged between seven and 25 participated in 80 panel meetings and made decisions on 1140 applications resulting in 723 awards.* (Lessons Learned paper, 2012).

As discussed elsewhere, the administration **costs** of Award Partners varied considerably – one respondent highlighted that operational costs can be four to five times higher than in-house BIG programmes. We found operational costs accounting for between eight and 22 per cent of programme expenditure. Organisations with limited Award Partner experience were found to have higher costs. Moreover, costs also varied depending on the level of support and development activities provided within the programme. In making additional awards to Award Partners, BIG found that it was able to reduce operational costs quite significantly, partly through providing clear signals to Award Partners as to reasonable cost levels. Nonetheless, there remains cost variation and this is largely due to the additional activities required to deliver the grants, and the experience and scale of the award partner. It was also perceived that renegotiated contracts had come with cuts to some operational activities (such as marketing) but it was too soon to judge the effect of this on project quality.

Lessons have been drawn from the Research Programme and implemented by BIG in subsequent programmes. The following table indicates areas which are important to successful outsourcing of programmes.

BIG reviewed and drew lessons from Research Grants and has implemented improved procedures in subsequent programmes. An independent review of Research Grants had highlighted the following areas as important to successful outsourced delivery:

- robust risk assessment and cost benefit analysis (included appropriate sensitivity analysis) at the beginning of procurement
- a robust procurement approach that allows reconsideration of decisions to outsource if no suitable bids are received, as well as due diligence checks and site visits
- a full and final specification of the programme and service required before procurement begins
- use of Prince2 standards of project management to ensure timely delivery of the project
- use of formal interim reporting and compliance checks (rather than simply minuted discussion) in contract management, as well as proper training in contract management for BIG staff with the responsibility
- clear definition of roles and responsibilities for governance, programme management and contract management, as well as procedures for escalating concerns and managing crises.

3.4. Portfolios

BIG has developed a **range of portfolio models**. The following three examples help to illustrate this:

- **Changing Spaces (Portfolio) (England)** was a programme of five portfolios led by Catch 22 (Community Space Challenge), Imperial College (Open Air Laboratories Network, OPAL), Field Studies Council (Eco Challenge), Places for People (Green Spaces for People) and Plunkett Foundation (Making Local Food Work)
- **Children's Play (England)** in which portfolios were defined at a local authority level with the former local Children’s Play Strategies being used to priorities projects)
- **Wellbeing Portfolio (England)** consisted of ten regional and seven England-wide portfolios. Key strands of the programme were mental health, tackling obesity, physical activity and healthy eating and 2012 Olympics
- **International Strategic Programme (UK-Wide)** whereby BIG had awarded six portfolios, each led by a UK based NGO which co-ordinates a programme of development overseas.

This range reflects the **flexibility** in the portfolio model which allows BIG to retain much control over grant management whilst engaging organisations which provide reach and specialist expertise.

The basic model for portfolios is for BIG to engage **organisations** which in turn develop a group or portfolio of projects. These portfolios might be at a specific geographical level (such as Children's Play which was with lower tier local authorities in England or Wellbeing with regional portfolios) or by specialism (as in Changing Spaces).

Portfolio programmes are typically let through a two stage **application process** (such as with Changing Spaces) although this is not required where funding is allocated geographically (such as in Children's Play).The two stage process allows BIG to shape projects from stage 1 to stage 2 but also to provide development grant funding to applicants to help form the full portfolio of projects.

Throughout our interviews with BIG staff it was correctly noted that **portfolios do not outsource grant decision making**: this remains with BIG. Portfolio managers likened their role to managing an accountable body and noted that they at times lacked the authority of funder. The Plunkett Foundation, lead for the Making Local Food Work portfolio of Changes Spaces noted the following:

> *We needed to put in reporting structures, etc. for each project. This had to be handled carefully as Plunkett, as accountable body, has to have more authority over other partners but also the portfolio must work as a partnership, therefore Plunkett can't be overly strong. At times, this has proven a bit tricky as 'accountable body' doesn't have the same weight as 'funder.' However, we have good relationships with all partners and there is a healthy respect for helping each other when problems arise* (Plunkett Foundation Lead Officer)

> *Guidance from BIG has been relatively broad, therefore, we've been careful in our interpretation of their requirements (asking for specific guidance from grant officer, Changing Spaces team, evaluation team, press team). We reference the terms & conditions, stage 1/stage 2 guidance notes/emails/letters from BIG. All our payments have been on time, we have submitted all of our reports on time, we have a strong and open relationship with our grant officer. For the portfolio, the style of BIG has been relatively light-touch.* (Plunkett Foundation Lead Officer)

This was supported by a quote from a grant holder in the Wellbeing Programme:

> *We have had excellent support from our Grants Officer… I have had experience of working with a variety of different funders and this has been by far the most positive experience.* Wellbeing Programme Lessons Learned Paper.

Relationships with portfolios varied depending on the complexity of the programme. Children's Play for example had a relatively high level of delegation to local authorities with a less frequent reporting cycle. Other programmes required more active involvement and support from BIG. As the Lessons Learned paper for the Wellbeing Portfolio noted:

> *The relationship that the grant holder has with their grants officer is pivotal to the success of a portfolio programme. This is both in terms of customer satisfaction and in added value across directorates. Stability of the grants team is particularly important for these types of programmes.* Wellbeing Portfolio, Lessons Learned Paper 2009.

Portfolios, as with other models, were found to involve a high degree of cross-directorate working within BIG, as the following from the Wellbeing Lessons Learned papers illustrate:

> *Grants Officers have a great deal of knowledge about portfolios and their respective projects, gathered through both day to day contact and monitoring reports. All directorates should have access to this information.*
>
> *Large Portfolio programmes require a high level of cross directorate working. Teams need to work in an integrated way in their daily work, rather than just at programme forum level. This should be built in to programme design from the outset.*

The level of cross-directorate working was reflected upon in Country interviews, and noted that cross-organisation working tended to be simpler in the smaller offices for Wales, Scotland and Northern Ireland.

A common finding in Lessons Learned was around the **networking** opportunities afforded by the portfolio approach. This was seen as an integral component of many individual portfolios, with some suggesting that funding for this activity should be higher. A good example of networking from evaluation reports of the Wellbeing Portfolios. Such networking was also seen to lead to possible **leveraging of additional resources**, again which was held to be a feature of the Wellbeing Portfolios:

> *The programme provides a good example of how BIG funding can leverage funding from other sources. This sort of leverage may be particularly important as our budgets are affected by the Olympic diversion. Our ability to draw in other funding could prove valuable. Further learning from this should be explored.*

The Wellbeing portfolios were seen to help projects work with other projects and also work in other areas and access networks more effectively. As one interviewee suggested: *portfolios provide short cuts for BIG in that they can link projects and programmes more effectively as they are more embedded in localities and particular policy/practice areas.*

In summary the main **advantages** from the portfolio model were seen to be that it brought in expert organisations with a network of contacts able to build a portfolio of projects to build a programme. It also freed up BIG Lottery grant officer time. There were also seen to be **disadvantages**, with some of the development work by portfolio leads seen as expensive with considerable and unforeseen support being required by BIG to support the lead organisation.

This issue was also highlighted in the evaluation of Children's Play:

> *Nearly half of local authorities had used BIG funding to secure extra funding for play (48%) through a range of sources including government departments and local grants. Sustainability was a key issue for play.*[20]

We did not explore the **governance** arrangements of individual portfolios in great detail, although the following points to potential risks. The evaluation of the Community Space Challenge (Changing Spaces Portfolio) found:

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[20] Hall, N. and Day, R. (2009) *Evaluation of Children's Play Programme: Report to the BIG Lottery Fund*. London: BIG.

> *The Board structure, with the majority of its members involved in operational delivery, lacks a degree of independence and may not be ideally suited to fulfilling a strategic role. Although a regular meeting forum is useful for operational matters the members cannot realistically be expected to give their whole energies to the broader, longer term issues at stake* (Changing Spaces CSC Evaluation, p.44).[21]

This issue of independence is a potential **risk** of the portfolio approach with insufficient competition for funds and portfolio governance largely undertaken by project leads. Nonetheless, there were some factors which mitigated risks here, notably the approval of projects by BIG at the outset, involvement of some external representation of portfolio boards and attendance of BIG officers.

Costs in portfolios were found to range from 10-15 per cent of programme budgets. In addition two stage application costs mainly came with development costs. Portfolio leads reflected that the costs for programmes such as Wellbeing and Changing Spaces were reasonable. Areas where partner organisations believed that they had not accurately forecast costs were in legal and monitoring work (with cases of these being both under- and over-estimated). From BIG's perspective the scale and scope of monitoring activities meant that quarterly monitoring coupled with compliance visits to each project were time-consuming and required considerable preparation. Taking into account the hidden costs of portfolios, this approach to outsourcing appears more expensive than Trusts or Award Partners, although it does bring additional returns, including leveraging of resources, networking and tighter contract compliance.

3.5. Conclusion

There was considerable variation within approaches, with few programmes or approaches being entirely alike. Nonetheless, they did contain common features, around the importance of good and tight contracts, well specified programmes and of relationship management. The benefits to outsourcing through each model were around access to **expertise, infrastructure and reach** which outsourced partners provided. In many cases (Changing Spaces for example), quality of delivery was found to be very high.

As with in-house programmes, **good programme development** was found to be of critical importance. The risks of poorly specified programmes which were outsourced were greater and as experience of a small number of programmes showed, resulted in considerable unforeseen additional management, legal and audit costs.

Relationships in the on-going management of outsourced programmes and delivery partners were found to matter, and to be valued by partners. Again, well-specified programmes with tight contracts which were well communicated were found to be important factors, reflected in interviews, evaluations and Lessons Learned papers.

Each outsourcing model has particular advantages as outlined below:

- **Trusts** enable BIG to address a need over the longer term (over five years) where such a commitment is required for change, and by being able to deliver activities which BIG cannot or would find it difficult to do, including micro grants, loans and grants to individuals or community development and capacity-building

[21] Bowles, R. and Renshaw, J. (2011) Community Space Challenge Evaluation: Interim Report. London: Catch 22.

work that is needed to achieve further outcomes for particular disadvantaged groups

- **Award Partners** worked well where partner organisations had access to a particular group and technical expertise or could provide effective support to applicants and grant-holders. Effective award partners have expertise in grant-making, particularly in governance, supporting capacity and handling appraisal and monitoring. It was noted that BIG's requirement for Award Partners to comply with its grant making system Merlin had contributed to the level of this requirement
- **Portfolios** do not involve BIG delegating grant making and management powers. They enable BIG to deliver a broad strategy which includes support across policy fields. They were also found to be effective in promoting networking and leverage of additional funds.

All models provided the basis for **innovation** in some way, although a critical issue here was the importance of capturing lessons from this for future programmes and wider policy impact.

All models relied on external expertise existing or being able to be built to deliver the programme. Where this is not the case or BIG has concerns in this area, then consideration of in-house delivery needs to be made.

4

4. Lessons from Outsourcing

4.1. Introduction

A series of cross-cutting findings emerged from the research and are presented here. They largely concern process issues.

4.2. Programme Development: Intelligent Funding and Funding Development Framework

BIG has well established frameworks for the development of programmes. These are laid out in its six Intelligent Funding principles and the three stages of its Funding Development Framework. Both are highly relevant to the decision to outsource grant making. Intelligent Funding places central importance of programmes around achieving an outcome change. The Funding Development Framework provides the mechanisms for BIG to project manage the design of programmes through to programme launch.

The central consideration in relation to outsourcing in programme development is around the following three factors:

- **expertise and knowledge**: a third party had the skills, expertise and flexibility to deliver a programme more effectively than BIG
- **grant award expertise** and capacity is required for both Award Partners and Trusts. Although this can be funded through the operating costs of the programme, the outsourced partner has to have competence in this area
- **cost**: it is cheaper (in terms of BIG's direct costs) to deliver a programme through a third party. A common example here was related to reach where infrastructure exists to reach the target community, and which for BIG to reach through in-house delivery would require the funding of new infrastructure.

To some extent these factors were reflected in interviews with outsourced partners, who were asked what they added to the delivery of BIG programmes. Typical interview responses in this regard were '*reach, expertise and capacity*' and '*scale and expertise and past experience*'.

An award partner stressed that '*BIG may have been able to fund the same level of activity and from that generate the same outcomes on its own, but this would have taken them much longer and probably cost quite a bit more, at least in the early stages of developing networks and systems*'. For this partner, it was noted that their approach '*fits with the sector's approach and thinking*' and this in turn enabled it to bring specific sectoral knowledge to better address wider societal goals.

Interviews with partner organisations and staff at BIG involved in the Big Boost programme highlighted the following as rationales for outsourcing:

- at the time of programme development, BIG did not have the legal powers to make grants to individuals

- delivery in-house would have incurred additional costs (notably in additonal training for grants officers for what might have been a one-off programme
- delivery organisations already existed with the requiste expertise
- delivery organisations had partners which provided sufficient geographic reach.

However, these central considerations need to be set against the inter-related issues of:

- **risk:** that BIG potentially loses control of programmes and may not have control if programmes fail
- **reputation:** that poorly performing programmes damage reputation and the BIG brand
- **potential cost and contingency:** that the scale BIG has means that it can more readily provide for contingencies
- **due diligence and audit:** that the outsourcing of programmes comes with transaction costs, some of which may be unseen or unknown at the time of programme design.

FDF was seen as a hindrance by some interviewees, and it was suggested that it is seen as a set of rules and a rigid framework rather than guidance and common principles. Some interviewees also reflected that FDF was only suited for certain types programmes and not others. A manager at BIG leading the development of a trust noted that '*assessment materials are perhaps not as robust as needed',* expressing particular concerns about how far the approach was suitable for developing programmes in politically sensitive areas, where BIG had to operate in partnership with other funding organisations or government bodies, each with its own policy commitments in particular areas.

The Funding Development Framework is currently being redesigned, a process that provides some scope to consider how outsourcing decisions are made, notably that a fuller assessment of costs and benefits is made, a point which has already been put into practice by BIG.

4.3. Treatment of Cost in Decision Making

Although the cost of new programmes is currently calculated by activity based costing, this has not always been the case; the cost of the majority of the existing programmes within the scope of the study will have initially been calculated using marginal costing.

During development, the direct labour resource for the life of the programme would have been estimated and the actual direct labour resource used during its lifecycle recorded. The costs of the Programme Management Division (PMD) in England are considered to be direct labour and are most affected by the programme type chosen.

PMD's main activities are:

- data capture from applications received
- assessment of applications received
- short-listing of projects for committee decision
- contacting successful applicants and arranging the payment of awards

- managing the grant (e.g. ensuring successful applicants meet project milestones, visiting projects etc)
- managing disputes
- end of grant reporting (e.g. assessing how well projects have achieved intended outcomes).

Depending on the programme type chosen, one or more of the activities described above will be carried out by the associated organisation, rather than BIG.

Although PMD's costs are most significantly affected by programme type, there are costs from the other departments that may also vary/be avoided; these are described in more detail later on.

It will be known at an early stage (either before or as part of Stage 1 of the Funding Development Framework) if a programme will be launched as one of the different outsourced arrangements. There are two main considerations that drive the decision; the qualitative consideration of reach and impact (as discussed above) and the quantitative consideration of cost and resource. Both of these are in turn driven by the overall programme objective.

Decisions on reach and impact are made by Policy and Regional (outreach and development) departments and include the following considerations:

- does the associated organisation have better capability to contact members of the target group and encourage them to apply?
- can the associated organisation provide higher quality support and development than BIG, resulting in better quality applications?
- is the associate organisation better placed to judge whether applicants are likely to meet their project outcomes?
- can the associated organisation provide specialist support to increase the likelihood of the project completing within a set timescale and meeting milestones?
- will fewer disputes arise than if BIG chose to run all aspects of the programme?

Decisions on cost and resource are made either by the Finance Department, country Programme Board or Programme Management Division. The main considerations here are:

- does BIG have the resources/staff available to run the programme?
- would the cost of BIG running the specific programme under consideration be higher than our ideal target of five per cent?
- would specialist staff/consultants need to be recruited in order for BIG to run the programme?
- would large additional costs outside PMD (e.g. communications helpline, regional outreach) be incurred?

There are also cost considerations of a more corporate nature:

- is the average operating percentage of BIG's overall current programme portfolio too high? As any costs incurred by the associated organisation are not included in BIG's own accounts therefore running a delegated funding programme can have the effect of lowering BIG's overall operating cost percentage

- has enough of the grant budget been awarded during the year? With a trust model, a large award is made relatively quickly.

The last point reflects the question of expediency. Trusts in particular and to lesser extents portfolios and award partners appear to allow BIG greater control over grant budget balances and reduce the risk of having high, or greater than forecast, grant budget balances on year-end accounts.

4.4. Organisational Experience of Outsourcing Grantmaking

BIG is a large and complex organisation in which common practices and procedures have developed to help develop and implement programmes. The following points were made:

- BIG now has considerable experience in outsourcing grant making, and far more than other grant making bodies to third sector organisations
- with the track record in outsourcing, staff within BIG have developed a clear understanding of success factors in outsourcing, and importantly, much of this knowledge has been codified in written guidance, is evident in lessons learned reports and various outsourced programmes have been subject to audit and evaluation. This track record is also reflected in the understanding of the legal requirements of different arrangements and the specific compliance issues for each arrangement with respect to Government and to the Lottery Act
- although programmes vary considerably (in scope and mechanism, size and target group) a common reflection in interviews was that there are common legal, audit and programme development requirements around each model.

Nonetheless, there were continuing issues in this area:

- there were marked differences between the four countries in the operation of outsourcing, including issues of approach and experience
- there was a case history (through audit reports, lessons learned and evaluations) of where outsourcing had not been successful (which we reflect on further below). Some respondents felt that different decisions should have been made about whether to outsource some programmes
- with varying experiences of outsourcing across the organisation, there were differences about which models had been most effective and where BIG should place greatest emphasis in the future
- there was little evidence of perverse outcomes or unintended consequences. One example in relation to a trust was the inclusion of a clause to encourage spend to be made quickly, something which would have gone against the rationale of the trust to take a longer term view based on locally defined needs. This clause was subsequently removed.

4.5. Expediency and Managing Lottery Balances

Releasing large sums of funding in single or staged payments to partner organisations to conduct grant making on behalf of BIG was seen as a key expedient reason for outsourcing. As a distributor of National Lottery funding a key objective for the organisation is to ensure funding is put to good, and timely, use. Outsourcing, in theory at least, allows BIG to manage this pressure and requirement. The issue is compounded as demand for in-house programmes may be lower than expected and as Lottery receipts vary year on year.

Although outsourcing was seen to be a means to reduce cash balances quickly, the research found that it was not entirely effective at this, particular for wholly new programmes where development times from policy idea to release of funding may take up to three years. However, where there is a case for further funding, it was found that additional funding could be released to existing partners (notably Award Partners and Portfolios, but conceivably Trusts) at shorter notice. Nonetheless, a key driver of outsourcing was found to be the managed disbursement of substantial tranches of funding.

4.6. Relationships, branding and partnership

In the consideration of each approach to outsourcing a common theme to emerge was around the management of relationships. Interviewees reflected on the nature of the relationship with partners, how these should be managed and cost implications. They were seen to have been neglected in some earlier programmes with the result that BIG had at times lost some control of programmes or had insufficient information. As highlighted in the lessons from the Research Programme, relationship management was also seen to involve harder skills around negotiation and enforcing contract compliance. The establishment of the customer relationship management team in BIG responded to these concerns and is appropriate to high value/low volume programmes. A number of partner organisations reflected that BIG's due diligence and monitoring processes are '*too bureaucratic'.*

However, the benefits of more active contract relationship management were also noted. For the BIG Boost it was noted that that risk '*was always in the scenario*. *Everyone understood that the programme was risky – not just for Big Lottery but also for partners'*. With respect to this the partner organisation highlighted that BIG managed steering group meetings and led monitoring reviews: '*having consistency was important, and regular meetings with a good contract manager at helped the programme to run smoothly'.*

The Fair Share Trust noted that its relationship with BIG took three main forms:

- a monitoring relationship with BIG's CRM team
- a strategic relationship with BIG at chief executive level and through the role of the protector
- a day-to-day relationship responding to requirements around media coverage, politicians' requests and BIG's regional teams for local case examples.

Moreover it was noted that relationships had *changed, evolved and improved*. The final point was echoed by other partner interviewees who highlighted the benefits of the CRM approach to managing relationships.

There were differing views on BIG's role vis-à-vis partner organisations. The following highlight this tension:

- in one programme there was a perception that BIG had done a lot of *handholding* of the partner organisation with assistance on the risk strategy and equalities strategy

- conversely, a partner organisation highlighted that *what BLF do well is find good partners and then push out the funding* […] *[we] have the grassroots connections through to local organisations that they would not have otherwise.*

One programme manager in BIG also noted the importance of the development phase of the programme: '*there had been definite challenges particularly culturally but over six months (the development phase) have developed a better understanding - about organisations getting to know each other and getting better aligned.'*

Public relations and more general branding issues were raised in interviews with staff in BIG and some of the partner organisations. Lessons appear to have been drawn from previous programmes where BIG had to 'retrofit' communications strategies into partner organisations. From BIG's perspective communications are a key part of its wider mission as a learning organisation. However, partner organisations did note that communications activities did come with additional costs which needed to be factored in: *'communications are more than just adding the logo'.* In some programmes BIG had helped organisations to develop communications toolkits and worked with organisations to ensure an appropriate communications strategy was developed. This was seen as both helping the programme and the organisation concerned.

Outsourcing was also seen as a way to gain access to other brands and therefore to increase the overall brand value (and thus the reach) of the programme. An example was given of the Wellbeing portfolios in this regard and the hosting of a portfolio by an NHS Trust: *this helped raise profile, helps projects to have an identifiable name … and aids referrals to the projects.*

A final set of considerations is around the strategic relationship between BIG and its outsourced partners. Many of the outsourced programmes go beyond simple principal-agent contract relationships. BIG is working jointly with organisations to develop programmes which have considerable profiles and brands in their own right. We did not consider this issue extensively through staff interviews, although it was evident that programmes were informed through consultation and which involved chief officers from other organisations. As other research for BIG has reflected, programmes are not developed in isolation or in a vacuum.[22]

These issues could more broadly be seen to describe the policy and grant making 'field' or 'landscape' within which BIG operates. These issues were also found to vary between the countries, and it was noted that the smaller size of policy making communities in Northern Ireland, Scotland and Wales, compared to England, sometimes made it easier to formulate programmes and delivery mechanisms.

Conversely it was noted that one portfolio lead '*obviously had a lot of high level contacts and many informal networks that don't need the formality that BIG require in the application*'.

Other examples of responding to the policy field or environment include:

- Legacy Trust which was required to fund the UK School Games
- Realising Ambition portfolio in which Catch 22 *'has vast experience in this area* [the programme is targeted at preventing and reducing youth offending by 8-18 year olds] *and is exactly the kind of thing that we should be involved in. [They]*

[22] Ellis Paine, A., Taylor, R., and Alcock, P. (2012) *Wherever there is money there is influence: exploring BIG's impact on the third sector*. Birmingham: Third Sector Research Centre. Report available at: http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=lNwTr4ZElmg%3d&tabid=500

run various Government initiatives and also BIG programmes before including the National Citizens Service partnership'.

- Live UnLtd is part funded by Big Lottery and UnLtd '*has developed a real specialism around supporting young entrepreneurs - team and resources have grown*'.

These are examples of outsourced organisations providing reach and expertise, but also how BIG's relationship is beyond a contractual one for programme delivery.

Moreover, partner organisations have their own interests in securing contracts to deliver outsourced programmes on behalf of BIG: these may be to do with a contribution to their central mission, to strengthen own role within a particular policy field, or financial in terms of the resources programme management can bring. All of these are legitimate factors which BIG need to respond to.

A final consideration is around the 'field' within which programmes may operate. Outsourced partner organisations needed legitimacy amongst peer and front-line organisations to act. An example given here was the Growing Community Assets programme where it was argued that the Award Partner lacked legitimacy amongst some frontline organisations targeted by the programme. This raises concerns for BIG, and reflects conditions where there may be neither a clear lead organisation nor sufficient competition, but rather a contested policy field. This is common in many areas of the voluntary and community sector. Again, this is not a reason not to outsource, except for extreme conditions, but is a consideration BIG needs to respond to.

4.7. Structure of Delivery Arrangements

The structure of outsourced partner delivery arrangements are central to the reach they provided BIG in programme delivery. There were various examples of this:

- Fair Share Trust reported that the Community Foundation Network (CFN) (its sole trustee and delivery partner) has a delegated model of local affiliated trusts. It is through this network of agents that CFN deliver programme activities of capacity building and local-level grant making
- the Royal Society for Wildlife Trusts (an Award Partner on the Changing Spaces programme) highlighted that its *Community members took on the role of publicising the programme amongst their members, which meant that marketing efforts on the part of [the AP] only needed to be small scale*.

These benefits were well understood and were welcome. However, concerns were raised in these and other programmes, notably around:

- lack of programme skills particularly around meeting BIG's monitoring and financial requirements. This often required additional support from BIG to ensure these were robust. It was noted that lessons have been learned from BIG's experience on earlier outsourced programmes
- organisations may have excellent connections to member or affiliate organisations but these may not necessarily be evenly spread, with this then reflected in the geographic distribution of applications
- wider policy change can affect delivery, with an example of this being the Wellbeing portfolio and health service change, where PCTs in England formerly

had a responsibility for monitoring subcontractors, but with health service reform which abolished the PCTs, new arrangements had to be put in place.

4.8. Wider Policy Impacts

One rationale for outsourcing is to have a wider impact on the policy environment. This applies equally to trusts, award partners and portfolios. The Lessons Learned paper for the BIG Deal found that this had been achieved to some extent, through for example:

- demonstrating the way in which young people could be involved in decision making and through this influencing wider policy arenas (for instance Education and Library Board structures)
- guidance for Youth Councils being prepared in conjunction with development workers and the policy worker
- development of a model of youth involvement in a small grants programme which could be replicated.

The same report also highlighted the importance of leadership in programme management as an important factor in sustaining these benefits and in terms of increasing impact on other organisations.

These issues were reflected on in case study interviews, with a tension between short term delivery of specified programmes and ensuring that learning from programmes informs both future programmes and wider policy. To some extent this depends on the mission and capacity of the partner organisation, and how it may use delivery of a BIG programme to gain an advantage within its own field (the point made under relationships, branding and partnership, above).

4.9. Reach, Outcomes and Impact

This section explores the available evidence on the reach, outcomes and impact of outsourced programmes. It draws primarily on evaluation evidence. Critically we seek to find inferences between the delivery model (outsourced arrangement) and reach and outcomes. This is a weak but possibly the only available 'counter-factual' at present. In conclusion, the section outlines how this might be addressed in the future.

Trusts

Many trusts are relatively new and have not yet reported evaluation findings regarding outcomes and impact, or have only reported evaluation findings with respect to the process of setting the Trust up and the early stages of delivery. However, of the evaluations that have been published a number of lessons can be identified.

a) There can be strategic benefits to partners coming together during the design and delivery of a Trust. The partners develop a better understanding of each other's work and can begin to engage with and influence wider policy agendas more effectively

b) The Trust model enables alternative, flexible and sometimes innovative approaches to grant making that would not be possible through traditional, more rigid open programmes that BIG usually delivers

c) The outcomes and impacts of Trusts are likely to be realised over a longer time frame than traditional funding programmes. This is due to the longer lead-in and development period associated with Trusts, but also because Trusts enable funding to be distributed over a longer period.

Award Partners

Most Award Partners have commissioned their own evaluations of the programmes they have delivered. These evaluations typically identify a range of positive outcomes associated with activities delivered through the programmes. However, there is rarely any discussion of how these outcomes differ from or are added to those that could have been achieved by BIG delivering the programme in-house, or the extent to which they are different or additional to the Award Partner’s other (non-BIG funded) activities. This is not to say that these programmes are not achieving outcomes and impacts more effectively than an in-house approach, but that the evaluations were not set up to test the merits of the outsourcing approach, so little evidence has been generated.

Portfolios

Similar to Award Partners most Portfolios have been externally evaluated and some strong evidence about outcomes and impact has been collected. In at least three of the Portfolios considered in this study a common approach to monitoring and evaluation data collection (e.g. a framework of standard measures and questions) was developed and applied at project level. This enabled a more robust analysis of programme wide outcomes and impact than, for example, where Trusts and Award Partners developed and commissioned their own evaluations. It is likely that the Portfolio development process, which requires organisations to develop a series complementary projects around a core theme (such as well-being), was a factor in the emergence of these common evaluation approaches.

Despite the number of high quality Portfolio evaluations, similar to other evaluations of outsourced programmes they did not overtly consider the issue of whether the outsourced grantmaking approach effect the nature or volume of outcomes achieved.

Conclusion

The evaluation evidence demonstrates that outsourced grant programmes do lead to outcomes and impacts for the people and communities they are intended to benefit. What is less clear is the extent to which these benefits would have been possible if the programme had been delivered in-house by BIG. The evaluations have not been set up to address this (counter-factual) question. However, it is evident from programmes such as the Fair Share Trust that if the programme had not been outsourced, then a large cohort of community development workers would have had to be recruited by BIG.

There is some evidence that the process of setting up and developing a Trust can build capacity and realise strategic benefits for the organisations involved with the Corporate Trustee. There is also emerging evidence that Trusts enable more flexible and innovative grantmaking that when compared to traditional approaches. The evidence around Award Partners and Portfolios is less clear and more (quasi) experimental evaluation approaches would be needed to gain a proper understanding of *whether* and *how* outsourced grantmaking can lead to greater outcomes, impact and reach when compared to BIG's in-house approaches.

4.10. Innovation, Learning and Evaluation responsibilities

A rationale for using outsourcing is that it enables BIG to **innovate** and therefore to more effectively improve the outcomes for those most in need. Many programmes were held up as examples of how outsourcing had enabled it to do things which it could not have otherwise have done, including:

- Fair Share Trust which enabled BIG to target resources at the most disadvantaged neighbourhoods
- Big Local Trust which built on the experience of Fair Share Trust and enabled the development of an approach to grant making which was community led
- Big Boost which trialled the award of small grants to young people with additional funding if business ideas showed promise of becoming viable businesses
- Forces in Mind Trust which will establish new and independent capacity in the third sector serving ex-service people and their families.

However some questioned the extent to which the programmes were innovative and whether some could have been delivered in-house. As one respondent noted, in this area it requires outsourced organisations to generate innovative ideas: '*what happens if they don't?*'. This point highlighted the importance for understanding the policy field with which BIG and outsourced partners operate: it cannot always be assumed that innovation will occur. This may be for a variety of reasons including the capacity of partner organisations and their resources. In these cases BIG may need to look at other ways of building capacity or delivering programmes.

Alongside innovation, BIG is actively committed to **learning** from its programmes. However, it was noted that outsourcing may hinder this endeavour unless attention is given to contracts and relationship building at the start of the programme. As one respondent suggested:

> '*BIG Lottery needs to maximise and retain learning in order assess impact of its work … but in order to maximise learning [we] probably need to retain some control … perhaps Trusts don't enable BIG to do this so well'.*

For Award Partners and Portfolios, overall responsibility for **evaluation** remained with BIG although individual Portfolios and Award Partners have commissioned their own evaluations, often as part of an agreement with BIG. This has raised some coordination issues, as the Lessons Learned paper for the Wellbeing Portfolio highlights:

> *For large portfolio programmes, evaluations should be designed when the programme is developed. This allows grant holders to consider the national BIG evaluation alongside their individual project evaluations. This also minimises duplication of evaluation activities where grant holders undertake their own evaluations and provides better customer service.*

It was not within the scope of this research study to explore the effectiveness of evaluation arrangements. However, there are some potential risks around duplication or poor coordination (as in the Wellbeing Portfolio), the setting of evaluation terms of reference by the partner in isolation from BIG, evaluators contracted by and reporting to the partner, and a more general concern that partners are likely to lack the evaluation and learning capacity of BIG. All of these are constraining factors.

The delegation of evaluation responsibilities, whilst useful in developing learning cultures in partner organisations (especially for process evaluations) does run the risk that separate and local evaluation designs do not allow for aggregation back to the programme level. This risk is particularly prevalent for impact evaluations.

Evaluation responsibilities for Trusts have rested both with BIG and the individual trust. Many of the same considerations apply.

The following example shows how evaluation, innovation and learning are intended to come together in the recently launched Realising Ambition programme.

Realising Ambition Programme: How does the Outsourced Model Contribute to Learning?

Realising Ambition is funding a portfolio of projects led by Catch-22. The portfolio is intended to build on national and international evidence - the main comparator programme being the Blue Print programme in the United States. Similar programmes have been run in Canada, Mexico and other European countries. At the heart of the portfolio is learning from whether similar approaches could work in the United Kingdom.

The emphasis of the programme is on evidence and what works - and it includes an online outcomes framework, extensive qualitative research, tools such as SROI and it has also funded four randomised control trials.

Catch 22 and its delivery partners are working to help build capacity in frontline organisations around monitoring and evaluation. The portfolio approach to the programmes was seen as a means to greatly enhance the building of a *critical mass of evidence.*

BIG recognised that it would not be able to deliver this programme alone, with the portfolio approach enabling it maximise the potential for innovation and provide the evidence base for scaling up the projects in the future.

Finally, as highlighted elsewhere evidence was found of learning programmes which presented unexpected challenges. For the Research Programme, lessons from delivery were that the award partner needed both an understanding of the field and of the operating environment (how research grants should be made and by who) and competence (expertise). A lesson from these programmes was that unforeseen challenges can be expensive to rectify in terms of additional staff time and external fees.

4.11. Preparing for the Future

There were competing views on how grant making may develop in the future. One view was that BIG needed to become both more responsive to need, and emerging needs, but also seek to act much more as an innovator in grant making. In this latter mode it may be involved more readily in outsourcing where it provides the funding for programmes to be designed and delivered which are more responsive and can be more flexible in light of emerging circumstances. An example given in this area was around the emergent agenda of social investment, and the role BIG should play both in funding social investment but also in shaping the social investment agenda.

4.12. Conclusion

This section has considered issues to emerge from interviews and the documentary review which cuts across individual approaches to outsourcing. Four features came across strongly:

- **BIG has sophisticated approaches for the development of programmes** which largely, but not entirely, apply to all forms of outsourced programme. Exceptions include the development of more experimental programmes that are required to evolve during delivery. BIG's approaches to programme development, primarily Intelligent Funding principles and Funding Development Framework stages provide a guide for good programme development. BIG also had considerable expertise in the main functions required for outsourcing, namely legal, audit, customer relationship management, programme development, accounting and communications. These were frequently more advanced than those of the partner organisations it contracted with
- **BIG's approach to outsourcing has evolved and lessons have been learned.** However, as outlined in the previous section, good programme development was the key to subsequent relationship management issues
- **a neglected issue is around understanding outsourcing is BIG's position in relation to wider policy fields and the importance of the alignment of BIG's policy objectives with those of its partners, and vice versa.** . Partner organisations had their own strategies, motivations and objectives which may include the use of outsourcing to promote a particular issue, gain competitive advantage and market position, and secure resources
- **outsourcing provides BIG with a mechanism to manage its Lottery Funding balances** – particularly through scheduling large programme payments to partners, although it does not necessarily provide a means to release funding quickly.

5. Costs of Outsourcing

5.1. Introduction

In light of the budget cuts in the public sector, grantmakers, particularly lottery distributors and distributors of other public funds, are under increasing pressure to deliver grants in the most cost-effective way possible. There has been particular emphasis from Government on the need to reduce the amount of public money spent on administering grants and other running costs: in January 2011 the Department for Culture, Media and Sport (DCMS) asked lottery distributors to **cap their grant administration costs at five per cent, and reduce total running costs to eight per cent** in line with best practice identified among charities carrying out similar activities.

This directive from DCMS followed several Government research studies into the cost-effectiveness of grant making by lottery distributors. In 2008 the National Audit Office (NAO) published a comprehensive study into the efficiency of grant making in the culture, media and sport sector[23]. The research sought to identify the costs and main cost drivers of various lottery funding programmes. It found that most grant-makers had not developed cost-efficiency measures and those that did, did not do so through a consistent methodology. Following the report the NAO (and subsequently the Public Accounts Committee[24]) recommended that Lottery grantmakers should collect information about the costs of grant making on a systematic basis, including agreed methods for measuring the costs of individual grant programmes. More recently, in 2010, DCMS undertook their own comparative study of the administrative costs of some grant making charities to inform their decision about the level of the administrative cost caps for the Lottery distributors, although it should be noted that grant making charities included both salaried staff and volunteers whereas Lottery distributors do not.

The remainder of this section considers a range of primary and secondary evidence on the costs of grantmaking, including outsourced grantmaking.

5.2. Grantmaking costs

The NAO study estimated two grantmaking cost metrics for a number of lottery grant programmes:

- the direct staff cost of awarding a pound (£) of grant; and
- the full cost (including overheads) of awarding a pound of grant.

The analysis included a comparison of two broad categories of programme of relevance to this study: low value (average grant value of less than £30,000) open

[23] National Audit Office (2008) *Making grants efficiently in the culture, media and sport sector.* Report by the Comptroller and Auditor General.
[24] House of Commons Committee of Public Accounts (2008) *Making grants efficiently in the culture, media and sport sector.* Forty-ninth Report of Session 2007-08.

application programmes; and high value (average grant value of more than £100,000) open applications programmes. Each category included one Big Lottery programme and a number of programmes delivered by other Lottery distributors. An overview of the grantmaking costs identified is provided in table 5.1.

Table 5.1: National Lottery grantmaking costs estimated by NAO

	Direct staff cost (per £ of grant)	Full overhead cost (per £ of grant)
Low value open application programmes:		
Big Lottery Fund Awards for All	**4 pence**	**7 pence**
Arts Council England Grants for the Arts for Organisations	4 pence	7 pence
Arts Council England Grants for the Arts for Individuals	18 pence	35 pence
High value open application programmes:		
Big Lottery Fund Reaching Communities (England)	**1 penny**	**3 pence**
English Heritage Repair Grants for Places of Worship	4 pence	8 pence
Sport England Community Investment Fund	3 pence	5 pence

These costs can also be seen in the context of the costs incurred by other funders operating in the same field. Several examples are highlighted below. It should be noted that direct comparisons cannot be drawn between the costs cited in these examples and the figures estimated by the NAO due to the way individual grantmakers account for and apportion costs in their annual accounts. However, the figures identified below can be considered indicative of the full overhead cost per pound (£) of their grantmaking activity.

a) The ***Esmee Fairbairn Foundation*** spends more than £20 million per year providing voluntary and community sector organisations. Their grant values range from less than £10,000 to more than £500,000. Between 2007 and 2010 the Foundation consistently spent around 6 pence in support of grantmaking for every pound (£) awarded

b) The ***Lloyds TSB Foundation (England and Wales)*** also spends more than £20 million per year on grants for voluntary and community organisations. Many of the grants they make are for sums of less than £50,000. Between 2007 and 2010 the Foundation spent between ten pence and 11 pence in support of grantmaking for every pound awarded

c) We also explored the grantmaking costs of a number of ***local Community Foundations*** spending between £1 million and £5 million per year on grants. Community Foundations generally provide voluntary and community organisations operating in their area with small grants (i.e. less than £50,000) in support of their activities. In 2010 the Community Foundations we looked at spent between 12 pence and 25 pence in support of grantmaking for every pound awarded. Compared to other grantmakers Community Foundations appeared to experience greater year-on-year fluctuations in their cost ratios compared to larger funders; this was primarily due to peaks and troughs in the value of external funds they were distributing whilst their fixed (and some variable) costs remained largely the same.

Although the costs of grantmaking are influenced by a range of factors and it is reasonable to expect these to vary by programme, the metrics estimated by the NAO and in the examples of other grantmakers we explored do highlight a number of possible trends:

- it can cost more (per £) to administer lower value grants
- it can cost more (per £) to administer lower (total) value grant programmes
- it can cost more (per £) to administer grants to individuals compared to organisations
- when compared other lottery distributors and grantmaking foundations operating in a similar field, the Big Lottery Fund's administrative costs appear reasonable and proportionate.

These comparisons are helpful in framing further analysis and in understanding the economies of scale and scope BIG may have access to as the largest Lottery distributor. Nonetheless, as a rationale of outsourcing programmes is to purchase additional expertise, to reach harder to reach groups and individuals, and to innovate, it is likely that such economies may diminish.

5.3. Outsourced grantmaking costs

Estimating the costs of outsourced grantmaking is more complex than in-house grantmaking as programme development and operating/administrative costs are borne by two or more parties: that is, BIG and its delivery partners. It is further complicated by the fact that BIG's development and operational costs tend to be *without* the programme budget whereas partner costs tend to be *within* it. This is in addition to initial partner development costs which tend to be funded through an additional grant from BIG. This means that estimating direct staff and overhead cost per pound (£) metrics is more complicated for outsourced programmes.

We were able to explore elements of these costs for a number of the outsourced programmes covered by this study. The findings are discussed in more detail below.

5.3.1. Development costs

For most outsourced programmes the chosen delivery partner receives a development grant from BIG to develop their business plan for the programme in more detail. Development grants are currently limited to £250,000. For example:

- £80,000 was awarded to the Community Development Foundation for the development of the ***BIG Local Trust***
- £88,000 was awarded to the Scottish Community Foundation for the development of the ***JESSICA Trust***
- £188,000 was awarded to **Life Changes Trust**.

In some cases partners identified the actual costs of programme development as greater than the development grant.

'I've been working pro bono for 6 months!' (The) Development grant was for £69k. If money had been twice what is was it would have been on track.' (Portfolio Holder)

However, not all were content that this represented an acceptable addition given the longer term benefits of delivering the programme: for instance one programme estimated that they had incurred a further £60,000 of costs in setting up a trust. Indeed, BIG is continually learning from these development processes. In Scotland the JESSICA Trust received an £88,000 development grant which was assessed, on reflection to have been too small. For example, in setting up the subsequent and more complex Life Changes Trust it was judged necessary to fund a Development Manager alongside other support, with the eventual development grant to require it was decided that a Development Manager would be needed, so the development budget was increased to £188,000.

From BIG's perspective, these grants represent a small fraction (typically less than one per cent) of the overall programme costs, and represent necessary expenditure that BIG would most likely have incurred itself had the programmes been kept in-house.

5.3.2. BIG development and support costs

In addition to the programme development costs incurred by its partners BIG also incurs costs during the development and delivery of an outsourced programme. For emerging programmes BIG estimates these costs through a generic template for developing an operating cost budget. The template covers estimated costs in the areas of programme development and set-up, programme management and resources, governance and overheads to enable an estimate of the total programme life costs. We were able to review these templates that had been developed for a number of outsourced programmes:

- ***Space and Place*** had an estimated total programme life cost of £546,525 - 3.6 per cent of the total programme budget (£15m)
- ***Life Changes*** had and estimated total programme life cost of £362,780 - less than one per cent of the total programme budget (£50m)
- ***Realising Ambition*** had an estimated total programme life cost of £486,287 - 1.9 per cent of the total programme budget (£25m).

This suggests that the cost to BIG of managing outsourced programmes is relatively low as a proportion of the total programme budget. However, it should be emphasised that these are cost estimates and projections made during the early stages of development, and the actual costs of associated with the programme may be quite different. For instance, the Lessons Learned paper for the Wellbeing Portfolio highlighted that although each portfolio has a single contract to the portfolio lead, monitoring data needed to be aggregated across the programme and compliance visits undertaken to all individual grant recipients with reports for each written.

5.3.3. Programme delivery costs

As with in-house programmes, the majority of the cost associated with outsourced programmes is incurred at the programme delivery stage. The partner(s) BIG chooses to deliver the programme through will have a series direct operational and administrative costs that will need to be drawn from the overall programme costs. Some examples of outsourced programme delivery costs are discussed below.

- the business plan for the ***Building Change Trust*** provided an estimate for the overall costs that would be incurred over the life of the Trust as well as the projected investment returns from the endowment. The £10 million ten year expendable endowment was expected to yield a total realisable capital of £12.1 million (based on five per cent annual return net of fees, which may now seem optimistically high). Set-up and running costs (including protector and audit costs) were estimated to be £1.439 million (14 per cent of the endowment), leaving £10.657 million, more than half a million more than the initial investment, available for spend
- for the ***BIG Local Trust*** the estimated budget (running costs) for the organisation (corporate trustee) is £7.3 million over ten years (3.7 per cent of the endowment)
- of the ***Changing Spaces Award Partners*** RSWT estimate the overall administrative budget to be £6m over eight years - ten per cent of the funding provided by BIG (£57.5 million)
- of the ***Changing Spaces Portfolios*** the Plunkett Foundation had a budget of £1.058 million for the management of the programme - 12 per cent of the funding provided by BIG (£9 million). Plunkett report that, broadly, these costs on budget so far but an overestimate in the legal and travel fees budgets has meant that they have been able to set up an additional delivery project (worth approximately £20,000)
- the ***Fair Share Trust*** has £3.4 million programme management budget (corporate trustee) over ten years - 6.8 per cent of the £50 million endowment. However, this does figure not include costs incurred by local agents in administering grants. There are two further reflections here, firstly the Fair Share Trust raised a further £10 million in investment income which was reinvested in the programme, and some programme expenditure by local agents was for capacity building (non-grant activity)
- the ***JESSICA Trust*** has projected running costs of approximately £1.8m - 12 per cent of £15m endowment.

5.3.4. Other outsourcing

We were not able to identify many examples of other charitable funders outsourcing their grantmaking functions. However, a group of examples that do exist are some of the charitable Trusts linked to utilities companies, who outsource their grantmaking processes to private sector grant management specialists. According to their accounts for the financial year ending 2010 these Trusts paid between 15 pence and 25 pence on grant management fees for every pound (£) awarded. A further point to note is that these Trusts paid more for grant management as a proportion of grants in 2010 compared to previous years due to the increase in the rate of VAT to 20 per cent. This highlights that BIG's in-house and outsourced approaches are more cost efficient.

5.4. Reflections on Costs

The data on costs can be qualified by interviewee respondents. Three general sets of comments were made:

- development costs incurred by partners in the development of outsourced arrangement were only partly met by BIG. As one respondent noted: *'I've been working pro bono for 6 months! [….] If the money had been twice what is was [the development grant] would have been on track.'*

- delivery costs were generally seen to be reasonable, with one award partner noting: '*you get what you pay for*' and with respect reducing administration costs '*less money results in lower quality [projects and fewer outcomes]*'
- working for BIG on previous programmes helped with development. As one award partner noted with respect to administration costs, *'these were relatively low, helped by the organisation's previous involvement with Lottery programmes and consequent knowledge of how the processes worked and what kinds of information were required. Although due diligence turned out to be a lengthy exercise, we did not see this as particularly onerous'.*

Development and Management Costs for the Jessica Trust, Scotland

The running costs of the Trust are approximately 12 per cent, higher than BIG would normally pay, but the Trust will have more freedom to do its own evaluation and monitoring.

The successful Scottish Community Foundation bid for JESSICA was for £88,000 in development costs, although it was noted that some of the unsuccessful bids had requested much more.

The administration costs for BIG were seen to be low, requiring a programme manager, some administration time, and for grants officers to check the proposals. Committee time was not seen to be extensive. The programme manager committed approximately five days a month to developing the trust over approximately four months.

The Trust model can enable the money to go further - in a number of examples the actual (e.g. Fair Share Trust) or projected (e.g. Building Change Trust) investment returns from the endowment would cover set-up and running costs. However, it is more difficult to understand the full range of costs associated with outsourced programmes, particularly where there are multiple award partners and portfolio holders, and ebbs and flows in programme spending mean value for money will only really become clear once the programme is complete.

5.5. Conclusion

Outsourced grantmaking is likely to result in greater operational costs than in-house delivery due to extra layers of administrative and other transactional costs involved. Moreover, there are not the economies of scale to reap as in in-house and mainstream programmes. However, there are exceptions to this, notably the £200 million Big Local Trust which has lower proportionate costs than other Trusts. There is also a perverse incentive to outsource due to the current treatment of costs. Administrative costs incurred by partner organisations can be treated as programme and not operational expenditure and therefore mask the true cost delivering grants through this route.

6

6. Conclusion: lessons and recommendations

The following conclusions can be drawn from the research study into outsourcing grant making:

- actual **costs** of developing and delivering outsourced programmes were found to be higher than expected in many cases. This was for a variety of reasons, but key factors were to do with additional costs incurred following programme launch. Some of these could have been anticipated and addressed at the programme design stage. Costs incurred in the development stages by the outsourced partner were typically higher than those paid for through some form of development grant. However, outsourced partners in many cases gained wider benefits (and returns) from securing the contract to deliver the outsourced programme
- **relationship management** was found to be an important component of effective delivery of outsourced grant making. BIG's practices in this field had evolved with a dedicated team in place for high value/low volume contracts. Nonetheless, there was considerable reflection on the implications of 'losing control' of grant making, to some extent in award partners and almost entirely in trusts. This is a repercussion of outsourcing
- **outsourcing grantmaking does not occur in a policy vacuum: it is undertaken in relation to existing organisations operating within policy fields.** These organisations have self-interests in acting as outsourced partners to do with their own reputation and brand, furthering a particular issue, seeking a stronger market position, and in securing the resources being a partner provides. BIG's mission to address unmet needs requires wider engagement at different levels with other organisations
- **outsourcing arrangements are typically long term** and may span programmes. This presents operational issues for BIG in terms of ensuring continuity in relationships and also in understanding the full life-cycle of outsourcing. This inevitably means at times the ending or exiting from relationships, and therefore the importance of both contracts but also contract management
- there is an assumption that outsourcing brings access to expertise and with this the benefits of **reach** and **innovation**. Whilst evidence was found of both, this was not the case in all programmes. Some outsourced partners were found to have lacked the core competences required, notably around grant making systems. Innovation was not found to have occurred in all programmes. Outsourced partners enabled BIG to do things it might not be able to do in achieving its mission, for instance awarding grants to individuals, forms of social investment and support at the boundary between social and economic interventions. However, BIG is often able to innovate through in-house programmes and has more flexibility here to adapt programmes during delivery stages
- **outsourcing grant making provides BIG with a means to manage and forecast future expenditure**. Trusts and Award Partners enable BIG to release funding in large tranches. Where it makes recurrent awards to a partner these can be done relatively quickly. However, trusts, for example, can take up to

three years to develop from inception to launch – not necessarily the most expedient way of reducing funding balances.

- there is a diverse array of programmes delivered through outsourced grantmaking arrangements. Each has particular advantages as outlined below:
  - **Trusts** were found to bring BIG benefits in achieving its mission in terms of being able to address a need over the longer term (over five years) where a longer term commitment is required for change, being able to deliver activities which BIG cannot or would find it difficult to do (micro grants, loans and grants to individuals), campaigning and advocacy work for a disadvantaged group as a prerequisite to change for that group
  - **Award Partners** worked well where partner organisations had access to a particular group and technical expertise and/or support was required in grant application development and monitoring. Grant making expertise is also a pre-requisite (around systems, capacity and governance) of this
  - **Portfolios** do not involve BIG delegating grant making powers and were found to bring specific benefits in terms of networking and leverage of additional funds. They also allowed BIG to retain control over grant management
- BIG has experienced some **outsourced arrangements** which have presented considerable challenges and it has drawn lessons from these, from evaluation evidence, Lessons Learned papers, and external audit. Typically, there was not a single factor which led to the programme causes challenges, although possibly programme development did not adequately test different delivery models or the capacity of external organisations to deliver programmes. A lesson to be drawn here is around the importance of robust programme development, which keeps to a minimum unresolved issues at programme launch, and which fully tests partner delivery capacity
- a rationale for outsourcing is that it provides BIG with **reach** to groups with needs where its programmes could deliver **outcomes**. Reach may either be through expertise, through access and legitimacy, or through building capacity. Moreover, some outcomes were intermediate: for instance building capacity in a deprived community does not on its own address deprivation. Moreover, whilst the bottom-up approach of the Fair Share Trust and Big Local Trust may provide such intermediate outcomes, grant awards may not directed to achieved outcome change or indeed be sufficient for that outcome change. The concern here is that outsourcing grantmaking decisions need not just consider reach and outcomes, but also the likelihood and scale of impact
- this research study **does not provide a full evaluation of different models of outsourcing or a comparison with in-house delivery**. It has provided an assessment of costs, appropriate processes, and where possible identified evidence of reach and outcomes. Whether the outcomes are additional to what would have been achieved through in-house delivery is unclear, particularly regarding the scale and value of these outcomes. The report outlines suggestions for how this might be addressed in the future.

Based on these broad lessons from the research, the following recommendations for change in the future can be made:

- BIG should continue to ensure that the capacity of partner organisations to deliver programmes, and where necessary to make grants, remains a central consideration in decisions to outsource.

- In deciding whether to outsource, BIG should undertake more explicit and formal consideration of questions of outcomes and impact, noting in particular assumptions and evidence about how outsourcing will enhance these.
- BIG should work closely with partner organisations to ensure effective recording and sharing of lessons, evidence of performance, and progress towards outcomes and impact. Evaluations, monitoring information and stakeholder consultation and feedback are all of great value. BIG should work closely with partners to ensure that systems developed meet both BIG's and partners' needs.
- Relationships between BIG and organisations running outsourced programmes are an essential factor for success and should be managed at three distinct levels:
  - customer relationship management at an operational level
  - continuing relationships with other functions, notably to manage BIG's requirements in regard to such questions as branding, publicity, external relations and public accountability, and evaluation and learning; and
  - higher-level strategic relationships between BIG and its partners as to how Lottery funding can be most effectively used to deliver BIG's mission, involving senior staff on both sides.

  BIG should also ensure that there is appropriate internal communication to ensure consistent approaches.
- BIG should ensure that it pays sufficient attention to relationship management throughout the lifecycle of outsourced approaches. To avoid risks to BIG's reputation, it is particularly important to consider arrangements for programme closure and ending relationships.
- all BIG staff involved in working with partners running outsourced programmes should be aware of the specific nature and boundaries of the arrangements in place. This is particularly important for staff working with Trusts, given the very different legal and working arrangements that they entail
- BIG should define relationships with outsourcing partners more widely than through a narrow set of programme delivery issues. These relationships might best be seen as types of strategic alliances.
- consideration about whether to outsource should explicitly consider such issues as BIG's wider strategic role, reputation and brand.
- BIG should make decisions about whether to outsource on the basis of evidence and documented considerations. Doing this requires input from BIG staff, committees and stakeholders. The software developed alongside this research study is a resource that will facilitate this process; its use should be promoted through the funding development framework.

Annex 1: Outline Details of Outsourced Programmes within Study Scope

Programme Name	**Outsourcing Arrangement**	**Programme Details**			**Delivery Partner**
		Dates	Award Budget	Geographic Coverage	Name
Changing Spaces (Award Partners)	Award Partner	2007 -	159,920,000	England	Groundwork
					Royal Society for Wildlife Trusts
					Natural England
					BRE
					Mind
Growing Community Assets	Hybrid with features of Award Partner		49,100,000	Scotland	Highlands and Islands Enterprise
Space and Place	Award Partner	2012-	15,000,000	Northern Ireland	In assessment
The Big Boost	Award Partner	2005-2008	10,000,000	England	UnLtd
The BIG Deal	Award Partner	2006-2011	4,000,000	Northern Ireland	Voluntary Youth Network for Northern Ireland (YouthNet)
Research grants	Delegated grant-making	2007-2009	25,000,000	UK	Momenta
Mentro Allan	Non-standard portfolio	2006-2011	6,595,000	Wales	Sports Council for Wales (lead organisation)
Changing Spaces Portfolio	Portfolio	2006 -	50,561,660	England	Plunkett Foundation
					Places for People
					Imperial College London
					Crime Concern
					Field Studies Council
Children's Play Portfolio	Portfolio	2007-	123,094,000	England	Local authorities in England
Community Voice	Portfolio	2011-	12,000,000	Wales	County Voluntary Councils
Impact of Alcohol	Portfolio	2011-	7,000,000	Northern Ireland	In assessment
International Strategic	Portfolio	2009-	26,551,000	UK	Six awards to NGOs as portfolio leads
Realising Ambition	Portfolio	2010-	25,000,000	UK	Catch 22
Supporting Voluntary Action	Portfolio		8,400,000	Scotland	SCVO

Well Being	Portfolio	2006 -	160,000,000	England	10 regional and 7 England-wide portfolios
Big Local	Trust	2010 -	200,000,000	England	CDF led on the establishment of the Local Trust
Building Change Trust	Trust	2008 - 2018	10,000,000	Northern Ireland	CFNI
Fair Share Trust	Trust	2003 - 2013	50,000,000	UK	CFN
Forces in Mind	Trust	2010 -	35,000,000	UK	COBSEO
JESSICA (Scotland) Trust	Trust	2012-	15,000,000	Scotland	Scottish Community Foundation
Life Changes Trust	Trust	2012-	50,000,000	Scotland	Long Term Conditions Alliance
Legacy Trust UK	Trust	2008-2012	40,000,000	UK	UK Legacy Trust

Annex 2: Key Features and Lessons from Outsourced Grantmaking

Programme	Key Features of Programme	Added Value of Partner(s)
Changing Spaces (Award Partners)	Wide range of environmental activities supported by five partner organisations: - Energy microgeneration in community buildings (BRE) - Creation and improvement of local green spaces (Groundwork) - Environmental activities involving people with mental health problems (Mind) - Improving access to and knowledge of natural environment (Natural England) - Improving accessibility and affordability of local food (RSWT)	Mainly around existing involvement in specialist networks and prior engagement with community groups - this saved time and money in spreading the word and helped to quickly attract high volumes of applications
Growing Community Assets	This was a follow on programme from the Scottish Land Fund but extended to cover urban areas. The Award Partner was a consortium led by Highlands and Islands Enterprise (HIE). The focus of programme around developing and sustaining assets	HIE had a track record as the award partner for the Scottish Land Fund. They were familiar with BIG's approach to funding, but with a limited track record in urban areas. Other organisations in the consortium had such expertise, This was not a standard Award Partner as the BIG Scotland Committee had decision-making at stage 1 and 2. The contract was modified over three years with the size of the consortium reduced and assessment brought in-house to avoid the conflict of interest. Development support and grant management remained with the Award Partner for the length of the contract.
Space and Place	This is a new programme being launched in 2012 with applications currently in assessment. Aim of the programme is to develop community spaces in deprived areas of Northern Ireland.	Programme is not yet live. The original plan was to let 11 portfolio projects - one to each to a local authority following the planned reorganisation of local government in Northern Ireland. Local government reorganisation has now been delayed until 2015 and the decision was taken to use a single Award Partner instead of separate local authority level portfolios.
The Big Boost	The focus of this programme was to provide: grants to young people to support social entrepreneurship It was delivered by UnLtd (lead partner) in collaboration with Prices Trust, Scarman Trust and Changemakers	At the time the Big Lottery Fund was not able to make grants to individuals, UnLtd provided mechanism to do that. UnLtd and partners brought expertise in working with young people, and networks in areas where Big had less presence
The BIG Deal	Award Partner Voluntary Youth Network for Northern Ireland (YouthNet) delivered the Programme. Strong support for the Award Partner model in consultation.	Added value included: partner enabled innovation in grant making, particularly through involvement of young people in decision making panels; Young people welcomed opportunity to decide on award of small grants; and the award partner had reach into a wide range of youth related activities and specialist organisations.

Research grants	Delivery of a grants programme to TSOs. Programme delivered by Momenta (grant management) with University of York (grant assessment), with further outsourcing of some delivery and grant assessment (Peer Review aspects)	At bid stage, Momenta brought expertise in project management and York, expertise in coordinating peer review activities
Mentro Allan	There were 14 Mentro Allen projects across Wales running between 2006 and 2011. The aim of the project was to learn about ways to increase the physical activity of sedentary people The project focussed on a range of target groups: young people, older people, women, BME communities, people with physical disabilities, mental health service users, carers, people at risk of rural isolation and people with low incomes.	Locally developed and focused projects as part of a wider strategy helped with delivery.
Changing Spaces Portfolio	Wide range of specified environmental projects supported through five portfolios: - Green spaces and environmental improvements within communities delivered by young people at risk of ASB and crime (Catch22) - Residential courses on nature conservation and practical application in own neighbourhoods for young people (FSC) - Contribution to scientific knowledge through work on local green spaces (Imperial College) - Improved green spaces in social housing estates (Places for People) - Increased local participation in local food initiatives (Plunkett Foundation)	Existing involvement of consortia and/or networks was important. It provided access to the appropriate technical knowledge and advice (e.g., on the ins and outs of the youth justice system, or in terms of establishing and running a social enterprise). Some evidence of partners extending links further into schools and communities through project activity.
Children's Play Portfolio	Funding was made available on an allocation basis to local authorities in England. Each local authority was required to identify priorities for funding through a local Children's' Play strategy.	The portfolio model enabled BIG to support local priorities in this field without having to assess individual projects. Monitoring through site visits allowed for checks to be made around consistency with local strategies and visits to new facilities.
Community Voice	The aim of the programme is to help build the capacity of citizens so that they are more able to engage in the planning and running of services and projects that respond to their communities' needs and also advance community benefit. The programme will fund portfolios of projects led by County Voluntary Councils (CVCs) in Wales. CVCs are lead grant holders delivering 5-10 projects across an area, usually an LA.	CVCs provide a bridging structure which can work effectively between the projects and statutory organisations. CVCs have all Wales coverage and are an established third sector support structure already represented on local service boards. CVCs help to enhance strategic impact of the programme and provide a mechanism for public voice - all Wales coverage, community control and ownership.

Realising Ambition	Realising Ambition will focus support for young people at risk of offending. The programme aims to support the best projects that have already proven their effectiveness in diverting young people from crime. It focuses on prevention in order to support young people at risk, helping them to realise their potential for a meaningful life and avoid pathways into offending. The Programme is targeted at preventing/reducing youth offending for ages 8-14.	BIG would not have been able to bring together partners that have been brought together under a portfolio model. Portfolio is built on the strength of partners, all of which have a specific understanding of the topic. Rathbone do similar work as Catch 22 across Scotland, NI and Wales. Dartington SRU - provide evidence based and social research expertise, Young Foundation - expertise re: replication, Substance - software and social research skills. All partners have relevant experience and Catch 22 have successfully delivered similar relevant programmes
Well Being	The Well Being Programme aimed to give money to communities in need to create healthier lifestyles and improve their wellbeing. The Programme had three main areas: mental health, physical activity and healthy eating. There were 10 regional portfolios and 7 national ones.	Enabled capacity building for partner organisations and increased reach of health care professionals in deprived areas. Portfolios help with 'bigger branding' - raising profile, helps projects to have an identifiable name of portfolio and aids referrals to the project/s. Provided short cuts for BIG in that they can link projects and programmes more effectively as they are more embedded in localities and particular policy/practice areas. Brought benefits to organisations as they are part of something bigger /part of a national movement. Examples include staff receive training and up-skilling. Portfolios invested a significant amount in programme management software / monitoring which has benefited partners. Have developed subsequent joint projects and bids and worked with other portfolios
Big Local	Local Trust will invest £200 million in between 100-150 communities over a ten year period. Local Trust formed by the Community Development Foundation (CDF), with partners, to deliver the programme. The rationale of the programme is to support local communities to develop ideas and plans for funding.	CDF, and partners, have expertise in local community development and brings together local partners in each area with capacity for local grant making as well as capacity building - these local organisations include infrastructure organisations, housing associations, councils, community foundations and schools.
Building Change Trust	A transformative grants scheme for the voluntary sector in Northern Ireland: - To identify community assets and needs - To design and target interventions - To build / strengthen / utilise capacity and assets - To capture positive change and replicate success	Established networks, personal contacts, knowledge of the sector. Benefits for BCT- access to backroom services.

Fair Share Trust	FST is a precursor to other trusts. Funds earmarked for disadvantaged areas with little history of successful BIG grant applications Programme about capacity building and grant giving	Community Foundation Network and partners brought expertise and infrastructure to deliver the programme. Key aspect was around capacity building in deprived local communities
Forces in Mind	This programme has just been established and the trust formed. It seeks to build infrastructure in a sector in which little capacity exists at present.	Forces in Mind is intended to have excellent connections across the third sector serving ex service people and their families. It therefore will be a centre for skills and knowledge in this area, something BIG could not develop. It is also not simply a grant making body but about the development of an effective sector, and that includes an advocacy and partnership role.
JESSICA (Scotland) Trust	The JESSICA (Scotland) Trust is targeted at 13 geographic neighbourhoods of greatest disadvantage in Scotland. It will be set up to invest in projects that create opportunities for local people and community-led organisations to develop locally owned, led and controlled assets that will lead to local regeneration. The Trust will work with community anchor organisations, to better align the main European Union JESSICA fund and act as a vehicle by which money can be levered into communities. The Trust will make a mix of loans and grants.	Scottish Community Foundation will be the main Trustee and has a track record of delivering The BIG Lottery Fair Share Trust in Scotland. Experience of managing endowed funds.
Life Changes Trust	Life Changes Trust is about trying to bring about transformational change and improve outcomes for young people leaving care and also older people with dementia and their carers'. An important part is that the Trust will be able to work with a range of different agencies providing services and influence practice. It is anticipated that the programme is likely to make grants available/ payable to individuals. The Trust will be able to pay out grants to individuals to help them to buy care or spend money to improve their circumstances etc.	Partnership headed by the Long Term Conditions Alliance Scotland (LTCAS) and comprising of Long Term Conditions Alliance Scotland, Scottish Community Foundation, Glasgow Council for the Voluntary Sector, Who Cares? Scotland, was selected as the preferred candidate to set up the corporate trustee to run the Life Changes Trust.
Legacy Trust UK	- Delivery of London 2012 Legacy activities - Funded by BIG, DCMS, Millennium Commission and Arts Council England - It is time limited trust focused on London 2012 - Strong links with regional partnerships (around Arts Council and RDAs)	New organisation founded by funding partners with a focus on delivery of predetermined programmes (e.g. UK School Games and Cultural Olympiad) but also to grant fund local projects around a series of key themes. The organisation formed had no prior history of delivery. Delivery has been on target and success factors seen to be around well defined programme, strong networks and partnerships and staff capacity.

Annex 3: Case Studies

About the Programme
Changing Spaces (Award Partners) **Value:** £160 million **Timeframe:** 2007-12 **Aims and objectives:** Developed in response to the BIG Lottery Fund Consultation in 2004-05, which identified a need to provide more funds for environmental related projects, it supported voluntary and community groups across England to develop projects that would improve communities and lives.
Rationale and Approach to Outsourcing
BIG selected five award partners from across the voluntary and community sector. Each award partner was regarded as leading light in their particular field and considered to have the skills and experience to necessary run an effective environmental programme on BIG's behalf. The Award Partner approach was managed through an external delegation agreement (EDA) where the successful award partners developed entire programmes, including responsibility for the assessment, decision-making and management of the grants on behalf of BIG. Each organisation ran an England wide, open grants programme based around a particular theme. In total 2,331 projects were funded: ▪ the **Community Sustainable Energy** programme, run by ***Building Research Establishment***, funded community based organisations to install renewable energy sources and energy saving measure. Development grants of up to £5,000 and capital grants of up to £50,000 were provided ▪ the **Community Spaces** programme, run by ***Groundwork UK***, supported community groups to improve local green spaces including play areas, community gardens, parks, wildlife areas and village greens. Main grants ranged from £10,000 to £49,999 with a small number of larger grants of up to £450,000 also provided ▪ the **Ecominds** programme, run by ***Mind***, supported projects that encouraged people with experience of mental distress to get involved in environmental projects, including improving open spaces and wildlife habitats, designing public art and recycling. Small grants of up to £20,000 and larger grants of up to £250,000 were provided ▪ the **Access to Nature** programme, run by ***Natural England***, supported projects that encouraged people to learn more about and enjoy the natural environment. It funded projects in urban, rural and coastal communities with aim of reaching people who had little or no contact with nature. Grants ranged from £50,000 to £500,000 with a small number of larger grants will be provided to projects with a national significance ▪ the **Local Food** programme, run by the ***Royal Society of Wildlife Trusts***, funded organisations to deliver a variety of food related projects that aimed to make locally grown food more accessible and affordable to local communities. Grants ranged from £2,000 to £300,000 with a small number of larger grants of up to £500,000 also provided.

Further potential Award Partner programmes did not proceed after not being approved in BIG's due diligence process. The Award Partner model was considered appropriate because of each partner's involvement in existing specialist networks and capabilities around grantmaking. It was felt that this would save time and money when promoting the programme and would generate a higher volume of applications more quickly.
Value for Money
RSWT estimate the overall administrative budget to be £6m over eight years - ten per cent of the funding provided by BIG (£57.5 million). No cost info was provided by the other APs. The RSWT costs are assumed to be indicative of the other Award Partners.
Reach and Outcomes
There has not been a full programme evaluation of Changing Spaces meaning there isn't any programme evidence regarding reach and outcomes. However the Award Partners have all undertaken evaluations of their particular programmes and these provide some useful insights into the types of outcomes achieved. The nature of the outsourcing arrangements (five separate Award Partners) enabled the Changing Spaces programme to be accessed by a wide range of voluntary and community organisations and funded projects benefiting a diverse range of social groups.
Knowledge and Expertise
As BIG and its predecessors had limited experience of funding environmental projects the rationale for outsourcing grantmaking was clear. Each Award Partner brought specific knowledge and experience of a particular aspect of environmental activity or beneficiary group and was able to administer their individual programmes more effectively than BIG could have.
Lessons
The Changing Spaces Award Partner programme highlights how organisations with prior experience of grantmaking, either through their own funds or on behalf of others (including the Lottery) can in theory 'hit the ground running' and make funding programmes operational quickly. However, in this case due diligence took longer than BIG estimated and as a result the launch was delayed by 18 months. There are further potential issues for the Award Partner model if the contracted body undergoes reorganisation or merger during the delivery process. More generally the Changing Spaces programme as a whole does also raise one note of caution. That is, the danger that by utilising existing networks of specialism or expertise, funding is awarded to the 'usual well connected suspects' at the expense of less high profile but possibly more innovative providers.

About the Programme

The Big Boost

Value: £10 million

Timeframe: 2005-08

Aims and objectives: The Big Boost was an Award Partner programme involving four charities that work with young people and social entrepreneurs: UnLtd (the Award Partner) worked with three delivery partners - Changemakers, The Scarman Trust and The Prince's Trust - to deliver a creative and flexible programme to support young social entrepreneurs through two age groups (11-16s and 16-25s). The aims and objectives were aligned with three areas of the Every Child Matters framework: being healthy, being safe and enjoying and achieving.

Rationale and Approach to Outsourcing

The Big Boost Programme had two strands through which 3,263 individual grants were awarded:

- Grants of £250 to £500 for young people aged 11-15
- Grants of £500 to £5,000 for young people 16-25.

There was an additional top-up awards scheme which provided up to £10,000 living expenses for projects which could be scaled-up successfully to become viable businesses.

BIG was unable to deliver this programme directly as it was not (at the time) able to make grants to individuals. BIG also does not have a track record in supporting social enterprise and entrepreneurship. It therefore needed an Award Partner with ability and experience in making grants to individuals, including young people, and had a track record in supporting social enterprise development.

Furthermore, it was felt that delivery of the programme in-house would have incurred costs for BIG at a time when the organisation was restructuring - there would have been a need to train staff and to conduct enhanced CRB checks. By contrast the delivery partners had staff in place who were already trained and experienced in working with young people. It was also felt that the delivery partners had presence and existing networks in regions where BIG was (at the time) less active.

Value for Money

The Big Boost had relatively high delivery costs (26 per cent of the budget). Of the £10 million budget £7.3 million was allocated to third party grants. The remainder of the programme budget was delivery costs and write-offs which included around £1.99 million for development, the learning and evaluation contract, and monthly funding panels; and £614 thousand for management (direct staff) costs.

However it is important to note that these delivery costs were considered acceptably high give the nature and risks of the programme. In particular having two separate grant programmes and monthly decision-making panels (rare for Big programmes) meant that financial management needed more resource than other externally delegated programmes.

Reach and Outcomes
An independent evaluation of the Big Boost identified the most significant positive impact on Award Winners as increased self-confidence. For many, the Big Boost had helped to open doors, leading to new opportunities, including further training, employment or a future career, and young people from disadvantaged groups were found to have experienced the greatest benefits. More generally grant recipients were found to have developed trust in others, personal self-esteem and self-belief. They felt affirmed and good about themselves and their ability to work on their own initiative. Many noted the new experiences which enabled them to achieve things previously out of reach, meeting new friends, making networks and new contacts. Whilst most people indicated overall positive impact on their lives as a consequence of the Big Boost, some had experienced frustration, and there was a very small number for whom the project was negative. In addition, the Big Boost was found to have raised awareness in communities, increased networking and contact within communities, between the young people engaged in projects and between agencies. Grant recipients learned to appreciate the value of the community, of helping others, and how this could contribute to cohesion and understanding of community. The evaluation found that much of the community focussed work will continue and that a significant number of young people had not taken part in a community project before.
Knowledge and Expertise
The Award Partner (UnLtd) is one of the leading national bodies supporting social enterprise and entrepreneurship. They specialise in providing financial and practical support to social entrepreneurs in the early stages of developing a social enterprise. Their delivery partners brought additional expertise in the areas of youth enterprise (Prince's Trust, Scarman Trust) and leadership (Changemakers). Collectively they possessed knowledge and expertise necessary to deliver the programme effectively that was not readily available from within BIG has it been delivered in-house.
Lessons
This case study suggests there is a need in some cases for BIG to retain some influence on decision making within Award Partners to ensure that grants will have some form of social benefit. Decision making panels often did not think through the balance between the financial (social enterprise) viability and social benefits of funding applications. The Big Boost also highlighted the need to ensure that administrative systems are consolidated at an early stage in the process, and for this to be accompanied by a good understanding of each party's respective roles and boundaries. A further lesson to emerge from this case study involves the importance of effective one-to-one support when making grants to individuals, and resourcing this appropriately. There is evidence from the Big Boost that cost to delivery partners working in deprived communities were underestimated.

About the Programme

Changing Spaces (Portfolio)

Value: £50.5 million

Timeframe: 2007-12

Aims and objectives: Developed in response to the BIG Lottery Fund Consultation in 2004-05, which identified a need to provide more funds for environmental related projects, it supported voluntary and community groups across England to develop projects that would improve communities and lives.

Rationale and Approach to Outsourcing

BIG selected five organisations to manage a portfolio of environmental projects. Each portfolio holder was regarded had a high profile in their particular field and was considered to have the skills and experience to necessary run an effective environmental programme on BIG's behalf.

Each organisation managed a portfolio of projects based around a particular theme. In total 194 projects were funded:

- **Crime Concern Trust** (now Catch 22) was awarded £8.3 million for projects that involve young people at risk of offending in locally based environmental activities
- **Field Studies Council was** awarded £2 million to projects that aimed to inspire young people, following a short residential trip, to take a more active role in environmental projects in their areas
- **Imperial College** was awarded £11.7 million to develop the Open Air Laboratories Network (OPAL), which aimed encourage communities to work with leading scientists to study natural habitats in their local area
- **Places for People** was awarded £15.8 million to provide high quality, accessible green spaces for communities living in social housing
- **Plunkett Foundation** was awarded £10 million to increase people's opportunities to grow and buy good quality, healthy, local food.

The Portfolio model was considered appropriate because each partner was involved in existing specialist networks that enabled them to collaborate and develop a range of appropriate projects and involve smaller, specialist organisations that might not have applied to an open funding programme.

Value for Money

Plunkett Foundation had a budget of £1.058m for the management of the programme - 12 per cent of the funding provided by BIG (£9m). Plunkett report that, broadly, these costs were on budget but an overestimate in the legal & travel fees budgets has meant that they have been able to set up an additional delivery project (worth approximately £20k). No cost info was provided by the other portfolios.

Reach and Outcomes
There has not been a full programme evaluation of Changing Spaces meaning there isn't any programme evidence regarding reach and outcomes. However some Portfolio holders have undertaken evaluations of their particular programmes and these provide some useful insights into the types of outcomes achieved. The nature of the outsourcing arrangements (five separate Portfolios) enabled the Changing Spaces programme to be delivered through a wide variety of special and non-specialist organisations and funded projects benefiting a diverse range of social groups.
Knowledge and Expertise
As BIG and its predecessors had limited experience of funding environmental projects the rationale for outsourcing grantmaking was clear. Each Portfolio holder brought specific knowledge and experience of a particular aspect of environmental activity or beneficiary group and was able to administer their groups of projects more effectively than BIG could have done through a more traditional grantmaking approach.
Lessons
The Changing Spaces portfolio demonstrates that where organisations have existing links and networks, and partnerships forged based on trust, portfolios can harness input from specialist bodies which might not have applied for funding under an open grant programme. A further lesson from this case study is that having a central body managing the portfolio enables providers to focus on specialist activities link to their expertise, rather than overall programme or grant management. More generally the Changing Spaces programme as a whole does also raise one note of caution. That is, the danger that by utilising existing networks of specialism or expertise, funding is awarded to the 'usual well connected suspects' at the expense of less high profile but possibly more innovative providers.

About the Programme
Well-being Portfolios **Value:** £160 million **Timeframe:** Since 2006 **Aims and objectives:** The Well-being Programme aimed to support the development of healthier lifestyles and improve well-being, supporting projects across England focusing on three strands: healthy eating; physical activity; and mental health.
Rationale and Approach to Outsourcing
The programme was implemented through seventeen portfolios of projects, ten of which were cross-cutting regional portfolios and seven of which were England-wide. The portfolios were mainly led by charities and statutory organisations in the health sector. The portfolio approach was considered the most appropriate model through which to achieve strategic impacts on well-being. By funding groups of projects with collective aims and objectives that had been developed in response to identified need, BIG believed it would be able provide its funding more effectively and have greater impact than through an open grants programme.
Value for Money
The portfolio model was considered a comparatively cost effective way of delivering Well Being Programme. BIG only needed a small team of grant officers to run the Programme (5 at its height, now 3.5) and so offered a low staff to grant making cost ratio. Individual portfolio management costs were between 10-15 per cent. However, the on-going monitoring costs of the programme for BIG were initially quite intensive. It was a high profile programme and involved detailed quarterly meetings with Portfolio leads and a high number of compliance visits to individual projects. This intensity eased as the programme developed and became associated with risks associated with project.
Reach and Outcomes
A programme wide impact evaluation deployed a consistent approach to measuring well-being across a sample of projects: overall, well-being across the three strands was found to have improved significantly for many participants. Furthermore, the scale and scope of the portfolio activities ensured that people from a wide range of social, demographic and geographic backgrounds were able to access the programme.
Knowledge and Expertise
Portfolio holders were selected on the basis on their position within thematic or geographic (regional) areas. They were able to build on existing links and networks develop a series of strategically linked projects in response to identified needs. It seems unlikely that BIG would have been able to procure such strategic benefits from an open programme that invited

applications from individual projects. It was also intended that portfolios would work across the three priority areas where possible and form new partnerships to do so.
Lessons
The national impact evaluation was an important feature of the programme but it was set up after the programme had begun, so portfolio partners were not clear about monitoring and evaluation processes at the outset. Portfolio leads did not always consider the full costs and risks associated with projects and the implications if individual projects failed. There were also instances where the portfolio leads had not fully considered their responsibilities associated with monitoring project performance and other management functions. For some portfolios the lack of transitional funding, and the absence of clear and upfront communication from BIG on this matter proved problematic, particularly when it came to developing exit and sustainability strategies.

About the Programme

Children's Play Portfolio

Value: £123 million

Timeframe: Since 2007

Aims and objectives: The Children's Play Portfolios formed part of BIG's £155 million Children's Play initiative, which was developed from the recommendations of the 2004 play review, Getting Serious About Play, carried out under the chairmanship of Frank Dobson MP. It also responded to a number of wider policy agendas including the Every Child Matters outcomes framework, the Children Act 2004, the 'Change for Children, Choosing Health' and 'Cleaner, Safer, Greener' programmes and policies, and the Best Play report. Portfolios were developed with the aim to:

- create, improve and develop children and young people's free local play spaces and opportunities throughout England, according to need
- promote the long-term strategic and sustainable provision for play as a free public service to children
- ensure that local authorities work with other local stakeholders to develop children's play strategies and plans
- ensure that good, inclusive and accessible children's play services and facilities are provided locally.

Rationale and Approach to Outsourcing

The programme required local authorities to work with local stakeholders to develop children's play strategies for their areas and develop a portfolio of projects that responded to the needs identified in those strategies. Funding was allocated to all single tier and district council areas in England.

Portfolios were expected to address strategic aims through a number of individual projects, delivered at a number of locations, which together formed a cohesive strategy to deliver the programme outcomes. Local authorities were able to deliver the individual projects themselves or sub-contract some or all of the delivery to other organisations.

The portfolio model enabled BIG to support local priorities in this field without having to assess individual project proposals at a local level. Regular monitoring, for example through site visits, enabled checks to be made around consistency with local strategies.

Value for Money

The Children's Play Portfolios have relative low management costs when compared to other outsourced programmes. To date, the management fees paid out to portfolio holders account for 5.75 per cent of total programme expenditure. It should be noted that approximately 50 per cent of programme expenditure was capital, and it is likely that this was a key factor in keeping management costs low.

Reach and Outcomes
The Children's Play programme evaluation underlines that funding was targeted to achieve an impact in quite specific ways, rather than simply providing a net additional amount of funding for the play sector. This was achieved through the design of the programme criteria and monitoring, and the requirement for local authorities to develop a Play Strategy to unlock the funding. The level of additionality was therefore considered to be high, and the evaluation concludes that the BIG investment procured a range of benefits with strong triangulation between the research literature, survey and project self-evaluation data, and children's own accounts about what had been achieved. In particular, as a result of participating in play provision funded by BIG, children routinely gained in independence, boosted their self-esteem, participated in creative and expressive learning, and engaged with peers from different social and ethnic backgrounds and age groups.
Knowledge and Expertise
As portfolio holders, local authorities were naturally placed to develop and co-ordinate groups of area level projects particularly given the importance of linking to wider policy and strategy, much of which was implemented through local authority structures.
Lessons
The policy agenda has moved on since the programme was developed, and local children's play facilities are no longer a feature of government priorities. It is therefore unlikely that a similar approach would be used for future programmes, as there will not be common requirements at a local authority level. Local authorities were found to have robust systems for monitoring project expenditure but measurement of outcomes and impact was largely absent, and left to the programme wide evaluation to assess.

About the Programme

Building Change Trust

Value: £10 million

Timeframe: 2008-18

Aims and objectives: The Building Change Trust has been established to help develop and shape the future of Northern Ireland's voluntary and community sector. It has several strategic objectives:

- to identify community assets and needs
- to design and target interventions
- to build / strengthen / utilise capacity and assets
- to capture positive change and replicate success.

Rationale and Approach to Outsourcing

The Trust model was chosen as it enabled BIG to invest in a programme of transformative activity over a ten year period (i.e. longer than a traditional grant programme). It also enabled more risky and innovative approaches to funding provision, such as a self-sustaining loan fund. The Trust was formed with the involvement of five key umbrella/infrastructure organisations in Northern Ireland:

- the Community Foundation for Northern Ireland as Corporate Trustee
- Community Evaluation Northern Ireland
- Rural Community Network
- Volunteer Development Agency
- Business in the Community (NI).

The Trust anticipates meeting its aims by expending the Trust funds in three main ways:

- through ***direct support:*** the Trust will carry out some pieces of work itself, commission other pieces of work and/or support pilot initiatives
- through ***transformative grants:*** the five original bid partners are in receipt of the first transformative grants and lessons from their projects will inform future activity
- through ***a loan fund:*** a permanent loan fund has been established with a £2 million one off grant - managed by Charity Bank.

Value for Money

The business plan for the Building Change Trust provided an estimate for the overall costs that would be incurred over the life of the Trust as well as the projected investment returns from the endowment. The £10m ten year expendable endowment was expected to yield a total realisable capital of £12.1m (based on 5 per cent annual return net of fees). Set up and running costs (including protector and audit costs) were estimated to be £1.439m (14 per cent of the endowment), leaving £10.657m, more than half a million more than the initial investment, available for spend.

Reach and Outcomes
Although the Trust is in the early stages of delivery some deadline evaluation findings have emerged after three years: ▪ the development of the Trust Model has facilitated increased capacity within the Trust partners ▪ Partnerships have been developed and supported within the Trust and between sectors, including the private sector ▪ the Trust Model has enabled the sector to link to policy priorities, including the Review of Public Administration (RPA) and the Big Society. However, the evaluation emphasises that it is too early to conclude whether the funding provided through the Trust has had a transformational impact on the sector and disadvantaged communities in NI. Conclusions regarding how effective and efficient the model is in terms of a support mechanism sector cannot be provided at this stage. However, early indications suggest that there is a both need and a demand for the services being offered, evidenced through high attendance.
Knowledge and Expertise
As the Building Change Trust was established to help develop and shape the future of Northern Ireland's voluntary and community sector it was necessary to involve the main umbrella and infrastructure bodies in the development and operation of the Trust. Their collective experience in grantmaking, capacity building and community development provides the Trust with greater reach than through BIG's own presence in the province.
Lessons
The Building Change Trust provides an example of how outsourcing can be used to invest in a wider strategy as opposed to specific project activity. As such it is supporting themes of activity and work streams rather than a predetermined set of projects. This should enable the trust to respond to need flexibly throughout its duration. It took a considerable time for Trust partners to develop the relationships necessary to form the Trust and agree on strategic priorities. In addition, in the beginning it was hard for some stakeholders to distinguish BCT form CFNI. CFNI was a well-established organisation well known in the sector with its own endowment and range of programmes. By contrast BCT was new and is considered by many to be within the wider CFNI portfolio. However there are signs that this perception is now changing.

About the Programme

Fair Share Trust

Value: £50 million

Timeframe: 2003-13

Aims and objectives: Part of the wider Fair Share initiative which was launched in response to concerns that the distribution of Lottery funds had left some areas behind, denying them their 'fair share'. The Fair Share Trust was originally developed by the New Opportunities Fund, before it merged with the Community Fund to become the Big Lottery Fund (BIG).

Fair Share identified specific local authority areas across the UK for targeted funding (although in Northern Ireland it focused on wards). These areas had received comparatively less Lottery funding, despite relatively high levels of deprivation. Many also had weak partnership working within and between statutory and voluntary sector organisations, under-developed infrastructure and a strong dependency culture.

The Community Foundation Network (CFN) was appointed as the Corporate Trustee for the Fair Share Trust in 2003. The three overall aims for the Trust are to:

- build capacity and sustainability in local communities, including support for community assets and planning, and involvement in regeneration
- build social capital, including support for social enterprises, local time banks, Intermediate Labour Market schemes and training
- improve local environments, enabling communities to make them safer, healthier, greener, cleaner, better designed, more welcoming and accessible to all groups (the liveability agenda).

Rationale and Approach to Outsourcing

Following legal advice, NOF determined that an independent trust should be set up to manage the investment of £50 million as an expendable endowment. A Trust Deed was recommended to provide greater assurance that the Fund's investment would be secured for the purposes set out.

An endowment fund was regarded as the best option because it would enable the interest earned on the £50 million to be re-invested into the scheme. Furthermore, once the money has been paid into the trust fund, it was, in effect, independent of the Lottery. On this basis, the funding would be available for distribution to Fair Share areas for the whole life of the programme, and would be unaffected by any future changes in the operation of the UK Lottery and the distribution of funding to good causes.

Value for Money

The Fair Share Trust has a £3.4 million programme management budget (with CFN as the Corporate Trustee) over ten years – 6.8 per cent of the £50 million endowment. However, this figure does not include costs incurred by local agents in administering grants, and it should be noted that some programme expenditure by local agents was for capacity building

(i.e. non-grant activity, but directly mentioned in the aims of the trust) The Fair Share Trust programme also demonstrates the ability of the Trust model to make Lottery money 'work harder': through the expendable endowment the Fair Share Trust raised a further £10 million in investment income, money which was reinvested in the programme and more than sufficient to cover the costs of administering the programme.
Reach and Outcomes
The independent evaluation of the Fair Share Trust concluded that the 'alternative' routes to procurement developed achieved things which a straight open grant programme could not. In addition, in the process meant that the grant making could be strategic as well as local. Benefits of the FST approach to procurement included joined-up delivery by projects in support of locally understood strategic aims and less duplication of services; and increased capacity in organisations to attract other sources of funding and develop better relationships with grant makers/other funders.
Knowledge and Expertise
CFN was solicited by the New Opportunities Fund to become the Corporate Trustee for the Fair Share Trust. CFN offered experience of managing trust funds established to support community development projects in deprived areas, and as a membership organisation for local Community Foundations, had access to a network of grant-distributing bodies with close ties to the communities to which the funding was targeted.
Lessons
As the first Trust the Fair Share Trust provided a model subsequent Trusts. The evolution of the Trust model should therefore be understood in this context. A key lesson from the Fair Share Trust experiences is the level and importance of relationship management: this was underestimated by BIG, NOF and CFN and has led to complications during the course of the programme. Notable tensions have included the visibility of BIG within the branding of the programme and accessibility of programme information and data (to ensure the wider public accountability of Lottery funds). However, it is important to ensure a balance between the level and frequency of information required and providing Trusts with the flexibility to deliver the programme. The Fair Share Trust also demonstrates the ability of the Trust model to use the investment returns generated through an expendable endowment to support additional programme activity and/or cover programme deliver costs.

About the Programme
Legacy Trust UK **Value:** £40 million **Timeframe:** 2008-12 **Aims and objectives:** The Legacy Trust UK was set up in 2007 to support communities and organisations across the UK to create projects that celebrate London 2012 in a way that is relevant to them and which will leave a lasting legacy. It funds 16 programmes with over 100 arts, sports and education projects currently taking place across the UK. The Trust is a Principal Funder of the Cultural Olympiad and London 2012 Festival. The projects it has funded are wide-ranging, but share three key aims: ▪ to unite culture, sport and education, in line with the values and vision of the Olympic and Paralympic Games ▪ to make a lasting difference to all those involved ▪ to be grassroots projects, often small in scale, and unite communities of interest at local and regional level. The Trust has allocated funding through twelve regional and four national programmes. In addition to BIG funds (£29 million), funding has been contributed by Department for Culture Media and Sport (£6 million for UK School Games) and Arts Council England (£5 million).
Rationale and Approach to Outsourcing
A Trust was formed by the four main sponsoring organisations. This approach meant that each organisation was creating a new organisation rather than vesting responsibility and funding in one of the other funders. The clear timescale for delivery (by the Olympics) meant that there was a preference for delivery through an independent organisation.
Value for Money
Support and governance costs have been under £500,000 in each year of operation and this in the most recent year, 2010-11 amounts to less than five per cent of the £11 million expenditure. By contrast in the 2009-10 year expenditure was around £3.8 million, and governance and support costs were around 12 per cent. Investment income for the two most recent financial years has been £1.07 million (2009-10) and £0.56 million (2010-11). Investment income has been used to increase programme expenditure and suggests considerable value for money for this trust. It was noted that by working through external networks, operating costs have been able to be kept low.
Reach and Outcomes
Since 2008, Legacy Trust projects have reached audiences of 4.5 million, directly engaged over 500,000 children and young people, worked with over 15,000 volunteers and created an economic impact of £35 million.

Knowledge and Expertise
Legacy Trust is an independent trust established by the four funding partners. It recruited staff to the trust and they brought expertise in grant making combined with knowledge of the field. However, it placed considerable emphasis on working in partnership, notably through regional partnerships responsible for the selection of projects. These partnerships brought together established networks in each region. This partnership working was mirrored in approaches at a national level, for instance in funding the UK School Games and the Cultural Olympiad.
Lessons
This Trust is very focussed around a particular issue/event (London 2012) and a predetermined set of activities. There are therefore lessons about the benefits of the Trust model in delivering a tightly defined programme that has the commitment of a group of funding bodies. As a large part of the programme is being delivered at a regional level, and English Regional Development Agencies (RDAs) were a key delivery partner, the abolition of RDAs in 2009 could have been problematic. However, this has not represented a significant problem, partly because other key partners were subsequently identified. The Legacy Trust also saw itself as taking a risk taking approach, notably in using grant funding to unlock the contributions of partner organisations.