



Centre for Policy Studies



THE LARCENY OF THE LOTTERY FUND

Ruth Lea

with additional research by Dan Lewis

PREFACE BY RT HON SIR JOHN MAJOR KG, CH



THE POINTMAKER

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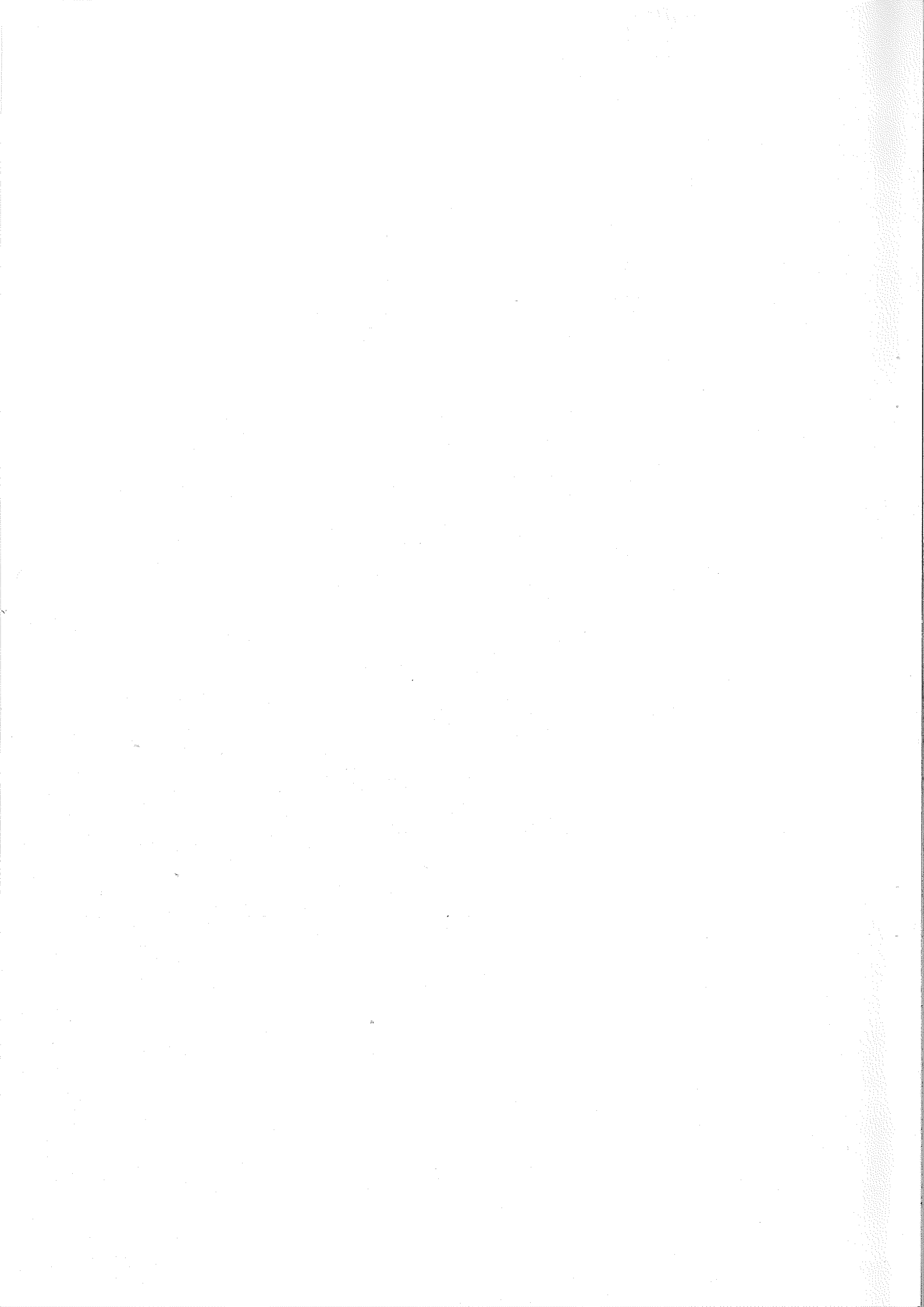
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PREFACE

Sir John Major

The National Lottery has been hugely successful. Over the past decade, it has achieved more than even I had hoped – bringing manifold benefits to individuals, institutions and the country as a whole.

The genesis of the Lottery lay in my belief that the lives of millions of people are enhanced by their love of the Arts, Sport and our National Heritage. I saw that a Lottery could raise funds – free from the grasping hand of the Treasury – that could be used to improve the enjoyment and, in some cases, the life-style of many millions of people. I had high ambitions.

All the early hopes for the Lottery are now being realised – despite the larceny of the Lottery Fund by the Labour Government .

I wished to nurture excellence and encourage the emergence of new icons similar to Ian Botham, Kenneth Branagh and Benjamin Britten. I saw a huge opportunity to upgrade the national infrastructure that supported our favourite leisure pursuits. And, above all, I wished to provide grass-root facilities throughout the UK to encourage active involvement in Sport, the Arts or charitable endeavour.

All these hopes are now being realised, despite the larceny of the Lottery Fund by the Labour Government.

Life should not be simply a grim necessity – it should be fun. Yet the Gradgrinds were loud in their opposition believing everyone should pay for

their own pleasure – cash upfront. Some were affronted that I was encouraging gambling. Certain clerical groups expressed their moral concerns, whilst others eagerly anticipated grants to repair their treasured churches. It was a fine old rumpus.

Ten years on, we can see the National Lottery has become the most potent force for regeneration and change that this country has seen in well over a century, and has established itself as an institution that will surely see many more anniversaries.

From the outset, I insisted that Lottery money should be used for additional spending on causes or activities that the taxpayer should not be expected to cover. The 1992 Conservative manifesto provides a clear statement of our aims: the Lottery would be introduced and used “to restore our heritage, and promote projects which will become a source of national pride”, the manifesto went on to recommend that the Lottery should be used to “enhance the life of our nation”. This it has done in spades.

In November 1994, the National Lottery was launched with a flourish but my hopes were always for a long-term success. So, although it was hugely encouraging to see the Lottery begin so well, and with such public enthusiasm, it is only now – a decade later – that it has truly come of age.

When the Lottery Bill was going through Parliament, the Labour Opposition stressed the importance of government keeping an arms-length relationship from grant distribution. But since it took power, Labour has diverted Lottery funding into areas that have historically been funded by the Exchequer.

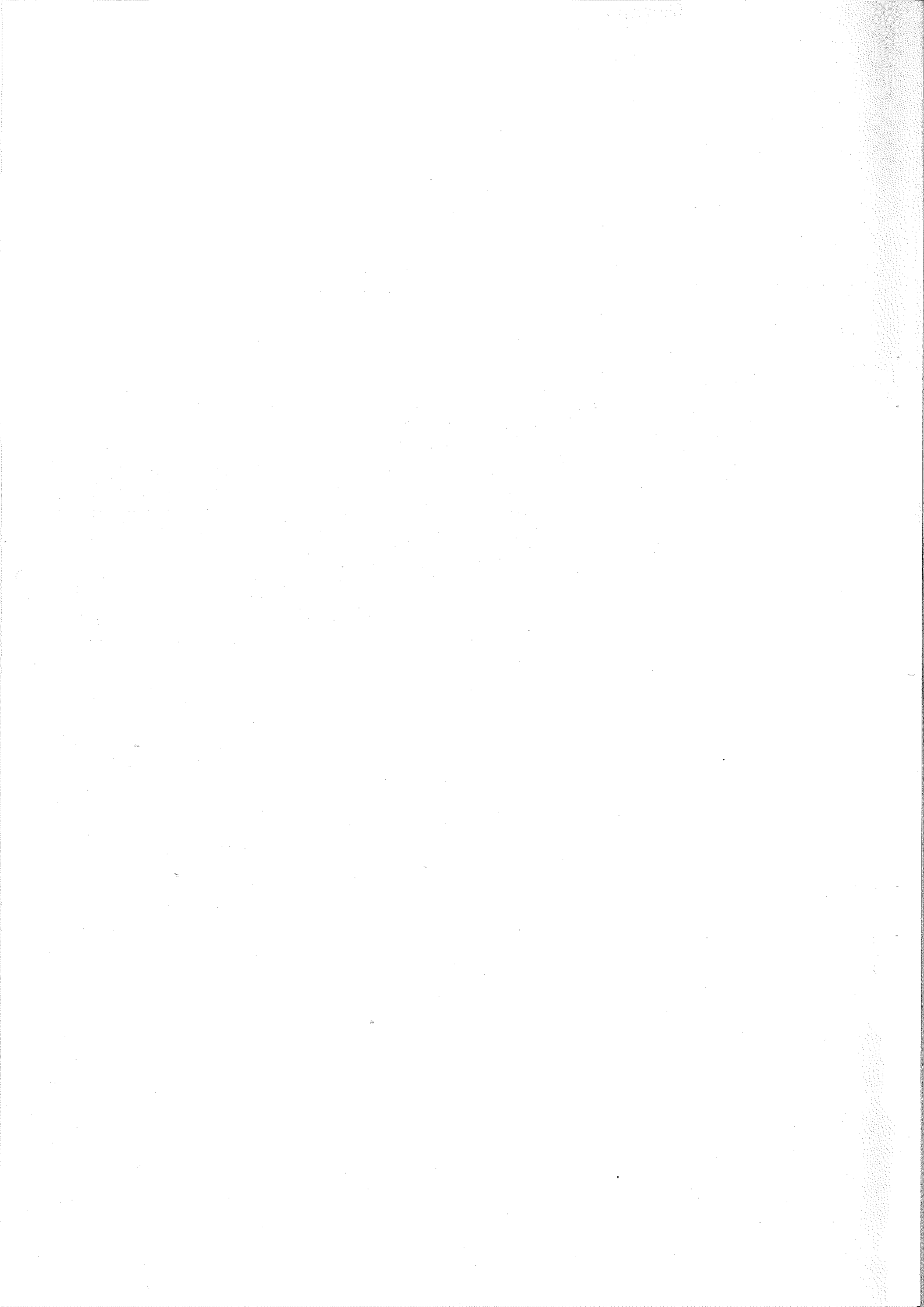
There have, of course, been difficult periods. And, like any great national institution in this country, the Lottery has attracted its share of criticism. From the fierce and often bitter battles for the right to hold an operating licence, through to the funding of controversial projects and even the sometimes colourful lives of jackpot winners, the media has gloried in reporting every aspect of the Lottery story. But attention is to be expected and reflects healthy underlying truths. Regular competition for the Lottery licence keeps the Lottery operator on its toes; the Lottery provides risk capital for a wide range of schemes which inevitably means funding projects that some don't like; and as for those jackpot winners – well, it is a Lottery!

There is, however, one aspect of media and public debate that reveals a more serious criticism. When the Lottery Bill was going through Parliament, the Labour Opposition was at pains to stress the importance of government keeping an arms-length relationship from the Lottery and, in particular, grant distribution. But, since it took power, Labour has diverted Lottery funding into areas that have historically been funded by the Exchequer. Indeed, the “Big Lottery Fund” has a specific remit to fund

health, education and environment projects when taxpayers would rightly expect many of these projects to be funded directly by Government. The Labour Government's deliberate muddying of the waters between Exchequer and Lottery revenues is an unwelcome development and one which, as its creator, dismays me greatly.

Such plundering should stop. That is why this paper's principal recommendation – that the principle of additionality has been dishonoured and must be reinstated – is so important.

If the Lottery Fund continues to be raided in order to boost the Exchequer, there will be far less remaining funds for all the good causes I had hoped would benefit most from its creation. For example, Sport in Schools and the establishment of Sporting Academies are known – particularly – to be close to my heart. My intention was to use all the resources released from the Millennium Fund – which wound up at the end of 2000 – to promote school sports. Instead, the money was siphoned off by the Labour Government. This was shameful. Children benefit from sport in many ways – not least in terms of their health in these days of computer games – and obesity is becoming a serious problem. I want children to be fit not fat. Such plundering should stop. That is why this paper's principal recommendation – that the principle of additionality has been dishonoured and must be reinstated – is so important.



CHAPTER ONE

INTRODUCTION AND SUMMARY

1.1 INTRODUCTION

It is now over a decade since the 1994 launch of the National Lottery. It is a credit to the last Conservative Government which introduced the Lottery that it is thriving, and that the framework under which it operates is still largely intact.

It has not however been, without its critics or scandals. The large pay rises awarded to Camelot's board, the unsavouriness of some of the lottery jackpot winners and the bruising competition for the 2002 licence between Richard Branson's Virgin Group and the existing licence holder, Camelot have all tarnished the image of the Lottery.

In addition, there has, since 1997, been a shift in the use and application of lottery funds: the "good causes" have become politicised and used increasingly to fund matters that should be funded by the taxpayer. In addition for those seeking a grant, a vast bureaucracy has emerged with a voracious appetite for their own salaries, form-filling and a penchant for the politically correct.

1.2 THE DISTRIBUTION OF LOTTERY FUNDS (SEE CHAPTER 2)

The main conclusions of chapter 2 on the distribution of funds are as follows:

- When the National Lottery was set up under the 1993 Act, the key principle underpinning the distribution of funds was that of additionality. This meant that the funding was to be additional to taxpayer funds and not to be used to fund matters that should be the proper province of the taxpayer. (Section 2.2.)
- Five good causes were identified: sport, the arts, heritage, charities and, fifthly, projects to mark the year 2000 and the beginning of the third millennium. The good causes were to receive 20% of the total lottery funds each, to be distributed by the relevant designated distributing bodies. (Section 2.2.)

The 1998 Act introduced a sixth good cause: “innovative projects in health, education and the environment”. This represented a blatant breach of the principle of additionality.

- The 1998 Act introduced a sixth good cause: “innovative projects in health, education and the environment”. This represented a blatant and overt breach of the principle of additionality. A new fund, the New Opportunities Fund, taking 13.3% of total funds available for good causes, was created to distribute this sixth good cause. The New Opportunities Fund is little more than a funding arm of Government for its projects on health, education and the environment. (Sections 2.3 and 2.4.). This can be described as the “larceny” of the Lottery Fund.
- The 1998 Act introduced the *de facto* need for all of the distributing bodies to construct strategic plans in line with Government policies. Moreover, the Government’s imposition of “politically correct” and highly prescriptive Policy Directions steered the distributing bodies away from “independence” of Government to dependence on Government policies. All of the distributing bodies (and not just the New Opportunities Fund) have become, *de facto*, politicised delivery arms of Government policy funded by the Lottery. The Heritage Lottery Fund and, especially, the highly politicised Community Fund (successor to the National Lottery Charities Board) are, for the most part, notable examples of Governmental capture. (Sections 2.3 and 2.5.)
- The latest National Lottery Bill, if and when passed, will entrench and extend the use of lottery funds for matters that should, rightly, be met by the taxpayer. The Big Lottery Fund (resulting from the merger of the Community Fund and the New Opportunities Fund) is pencilled in to take 50% of total lottery funds – the overwhelming majority of which will be distributed to matters that should be met by the taxpayer. This can be described as the “grand larceny” of the Lottery Fund. (Section 2.6.)
- There are criticisms to be made of the distributing bodies themselves. Firstly, there has been a high failure rate of several high-profile projects funded by them. The Millennium Commission has an unenviable record

of underperforming and expensive projects including the ill-fated Millennium Experience at Greenwich (section 2.7). Secondly, the Public Accounts Committee (PAC) has criticised the distributing bodies for holding back funds. In the case of the Heritage Lottery Fund, this is largely unjustified as they handle large capital projects that take time to come to fruition (section 2.8). Thirdly, their bureaucracies are, arguably, growing quite needlessly (section 2.9).

- Finally, there is concern that the estimated £1.5bn siphoned off by the Government for the 2012 Olympics, the cost of which should be met by the taxpayer, will leave the other “good causes” strapped for cash. This is a further example of the “grand larceny” of the Lottery Fund. (Section 2.10).

1.3 THE OPERATION OF THE LOTTERY (SEE CHAPTER 3)

The main conclusion of chapter 3 on the operation of the lottery is that the operation of the Lottery by the private sector for-profit Camelot has been a considerable success, despite late 1990s scandals.

CHAPTER TWO

THE DISTRIBUTION OF FUNDS

2.1 INTRODUCTION

Public concern has grown concerning the use of Lottery funds for matters which should more appropriately be met out of general taxation and the “politically correct” politicisation of the distribution of the funds. In addition there has been concern that the accountability, cost and effectiveness of the quangos in charge of distributing lottery funds is growing. These bodies have been accused of being over-bureaucratic, unaccountable and of consistently failing to distribute all of their apportioned funds.

This chapter, firstly, briefly discusses the history of principles behind the distribution of lottery funds including the three legislative landmarks:

- The 1993 National Lottery Act (section 2.2), which dealt with the original setting up of the National Lottery.
- The 1998 National Lottery Act (section 2.3 to 2.5), which represented the first changes to the nature of the Lottery by the new Labour Government.
- The National Lottery Bill, which was originally introduced in November 2004 and re-introduced in May 2005 (section 2.6).

It then assesses some aspects of the performance of the distributing bodies: the poor failure rate of some of the projects (2.7), the alleged failure to distribute funds (2.8) and the growing bureaucracy (2.9). The final section concerns the use of Lottery funds for part-funding the 2012 Olympics (2.10).

2.2 THE 1993 NATIONAL LOTTERY ACT

The National Lottery was originally set up by John Major under the 1993 National Lottery Act. It was launched in November 1994. The main features were:

- Five main good causes were defined as potentially eligible for funds: sport, the arts, heritage, charities and, fifthly, projects to mark the year 2000 and the beginning of the third millennium. The causes were to receive 20% of the total lottery funds each.
- The principle of additionality: whereby funds that are raised through the lottery should be additional to taxpayer funds and not used to fund matters which should be the proper province of the taxpayer. Lottery funds should, therefore, not be used as a convenient substitute for general taxation for public services or government programmes. This crucial principle is now quite openly and explicitly flouted as is discussed below.
- The distribution bodies were to be independent of government, though section 26 of the 1993 Act made it quite clear that the Secretary of State (for the then named Department of Heritage) could issue directions to the distributing bodies in order to ensure good governance and financial control and the appropriate allocation of funds. Policy Directions were issued in June 1994 to all Lottery distributors.

The distributing bodies were a mixture of already existing bodies which already received direct government funding (the sports and arts councils) and new bodies (the Heritage Lottery Fund, administered by the already existing National Heritage Memorial Fund, the National Lottery Charities Board and the Millennium Commission). They are detailed in the following table.

DISTRIBUTING BODIES SET UP IN THE 1993 ACT

Good cause (share of funds)	Fund	Distributing body (bodies)
Sport (20%)	Lottery Sports Fund (1994)	<ul style="list-style-type: none"> • Sports Council (GB) (1972), split into (1997): <ul style="list-style-type: none"> ○ UK Sports Council. ○ English Sports Council. • Scottish Sports Council (SSC) (1972) • Sports Council for Wales (SCW) (1972) • Sports Council for Northern Ireland (SCNI) (1973)
The arts (20%)	Funds assigned to the arts	<ul style="list-style-type: none"> • Arts Council (GB) (1946), split into (1994): <ul style="list-style-type: none"> ○ Arts Council of England. ○ Scottish Arts Council. ○ Arts Council of Wales. • Arts Council of Northern Ireland (1962).
Heritage (20%)	Heritage Lottery Fund (1994)	<ul style="list-style-type: none"> • National Heritage Memorial Fund (NHMF) (1980).
Charities (20%)	Funds assigned to charities	<ul style="list-style-type: none"> • National Lottery Charities Board (1994).
Millennium projects (20%)	Millennium Fund	<ul style="list-style-type: none"> • Millennium Commission (1994)

A striking feature of this table is the proliferation of distributing bodies during the period following the 1993 Act, mainly reflecting devolution (in its broadest sense) in the UK. This procedure would be hard to reverse.

2.3 THE 1998 NATIONAL LOTTERY ACT

In the wake of the 1998 Act the following changes were introduced:

- A sixth good cause was added: “innovative projects in health, education and environment”.
- The sixth good cause was assigned 13.3% of the funds and the Millennium Commission retained 20% of the funds. The other four good causes saw a drop in the proportion of their funding – to 16.6% each.
- Insofar as most if not, arguably, all the projects under this sixth good cause covered matters that should be more properly funded by general taxation then this represented a blatant flouting of the principle of additionality.
- The distributing bodies were altered as follows:
 - a new Fund, the New Opportunities Fund was created in 1998 to deal with health, education and environment;
 - the National Lottery Charities Board was renamed the Community Fund in 2001;
 - two bodies associated with film, the UK Film Council and Scottish Screen, began distributing Lottery funds in 2000;
 - the Millennium Commission ceased receiving funding in 2001.
- The Act inserted a section on the requirement, on the instruction of the Secretary of State (for the now named Department of Culture, Media and Sport (DCMS)), for the distributing bodies to:
 - prepare and adopt a strategic plan, or
 - review and modify any strategic plan which has been adopted, or
 - replace any strategic plan which it has adopted by preparing and adopting another.
- This requirement, along with the DCMS's provision of substantially revised and quite tightly prescriptive and necessarily “political correct” Policy Directions to the distributing bodies, has significantly increased the influence of the Government over the distributing bodies.

DISTRIBUTING BODIES AFTER THE 1998 ACT

Good cause (share of funds)	Fund	Distributing body (bodies)
Sport (16.6%)	Lottery Sports Fund	<ul style="list-style-type: none"> • UK Sports Council. • English Sports Council, rebranded as Sport England (1999). • Scottish Sports Council (SSC), rebranded as Sport Scotland (1999). • Sports Council for Wales (SCW). • Sports Council for Northern Ireland (SCNI).
The arts (16.6%)	Funds assigned to the arts (including film)	<ul style="list-style-type: none"> • Arts Council of England, reorganised as Arts Council England (2003). • Scottish Arts Council. • Arts Council of Wales. • Arts Council of Northern Ireland. • Film Council (2000), subsequently renamed UK Film Council. • Scottish Screen (1997, distributing lottery funding from 2000)
Heritage (16.6%)	Heritage Lottery Fund	<ul style="list-style-type: none"> • National Heritage Memorial Fund (NHMF).
Charities (16.6%)		<ul style="list-style-type: none"> • National Lottery Charities Board, renamed Community Fund (2001).
Millennium projects (20%)	Millennium Fund	<ul style="list-style-type: none"> • Millennium Commission (ceased receiving funds in August 2001).
Health, education & environment (13.3%)	New Opportunities Fund (1998)	<ul style="list-style-type: none"> • New Opportunities Fund (created 1998)

2.4 DEVELOPMENTS FOLLOWING THE 1998 ACT: THE NEW OPPORTUNITIES FUND

The significance of the creation of the New Opportunities Fund for funding government projects in health, education and environment cannot be exaggerated. As already mentioned, it represented a major and explicit break from the cardinal principle of additionality enshrined in the original setting up of the Lottery. And this break is in addition to the cynical and, arguably, covert siphoning off of funds from the original Funds for Government projects that should have been met out of taxation.

The New Opportunities Fund for projects in health, education and environment is a major and explicit break from the principle of additionality.

There is, however, nothing covert about the Government's influence on the allocation of funds by the New Opportunities Fund. According to a Memorandum by the New Opportunities Fund to the House of Commons

Select Committee on Transport, Local Government and Regions (Urban Affairs Sub-Committee):¹

The New Opportunities Fund was established as a new Lottery Distributor by the National Lottery Act 1998 to make grants to health, education and environment projects, UK-wide, **under initiatives to be specified by the Government**... The New Opportunities Fund provides funding for health, education and environment projects which will help create lasting improvements to the quality of life, particularly to disadvantaged communities. Our aim is to ensure that our programmes complement funding available from other sources, and that our work supports local, regional and national strategies and plans in England, Scotland, Wales and Northern Ireland. [emphasis added]

Nothing could be clearer. The New Opportunities Fund does not even have the semblance of policy independence. It is explicitly carrying out Government policies, acting in line with the prescriptive "Policy Directions" set out for it by Government. Indeed this same memorandum goes on to say, specifically in relation to the programme on "green spaces and sustainable communities":

Under the programme the Fund will commit £125m to help urban and rural communities throughout the UK to understand, improve or care for their natural and living environment. Policy directions establish that 75% of the total funding available is for green spaces, with 25% of funding available for sustainable communities.

"The New Opportunties Fund receives policy directions for the funding initiatives that we run" – Big Lottery Fund's annual report. Given that the Fund had committed £2.4 billion by the end of March 2004, this is a useful addition to the Exchequer.

And the Big Lottery Fund's annual report² includes the statement:

The New Opportunity Fund receives policy directions that set out a framework for the funding initiatives we (sic) run..., under National Lottery Act of 1993, as amended by 1998 Act.

It is instructive to note the nature of the projects that are being funded by the New Opportunities Fund. As the following table shows, many are quite explicitly projects that should be met out of general taxation. Given that the New Opportunities Fund had committed £2.4bn by the end of March 2004,³ this is quite a useful, *de facto*, addition to the Exchequer.

NEW OPPORTUNITIES FUND: HARD COMMITMENTS

	Grant commitments met 2004/05 (£'000s)	Grant commitments carried forward at 31 March 2005
Healthy Living Centres (DH)	56,483	128,728
Out of School Hours Learning	40,192	43,663
Out of School Hours Childcare, and Childcare	69,250	81,954
ICT training for teachers & school librarians (DfES)	10,008	7,264
ICT training for public library staff (local authorities)	989	196
Digitisation of learning materials (DfES)	7,716	310
Cancer (DH)	15,801	6,337
Community access to life-long learning (DfES)	33,013	11,735
Green spaces & sustainable communities (DEFRA)	31,574	18,468
New Opportunities in PE & sport (NOPEs) (primarily in schools) (DfES)	77,906	561,617
Activities for young people	26,330	22,666
Reducing the burden of CHD, stroke & cancer (DH)	50,243	85,932
Palliative care (DH)	16,901	49,103
Transforming communities (DEFRA)	23,187	91,792
Awards for All	14,299	407
Veterans United	15,833	5,074
Young People's fund	1,343	12,491
Total (NOF)	491,068	1,129,737 (£1.1bn)

Source: Big Lottery Fund, *NOF annual report & accounts, financial year ended 31 March 2005*, TSO, Oct 2005.

Note: Government department's marked in brackets are the authors' assignments.

2.5 DEVELOPMENTS FOLLOWING THE 1998 ACT: OTHER DISTRIBUTING BODIES

It is not just the New Opportunities Fund that is strongly influenced by the Government's highly prescriptive "policy directions". The other distributing bodies are as well (including the Sports and Arts Councils).

When the **Heritage Lottery Fund** (HLF, administered by the National Heritage Memorial Fund) was set up in 1994 its aim was straightforwardly to "improve the quality of life" by:

- Safeguarding and enhancing the heritage of buildings, objects and the environment, whether man-made or natural, which have been important in the formation of the character and identity of the UK.
- Assisting people to appreciate and enjoy their heritage.
- Allowing them to hand it on in good heart to future generations.

But this changed in 1999. The HLF reported in 2000 under its review of the year that:^{4,5}

Following a period of rapid change responding to new legislation (the 1998 National Lottery Act), Government Policy Directions and devolution issues, the Strategic Plan was launched in May 1999.

And the report made clear that their distribution of grants had been made in line with the Government's specified priorities:⁶

A significant percentage of HLF grants is awarded to areas of urban deprivation. Most of the evaluated schemes show a measurable contribution to addressing social and economic deprivation, or improving the quality of community life and nearly half (directly or indirectly) delivered economic benefits such as job creation.

The HLF's website currently makes very clear that its remit is essentially taken from the Government:⁷

The Heritage Lottery Fund spans the very wide range of Government (DCMS) Policy Directions which "we" have to take account of:

- The needs of the national heritage and priorities for assessing them.
- The need to ensure all parts of the UK have access to funding.
- The scope for reducing economic and social deprivation at the same time as creating heritage benefits.
- The need to promote access, for people from all sections of society, to the UK's wide ranging heritage.
- The need to promote knowledge of and interest in by children and young people.
- The need to further the objectives of sustainable development.

The **National Lottery Charities Board** was set up in 1994 to distribute Lottery grants to charitable, benevolent and philanthropic organisations funding projects mainly to help the needs of those at greatest disadvantage in society and also to improve the quality of life in the community. It changed its name to the **Community Fund** in April 2001.

It, too, produced a strategic plan in the wake of the 1998 Act in response to the Government's directions. It has, in recent years, awarded grants to a number of highly controversial and "politically correct" organisations including those for asylum seekers,⁸ anti-racism groups,⁹ UK-based voluntary organisations working overseas (grants have been made since 1999/00)¹⁰ and homosexual groups.¹¹

The breakdown of the Community Fund's grants awarded in 2002/03 is shown in the following table. Priority groups account for two thirds of total spending.

COMMUNITY FUND, GRANTS AWARDED, 2002/03 (£M)

		£m	
Total		285	
	Of which:		
	International*	7	
	Priority groups**	192	%
	Of which:		
	People living in disadvantaged areas	64	33%
	Children & young people	55	29%
	Older people & their carers	32	17%
	Disabled people & their carers	63	33%
	Black & minority ethnic communities (BME)	30	16%
	Refugees & asylum seekers	13	7%
	Other disadvantaged people	36	19%

Source: Community Fund, Annual report, 2002/03, TSO, 2003.

* Including a grant for the Rainforest Foundation UK, Peru.

** There is some double-counting under priority groups as some grants have gone to people in more than one category, e.g. grants for disabled children.

2.6 THE LATEST NATIONAL LOTTERY BILL

The latest National Lottery Bill was first introduced to Parliament in November 2004. Following the May 2005 General Election, it has been re-introduced with revisions. The main proposed changes to the distribution of funds are:

- The merger of the Community Fund and the New Opportunities Fund to form the Big Lottery Fund. They merged administratively in June 2004 though still remain separate legal entities.
- The Bill stated that “50% shall be allocated for prescribed expenditure that is (i) charitable, or (ii) connected with health, or (iii) connected with education, or (iv) connected with the environment.” The remaining good causes (sport, arts, heritage) are to receive 16 2/3% each (50% in total).
- The winding down of the Millennium Commission, which is currently overseeing the completion of its work. It expects this work will be finished in 2006 when the task of monitoring completed projects will be handed over to the Big Lottery Fund.

DISTRIBUTING BODIES AS PROPOSED IN THE LATEST NATIONAL LOTTERY BILL

Good cause (share of funds)	Fund	Distributing body (bodies)
Sport (16.6%)	Lottery Sports Fund	UK Sports Council. Sport England. Sport Scotland. Sports Council for Wales. Sports Council for Northern Ireland.
The arts (16.6%)	Funds assigned to the arts (including film)	Arts Council England. Scottish Arts Council. Arts Council of Wales. Arts Council of Northern Ireland. UK Film Council. Scottish Screen.
Heritage (16.6%)	Heritage Lottery Fund	Administered by the National Heritage Memorial Fund (NHMF).
Charities and health, education & environment (50%)	Big Lottery Fund	In June 2004 the Community Fund and the New Opportunities Fund merged administratively to form the Big Lottery Fund. They are still separate legal entities.
Millennium projects (0%)		Millennium Commission

The New National Lottery Bill will allocate further resources away from the original good causes.

When the new National Lottery Bill is enacted it will be clear that one of the most dramatic changes the Government has made to the Lottery since 1997 has been the reallocation of resources going to the various good causes. This is clearly shown in the following table.

THE REALLOCATION OF FUNDING TO GOOD CAUSES

Good cause	1993 Act	1998 Act	Under the new Lottery Bill
Sport	20%	16.6%	16.6%
The arts	20%	16.6%	16.6%
Heritage	20%	16.6%	16.6%
Total of above	60%	50%	50%
Charities	20%	16.6%	See below
Millennium projects	20%	20%	0%
Health, education & environment	0%	13.3%	See below
Charities, health, education & environment	Na	Na	50%

The original remit of good causes has been stretched beyond credibility as the Government has siphoned off Lottery money for projects that should have clearly been met out of general taxation. There is an overwhelming case for changing the list of good causes to just four, sport, the arts, heritage and charities, and to reinstate the principle of additionality.

The DCMS has responded to criticisms and comments on the redistribution of funding by inaugurating a "National Lottery shares 2009 consultation".¹² Whether this consultation will significantly alter funding allocations is, of course, currently impossible to know. Another approach that has been suggested to provide a "fairer" allocation of the funds is to invite the buyers of lottery tickets to select their preferred good causes and use this information in deciding the funding allocation.

2.7 LOTTERY FUNDED PROJECTS: TOO MANY FAILURES?

In many ways Lottery funding for good causes has been a triumph. Over £17bn of funds have been made available to projects, many of which have been worthwhile and would not otherwise have had access to funding. But aside from the criticisms of the Government's handling of the Lottery since 1997 (dealt with in the above sections), there are three main caveats to this positive assessment which can be laid at the doors of the distributing bodies themselves.

The first caveat refers to the fact that the projects funded by the Lottery have had their fair share, if not more than their fair share, of failures. The second and third caveats relate to the distributing bodies' poor record in distributing funds and their burgeoning bureaucracy; these two caveats are considered in the next two sections.

The poor failure rate associated with lottery funded projects is quite spectacularly associated with large capital projects funded by the **Millennium Commission**. The more notorious examples of failure are:

- The Millennium Dome. The Millennium Commission provided a grant of over £600 million to the New Millennium Experience Company for the Millennium Experience at Greenwich.¹³ Suffice to say the Millennium Experience's performance fell well below target,^{14,15} and was subject to much criticism.¹⁶
- The National Centre for Popular Music, a national pop music museum. This received £11 million in Lottery funds. Expectations were for an anticipated 400,000 visitors a year, but the Centre only achieved 104,000 in the first six months.¹⁷ It was closed in 1999 due to a lack of visitors, but was relaunched in 2001 with an extra £2 million. It failed again. Sheffield Hallam University bought the Centre from Yorkshire Forward, a regional development agency in 2004, and it is now a Student Union bar and Entertainment Complex.
- Wembley Stadium. The Stadium has received £120 million of lottery cash yet the main contractor, Multiplex, is now predicting a £45 million loss.¹⁸ It is not obvious why the country's richest sport that can pay £27

million for one footballer, such as Wayne Rooney, needs lottery money to pay for a new Wembley Stadium. Surely such Millennium funding should have gone to the funding of school sports, for example, as mentioned by Sir John Major in his preface.

- The Earth Centre was built on former colliery land in Doncaster and aimed to show people how to live in a sustainable, eco-friendly environment. It hoped for 500,000 visitors a year but numbers fell well short (80,000). It was closed in 2004,¹⁹ with estimated total costs of £64 million.
- The Bath Spa was intended to revitalise tourism in the city of Bath – the only one with a hot spring in the country – and was initially very promising. Originally due to open in 2002, it has been plagued by contracting and engineering errors. It is now not expected to open until Easter 2006. The final cost will be £37.5 million,²⁰ nearly three times the first budget of £13 million.

All of these large capital projects were largely funded by the Millennium Commission. The Millennium Commission's poor record is in stark contrast to that of the relatively successful Heritage Lottery Fund (which has been the other major funder of large capital projects).

But it is not just the Millennium Commission that has come under criticism for mismanaging projects. **Arts Council England**, for example, attracted criticism from the relevant Parliamentary select committee for its oversight in supporting a Lottery funded programme which subsidised UK film production that resulted in a series of films that failed to find distribution. (Arts Council England provides direct funding for the UK Film Council.) In 2005 it was announced that the Arts Council England's budget was capped resulting in an effective £30 million reduction in its budget.²¹

2.8 THE PAC REPORT ON NATIONAL LOTTERY DISTRIBUTING FUND BALANCES

Proceeds from the sale of lottery tickets for good causes (28% of sales revenue) are sent by Camelot, the Lottery operator, to the National Lottery Distribution Fund (NLDF). The NLDF holds these funds until they are required by the distributing bodies to make payments to grant recipients or to meet their own costs. The balances of the individual distributing bodies earn interest but, clearly, the intended public benefit is delivered only when the money is spent in the community.

The distributing bodies have come in for some criticism for building up large balances at the NLDF. According to the Public Accounts Committee (PAC), the balances in the NLDF built up in the early years of the Lottery peaking at £3.7bn in 1999.²² In 2002 the Secretary of State for DCMS announced a target for total balances to halve by 2004 but in the event they only fell by 24%. At May 2005 balances stood at £2.4bn with the Heritage Lottery Fund and the New Opportunities Fund together holding 64% of the total, as is shown in the following table.

**DISTRIBUTORS' NATIONAL LOTTERY DISTRIBUTION
FUND BALANCES (AS OF 31 MARCH 2005)**

Distributor	NLDF balances (£m)	% of total NLDF balances
Heritage Lottery Fund (HLF)	883.4	36.1
New Opportunities Fund (NOF)*	676.7	27.6
Sport England	198.4	8.1
Arts Council of England	175.1	7.1
Community Fund (CF)*	171.5	7.0
Millennium Commission	102.2	4.2
Sport Scotland	56.7	2.3
UK Film Council	48.0	2.0
Scottish Arts Council	35.5	1.5
Arts Council of Northern Ireland	34.3	1.4
Sports Council of Northern Ireland	25.0	1.0
Arts Council of Wales	19.6	0.8
Sports Council for Wales	11.8	0.5
UK Sport	6.8	0.3
Scottish Screen	4.8	0.2
Total	2,449.8	100.0

* NOF and CF were administratively merged in June 2004 as the Big Lottery Fund (BLF), but are still separate entities.

Source: House of Commons Committee of Public Accounts, *Managing National Lottery Distribution Fund balances*, 1st Report of Session 2005-06, HC 408, October 2005, TSO. There are rounding errors in the table.

The PAC was critical of the distributing bodies' behaviour. Moreover, their criticism is supported not just by the DCMS but also the National Audit Office.²³ However, such criticisms should be treated with great caution: the HLF in particular retains large balances because it funds large capital projects that take time to come to fruition.

Some distributors have been criticised for retaining substantial balances. However, in some cases – such as the HLF – these criticisms should be treated with great caution.

2.9 THE DISTRIBUTION BODIES: A GROWING BUREAUCRACY

There are other criticisms that can be made of the distribution bodies. In this section the expansion of employment since 1997 and the generous salary increases of some of the Chief Executives are examined.

There has been a significant growth in the number of employees in the distributing bodies since 1997 even though lottery sales have tended to weaken in recent years (and hence funding available for distribution to good causes). While many of these bodies are not exclusively funded by the National Lottery, it is questionable whether such growth in employment has added much to the efficacy with which lottery funds are distributed.

DISTRIBUTING BODIES: GROWTH IN NUMBERS OF EMPLOYEES BETWEEN 1997 AND 2004

Distributing body	Employees (1997)	Employees (2004)	% increase
Total	Na	3070	Na
Of which:			
Heritage Lottery Fund	65	253	289%
Community Fund	Na	609	Na
New Opportunities Fund	Na	342	Na
Arts Council England*	166	697	320%
Scottish Arts Council	Na	89	Na
Arts Council of Wales	69	97	41%
Arts Council of N.I.	52.5	42	-20%
UK Film Council	Na	93	Na
Scottish Screen	35.5	47	32%
UK Sport	Na	74	Na
Sport England	363	284	-22%
Sport Scotland	Na	146	Na
Sports Council for Wales	Na	164	Na
Sports Council of N.I.	Na	70	Na

Note: These employment figures do not include seconded civil servants, which can significantly inflate the figure still further.

* Arts Council England was reorganised in 2004.

Turning to the salaries of Chief Executives, some have soared since 1997, as shown in the table below.

SALARIES OF THE CHIEF EXECUTIVES IN 1997 & 2004

Distributing body	1997	2004	% increase
Heritage Lottery Fund	£73,000	£100,000 to £125,000	37% to 71%
Community Fund	Na	£15,000 to £20,000	Na
New Opportunities Fund	£73,000	£90,000 to £95,000	23% to 30%
Millennium Commission	Na	£132,926	Na
Arts Council England	£69,421	£151,958	119%
Scottish Arts Council	Na	£78,554	Na
Arts Council of Wales	£50,000	£60,935	22%
Arts Council of N.I.	£46,678	£55,327	19%
UK Film Council	Na	£156,210	Na
Scottish Screen	£63,800	£57,771	-9%
UK Sport	Na	£69,875	Na
Sport England	£67,870	£133,451	97%
Sport Scotland	Na	£71,530	Na
Sports Council for Wales	£57,358	£61,464	7%
Sports Council of N. I.	Na	£70,198	Na

2.10 THE 2012 OLYMPICS

There is currently much disquiet about the possible funding for the 2012 Olympic Games in London. The cost to the British taxpayer of hosting the 2012 Olympic Games has been estimated at £4.9 billion.²⁵ Tessa Jowell, Secretary of State for the Department for Culture, Media and Sport (DCMS) has suggested that £1.5 billion of the funding for the Olympics should come from the lottery and this figure has been agreed. The money will be channelled through a new Fund, the Olympic Lottery Distribution Fund.²⁶

There are two concerns about this. The first relates to the view that the Games should be completely paid for out of general taxation, no funding should come from the Lottery and the concern that the distributing bodies will lose funding if £1.5bn of Lottery funds is channelled into the Olympics. In a recent debate in the House of Lords Lord Renton of Mount Harry stated that the National Heritage Memorial Fund expected money to fall from £350 million a year to £230 million a year as a result of funds being channelled into the Olympics.²⁷

The second concerns the UK's poor record in delivering large infrastructure projects, on time, to budget and to specification. Given this poor record it is possible that the demands on the lottery could turn out to be greater than Ms Jowell's estimate on the grounds that lottery funds are a much "softer" target than the taxpayer.

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CHAPTER THREE

THE OPERATION OF THE LOTTERY

3.1 INTRODUCTION

Annex 3, on the genesis of the lottery, summarises the historical background to the debate on the British Lottery. Part of the debate concerned whether the lottery should be private making or non-profit making, privately run or state run.

The Conservative Government in the early 1990s made the decision that the lottery should be run by a private profit-making enterprise. But even as late as the 1997 election the Labour Party manifesto made a commitment to a non-profit making Lottery.¹ And after Labour came to power in 1997, the first Labour Secretary of State for the Department of Culture, Media and Sport, Chris Smith, made clear that he thought Camelot, the Lottery operator, was “profiteering” at the expense of good causes. A “Fat Cat” pay row added to the poor image of Camelot.

But if the operator were to be non-profit making, a real problem would emerge when and if it made a loss. As Camelot Chairman Sir George Russell saliently pointed out: “We operate on a 1% margin. It is not difficult to lose a 1% margin. If it is a not-for-profit lottery, who pays for losses when they occur?”²

However, the Labour Party, once in Government, did not fundamentally change the way in which the lottery was run; they left it as a privately run

profit making enterprise. This is just as well. The experience of Railtrack and the Strategic Rail Authority suggests that Government would be forced to meet any such losses; and that costs could rise inexorably. Camelot's first seven year licence officially ran out in September 2001. Camelot won the competition for the second seven year licence period, which is due to expire in January 2009.

3.2 THE NATIONAL LOTTERY OPERATOR: CAMELOT

The National Lottery was launched in November 1994 with Camelot as the first and, as yet, only operator. Camelot is currently wholly owned by five shareholders: Cadbury Schweppes plc, Royal Mail Enterprises, De La Rue Holdings plc, Fujitsu Services Ltd and Thales Electronics.³

The money raised by Camelot through the lottery is currently allocated as follows:⁴

- 50% is paid to the players in prizes.
- 28% is sent to the National Lottery Distribution Fund (NLDF) for Good Causes.
- 12% goes in Lottery Duty.
- 5% is paid to National Lottery retailers (including a 1% commission on prizes which they pay to winners for prizes of between £10 and £200).
- 5% goes to Camelot:
 - 4.5% covers operating costs, including lottery systems & marketing;
 - 0.5% is the profit.

3.3 THE PRIVATE OPERATION OF THE LOTTERY: A SUCCESS STORY

Camelot's operation of the lottery has been, on balance, a success story. International comparisons of the UK Lottery with Lotteries in other countries put the UK's lottery system in a very favourable light.^{5,6}

NATIONAL LOTTERIES: INTERNATIONAL COMPARISONS

Country	% paid out in prizes	% paid to retailer	% paid in operating expenses (& profit)	% paid in tax & to good causes
UK	50%	5%	5%	40%
France	60%	5%	8%	27%
Spain	55%	Na	12%	33%
Ireland	53%	6%	8%	33%
Italy	56%	8%	6%	31%
Australia	57%	7%	6%	30%
New Zealand	55%	7%	8%	30%
Canada	52%	7%	10%	31%
US	57%	6%	5%	32%

This table suggests that the UK's competitive licensing system and decision to have a private profit-making enterprise operating the Lottery has delivered two desirable outcomes:

- Very low operating expenses.
- A very high proportion of lottery funds distributed to good causes and government revenue.

These two outcomes were important reasons why the Labour Party did not honour its 1997 manifesto commitment to change the operation of the Lottery to a non-profit making enterprise. It did, however, change the regulation and licensing of the operator.

In the 1993 National Lottery Act, a Director General of the lottery (OFLOT) was designated to be responsible for the regulation of the lottery and the licensing of a body to run it. In 1998 the then Director General of OFLOT, Peter Davis, resigned in inauspicious circumstances. Under the 1998 National Lottery Act, OFLOT was replaced by the National Lottery Commission, which was set up in 1999. Under the 1998 Act, the Commission would hold the licence and levy fines for operators in breach of the licence. Around this time and sensing the political mood following the "Fat Cat" pay row of 1997, the Directors of Camelot volunteered to reduce their bonuses and donate some of their salaries to charity. This served to soften their poor image.

If there is a criticism to be made of the private operation of the Lottery, it is on commercial grounds. The National Lottery annual sales figures have slipped under £5 billion since 2000/01, as shown in the flowing table.

CAMELOT GROUP PLC: LOTTERY SALES

Year	Sales (£m)
1994/95*	1,191
1995/96	5,217
1996/97	4,723
1997/98	5,514
1998/99	5,207
1999/00	5,093
2000/01	4,983
2001/02	4,834
2002/03	4,574
2003/04	4,615
2004/05	4,766

* From November 1994 to March 1995 only

Source: www.camelotgroup.co.uk

It is also clear that UK lottery sales have failed to track a rise in incomes of around 2% a year, or indeed to track the international growth in lotteries. According to the La Fleur's *World Lottery Almanac*, in 2004, the lottery industry was turning over \$160 billion a year compared to \$115 billion in 1997 – an increase of 39%.⁷ Had the National Lottery Sales matched this

international rate of growth, UK lottery sales would have risen to about £6.6 billion, £2 billion more than they actually were. As a result, the good causes would have benefited by an additional £560 million a year.⁸

3.3 THE BENEFIT TO THE STATE

12% of the money raised by the National Lottery is paid in Lottery Duty to the government. The following table shows that over £6 billion has been paid to the Government since the Lottery's inception.

GOVERNMENT INCOME FROM THE LOTTERY

Year	Sales (£m)	Lottery Duty
1994/95*	1,191	143
1995/96	5,217	626
1996/97	4,723	567
1997/98	5,514	662
1998/99	5,207	625
1999/00	5,093	611
2000/01	4,983	598
2001/02	4,834	580
2002/03	4,574	549
2003/04	4,615	554
2004/05	4,766	572
Total		6,086

If the money given to the NOF is included (£2.4 billion to the end of March 2004), the government has derived a windfall of £8.5 billion over the lifetime of the Lottery (the equivalent of 390 Lottery tickets for every household in the country).

3.4 THE FUTURE

As already stated, Camelot's current seven year licence is due to expire in January 2009. The launch of the competition to award the next lottery licence, for a single 10-year licence, occurred in November 2005.⁹

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ANNEXES

ANNEX 1: NOTES AND TERMINOLOGY

Additionality: is the principle whereby funds that are raised through the lottery should be additional and not used to fund matters which should be the proper province of the taxpayer. Lottery funding should, therefore, not be a substitute for general taxation and it should not be used to fund essential services or government-inspired programmes. It is now being persistently flouted.

Arts Councils: the Arts Council of Great Britain was set up by Royal Charter in 1946. In 1994 it was abolished and replaced by three new bodies: the Arts Council of England, the Arts Council of Wales and the Scottish Arts Council. The Arts Council of Northern Ireland was set up in 1962. In 2003 the Arts Council of England merged with the existing Regional Arts Boards to form Arts Council England. Arts Council England, for example, is the development agency for arts in England and receives public money from both the Government (grant-in-aid) and the Lottery.

Awards for All: is a Lottery grants scheme aimed at local communities, which awards grants of between £500 and £5,000. It operates separately for England (through the nine regions), Scotland, Wales and Northern Ireland. It started in England in a small way in the East Midlands in 1998 and was subsequently expanded to the whole of England in April 1999. The schemes in the separate countries are run jointly by the relevant Distribution Bodies.

Big Lottery Fund (BLF): was formed from the administrative merger of the New Opportunities Fund and the Community Fund and set up in June 2004, though still needing formal legislative approval. It will be responsible for half the money for Good Causes. The BLF will be the fund for charities and the voluntary sector and health, education & environment projects – the latter three of which should, arguably, be funded directly by government. It will also take on the Millennium Commission's ability to fund large-scale regenerative capital projects. There will be a fund for community transformation. See also the National Lottery Distribution Bodies (NLDBs).

Camelot group plc: Camelot is the operator of the National Lottery and is wholly owned by five shareholders: Cadbury Schweppes plc, Royal Mail Enterprises, De La Rue Holdings plc, Fujitsu Services Ltd and Thales Electronics (source: www.national-lottery.co.uk). The money raised by Camelot through the lottery is allocated as follows (source: www.camelotgroup.co.uk/socialreport2005):

- 50% is paid to the players in prizes.
- 28% is sent to the National Lottery Distribution Fund (NLDF) for Good Causes.
- 12% goes in Lottery Duty.
- 5% is paid to National Lottery retailers (including a 1% commission on prizes which they pay to winners for prizes of between £10 and £200).
- 5% goes to Camelot, of which:
 - 4.5% covers operating costs, including lottery systems & marketing.
 - 0.5% is the profit.

Community Fund (CF): was originally set up as the National Lottery Charities Board in 1994. It changed its operating name to the Community Fund in April 2001. The CF is responsible for distributing Lottery grants to charitable, benevolent and philanthropic organisations, funding projects

mainly to help the needs of those at greatest disadvantage in society and also to improve the quality of life in the community. It merged administratively with the New Opportunities Fund (NOF) in 2004 to form the BLF, but the CF and the NOF are still separate legal entities. See also National Lottery Distribution Bodies (NLDBs).

Department of Culture, Media and Sport (DCMS): the Department responsible for legislation relating to the National Lottery. It appoints the National Lottery Commission (NLC).

Good Causes: five Good Causes were specified in the 1993 National Lottery Act: sport, the arts, heritage, charities, and projects to mark the year 2000 (and the beginning of the third millennium). A sixth Good Cause, "innovative projects in health, education & environment" (which taxpayers would, arguably, expect to be funded directly by government) was formally added by the 1998 National Lottery Act and administered by the New Opportunities Fund, a new distributor (now subsumed into the Big Lottery Fund). The National Lottery currently lists Good Causes in the arts, sports, heritage, health, education, environment, community and charity sectors as potentially eligible for Lottery funding (source: www.national-lottery.co.uk).

Heritage Lottery Fund: is administered by the National Heritage Memorial Fund (NHMF). It was set up in 1994 and started operating in January 1995, with the (original) aim of improving the quality of life by:

- Safeguarding and enhancing the heritage of buildings, objects and the environment, whether man-made or natural, which have been important in the formation of the character and identity of the UK.
- Assisting people to appreciate and enjoy their heritage.
- Allowing them to hand it on in good heart to future generations.

Millennium Commission: was set up in 1994 to distribute Lottery proceeds for projects (across the UK) that would mark the year 2000 and the beginning of the third millennium. The Commission supported capital projects in general, the Millennium Experience at Greenwich and the Millennium Festival. It stopped receiving Lottery funds in August 2001 under the terms of an Order approved by Parliament in December 2000. The Millennium Commission is currently overseeing the completion of its work. It expects this work will be finished in 2006 when the task of monitoring completed projects will be handed over to the Big Lottery Fund.

National Heritage Memorial Fund (NHMF): was set up in 1980 and given the responsibility for distributing the share of funding from the National Lottery for the heritage Good Cause in 1993. It does this through the Heritage Lottery Fund (qv).

National Lottery, the framework: there are five main players in the framework for the National Lottery:

- The Government, through the DCMS, is responsible for National Lottery-related legislation & for appointing & directing the NLC.
- The National Lottery Commission (NLC) awards the licence to run the lottery and regulates Camelot the current licence-holder.
- Camelot, the current lottery operator, sends the Good Causes money it raises through the lottery to the NLDF.
- The National Lottery Distribution Fund (NLDF) distributes funds to the Good Causes approved by Parliament via the NLDBs.
- The National Lottery Distribution Bodies (NLDBs), in turn, decide which beneficiaries should receive funding & award Lottery grants accordingly.

National Lottery Commission (NLC): oversees the licensing and regulation of the National Lottery. The NLC's remit also includes the protection of players' interests and the need to ensure that the Lottery is run properly and maximises the amount raised for Good Causes.

National Lottery Distribution Bodies (NLDBs): there are currently 14 NLDBs (or 15 counting the Community Fund & the NOF as separate bodies):

- The Big Lottery Fund (formed from the administrative merger of the Community Fund, previously known as National Lottery Charities Board, and the New Opportunities Fund – though these two bodies are still legal entities).
- Heritage Lottery Fund (administered by the National Heritage Memorial Fund (NHMF)).
- Millennium Commission (funding ceased in August 2001 but it still operates to distribute its remaining funds, though these are to be re-assigned to the BLF).
- Sport Councils: Sport England, Sport Scotland, Sports Council of Northern Ireland, Sports Council of Wales and UK Sport. The Councils also receive grant-in-aid funding as well as money from the Lottery Sports Fund.
- Arts Councils: Arts Council England, Scottish Arts Council, Arts Council of Northern Ireland and Arts Council of Wales. The Councils also receive grant-in-aid funding.
- There are also two distribution bodies relating to films: the UK Film Council and Scottish Screen. These bodies also receive grant-in-aid funding.
- The National Endowment for Science, Technology and the Arts (NESTA), invests in “outstanding ideas and the people who have them” (source: www.national-lottery.co.uk).

The National Lottery Distribution Fund (NLDF): see National Lottery.

National Lottery Commission: the non-departmental public body set up on 1 April 1999 to regulate the National Lottery, a task formerly carried out by the Director General of the National Lottery.

New Opportunities Fund (NOF): created under the 1998 National Lottery Act to deal with the 6th Good Cause (qv). The NOF is responsible for distributing Lottery grants for health, education & environment projects, with a particular focus on the needs of those at greatest disadvantage in society and also to improve the quality of life in the community. It merged administratively with the Community Fund to form the Big Lottery Fund in June 2004, but the CF and the NOF are still separate legal entities. See also National Lottery Distribution Bodies (NLDBs).

Sports Councils. The Sports Council (GB) was established in 1972 by Royal Charter. The Scottish Sports Council (SSC) and the Sports Council for Wales (SCW) were also established in 1972 and the Sports Council for Northern Ireland (SCNI) was established in 1973. In 1996 (effective January 1997) the UK Sports Council and the English Sports Council replaced the Sports Council (GB). In 1994/95 the Sports Council made the first awards from the Lottery Sports Fund (which was launched in November 1994). The English Sports Council is currently known as Sport England (rebranded March 1999), the Scottish Sports Council is currently known as Sport Scotland and the UK Sports Council is currently known as UK Sport. The Councils are funded by both the Exchequer (grant-in-aid) and the Lottery.

UK Film Council: is responsible for all DCMS funding (both Lottery and grant-in-aid), apart from the national film & TV School. It was set up as the “Film Council” in 2000, in receipt of some Lottery funding, and was subsequently renamed the UK Film Council. Its function is to support the film industry and develop a film culture. Scottish Screen is the body which promotes Scotland as a location for film-making. It was set up in 1997 and started distributing Lottery funding in 2000.

ANNEX 2: KEY DATES

1992	Setting up of the Department of Heritage.
1992	Conservative manifesto stated that the Lottery would be introduced and used “to restore the heritage, and promote projects which will become a source of national pride”. The Home Office published the White Paper “A National Lottery Raising Money for Good Causes.”
1993	The National Lottery Act 1993 set up the original framework for the National Lottery, its regulation and competitive licensing. There were five Good Causes: sport, the arts, heritage, charities, and projects to mark the year 2000 and the beginning of the 3 rd millennium. A Director General of the lottery (OFLOT) was responsible for the regulation of the lottery and the licensing of a body to run it.
1994	The National Lottery Charities Board was set up.
June 1994	Policy Directions were issued in June 1994 to all Lottery distributors which, for example, set out key the criteria for Millennium projects for the Millennium Commission (see Millennium Commission, <i>Annual report & accounts</i> , 1994/95).
Nov 1994	National Lottery was launched with Camelot as the operator under the first seven year licence. This licence expired in Sep 2001.
Feb 1997	National Heritage Act 1997 extended the powers of the Trustees of the National Heritage Memorial Fund, which distributes lottery funds through the Heritage Lottery Fund.
May 1997	Election of Labour Government. Department of Heritage renamed Department of Culture, Media and Sport (DCMS).
1997	Camelot “Fat Cat” pay row.
1998	Peter Davis, Director General of OFLOT, resigns after alleged bribery scandal.
1998	National Lottery Act 1998 created the National Lottery Commission (NLC), to oversee the licensing and regulation of the National Lottery. The NLC’s remit also included the protection of players’ interests and the need to ensure that the Lottery was run properly and maximised the amount raised for Good Causes. Other key features of the Act were the creation of (i) a 6 th Good Cause and (ii) a new body, the New Opportunities Fund (NOF), to distribute funds to this specific new Good Cause. A specialist distributing body, the National Endowment for Science, Technology and the Arts (NESTA) was also created.
1999	The National Lottery Commission took over the regulation of the National Lottery.
Apr 2001	The National Lottery Charities Board (set up in 1994) changed its operating name to the Community Fund.
Aug 2001	Funding of the Millennium Commission ceased.
Sep 2001	Camelot’s first licence period expires, leading to an interim licence period which ended in January 2002.
Jan 2002	Camelot’s second seven year licence as the lottery operator came into force (expires in January 2009).
Jun 2004	The New Opportunities Fund and Community Fund were administratively merged in June 2004 as the Big Lottery Fund (BLF).
Nov 2004	National Lottery Bill (original) was published which, if enacted, will give legislative approval to the merger of the New Opportunities Fund and the Community Fund to form the Big Lottery Fund (BLF) and the assigning of the residual cash from the Millennium Fund to the BLF. The Bill will also enable the Secretary of State to move resources from one distributor to another, albeit only in an emergency. The Bill, which failed to receive passage before the 2005 General Election, was reintroduced in May 2005.
Jan 2005	The Millennium Commission co-located with the Big Lottery Fund.
Future events	
2007	Next operating licence (third licence) due to be awarded for the 10 year period from 2009.

ANNEX 3: THE GENESIS OF THE LOTTERY

Early hopes for a National Lottery started in the 1970s. A Royal Commission was set up in 1977 to “inquire into the existing law, and practice thereunder, relating to betting, gaming, lotteries and prize competitions.” One of the report’s conclusions was: “There should be a single national lottery for good causes, run by a National Lottery Board”. Nothing more came of this however.

At the end of the 1980s, a low level campaign started to support the introduction of a national lottery. Simon Burns MP was the first politician to propose a lottery under a 10 minutes rule bill in 1988, the proceeds of which were to be used by the NHS. However, no support was forthcoming from Labour MPs. In the same year, Lord Birkett proposed in the House of Lords a lottery for the arts which generated interest, but not much support. Shortly afterwards in 1990, Ken Hargreaves MP, again under the 10 minute rule, tabled a bill for a lottery to be used for Sport and the Environment. This enjoyed a measure of cross-party – although not government – support, but still did not get anywhere. In 1992, Sir Ivan Lawrence MP tabled a private members bill which also failed but generated considerable interest and built some momentum for a National Lottery.

The crucial individual in the genesis of the Lottery was Sir John Major, who, as Chief Secretary to the Treasury in the late 1980s, had seen at first hand the problems of government funding for capital projects for the arts and sports. When Prime Minister, it was at his insistence – in the face of significant political opposition from within the Party – that the Conservatives made a commitment to introduce a Lottery in its 1992 manifesto. And it was he who pushed the legislation through Parliament in 1993. On 19 November 1994, the first National Lottery was held.

ANNEX 4: USE OF LOTTERY FUNDS: INTERNATIONAL COMPARISONS

A comparison of how Lottery funds are allocated internationally suggests that there is little consensus as to how lottery funds should be used, as shown in the table below. Good causes are certainly not self-evident, but are, more often than not, under political control. Even within the US, there is enormous variety as to what is designated as a good cause from Mass Transit in Arizona to care of the elderly in Pennsylvania to help for compulsive gambling in Nebraska.

SELECTED COUNTRIES AND REGIONAL STATES AND THEIR GOOD CAUSES

Lottery	Good causes
US, New York	K-12 Education
US, Nebraska	Education Innovation Fund, Nebraska Environmental Trust, Compulsive Gamblers
US, Pennsylvania	Elderly Residents
US, Arizona	Mass Transit, General Fund, County Assistance, Economic Development, Heritage Fund, Local Transportation
Australia, Queensland	Queensland Treasury
Australia, South Austr.	Hospitals Fund, Recreation & Sport Fund
Australia, Western Austr.	Hospitals, sports, arts, Festival of Perth, other charities
Iceland	Olympic Sport Teams
Switzerland	Cantonal Governments for further distribution
New Zealand	Sport, arts, aged, youth, welfare, medical and scientific research, environment, heritage, education, community
Canada, British Columbia	Health Care, “General Revenue”
Canada, Ontario	Hospitals, culture, physical fitness & recreation, Trillium Foundation

ANNEX 5: DCMS DATA ON LOTTERY FUNDING

NATIONAL LOTTERY: TOTAL RESOURCES (£M)

	99/00	00/01	01/02	02/03	03/04	04/05 (est.)	05/06 (plans)	06/07 (plans)	07/08 (plans)
Consumption of resources	1,169	1,403	1,359	1,512	1,079	960	1,258	1,322	1,122
Capital spending	739	452	351	298	831	840	442	178	178
Total	1,908	1,855	1,710	1,810	1,910	1,800	1,700	1,500	1,300

Source: DCMS, *Annual Report 2005*, Cm6538, 2005, TSO, available on DCMS's website: www.culture.gov.uk

DCMS SPONSORED BODIES: FUNDS OF SELECTED DISTRIBUTING BODIES (£M)

	2002/03	2003/04	2004/05 (est.)	2005/06 (plans)	2006/07 (plans)
Community Fund:					
Value of awards made	285	262	180	214	180
Value of awards paid	329	291	270	248	208
New Opportunities Fund:					
Value of awards made	619	504	546	434	520
Value of awards paid	347	613	545	683	603
Heritage Lottery Fund:					
Value of awards made	340 (2002)	293 (2003)	291 (2004)	Na	Na
Value of awards paid	225 (2002)	278 (2003)	292 (2004)	Na	Na
Millennium Commission:					
Resources (£m)	21	6	6	3	Na
Number of awards made	39	167	58	Na	Na
Value of awards paid (£m)	183	61	53	Na	Na

Source: DCMS "Sponsored Bodies Report 2005", available on DCMS's website: www.culture.gov.uk



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CENTRE FOR POLICY STUDIES

"The plundering of the Lottery should stop. That is why this paper's principal recommendation – that the principle of additionality has been dishonoured and must be reinstated – is so important."

Sir John Major KG CH in the Preface to this paper