



DEPARTMENT FOR CULTURE, MEDIA AND SPORT

Government Response to the
Culture, Media and Sport Select Committee
Report on the National Lottery
Session 2003-2004

*Presented to Parliament by the
Secretary of State for Culture, Media and Sport
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DRAFT GOVERNMENT RESPONSE TO THE CULTURE, MEDIA AND SPORT SELECT COMMITTEE REPORT ON THE NATIONAL LOTTERY

Introduction

The Government welcomes the Select Committee's Report and its consideration of the important issues of Reform of the National Lottery, published on 25 March 2004. This is the Government's formal response to each of the Committee's 23 key findings and these are set out below.

- **The primary aim of DCMS is to increase the total resources available to the good causes. We support this objective (Paragraph 32)**

The Government welcomes the Committee's report and its consideration of the important issues surrounding the continued future success of the National Lottery. The Lottery has delivered more than £15 billion for good causes and the Government is committed to looking at ways of increasing the total resources available for good causes and improvements to the way that the funds so raised are used.

- **Although consultation appeared to rule out three of the proposed changes suggested by the Department, we conclude that this does not amount to overwhelming support for the third option which has now been put forward for implementation, namely, the break-up of the single operating licence. (Paragraph 35)**
- **We agree that public resources should be used to gather relevant and timely information but we think that it is critical, at this time, for the Department and the NLC to have a clearer idea of how the proposals to establish a multiple licence system will affect the amount of competition for the licence and the role of the NLC. We therefore recommend that resources are made available for research to be carried out into the effects of the proposals so that the Department can judge adequately the likely effects of its decisions. The Department and the NLC must also consider examples of use of the multiple licence system by overseas lotteries and aim to learn from the experiences abroad. (Paragraph 82)**
- **We therefore urge the Department to consider fully all of the implications of introducing (or giving the NLC the flexibility to introduce) a multiple licence system against alternative solutions available. (Paragraph 84)**
- **We recognise that there is a need to stimulate more competition for the third National Lottery licence. However, we note that the proposed reforms, as they stand, do not have the support of obvious potential bidders and we believe the Department must look again at how it can attract more competition for the third licence. (Paragraph 85)**
- **When considering the advantages and disadvantages involved with the retention of the present system or evolution to a multiple licence system, Mr Simon Burridge representing TPL made a clear and bold statement to the Committee that "faced between the choice of Camelot in perpetuity and the Government's new proposals, with the greatest reluctance I think I would volunteer for Camelot in perpetuity as the lesser of two evils." Looking at the evidence presented to us in this inquiry, including on the limitations of the NLC, we have to agree. (Paragraph 88)**

The Government agrees with the Committee that notwithstanding the success of the Lottery to date – in no small part due to the efforts of Camelot and the NLC – there is a need to consider how to ensure an effective competition for the third licence, particularly how more potential bidders can be attracted, in order to maximise funds for good causes. It welcomes the Committee’s valuable work in this area.

The Government recalls that in considering options for the shape of the third licence competition it took account of the conclusions of the report of the Comptroller and Auditor General of May 2002 [HC803] that there is a risk that there will be no competitive pressure when the next licence comes to be awarded. The report recommended that the Government take early remedial action to prevent the uncertainty that prefaced the last competition. Furthermore, in its report of December 2002, the Committee of Public Accounts [HC881] drew broadly similar conclusions. Both reports drew attention to the risk that further competition of the existing kind may fail to attract a serious challenge to the incumbent operator.

The Government therefore agrees with the Committee that further work is required ahead of the third licence. As part of this, the Department and the NLC will undertake additional research on the options. As part of this work, account will be taken of changes in the UK lottery and gambling market and of international experience. The Government will also have full regard to the evidence provided to the Committee, including the work undertaken by Frontier Economics (for Camelot) and NERA (for the NLC). Following this further work, the Government will produce a report on how to maximise funds for good causes in future.

- **We believe that due to the unique and proper responsibility of the National Lottery Commission (NLC) to maximise returns to good causes, the regulation of the National Lottery should remain the responsibility of the NLC. (Paragraph 62)**

The Government agrees with the Committee that the NLC should remain responsible for the regulation of the National Lottery, given its continuing responsibility to maximise returns to good causes.

- **We agree that a representative from the NLC should have a seat on the proposed Gambling Commission proposed within the Gambling Bill. (Paragraph 63)**

The Government agrees with the Committee that the NLC will need to work in close consultation with the proposed Gambling Commission. However, the Government considers that there are good arguments against Camelot’s suggestion that the NLC should have a seat on the Commission – not least that it is likely to give rise to issues surrounding the conflict of interest which the Committee identified at Paragraph 62 of its report, particularly those arising from the NLC’s responsibility for maximising returns to good causes.

The Gambling Bill will impose reciprocal consultation requirements on both Commissions, and enable them to share relevant information. The Government believes this should deliver the cooperation between the two bodies that the Committee is seeking.

- **We feel that competitive tendering would effectively introduce the attractive elements of competition to the National Lottery but would also encourage bids for the overall licence because a better package would be offered to potential operators containing significantly less uncertainty than is associated with the multiple licence system. (Paragraph 93)**

The scope for competitive tendering will be considered as part of the process for designing the third licence competition. However, the Government notes that this option was considered by the NLC in the last licensing round, but was not viable in the circumstances that then prevailed.

And, the operator should already have an incentive to get good value for money from advertising and other supplies (most are currently bought in by the present operator, Camelot, and can be competed for during the licence term).

The Government notes that this option could be implemented without legislative change, and expects the NLC to investigate it fully in considering the next licence competition. But, the Government remains to be convinced that the tendering option alone would address the fundamental risk that there will not be an effective competition in future.

- **Proactivity in tackling the causes of the variation in funding levels across the UK is one of the key responsibilities of the new distributor once it is properly established. We hope that the new distributor will carry out this role with vigour, increasing accessibility to funding throughout the UK. (Paragraph 110)**
- **We welcome the DCMS proposals to increase accessibility to Lottery funding for all and hope that the measures taken will stimulate increased levels of application, especially from ‘coldspots’ and areas of great need. (Paragraph 111)**

The *National Lottery Funding Decision Document*, published in July 2003, makes various proposals to ensure that the distributors will continue to examine ways of ensuring equal access to Lottery funding, improve quality of life in communities and promote social inclusion. The new distributor has since been named the Big Lottery Fund. It will have a remit to lead on developing a network for community capacity building, the doubling of the upper limit of Awards for All grants to £10,000 and the streamlining and standardising of application processes. This should all help ensure that Lottery funding becomes more accessible to communities across the UK.

We agree that the Big Lottery Fund should be proactive in tackling the causes of the variation in funding levels across the UK and increasing accessibility to funding throughout the UK. Lottery distributors have already begun work under the aegis of the new Lottery Forum, which principally comprises the Chief Executives of the England and UK wide Lottery distributors, to develop ways of providing better customer service to applicants, including improvements to the joint website, telephone helpline and on-line facilities. They are looking at ways to provide increased support for applicants; help in identifying the most appropriate grant programmes, and improving the application process. This should have positive results for all communities which currently experience a low take-up of Lottery funding. But until individual applicants and communities feel empowered to succeed with their applications, until they see that the priorities that have been set genuinely reflect the views of local people, we think it will be hard to get people to come forward with good projects. So we see a direct connection between the work on Fair Shares and our vision for greater public involvement in priority setting and decision taking. We return to this later in our response, but we register here that we see it as particularly important to try out new ways of involving and empowering the public in the areas where good applications have been few and far between in the past.

- **We believe that the new body could usefully take on an overarching role, coordinating efforts in cross-cutting projects, but should also allow those distributors with established skills, experience and relationships to take the lead on projects whenever appropriate. The Department must take steps to allay the fears of some of the specialist distributors over the role of the new body as a ‘centre of excellence’, making clear to everyone the exact role that the merged body will take on and how this will combine with the work already undertaken by others. (Paragraph 118)**

We welcome the Committee's support for the new body taking on this central role. We recognise that this is an area in which a number of Lottery distributors already have expertise, and are keen to ensure this is available to the new body. The new Lottery Forum has established a cross distributor group to use their specialist skills in developing proposals for cross cutting projects. This group will also develop proposals for major capital projects, including the possibility of delegating project management to a lead distributor where more than one distributor is involved, and will provide a reference group for the new body's work on a transformational grants programme.

The group will also consider how the Big Lottery Fund's 'Centre of Excellence' might add value to their own distributors' work and provide a repository of learning from past projects that can support future projects.

- **We agree that the extra services provided under the merged body will enhance the distribution process but very much hope the cost of these will not erode the grants given by the new body. DCMS must ensure the merger of the New Opportunities Fund and the Community Fund is properly managed so that expertise is not lost and maximum savings are achieved. (Paragraph 119)**

We welcome the Committee's support for the new merged body and agree that the merger must be managed properly. DCMS is working closely with the Big Lottery Fund to ensure this.

It will be important to ensure key expertise is retained from all three merging organisations, and that the Big Lottery Fund builds on that expertise in taking forward the proposals in the National Lottery Funding Decision Document.

The Big Lottery Fund aims to deliver sustained tangible reductions in operating expenditure, whilst at the same time supporting the business needs of the new organisation. There will, inevitably be short-term additional costs involved in the merger, but from 2005/06 we expect on-going efficiency savings of 10% to 20%.

- **We believe that long term or future projects should not suffer from this policy change and that NLDF balances should not be reduced just for the sake of it. If money is found not to be flowing effectively to worthy projects through the distributors then this must be dealt with. However, if funds need to be held for legitimate reasons then they should certainly be held in the NLDF where they earn higher interest, tax free, than in the accounts of individual distributors or projects. There are, presumably, significantly fewer risks associated with money being held centrally in the NLDF rather than dissipated amongst the bank accounts of projects with variable degrees of governance and experience. (Paragraph 123)**

We agree with the Committee. Indeed, it is precisely the faster flow of properly controlled grants that the Department is looking for. We are not encouraging the reduction of balances for its own sake, but to enable people and communities to reap the benefits of Lottery funding as early as possible and to the greatest extent possible. We have not done, and will not do, anything to encourage distributors to make grants to bodies which are not fit to receive them or to compromise sound financial management. Except for small grants, the tests of the recipients' corporate governance and ability to deliver will remain rigorous.

The revised, streamlined Financial Directions which we are currently rolling out to distributing bodies remove outdated bureaucratic requirements which might in the past have impeded the flow of committed Lottery funds. However, the directions also emphasise that each distributing body's Accounting Officer is responsible for ensuring that Lottery money is distributed with due regard to regularity and propriety and is used economically, efficiently, and effectively.

- **We agree that funding decisions should be made, wherever possible, at the most appropriate level, whether national, regional or local, so that the needs of the area are known are met. (Paragraph 124)**

We welcome the Committee's support for the delegation of funding decisions to the most appropriate level, and their recognition that the needs of the specific area should be determined and met. Most distributors already delegate decision-making to the regional level and The Big Lottery Fund will be structured to allow different levels of decision-making.

Our vision is to go much further than simply delegating decisions to the most appropriate level. A key part of our thinking is that there should be much more direct public involvement in decision taking itself and in setting the priorities for Lottery funding. We believe it is possible to do more to reflect the public's views in innovative ways. We will be challenging all the distributors, not just the Big Lottery Fund, to demonstrate fresh thinking and commitment to this vision. Lottery distributors already consult on their national and regional priorities. We intend that they go further, more actively seeking views from a wider cross-section of Lottery players and of the public, and distributors are currently considering how they best can do this. Distributors are also looking at how they can encourage a wider cross-section of the public to come forward and join the regional committees which decide on grants.

- **We believe that it is important for the public to be able clearly to identify projects that have received Lottery funding, but we urge the Department, to monitor the costs and benefits of schemes set up to do this so that value for money is achieved. (Paragraph 125)**

We agree with the Committee that it is important that both Lottery players and local communities can identify projects which have benefited from Lottery funding. Not only does this inform players where their Lottery money has been spent, but it can inspire and bring pride to communities which have benefited from Lottery grants and help encourage other groups to apply for funding. Lottery blue plaques will also help members of the public make the link between National Lottery games and the projects which are supported by Lottery funding.

The first 10,000 blue plaques have been sponsored by the Lottery operator, Camelot, and will have been distributed to Lottery-funded venues across Britain by the 10th anniversary of the National Lottery in November 2004. The National Lottery Promotions Unit (NLPU) will monitor and evaluate the effectiveness of the blue plaque scheme as part its role in increasing public awareness of the National Lottery. Further plaques will be provided by distributors. We believe that the Blue Plaque Scheme is a cost effective way of helping to get over the message of what the Lottery has funded.

- **DCMS must specifically carry out a full cost and benefit analysis of the proposed National Lottery Day before the event to ensure that it actually adds value to the work of distributors and does not bring about a significant diversion of costs away from grant giving. (Paragraph 126)**

National Lottery Day will celebrate the 10 years of real achievement and transformation that Lottery funding has brought to communities throughout the UK. The event will help to raise public awareness of how Lottery projects have benefited communities in a very cost effective way by building on existing events and the projects themselves, and with the involvement of the distributing bodies working together.

We do not propose to carry out a full cost and benefit analysis before the event. However, we agree with the Select Committee's recommendation that that the event should add value to the work of the distributors and should do so with no significant diversion of funds from grant giving. The joint working which has gone on so far between the NLPU, the Lottery distributors, Camelot and the DCMS on National Lottery Day has been designed to achieve exactly that.

- **We welcome the creation of the NLPU and believe that promoting the benefits to good causes of the Lottery is positive. However, we note that Camelot has both a responsibility and an incentive to promote National Lottery sales and suggest that the operator of the National Lottery should fully fund the work of the NLPU, as it will benefit from any increased sales. (Paragraph 127)**

We welcome the Committee's support for the creation of the National Lottery Promotions Unit (NLPU). The NLPU will seek to raise positive public awareness of and support for the benefits of the distribution of National Lottery funding across the country while contributing to the brand health of the National Lottery and promoting loyalty and participation.

However, we do not agree with the Committee's suggestion that Camelot should wholly fund the NLPU, as the NLPU's remit is wider than simply that of increasing ticket sales. The NLPU is also tasked with raising positive public awareness of and support for the benefits of the distribution of National Lottery funding across the UK. A key task of the NLPU will be to make people more aware of local Lottery funded projects. By highlighting the benefits and opportunities which Lottery projects have brought to all communities we are also asking to improve take-up and stimulate good ideas for future projects. It is only right, therefore, that the Lottery distributing bodies should also contribute to the cost of the NLPU.

- **We agree with the NCVO and believe that whilst the National Lottery and the benefits to good causes should be publicised, it should not be promoted as an effective way of giving to charity. The percentage of the amount spent on a Lottery ticket that actually goes to good causes should be made clear to players. (Paragraph 128)**

The National Lottery has never been promoted as an effective way of giving to charity. The Lottery has always been presented as an opportunity of supporting the arts, sports, heritage, voluntary and community groups, and other causes which are important to the quality of people's lives whilst offering the possibility of winning a prize, rather than acting as a substitute for charitable giving.

There has never been any attempt to disguise the amount spent on a Lottery ticket that goes to the good causes. However, we have recognised the need to increase public awareness about this, and the good causes that benefit from Lottery funding. The National Lottery Promotions Unit works closely with the Lottery distributors, Camelot and the DCMS on a wide range of public awareness issues.

- **We believe that creating a further Lottery distributor to manage the £750 million to be raised via the Olympic Lottery is unnecessary, wasteful of resources and against the thrust of the Government's own strategy for sport. The proposal has the potential to fragment the required investment in facilities to the detriment of the long-lasting and sustainable legacy that is an extremely significant factor in wishing to host the Olympics in the first place. We strongly endorse the Chairman of Sport England's argument that the lessons and experience of the recent past – in relation to Pickett's Lock, Wembley National Stadium and the Manchester Commonwealth Games – must be built ineluctably into the arrangements that are eventually agreed. (Paragraph 143)**

A specialised Olympic Lottery Distributor is essential given the specialised nature of expenditure involved in staging an Olympic and Paralympic Games. Using an existing distributor would mean that Olympic decisions would be subject to the control of that body's main board. This could lead to complications, delays, and possible conflicts of interest in spending decisions. The establishment of a new distributor would not simply be a case of "creating a new sports distributor." An Olympic distributor may need to have expertise

encompassing not only sport, but also regeneration and mega-event staging. It would need to have an overview of non-sporting Olympic expenditure, such as for other capital and infrastructure costs, and would need to take into account the flow of funds from other sources such as the Greater London Authority.

Obviously, we recognise the need for co-ordination between the new distributor and existing distributors, and we will work with the existing sport Lottery distributors in planning for the establishment of the new distributor. We are keen to build on existing experience, including the lessons learned from Pickett's Lock, Wembley and the Manchester Commonwealth Games. Such valuable expertise is already represented on the London 2012 Board whose members include Patrick Carter, Charles Allen and Sir Howard Bernstein.

This Government believes a London Olympic and Paralympic Games presents a unique national opportunity. It has the potential to inspire greater participation in sport, increase the medal success of our elite athletes, and leave a lasting legacy of community facilities across the country. It is intended that hosting the Olympic Games should also have a positive impact in terms of regeneration, investment and tourism, and that benefits should be spread across the whole of the UK.

- **The Exchequer has received nearly £5 billion in Lottery Duty since 1994/95 – about a third of the funds raised for good causes. We believe that this enormous sum, taken in conjunction with Lottery spending in line with Government priorities, represents a double hit on the money paid out for tickets by the public. (Paragraph 153)**

The Lottery is a mainstream gambling activity in competition with other gambling activities. The Government believes, therefore, that it should, like other gambling sectors, be taxed. The principle of taxation of the National Lottery was accepted by Parliament when the lottery was introduced and Lottery Duty generates over £500 million per year for spending on essential public services. The additional benefits that the Lottery generates for the good causes are completely distinct from the contribution that it – like other gambling activities – makes to general tax revenues.

- **However, we can think of no better way of achieving a palpable hit with the Lottery-ticket-buying public than for the Government to eschew Lottery Duty entirely with the aim of dividing the funds thereby released between prizes (thus enforcing the principal driver of sales) and good causes (a significant factor in keeping players playing over the longer term). (Paragraph 156)**

The Lottery is a mainstream gambling activity in competition with other gambling activities and the Government considers it reasonable that the Lottery, like other gambling sectors, should make a fair contribution to the funding of public services. The Government considers that tax policy judgements about Lottery Duty should be developed on the same principled basis as has been established for other gambling regimes, and this approach should take account of, among other factors, the very special features of the Lottery. The Government has signalled that the current tax treatment of the Lottery will be looked at carefully alongside the other gambling sectors in the context of wider work on the future of gambling taxation and reform of gambling regulation. In particular there will be consideration of whether a gross profits tax structure would be more economically efficient, and put the Lottery on a stronger footing for growing sales and increasing funds raised for good causes in the future.

- **We believe that the additionality principle is being eroded, especially with the establishment of the Olympic Lottery. This Committee deplores this erosion. Therefore, we shall consider returning to the additionality principle before the end of this Parliament. In the meantime, we call on the Secretary of State to make an annual report to Parliament on how the additionality principle has been applied. (Paragraph 165)**

We do not accept that the principle of additionality has been eroded at all. The principle has most recently been underlined in the new, streamlined Financial Directions currently being rolled out to distributing bodies, which call on distributors to “have regard to... additionality principles”. We have not attempted to formulate a rigid definition of additionality in the directions because we want to allow individual distributors some flexibility, given the widely differing natures of the sectors in which they operate. However, we are considering whether guidance to distributors on the interpretation of ‘additionality’ can be drawn up.

Additionality has never meant that Lottery projects should be completely divorced from public services and existing Government initiatives. They must be additional and they can be additional in many different ways. The Millennium celebrations and projects to mark the new Millennium are perhaps the most obvious example of a major national endeavour in which the Government was a partner but which was also new and would not have happened on anything like the successful scale they achieved without a major contribution from the Lottery. The Millennium dimension was planned from the very start of the Lottery to be a part of the scene. The initiatives which have been launched in experimental form with Lottery funds and since been mainstreamed by the Government as part of wider public services are another example of this. The child care, fruit in schools, out of school hours learning and school sports coordinators initiatives are all examples of this. If the flow is in this direction we are confident it is a proper and effective use of Lottery funds.

Ever since the Lottery was introduced, there has been a healthy debate about where the boundary lies between Government responsibilities and expenditure and what projects the Lottery should support. We remain committed to the principle that Lottery money should add to, and not substitute for, services already provided by Government. Lottery funding must allow things to happen which simply would not have taken place if they had depended on Government funding alone. We believe that the staging of an Olympic and Paralympic Games clearly falls within this category. We will certainly justify to Parliament every change of policy or administration where the additionality principle is at stake. We have done this in detail in bringing forward the legislation for a new Olympic good cause, and we will do so in consulting on the work of the new distributor, but we do not intend to report specifically on this issue in the abstract.



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