



BRIEFING PAPER

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The National Lottery: how does it work?

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Summary

The National Lottery began in November 1994. Since then, it has raised over £40 billion for good causes and awarded over 535,000 grants.

There are four parties that contribute to running the Lottery:

- the [Department for Digital, Culture, Media and Sport](#);
- [Camelot Group plc](#), the current operator;
- the [Gambling Commission](#);
- the individual distributing bodies of Lottery money.

The third licence to run the Lottery came into force in February 2009. It expires in 2023. The fourth licensing competition is expected to begin in 2020, with the successful applicant announced in 2021. The Gambling Commission will design and run the competition.

This Paper gives a brief overview of how the Lottery works and some of the issues that have been raised about its future. These include:

- the need to better publicise the Lottery's benefits to good causes;
- whether the minimum age for playing games should be raised from 16 to 18.

1. The National Lottery

The *National Lottery etc Act 1993* set up the National Lottery. The first draw took place on 19 November 1994.

There are four parties that contribute to running the Lottery:

- the [Department for Digital, Culture, Media and Sport](#) (DCMS);
- [Camelot Group plc](#), the current operator;
- the [Gambling Commission](#)¹;
- the individual distributing bodies of Lottery money.

There are two types of National Lottery game:

- draw-based games - such as Lotto and EuroMillions;
- instant win games - where a prize can be won immediately (scratchcards and online instant win games).

Since its launch, the Lottery has raised over £40 billion for good causes and paid out over £59 billion in prizes.² The average breakdown for every £1 of ticket sales in 2018/19 was:

- 56p paid to winners in prizes
- 22p given to good causes
- 12p to the government in lottery duty
- 4p paid to National Lottery retailers on tickets sold
- 6p retained by the operator to meet costs and returns to shareholders.³

A history of the Lottery is available from the Gambling Commission's [website](#).

The National Lottery licence

The third licence to run the Lottery came into force in February 2009.⁴ It expires in 2023. The fourth licensing competition, to be designed and run by the Gambling Commission, is expected to begin in 2020, with the successful applicant announced in 2021.⁵ There are three principles informing the competition and licence design:

- ensuring that the interests of all players are protected;
- ensuring the Lottery is run with due propriety; and

¹ The National Lottery Commission was responsible for regulating the National Lottery until October 2013. It was then abolished and its functions transferred to the Gambling Commission through the [Public Bodies \(Merger of the Gambling Commission and the National Lottery Commission\) Order 2013](#) (SI 2013/2329)

² Gambling Commission website, [About the National Lottery](#) [accessed 1 April 2020]

³ *ibid*

⁴ For details of the competition for the third licence, see the Gambling Commission website: [Competition to decide who will run the National Lottery](#) [accessed 1 April 2020] and National Lottery Commission, [Creating a Lottery for the future](#) (April 2008)

⁵ [PQ 26995](#) [on the National Lottery licence], answered 16 March 2020

- subject to the above, that returns to good causes are maximised.

The Gambling Commission has noted that the context for the National Lottery has changed since the third licence was awarded e.g. technology based products and services have been widely introduced and continue to change. The Commission therefore views the next competition “as an opportunity to bring innovative new ideas that sustain and grow the National Lottery, and ensure it remains relevant and attractive to all parts of society”.⁶

1.1 How is money distributed?

Camelot passes income from the sale of Lottery tickets to the National Lottery Distribution Fund (NLDF). The DCMS administers the NLDF, passing the money to the individual distributing bodies.

The apportionment of money in the NLDF is set out in [section 22\(3\)](#) of the *National Lottery etc. Act 1993* (as amended):

- 20% for expenditure on or connected with the arts
- 20% for expenditure on or connected with sport
- 20% for expenditure on or connected with the national heritage
- 40% for expenditure that is:
 - (i) charitable, or
 - (ii) connected with health, or
 - (iii) connected with education, or
 - (iv) connected with the environment.

[Section 28](#) of the 1993 Act gives the Secretary of State the power to amend these shares. This was most recently done through the [Apportionment of Money in the National Lottery Distribution Fund Order 2010](#).⁷

1.2 Who are the distributing bodies?

The distributing bodies give grants to support the arts, heritage, health, education, sport, voluntary groups, and the environment. Decisions about grants are made by the individual distributing bodies independently of government.⁸ The twelve distributing bodies are:

- [Arts Council England](#)
- [Arts Council of Wales](#)
- [Creative Scotland](#)

⁶ Gambling Commission, [The future of the National Lottery: programme update](#), Undated

⁷ SI 2010/2863; the Order was subject to the affirmative procedure. The 2010 Order followed a DCMS [consultation](#). A summary of the consultation, the policy background, and an Impact Assessment are available in an [Explanatory Memorandum](#) to the Order.

⁸ [HC Deb 6 January 2014 cc156-7W](#)

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- [Arts Council of Northern Ireland](#)
- [British Film Institute](#)
- [Sport England](#)
- [Sport Scotland](#)
- [Sport Wales](#)
- [Sport Northern Ireland](#)
- [UK Sport](#)
- [The National Lottery Heritage Lottery Fund](#)
- [The National Lottery Community Fund](#), the largest distributor

The percentages given to the distributing bodies are set out in [section 23](#) of the 1993 Act. [Section 29](#) gives the Secretary of State the power to amend these shares.

Under [section 26](#), the Secretary of State issues policy and financial directions to the English and UK-wide lottery distributing bodies. The policy directions set the framework within which the distributing bodies operate. These include considerations relating to:

- who can receive funding;
- what the funding can be used for;
- the conditions the distribution body must meet.

The financial directions relate to financial propriety and efficiency. They are designed to secure the proper management and control by a distributing body of the Lottery funds available to it.

Welsh, Scottish, and Northern Irish Lottery distributing bodies' policy directions are issued by the Welsh Government, the Scottish Government, and the Northern Ireland Executive.

The distributing bodies offer various funding programmes, each programme has its own eligibility criteria.

The DCMS has [said that](#), when making funding decisions, "geographical balance is considered by all distributors, alongside where funding will have the most impact in terms of outcomes and benefits":

(...) 70% of National Lottery funding has been awarded to projects outside of London and the South East.

Funding levels for areas are often determined by how many applications are submitted. Distributors are aware of some areas being more active in applying than others and actively run specific programmes to encourage applications from less funded areas.⁹

1.3 What is the "additionality principle"?

The "additionality principle" is the idea that money from the National Lottery should fund activities that are additional to what the state provides through general taxation.

⁹ [PO 6495](#) [on the distribution of Lottery funding], answered 31 October 2019

The principle was set out in the March 1992 [White Paper](#) on the National Lottery:

Under standard conventions, the disbursements of a national lottery will be classified as public expenditure in the national accounts. The Government does not intend that the money provided from the lottery should substitute for that provided in other ways: the proceeds will not be brought within the planning total, and the Government will not make any case by case reduction in conventional expenditure programmes to take account of awards from the lottery proceeds.¹⁰

[Section 12](#) of the *National Lottery Act 2006* amended the 1993 Act so that the Lottery distributors have to outline the ways in which they ensure that Lottery funding does not act as a replacement for government funds.

1.4 Where can I get details of Lottery grants?

The Gov.UK website has a [section](#) where it's possible to search for details of National Lottery grants by:

- good cause area [e.g. "health, education, environment"];
- distributing body [e.g. Arts Council England];
- geographical area, local authority, or parliamentary constituency;
- grant amount;
- date range.

The Gambling Commission

The Gambling Commission's [website](#) has statistics on returns to good causes.

Camelot

Camelot's [website](#) includes, among other things, details of Lottery sales as well as annual reports.

1.5 What is done to protect players?

Camelot has a [Consumer Protection Strategy](#) that focuses on:

- preventing underage play, whether in retail or online;
- preventing excessive play;
- ensuring consumer safety.

Camelot also makes an annual contribution to [GambleAware](#) (a charity that funds research, education and treatment to reduce gambling-related harm).

In [response](#) to a March 2020 parliamentary question about safeguarding vulnerable players, the DCMS said:

The success of the National Lottery has always been to encourage lots of people to play the National Lottery games, while

¹⁰ Home Office, [A National Lottery Raising Money For Good Causes](#), Cm 1861, March 1992, para 41

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individually spending relatively small amounts. This strategy, in conjunction with the player protection policies of the operator, available here (<https://www.national-lottery.co.uk/responsible-play/consumer-protection-strategy>), and scrutiny from the Gambling Commission, means that we can be confident that National Lottery games have a very low risk of causing harm to players. This is borne out by evidence from the last combined Health Survey, published in September 2018, which showed that problem gambling rates for players of National Lottery draw-based games were 1.0%, while the figure for scratchcards was 1.8%.

Even though the rates are low for lottery games, a good example of the ongoing work on player protection came last year when Camelot withdrew its £10 scratchcard games in light of evidence suggesting an association between these products and problem gambling...¹¹

¹¹ [PO 20409](#) [on the Lottery and vulnerable players], answered 4 March 2020

2. The future of the Lottery

The fourth licensing competition to run the Lottery is expected to begin in 2020. Some of the issues that may be relevant are set out below.

2.1 Public Accounts Committee report (April 2018)

In April 2018, the Public Accounts Committee (PAC) published a [report](#) on the decline in National Lottery income. In summary, the report found that, since 2012, Camelot had made profits “well in excess” of what was envisaged in its 2009 licence, while returns for good causes had dropped by 15% in 2016–17 compared to the previous year. Moreover:

(...) The Gambling Commission did not include a reopener or break clause in the 14-year contract. This means that the terms of the contract can only be changed with Camelot’s agreement. Camelot’s profits were 122% higher in 2016–17 than in 2009–10. The drop in returns for good causes was because more players bought scratch cards, whilst sales of draw based games, with higher returns to good causes, declined. In the context of falling income for good causes, the Department needs to be wary of the risk that Lottery funding programmes become unaffordable. It also needs to give lottery distributors better data on lottery sales so that the distributors are better placed to plan their grant programmes. The Department, Camelot and the Lottery distributors all need to work together to better publicise the benefits to good causes as part of efforts to reverse the recent decline in sales.

In relation to the Gambling Commission and the DCMS, the Committee’s conclusions and recommendations were that:

1. Good causes lost out when the Gambling Commission renegotiated the licence with Camelot in March 2012.

Recommendation: *The Gambling Commission should take steps to secure a fair return for good causes from game changes proposed by Camelot over the remaining life of the current licence.*

2. The current operating licence is not flexible enough to protect the interests of good causes as player behaviour changes.

Recommendation: *In setting the next licence, the Gambling Commission needs to benchmark the Lottery against other regulated sectors to determine what a fair rate of return is for operating the Lottery and build flexibility into the licence terms to secure this fair return in changing circumstances.*

3. Game changes agreed between Camelot and the Gambling Commission have ultimately failed to influence player behaviour as intended, resulting in reduced participation.

Recommendation: *The Gambling Commission should fully evaluate whether significant game changes proposed by Camelot are supported by appropriate, robust research and should intervene promptly to reverse changes if they prove unsuccessful.*

4. The Department is not doing enough to test the affordability of the Lottery distributors' forward funding programmes in the context of falling Lottery sales.

Recommendation: *The Department should test the distributors' modelling of future grant programmes and intervene where it believes forward programmes may be unaffordable.*

5. The Department is not giving the Lottery distributors the information they need to manage their forward programmes.

Recommendation: *Starting immediately, the Department should share real-time weekly sales data with the distributors. The Department or Commission should ensure that the distributors have any help they need to understand and interpret the data and, during 2018, provide an updated forecast to distributors taking into account Camelot's plans to address the decline in lottery sales.*

In relation to Camelot, the Committee found:

6. We are concerned that awareness of the National Lottery's support for good causes has fallen, and that this is likely to have contributed to reduced participation.

Recommendation: *Camelot should work with the Lottery Distributors to better publicise the link between good causes and the Lottery and communicate the contribution to good causes from each type of game to customers at the point of sale. We would expect improvements to have been implemented by September 2018.*

7. We are not convinced that Camelot is doing all it can to support education and research for gambling awareness.

Recommendation: *Camelot should review its level of contribution to deal with problem gambling and explain to us within six months why this is a fair contribution to GambleAware for such a widely-played gambling product.*

Full detail of the Committee's conclusions is given on pp5-7 of its report.

Government response

The Government's [response](#) to the PAC report was published in June 2018.¹² This agreed with most of the Committee's recommendations but not to the following:

PAC recommendation: "The Gambling Commission should intervene promptly to reverse [game] changes if they prove unsuccessful". The Government said:

3.6 The Gambling Commission works with Camelot to mitigate risks and ensure clear contingency plans are in place for all major changes should underperformance occur. In addition to its own monitoring, the Gambling Commission first and foremost expects Camelot to monitor the performance of changes and to take prompt, effective action where early indications suggest the changes may be unsuccessful. The Gambling Commission also determines how to make effective use of its regulatory tools to

¹² The Government's response to the PAC report is set on pp1-5 of [Treasury Minutes](#), Cm 9643, June 2018

ensure action is taken in the interests of consumers, the public and good causes.

3.7 While prompt reversal of changes is an option should changes not deliver the envisaged results, it is not always the optimal response. To give a commitment to prompt reversal of unsuccessful changes would limit Camelot's and the Gambling Commission's ability to deploy other, more targeted, mitigations, and to allow sufficient time for changes to bed in.

3.8 For example, Camelot made changes to the Lotto game in 2015 in response to a trend of long term decline in play...

PAC recommendation: "Starting immediately, the Department [DCMS] should share real-time weekly sales data with the distributors".

The Government said:

(...)

5.4 Distributors have recently indicated a range of weekly data they consider would help them in making judgements on performance of the National Lottery. The Department does not receive this level of granular data from the Gambling Commission and questions the added value it would bring. Sales vary week by week due to a diverse range of factors, in particular, whether there have been any rollover jackpots, limiting the robustness of any conclusions regarding trends that could be drawn on a week by week basis.

5.5 The Department would not expect Distributors to modify spending plans on such short-term data, or with such frequency. In designing the system by which distributors are provided with information about future returns, the Department aims to take a proportionate and efficient approach, which provides distributors with sufficient information to make informed decisions on future spend, while avoiding a need for them to generate their own forecasts from scratch. The latter would risk an increase in administration spend, covered by funds that could otherwise be returned to good cause projects. The Department will continue to discuss Distributors' information needs in striving to offer the most useful and robust data available.

Camelot response

Camelot's response to the report was given in a September 2018 [letter](#) to the Chair of the Committee.¹³ This set out in detail what Camelot was doing to publicise the link between good causes and the Lottery (the PAC's sixth recommendation).¹⁴ It referred, among other things, to the #ThanksToYou campaign, People's Projects and other promotional work.

The PAC had also recommended that Camelot should review its contribution to [GambleAware](#) for its work on problem gambling. In its response, Camelot said that it was in the process of a "far-reaching assessment" of its player protection strategy:

(...) This includes looking at increasing our contribution in this area, and we are in ongoing discussions with GambleAware and GamCare to ensure that our contribution is both appropriate for

¹³ [Letter from Nigel Railton, Chief Executive of Camelot to Meg Hillier, Chair of the PAC](#), 28 September 2018

¹⁴ *Ibid*, pp1-5

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The National Lottery and fair given its scale. This scale means that we must continue to do everything we can to reduce consumer harm where possible, even though the inherent risk of problem play associated with National Lottery products is very low...¹⁵

Camelot also set out what it was doing to, among other things, prevent underage play online and in retail, design responsible games, and train its staff.¹⁶

2.2 Consultation on raising the minimum age for playing (July 2019)

There are two categories of National Lottery games:

draw-based games, such as Lotto and EuroMillions where a ticket is bought at least 15 minutes in advance of a draw. These games are characterised by a low ticket price, limited draw frequency, high odds and life changing top prizes

instant win games, where a prize can be won directly after purchase (scratchcards and online instant win games) and has been allocated preceding the purchase so the outcome is predetermined. On average across all instant win games there is a 1 in 4 chance of winning a prize. Instant win games have a faster speed of play in comparison to draw-based games and a wider range of price points.¹⁷

The minimum age for playing National Lottery games was set at 16 in 1994. The Government has explained:

This [age limit] mirrored the existing legislative position for society lottery games which could only be played by those aged 16 or over. The minimum age of 16 reflected the fact that the National Lottery and other lotteries were conceived as different, and separate, from other forms of gambling. This difference was justified as the National Lottery would be distinct from commercial gambling products which are associated with a higher risk:

- It would provide money to good causes;
- It would cost a small amount to play for a small chance of winning life changing jackpots;
- It would not encourage (nor easily allow) repetitive play e.g. chasing losses; and
- It would be regulated differently, with a clear focus on propriety and player protection that was to be "built in" and enforced by statute and the operator.¹⁸

Section 12 of the 1993 Act allows the Secretary of State to amend the minimum age through secondary legislation, subject to negative procedure.

DCMS consultation

In July 2019, the DCMS published a [consultation](#) on raising the minimum age for playing Lottery games. This was prompted by:

¹⁵ Ibid, p10

¹⁶ Ibid, pp6-10

¹⁷ DCMS, [Consultation on the minimum age for playing National Lottery games](#), July 2019, para 2.12

¹⁸ Ibid, para 2.9

- the growth of online and mobile platforms for playing games;
- the increase in the relative proportion and total sales revenue of instant win games, especially scratchcards.¹⁹

The DCMS said that its objectives were:

- to ensure that young people are protected from the potential risks of gambling related harm;
- to maintain the National Lottery's special status as a low-risk product and distinct from commercial gambling, to ensure that it remains attractive to the player base and continues to support good causes in the future;
- to respond to trends in technology and player behaviour and future proof the National Lottery for the life of the next licence;
- to ensure that there is a clear position regarding the minimum age to play National Lottery games for the upcoming bidding process for the fourth National Lottery licence competition.²⁰

Views were sought on three options:

1. Do nothing;
2. Raise the minimum age to 18 for instant win games (i.e. scratchcards and online instant win games);
3. Raise the minimum age to 18 for all National Lottery games.

The DCMS' "initial position", was to adopt a "proportionate, precautionary approach" and raise the minimum age to 18 for instant win games. The age limit for draw-based games would remain 16 years.²¹

According to the Government:

National Lottery instant win games have some similarities in terms of feel, look and game characteristics to commercial gambling products. Gambling activities that provide an opportunity for high frequency gambling and offer numerous opportunities to participate are more likely to be associated with problem gambling. This option would bring the minimum age for instant win National Lottery games into line with products that have some similar characteristics. We are proposing to maintain the minimum age of 16 for National Lottery draw-based games because they are associated with a lower risk of harm and have limited scope to encourage excessive play. Additionally, this would allow for the continued participation and enjoyment of National Lottery draw-based games and the subsequent support of good causes.²²

An [Impact Assessment](#) was also published.

The consultation closed in October 2019. The DCMS has yet to respond.

¹⁹ Ibid, para 1.3

²⁰ Ibid, para 1.4

²¹ Ibid, para 1.11

²² Ibid, para 1.12

2.3 DCMS Committee inquiry (2019)

In July 2019, the Digital, Culture, Media and Sport Committee announced an inquiry to consider whether changes were needed in the operation of the National Lottery. The [terms of reference](#) were:

- What lessons should be learnt from the previous license periods in designing, awarding and managing the fourth National Lottery licence?
- Is there need for greater flexibility to enable the licence to respond to changing consumer habits?
- How should the next licence be structured to maximise returns for good causes?
- What challenges will the next operator of the National Lottery face, and what can Government and the Gambling Commission do to mitigate against them?
- What has been the impact of society lotteries, or other changes to the lottery market, on the main National Lottery draw?
- How can lottery funding distributors be better supported to manage changing trends in receipts for good causes?

The deadline for [written evidence](#) was 30 August 2019. The Committee did not publish a report before the General Election was called.

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