

The National Lottery: Is it Progressive?

by Paul Bickley



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introduction - the development of the National Lottery

Lotteries have a long history in the United Kingdom. The first was licensed by Elizabeth I in 1569 in order to fund the repair of the Cinque Ports on the Kent and Sussex coasts. Traditionally, these lotteries existed solely for the funding of public building projects, including Westminster Bridge.¹ During the 18th century opposition to lotteries, predicated partly on their social ill effects and partly on their inefficiency in raising revenue, grew. In 1808, a Select Committee of the House of Commons argued that:

No mode of raising Money appears to Your Committee so burdensome, so pernicious, and so unproductive; no species of adventure is known, where the chances are so great against the adventurer, none where the infatuation is more powerful, lasting, and destructive,²

and

Idleness, poverty and dissipation are increased [by the lottery]...truth betrayed, domestic comfort destroyed, madness often created, crimes are committed, and even suicide itself is produced ... And this unseemly state of things is to continue, in order that the state may derive a certain annual sum from the encouragement of a Vice, which it is the object of the law, in all other cases, and at all other times, most diligently to repress.³

The last lottery in the United Kingdom for over 100 years was held in 1826.

Following the publication of a Home Office White Paper in 1992, a Bill was introduced to Parliament in 1993 which cleared the way for the National Lottery and established a regulatory system.⁴ After the *National Lottery etc Act* received Royal Assent on 21 October 1993 Camelot – a consortium of various companies including Cadbury Schweppes and the Post Office – was awarded the licence to operate the Lottery. The first draw was held on 19 November 1994.

There have been two basic forms of game: the first is the draw-based game, where, in the most basic form, participants pay £1 to choose 6 numbers from a 1-49 numbered ball draw; prizes are then determined by the number of correct matches; the second is a

scratchcard game (branded “Instants” by Camelot), where particular values must be matched on a scratchcard to win a prize. Instants are often marketed through film and event tie-ins, such as those using imagery from popular films like *Pirates of the Caribbean: At World's End* and *Indiana Jones and the Temple of the Crystal Skull*. Latterly, a line of Olympic-branded games has been launched with the express purpose of developing a funding stream for the 2012 London Games.

The founding principle for the Lottery, unlike those earlier in history, is “additionality”. Under the principle of additionality, the ‘funds raised for good causes from the operation of the Lottery should not be subsumed into public expenditure’, i.e. the money raised by the National Lottery should only be spent on projects that are additional to core public sector responsibilities.⁵ Thus, spending of National Lottery funds was initially channelled into five categories: the arts, sports, heritage, charitable and millennium celebration projects. Subsequent changes led to the establishment of the New Opportunities Fund to support initiatives in health, education and the environment, much criticised as contravening the additionality principle. More recently, the administration of good cause spending has been restructured again with the establishment of the Big Lottery, which administers 50% of all ‘good cause’ spending under the headings of health, education, environment and charitable expenditure. The National Lottery will also provide £2.2 billion or more of funding to the 2012 London Olympic and Paralympic Games.

Lottery operator Camelot claims that 70% of the adult population play at least one National Lottery game regularly.⁶ In fact, a variety of surveys indicate a trend for diminishing rates of play in the years since the Lottery’s inception. Research carried out by Sawkins and Dickie indicates that only just over half of households participated in the Lottery in the year 1999/2000, and the British Gambling Prevalence Survey of 2006/07 found that only 10 million adults participated in the National Lottery during that year.⁷ Total receipts have fallen significantly since a peak in 1997/98 (£5,514 million), bottoming out in 2002/03 (£4,575 million), rising only slightly after a rebrand and relaunch in 2002 to £4,966 million in 2007/08 (see table below). This finding appears to be consonant with research carried out in 2002 by the National Lottery Commission which suggests that only ‘four in ten respondents (41%) played National Lottery games regularly (at least every week)’. The most recent data from the Expenditure and Food Survey (2006) suggest that only around 45% of households are participating in the National Lottery.

A variety of surveys indicate a trend for diminishing rates of play in the years since the Lottery's inception.

Year	Income (£ million)	Income, Scratchcards (£ million)
1994/5	1,191	
1995/6	5,217	1,523
1996/7	4,723	877
1997/8	5,514	801
1998/9	5,228	669
1999/0	5,094	562
2000/1	4,983	546
2001/2	4,834	578
2002/3	4,574	578
2003/4	4,615	636
2004/5	4,766	737
2005/6	5,012	802
2006/7	4,911	850
2007/8	4,966	1109 ⁸

National Lottery Gross/Scratchcard sales figures 1994-2008⁹

Given the downward trend in gross income, critics have asked whether the operator will be able to deliver on promises to increase sales to £79 billion (including £22 billion for good causes) over the 10 year period of the next license.¹⁰ Camelot itself intends to sustain revenue by 'offering players a regularly-refreshed portfolio of games, and convenient new ways to play.'¹¹

In practice, the partial recovery in income has been driven not by take-up across the portfolio of games but substantially by spending on scratchcards: according to Camelot's figures, sales of non draw-based games increased in double digit figures in 2006/07 (by 19.6%) to £1,109.6 million, where sales for draw-based games came in at a relatively modest £3,856.7 million (see table above). This increase in scratchcard income is partly due to the fact that the average price of scratchcards is increasing (games with £2 and £5 stakes are now available), but static and falling participation rates would mean that any increase in sales would be driven by fewer people playing with higher stakes. This, along with the fact that scratchcards are more likely to result in problem gambling (with a 1.9% problem gambling rate as opposed to 1% for draw-based lottery games¹²) begs the questions, what kinds of players are propping up Lottery income, do these include substantial elements of economically vulnerable participants or players at risk from problem gambling, and is Camelot's strategy to drive increased sales through non-draw based games socially responsible?

Further to this, concerns have been raised that National Lottery play, and more specifically the 12% Lottery Duty (calculated to recover tax revenues lost through diversion of consumer spending from taxable gambling and other consumer products towards the purchase of Lottery tickets) is regressive. As the House of Commons Culture, Media and Sport Select Committee has noted:

...analysis of levels of play suggested that 'the probability of participating...is a strongly decreasing function of income. The richer you get, you are much less likely to play ... If you do play the game, the amount that you play increases slightly with your income.' Levels of play among low income groups have led to claims, in both the United Kingdom and the United States, that the Lottery has a regressive impact. That view was also stated anecdotally by retailers, who said that some players consider the Lottery to be 'a tax on the poor for the patronage of the rich.'¹³

To establish this point on anything other than a rhetorical basis, we must determine what the economic profile of Lottery players might be. Further to this, does good cause expenditure mitigate or aggravate the allegedly regressive profile of National Lottery play? In short, we will seek to answer the question: who plays and where does the money go?

This paper reviews existing literature and other evidence on these questions and reports the findings of new Theos-commissioned research into the characteristics of players. It finds that the average player lives in a household of below average income, is relatively poorly educated, and is spending proportionately more than his more affluent counterparts on the National Lottery. In order to maintain and increase revenues, the operator, Camelot, has adopted a strategy of moving away from the draw-based games towards scratchcards. These are particularly attractive to low income players, even those who are unemployed or on benefits. We go on to consider how Lottery money is spent, and find that it fails to reward high rates of play among less affluent players with high levels of grant-making in areas where they are likely to live. Lottery play, and the 12% Lottery Duty, is regressive, and distribution of Lottery money fails to mitigate this with markedly progressive grant-making. The public funding package for the 2012 Olympic Games, which relies heavily on the National Lottery, will exacerbate this problem by reducing the amount of money available to projects in deprived areas.

In order to maintain and increase revenues, the operator Camelot has adopted a strategy of moving away from the draw-based games towards scratchcards.

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13. House of Commons Culture, Media and Sport Select Committee, "The Operation of the National Lottery", paragraph 32.

who plays the National Lottery?

There is quite a lot of evidence on who plays the National Lottery. Existing material includes the British Gambling Prevalence Survey (BGPS), a roughly five-yearly survey of a random sample of 9,003 individuals commissioned by GamCare¹; studies using the Family Expenditure Survey/Expenditure and Food Survey (FES/EFS), a continuous annual survey of around 10,000 households carried out by the Office for National Statistics²; and poll-based surveys, including those commissioned by the statutory regulatory agency, the National Lottery Commission. We review some of this evidence below, including the results of a new survey carried out by ComRes on behalf of Theos.

the Gambling Prevalence Survey

The survey found that 68% of the population, that is about 32 million adults, had participated in some form of gambling activity in 2007. This compares to 72% (about 33 million adults) in 1999. For around a third of these – roughly 10 million people – their only gambling activity in the past year had been participation in a National Lottery draw. Participation in the National Lottery had decreased since 1999, when the figure was 11 million. Nevertheless, it remains the most popular form of gambling in the UK (57%), followed by National Lottery scratchcards (20%), though scratchcard play had also dropped from 1999 levels.

Past year gambling prevalence in general was highest for those from lower supervisory and technical households, and lowest for those from managerial/professional households and intermediate households.

A brief review of Lottery play by National Statistics Socio-Economic Classification (NS-SEC) shows that past year gambling prevalence in general was highest for those from lower supervisory and technical households (75%), and lowest for those from managerial/professional households and intermediate households (both 67%).³ In regard to the National Lottery, participation in the main weekly draw was some seven percentage points higher among those from semi-routine households (61%) and 12 percentage points higher among those from lower supervisory and technical households (66%) than managerial and professional households (54%). Significantly more respondents from semi-routine and routine households bought scratchcards than did

those from managerial and professional households (24% compared with 17%). There are also high rates of scratchcard play amongst the unemployed (29%); lower only than those who list their economic activity as 'looking after the family home' (31%).

There appears to be quite a strong inverse relationship between level of education and involvement in gambling as a whole and in National Lottery play in particular. Of those whose highest educational qualification is GCSE/O Level, 63% participated in the National Lottery draw and 26% played scratchcards. Of those whose highest educational qualification was a degree, 48% participated in the National Lottery draw and 16% played scratchcards. In short, both NS-SEC classification and levels of education can be used as predictors of National Lottery play.

participation, expenditure and attitudes

In 2003, the National Lottery Commission undertook research into player profile by means of an NOP omnibus poll across the United Kingdom.⁴ The survey also sought to explore attitudes to different games within the National Lottery. The survey found that 67% of adults in the United Kingdom had participated in some form of the National Lottery in the previous year which, again, is low in comparison to rates of play earlier in the life of the National Lottery. Only 41% of respondents played National Lottery games once a week or more. There was no statistically significant distinction in terms of gender of the respondents, though players are more likely to be older: the proportion of people playing National Lottery games on a weekly basis increased with age from around a sixth (17%) of the youngest group, and just under a third of those aged 25 to 34, to around half of those in the older age groups.

The research finds that those of higher social class are less likely to play and those of lower social class are more likely to play. In terms of respondents who participated in any National Lottery game, 49% of C2 respondents played, compared to only 31% of AB respondents. Rates of non-participation were also highest among AB respondents and lowest among C2s. In terms of scratchcards, participation was highest also among lower social classes. 8% of DE respondents play instant games every week, compared to only 3% of ABs. Gross spending is higher amongst C2s and Ds than ABs and C1s. While the report's author observes that, "expenditure among players was found to increase along with household income, from £1.90 among those in the lowest income group [<£4,500], up to £2.90 among those with an income of between £9,500 and £24,999, dropping only slightly in the highest income band (£25,000+)", this should not distract us from the fact that, by proportion of income, spending is significantly higher amongst lower socio-economic groups: a £98.80 annual spend constitutes at least 2.2% of annual earnings for those on <£4,500, compared to as little as 0.6% of annual earnings for those earning £24,999 and spending £2.90 every week.

studies using the Expenditure and Food Survey

A number of studies have been carried out using data from the Family Expenditure Survey (up to 2001) and the Expenditure and Food Survey (since 2001). These tend to illustrate the trends reviewed above.

For instance, a 2001 review of the data found that in the first five years for which figures were available, participation in draw-based games across all households decreased from 69% to 52%.⁵ The authors, JW Sawkins and VA Dickie, also found, however, that households in the lowest income decile also have the lowest Lottery participation rate. The highest participation rates relate to households in the upper half of the income distribution – the 6th, 7th and 8th deciles – but not the highest category. Again, they noted a discrepancy between findings against income and social class. Participation rates were highest in houses headed by skilled manual, partly skilled and unskilled workers (in 1999/2000, figures were 64%, 57% and 57% respectively, as against 38% for professionals). Participation rates fell uniformly across the social classes throughout the five years.

The authors also found an increase in the average stake: “In nominal terms the all-household mean weekly stake has risen from £3.18 in 1995/6 to £3.95 in 1999/2000; an increase of 24.2% ... During the same period the retail prices index rose by 11.5%.” In absolute terms, higher income households did spend more. However, proportionate to income Sawkins and Dickie found the Lottery to be regressive:

In the first five years for which figures were available, participation in draw-based games across all households decreased from 69% to 52%.

For participating households, National Lottery expenditure as a proportion of total household expenditure ranged – in 1995/6 – from 0.64% (highest income decile) to 1.84% (lowest income decile). The corresponding figures for 1999/2000 were 0.63% and 1.88%.

Furthermore, when classifying households according to their occupational social class, Sawkins and Dickie found that participation rates are highest for households in the skilled manual social class and lowest for professionals.

ComRes survey report

In December 2008, Theos commissioned ComRes to undertake a public poll on National Lottery play and perceptions amongst British adults. Interviews were carried out using an online questionnaire between and December 2008. Data are weighted to be representative demographically of all British adults.

We sought to examine participation in the two main forms of play – scratchcards and draw-based games. The poll then introduced questions on the stakes in both scratchcard and draw-based game play before concluding the poll with two questions on public perceptions of the Lottery (the first to test what would stop people from playing the Lottery and the second whether respondents felt they or a close family member had personally benefited from a project funded by the National Lottery good cause spending). All questions, apart from those seeking to measure perceptions, were modelled on the Gambling Prevalence Survey's National Lottery questions.

scratchcards

24% of people spend money on National Lottery scratchcards once a month or more frequently, with 56% having participated at least once over the last 12 months (this is significantly higher than the rates of participation recorded in the Gambling Prevalence Survey). 55-64 year-olds were more likely to play scratchcards than any other category, with 31% participating once a month or more. In terms of social class, respondents in the C2 and DE categories were significantly more likely to play than their counterparts in AB and C1 categories (34% and 25% compared to 20% and 18% respectively playing once a month or more). Rates of play in these social classes were found to be higher than in some of the research reviewed above (e.g., the Gambling Prevalence Survey indicated that 8% of DEs played at least once a week, compared to 13% in our survey). Similarly, respondents in the AB and C1 categories were more likely than C2s never to have bought scratchcards (34%, 26%, and 19% respectively).

36% of households with an annual household income of £15-20,000 (well below the national average of £33,492) play once per month or more, with 18% playing more than once per week (compared to an average across the sample of 14%). Those in receipt of state benefits were marginally more likely to have played (26%) than those who are not (22%). Respondents with an education level of A Level or lower were also more likely to play, with 26% buying a scratchcard once a month or more frequently, than those with undergraduate degrees, graduate degrees or those in full time education. These latter categories were also more likely never to have played a scratchcard.

Respondents in the C2 and DE categories were significantly more likely to play than their counterparts in AB and C1 categories.

Furthermore, the survey indicates that categories of individuals more likely to play are also more likely to spend more when they do play. Of respondents who spent money on scratchcards once a month, or 2-3 times per month, respondents in the C1 and C2 categories spent, on average, £4.38 and £3.95 respectively, against an average across the

base of £3.77 per month. In terms of income categories, spending is highest in low-middle and middle income homes. For instance, households earning £15-20,000 in this base spent an average of £4.07, and those earning £25-35,000 spent £4.93. However, the key point is that spending is higher as a proportion of income in lower income categories (e.g., a weekly spend of £5.02 equates to just over 1% of the income of a household earning £25,000 but £5.01 per week equates to 2.6% of the income of a household bringing in £10,000).

draw-based games

Our survey found that participation rates in the draw-based games are lower than recorded in some of the literature above, with around 46% playing once a week or more, and this in spite of recent developments in the portfolio. Only 56% were playing once a month or more frequently, with 37% of people stating that they had never played, not played in the last 12 months or that they only played 'very rarely'.

Again, C2 respondents were the most likely to play draw-based games, with over 67% of interviewees in this category participating once a month or more, compared to 47% of ABs. Rates of play were highest, by a small margin, amongst households earning £75,000+ (69% once a month or more) and £20-25,000 (65% once a month or more). Again, weekly stakes were higher amongst C2s and DEs: of respondents in our survey playing once per week or more, the average weekly stakes of C2s and DEs were £5.92 and £5.81 respectively; higher by a modest, but significant, margin (AB respondents played at an average stake of £5.33 and C1 respondents at £5.11). There is some interesting regional variation in stakes, with residents in Scotland, Wales and London all playing at significantly higher stakes than the mean average (£7.20, £8.25 and £5.95 compared with £5.55). An analysis of stakes by household income shows again that stakes are relatively flat across the spectrum, but that those on lower incomes are spending proportionately more by a considerable degree. For instance, frequent players earning £15-20,000 per year had an average weekly stake of £6.73 (£349.96pa or at least 1.74% of annual household income), the same as respondents with a household income of over £75,001 per year (£349.96pa or less than 0.46% of annual household income). In other words, low income households are spending proportionately over three times as much as high income households.

Low income households are spending proportionately over three times as much as high income households.

values and perceptions

Turning to the values and perceptions question in our poll, it seems clear that ‘good cause’ spending is a significant motivational factor for participants in the National Lottery. When asked, ‘Which of the following would probably convince you to stop playing the National Lottery?’, 43% of all respondents said that a withdrawal of funding from good causes in general would discourage them from playing the Lottery. The idea of redirecting good cause spending to major infrastructure projects and, specifically, the Olympic Games, would put roughly a quarter of respondents off playing the Lottery. The idea of limiting cash prizes to £100,000 proved particularly unpopular amongst AB respondents (29% said this would make them reconsider playing the Lottery, compared to only 18% of DE respondents). Indeed, players from across the higher income categories strongly objected to this idea, with 37% of respondents from households in the £55-65,000 bracket saying this would discourage their participation in the National Lottery, compared to an average across the base of 21%. Overall, C2s and DEs were the most committed Lottery players, with 28% of those groups saying none of the reasons given would prevent them playing the National Lottery, compared to 20% of ABs). 32% of players in the £10-15,000 category said that none of the reasons offered would prevent them from playing the National Lottery, compared to an average of 25% across the whole poll.

Finally, an overwhelming majority of respondents – 81% across the poll – stated that neither they nor a close family member had personally benefited from a project funded by the National Lottery. This figure was fairly consistent over age, social class, and household income demographics; people tend not to feel that they are benefiting from good cause spending. There is, therefore, a mix of motivations for playing the Lottery. High prizes are highly valued only by a significant minority, usually existing high earners, where lower income players are simultaneously less interested in high value prizes and more likely to play regardless of the prize structures. No firm conclusions can be drawn, except to say that players are unlikely to be participating because they perceive that they might benefit personally through good cause spending.

the typical player

It is not the case that all sectors of society participate to the same degree.

Who plays the National Lottery? On the basis of the Gambling Prevalence Survey we know that participation in the National Lottery is the most popular form of gambling in the United Kingdom, with roughly 57% of UK adults participating at the time of the last survey. It is not without justification, therefore, that both the operator and successive governments have claimed that all sectors of society participate.

It is not the case, however, that all sectors of society participate to the same degree, and to make this claim, in the light of the mounting evidence reviewed above, looks increasingly tendentious. A typical Lottery player lives in semi-routine or a lower-supervisory/technical household. He or she is not, in the main, professional or well educated. Indeed, he or she is as likely to be unemployed as living in an affluent home. Although the typical player will be spending only the same as, or perhaps even slightly less than his affluent counterparts, proportionate to household income he or she will be spending perhaps two or three times more than high income players.

Finally, most players like the idea that a significant part of Lottery revenue goes to good causes. There are, however, important caveats here: over 1 in 4 people object to the refocusing of Lottery spending on the Olympic Games when it has an adverse impact on Lottery spending in their own area. Interestingly, the typical player would object less to a cap on prizes than his more affluent counterparts. He or she is probably not aware of projects that have benefited him/her or a close associate. This raises the question, is the wealth created by National Lottery play reaching those that create it?

chapter 1 - references

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2. The FES/EFS relies on voluntary, diary-based reporting of spending. The Office of National Statistics believes that 'reported expenditure on a few items (notably tobacco and alcohol) is below the levels which might be expected by comparison with other sources of information,' and that, 'National Lottery spending has also been significantly under-recorded in the EFS, particularly for scratchcards. For this reason, researchers have tended to exclude scratchcard data from their work, focusing instead on the more reliable data for the draw-based play.
3. Respondents are assigned to an NS-SEC category based on the current or former occupation of the household reference person.
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National Lottery spending

The founding *raison d'être* of the National Lottery was to provide a funding stream for desirable but otherwise unfunded good causes, and its undergirding principle “additionality”, i.e., funds raised for good causes from the operation of the Lottery should not be subsumed into public expenditure. Since the inception of the National Lottery, nearly £21 billion has been given to good causes, with grants ranging from £12 (for a cycling award) to £604 million (given to the Millennium Dome), with the highest average grant value going to millennium projects, and the lowest to charitable expenditure.¹

National Lottery grants are administered by 14 semi-autonomous agencies² in five broad areas of spending: arts, heritage, sport, charity/community/voluntary groups, and projects concerned with health, education and the environment.³ These broad areas of funding (excepting health, education and environment) were established in the initial Act (National Lottery etc. Act 1993). This legislation provided for the establishment of the National Lottery Distribution Fund, which would in turn allocate funds to the distribution agencies to apportion money to projects within the five initial areas (arts, sports, heritage, charitable, and millennium) in equal proportion (i.e., 20% to each of the five areas). The now defunct Community Fund, known earlier in its life as the National Lottery Charities Board, would apportion funds to the four countries of the United Kingdom on the basis of population weighted by deprivation. Distributors would have an obligation to ensure that all parts of the country would have fair access to funds and, more specifically, that awards should be made with a view to reducing economic and social deprivation.⁴

The founding raison d'être of the National Lottery was to provide a funding stream for desirable but otherwise unfunded good causes.

Following repeated reorganisation and redesign of the grant-awarding bureaucracy, the Big Lottery Fund now administers 50% of all the good cause money raised, attributing it to projects in the final two categories.⁵ The second largest fund is the Heritage Lottery Fund. Respectively, they have awarded £4,155 and £4,141 million. Other significant bodies include Arts Council England (£2,435 million), Sport England (£2,734 million) and the (now closed) Millennium Commission (£2,156 million).

Since the Lottery's inception, concerns have been raised that money is not reaching the poorest communities:

Some of the most deprived areas have yet to see the full benefit of Lottery money... The people who most need help from the Charities Board can be those least able to seek it. The Board are prepared to provide practical support to help smaller groups prepare bids, but their NOP survey has confirmed that their processes are a potential barrier.⁶

National Lottery funding for the Olympic Games

In the light of the National Lottery's significant role in funding the Olympic Games the issue of spending has now been re-politicised. Under a 2003 memorandum of understanding on the subject of public spending for the Games, the National Lottery would provide £750 million from the sales of Olympic Lottery tickets, £340 million from the budgets of sport distributors and a further £410 million in contingency budget to draw on if necessary (this was indeed deployed by the then Secretary of State for Culture, Media and Sport in June 2006).

Following a budget review in March 2007, the Secretary of State announced that the National Lottery would be called upon to invest a further £675 million towards a revised total budget of £9,325 billion in the form of loans. All Lottery distributors, with the exception of UK Sport, will experience a reduction in grants from the National Lottery Distribution Fund. The Big Lottery, for instance, will have contributed £638.1 million to the Olympic Games – considerably more than its annual budget for a single year (£603 million in 2006/07). This, together with concerns that Olympic-themed games will “cannibalise” sales of other National Lottery products (Camelot has estimated up to a 77% rate), has raised concerns that the public funding package for the Olympics will have significant ramifications for Lottery funding of arts, heritage and voluntary sector projects, as well as an adverse impact on sports projects outside the capital. A recent report from the House of Commons Culture, Media and Sport Select Committee states categorically that “amounts available to non-Olympic Lottery distributors are decreasing and can be expected to continue to decrease for the next few years.”⁷ The report also notes the potential difficulties for Olympic funding should there be any reduction in Lottery sales, especially in view of tough targets income for the next 10 year licence. The net effect on good cause spending will be both significant and detrimental to deprived communities.

are grant-making patterns progressive?

There has been little academic analysis of the social effects of Lottery spending, with the exception of a brief paper by Feehan and Forrest, who carried out an analysis of the distribution of UK Lottery grants by local authority area, effectively using the affluence of a local authority area to estimate regressivity.⁸

Drawing on information available from the Department of Culture, Media and Sport, they converted the number of grants made to 376 local authority areas to a per capita figure by dividing the cumulative sum received in a local authority by its population as recorded in the 2001 Census. Measures of the characteristics of each area were also extracted from 2001 Census data, specifically from the Local Authority National Report for England and Wales. The results illustrate a tendency for big cities to win a disproportionate share of Lottery grants, with the relationship most clearly defined in the arts category, where both the metropolitan county and London dummies attract significant coefficients. Local authority areas in the metropolitan counties and London are estimated to have procured per capita arts funding approximately £50 and £92 higher than other local authority areas, controlling for education, social class and ethnicity effects. This represents substantial disparity in funding given that the mean across all areas, unweighted by population, is £34.07. They also found that non-white was a significant negative category in the award of heritage grants. For education, total grants and funding under each of the six sub-headings are positively related to the proportion of graduates in the area. In essence, affluent areas receive higher levels of grants, hence, “the overall impact of the UKNL Good Causes package is regressive.” The authors suggested that the complex application process for National Lottery grants means that groups with a committed and educated membership or staff may be preferenced and recommend that, at the least, the application process could be simplified. A more radical proposal would be to scale down the tax and expenditure elements of the National Lottery, thereby reducing the regressive element of the National Lottery in favour of greater prizes for those who play.

For the purposes of this report, we repeated a similar calculation, using the Index of Multiple Deprivation, or IMD (a combination of a variety of indicators covering economic, social and housing issues) to identify correlative patterns between Lottery grant-making and pockets of deprivation. Although the indices are produced at lower super output areas⁹, we present them here as aggregated in local authority areas.¹⁰ We have broken down Lottery spending into the broad spending categories, excluding millennium projects. Our categories therefore are: arts, sports, heritage and health, education, environment and charitable expenditure (the funding stream now administered by the Big Lottery). We suggest that, at the least, the final category ought to display correlation between high levels of deprivation and high levels of grant-making. Results are set out diagrammatically below.

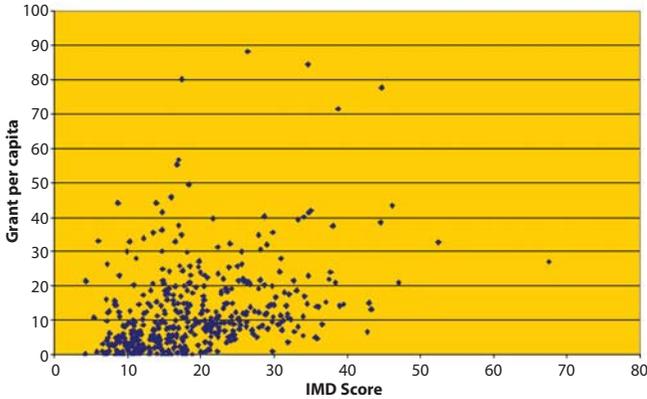


Figure 1 Big Lottery Grants/IMD of Local Authority

We see from Figure 1 that only a mild correlative pattern between grant-making under the headings of health, education, environment, charitable expenditure and deprivation, presents itself. It must also be noted that the top seven grant winners are excluded from the graph. The median per capita grant across the board is £16.36 (notably low in comparison with other categories); the 119 local authorities that received an above average grant had an average IMD score of 23.43, only slightly above the overall average score of 19.24.

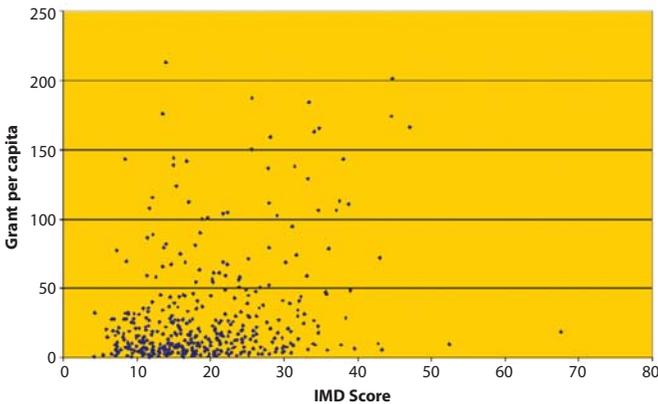


Figure 2 Arts Grants/IMD of Local Authority

Again, there is no strong correlation between arts grants and IMD scores. Indeed, Figure 2 (again, excluding outlying high end results) shows a fairly flat distribution.

The average per capita arts grant across local authorities comes in at £82.45. The average IMD score of Local Authorities in receipt of higher-than-average per capita grants is 26.14

(i.e., those receiving higher than average grants are more deprived than average). Again, it appears that that there is a mildly progressive pattern.

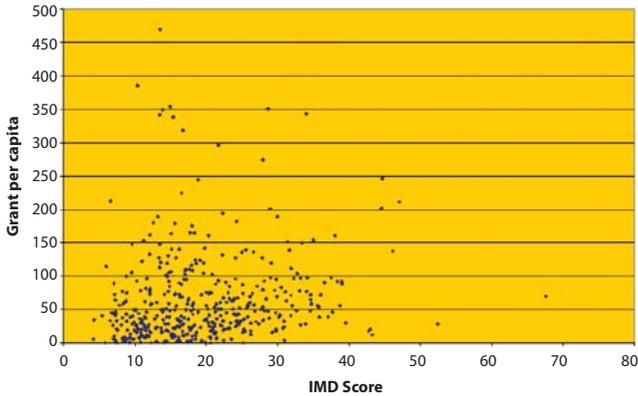


Figure 3 Heritage Grants/IMD of Local Authority

Turning now to heritage Lottery grants (Figure 3), we witness again the lack of a particularly strong correlation. The average per capita level of grants across all local authorities is £73.68. The 133 local authorities that received higher-than-average funding had a close to average IMD score (21.29). The distribution of funds is not regressive, but is fairly flat.

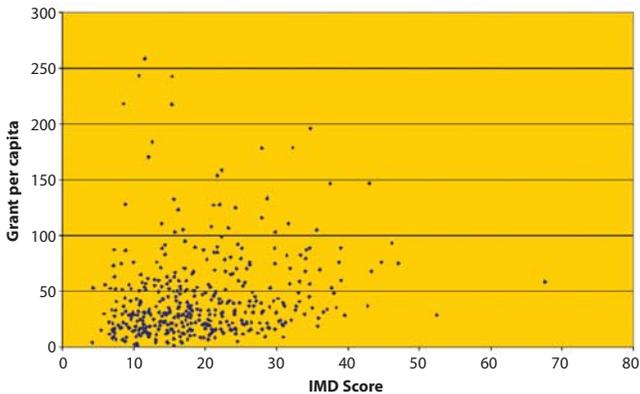


Figure 4 Sport Grants/IMD of Local Authority

Turning finally to sports funding, we see that the average per capita grant across local authorities is £52.39. 131 local authorities received above-average levels of funding; of these 131 local authorities, the average IMD was 21.79. Again, particularly deprived constituencies did not on average receive significantly higher levels of funding.

chapter 2 - references

1. When combining the three merged categories, HEE and charitable expenditure have the lowest grant average, only slightly higher than charitable expenditure alone.
2. Sport England; Sport Scotland; the Sports Council for Wales; the Sports Council of Northern Ireland; UK Sport; Arts Council England; Arts Council of Wales; Arts Council of Northern Ireland; Scottish Arts Council; Scottish Screen; the UK Film Council; the Heritage Lottery Fund; Big Lottery Fund and the Olympic Lottery Distribution Fund.
3. The last category here is a later category introduced under the National Lottery Act 1999, initially for distribution by the New Opportunities Fund, but later by the Big Lottery.
4. House of Commons Hansard, col. 332W, 6 December 2004.
5. <http://www.biglotteryfund.org.uk>.
6. Committee of Public Accounts, Fourth Report, *Grants Made by the National Lottery Charities Board*, The Stationery Office HC 490-I (1999-2000), paragraph 14-16.
7. House of Commons Culture, Media and Sport Select Committee, "London 2012 Games: the next lap," sixth report Session 2007-08, volume 1, The Stationery Office HC104-I, 2008, paragraph 43.
8. Patrick Feehan and David Forrest, "Distribution of UK National Lottery grants across local authority areas," *Applied Economics Letters*, 14:5 2007, pp. 361-365.
9. Super Output Areas (SOAs) are geographical categorisations introduced in 2004 and replacing electoral wards as the primary means of the dissemination of small area statistics. SOAs are designed to be consistent in size thus allowing comparisons to be more meaningfully made. It is also envisaged that the boundaries will not change, allowing trend based analysis for particular areas (e.g. specific area based initiatives such as regeneration schemes) to be developed.
10. The Department of Communities, Local Government and the Regions states that "The Indices are used widely to analyse patterns of deprivation, identify areas that would benefit from special initiatives or programmes and as a tool to determine eligibility for specific funding streams."

conclusion

Camelot has set itself a target of ensuring that the Lottery remains a mass pursuit so that revenues are maintained by many people playing with low stakes, and looks to ensure that it remains outside the global top ten in terms of spend per capita. Though the operator is not even remotely at risk on this point, fixed participation or comparatively slow rates of growth in participation in the main draw-based games will see the operator focus increasingly on raising scratchcard revenue.

The GPS surveys based on the FES/EFS and recent polling data do indeed suggest a lack of any significant growth in the draw-based games, with only 46% participating in the previous week, or 63% in the previous year (down 4% on the National Lottery Commission's figures reported above). If the operator cannot engage new players then it will certainly fail to achieve its substantial commitments of £79 billion in sales and £22 billion for good causes over the ten-year period from the start of the current ten-year licence (February 2009). In any case, we have noted that, on average, respondents from households on lower incomes are more likely to play and play at higher stakes.

We have noted that the operator seeks to maintain and build revenue by providing players with an increasing portfolio of games and ways to play. The success story for Camelot has been scratchcards and these are producing higher revenues than ever. If scratchcard play includes economically vulnerable groups (our survey shows that it does) then any strategy for maintaining long term revenue which emphasizes scratchcard play risks exacerbating existing regressive effects. Both our review of wider literature and our own survey suggest that scratchcard play is probably growing (at 32% participating within the last year compared with 20% in the Gambling Prevalence Survey) and that it is more "regressive" than the draw-based games (i.e., disproportionately focused in low income groups). Respondents from households earning between £15,001 and £20,000, well below the national average, are far more likely to play, with 36% of respondents participating once a month or more, compared to an average of 24% across the poll.

Fixed participation or comparatively slow rates of growth in participation in the main draw-based games will see the operator focus increasingly on raising scratchcard revenue.

Further, our research shows that average stakes may be growing: 67% of those who spend money on scratchcards once a week or more frequently spend between £2 and £5 per week. The average stake in the base sample (i.e., the 13% of respondents playing scratchcards once a week or more), is £4.99.

Again, the basic objection might be raised that even if play decreases as income increases, stakes increase with income. But players with an income of £5,000 playing at an average of £1.90 per week would be spending roughly 2% of their income on the National Lottery whereas players earning £25,000 and spending £2.90 per week would be spending less than 1% of their annual income, i.e., lower income players are spending proportionately more on the National Lottery.

The good cause funding created by Lottery play is disproportionately drawn from the less affluent, yet it is not spent for their benefit.

Furthermore, National Lottery spending appears not to be well targeted in areas of high deprivation. Even excluding local authorities which receive high levels of grant-making for unique cultural/geographical reasons, Lottery spending is, at best, only weakly correlated to high levels of deprivation. Other analyses have found it to be focused on affluent, urban, white, well-educated areas.

The National Lottery has without doubt created a new source of funding for projects that would otherwise have remained un- or under-funded. It has contributed to the cultural and civil life of the nation for over twenty years but, as the new licence comes into operation, we must recognise that this comes at a price. The good cause funding created by Lottery play is disproportionately drawn from the less affluent, yet it is not spent for their benefit.

conclusion - references

1. Camelot Social Report, 2005. Available at <http://www.camelotgroup.co.uk/socialreport2005/strategy-and-consultation.htm>.
2. Camelot press release, "Camelot Reports £181 Million Increase In National Lottery Half Year Ticket Sales To Over £2,559m". Available at <http://www.camelotgroup.co.uk/pressreleases/2008/October/2008finalresults.pdf>.

appendix: survey questions

Demographic

Gender
Age
Region
Employment status
Education
Social class

Household income

How much is your annual household income?

£0-5,000
£5-10,000
£10-15,000
£15-20,000
£20-25,000
£25-35,000
£35-45,000
£45-55,000
£55-65,000
£65-75,000
Over £75,000

Benefits question

Are you in receipt of any of the following state benefits? **Yes / No**

- Employment and Support Allowance
- Jobseeker's Allowance
- Housing Benefit
- Council Tax Benefit
- Working families tax credit
- Other

Lottery Play

We would like to ask you two questions about National Lottery Scratchcards.

1. How often have you spent money on National Lottery scratch cards (include online scratchcard games, not newspaper or magazine scratchcards) over the last 12 months?

- a. Almost every day;
- b. 2-3 times per week;
- c. About once per week;
- d. 2-3 times per month;
- e. Once every month
- f. About once every other month;
- g. Very rarely
- h. Not in the last 12 months

2. How much, on average, have you spent on National Lottery scratchcards per week (if answered a,b,c)/ month (if answered d,e,f)/ year (if answered g,h)?

- a. Nothing
- b. £1
- c. £ 2 -£5
- d. £ 6 -£10
- e. £10-£20
- f. More than £20

We would now like to ask you two questions about National Lottery draw based games, including Thunderball, Euromillions and Daily Play.

3. How often have you spent money on National Lottery draw based games over the last 12 months?

- a. Almost every day;
- b. 2-3 times per week;
- c. About once per week;
- d. 2-3 times per month;
- e. Once every month
- f. About once every other month;
- g. Very rarely
- h. Not in the last 12 months

- 4. How much, on average, have you spent on National Lottery draw based games per week (if answered a,b,c)/ month (if answered d,e,f)/ year (if answered g,h)?**
- a. Nothing
 - b. £1
 - c. £ 2 -£5 per week
 - d. £ 6 -£10 per week
 - e. £10-£20
 - f. More than £20 per week

Perceptions

- 5. Which, if any, of the following would probably convince you to stop playing the national lottery?**
- a. If cash prizes were limited to £100,000
 - b. If there wasn't a special show for the results
 - c. If funding was withdrawn from community projects and given to the Olympic Games
 - d. If funding was withdrawn from community projects in my area and given to projects like Wembley Stadium.
 - e. If funding was withdrawn from good causes in general
 - f. If funding was withdrawn from cultural institutions like museums and art galleries
- 6. To your knowledge, have you, or a close member of your family, personally benefited from a project funded by the National Lottery?**
- Yes / No / Don't know**

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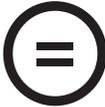
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The National Lottery:

Is it Progressive?

Fifteen years ago, the National Lottery was established with the express purpose of providing financial support for projects that seemed desirable but for which there is no alternative source of funding. These have ranged from the redevelopment of the Royal Opera House and the building of the Millennium Dome and major sporting venues to local charitable endeavours. To date, the Lottery has provided over £21 billion to such projects.

The significant revenue created by the Lottery, both in the form of 'good cause' money and the 12% levied in tax, begs the questions, who plays, and who benefits? Are critics right to suggest that lower income households are funding projects which, more often than not, benefit the wealthy? In short, is the National Lottery progressive?

Lottery operator Camelot claims that players are spread across social class and other demographics. This paper, which reviews existing evidence and reports findings from new Theos - commissioned polling, argues that this is not the case. The typical player lives in a semi-routine or a lower-supervisory/technical household, will be spending two or three times more than affluent counterparts proportionate to household income and is unlikely to perceive any personal benefit from Lottery grant-making. The report goes on to observe a mildly progressive pattern in the distribution of funds, but suggests that the overall effect of the Lottery is regressive.