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# THE NATIONAL LOTTERY IN THE NATIONAL ACCOUNTS

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**Summary**

The United Kingdom National Lottery is unique in that no other European country with a national lottery involves private enterprise in its operation. This note describes the operation of the National Lottery with reference to the national accounts, and the national accounts treatment of the bodies concerned, and their transactions.

**Description of the operation**

The attached chart shows the main participants and flows. On the left are central and local government, and on the right the private sector, companies on top and the personal sector at the bottom. The chart is somewhat simplified in the interest of clarity. The framework of the system is specified in the National Lottery etc. Act 1993. The amounts quoted in the note reflect the long term expected distribution, and not that in any particular period.

The flows start in the bottom right hand corner of the diagram. Individuals buy tickets from their local retailer (flow 1). The retailer might be in the personal sector, e.g. the self employed owner of the corner shop rather than (as shown in the diagram) the industrial and commercial company sector. This simplification does not affect the national accounts treatment. For each £1 staked the retailer keeps 5p and passes 95p to Camelot, the lottery operating company. The 95p is disposed of by Camelot as follows:

| | |
|---|---|
| **50p** | **Returned as prizes (flow 2)** |
| **12p** | **Paid to Customs and Excise as betting duty (flow 4)** |
| **5p** | **Operating expenses (flow 3) and profits** |
| **28p** | **Agreed proceeds paid to the Lottery Distribution Fund (flow 6)** |
| **95p** | **Total** |

A small amount, negligible in these terms, is paid in licence fees to OFLOT, the Government lottery regulator, to pay the expenses of regulation. Out of their profits, Camelot and others will pay taxes on income on their profits in the normal way.

Out of 28p the Lottery Fund will pay the administration costs of OFLOT and of NILO, the National Investment and Loans Office, who will invest the proceeds until required. The Fund will be divided equally between five government agencies/groups:

*Arts Councils (x4)*
*Sports Councils (x4)*
*Charities Board*
*National Heritage Memorial Fund*
*Millennium Fund*

These agencies will distribute the funds to bodies in their sphere of activity. The funds will remain invested with NILO until required. In particular, the Millennium Fund is not expected to distribute much until nearer the end of the millennium. Grants, which will normally be for capital purposes, may be given direct to the beneficiary, or by way of local authorities or non-departmental public bodies (NDPBs). The beneficiaries may be non-profit making bodies in the personal sector, but may also be companies or local authorities.

**Sector Classification**

Camelot is a consortium of industrial and commercial companies. The National Lottery Distribution Fund is "under the control and management of the Secretary of State" (National Lottery etc. Act 1993, Section 21(1)) and is therefore part of the central government sector. OFLOT, the National Lottery Charities Board and the Millennium Commission are set up by the same Act, and are also parts of central government by virtue of control. The Arts Councils, Sports Councils and National Heritage Memorial Fund are longer standing bodies which are also part of central government.

**Classification of Transactions**

Consumers' expenditure on gambling is, by convention, the stake money less prizes (flows 1 minus 2).

Flows 4 and 5 are straightforward to classify. Flow 4, the Customs duty payable, is a tax on expenditure, charged to the production account. Flow 5 is negligible.

Flow 6 is more difficult. It is clearly a transfer payment, since it is unrequited. It was decided to treat it as a non-tax charge on the operating account of industrial and commercial companies. This would necessitate it being treated as part of the adjustment to factor cost in the expenditure measure of GDP. The possibilities considered were:

a. A tax on expenditure, charged to the operating account, and thereby reducing Camelot's trading profit;

b. A royalty - a payment to government for use of an intangible asset - the right to conduct a national lottery. This would be charged to the current account of industrial and commercial companies;

c. A 'miscellaneous current transfer' to central government. An unrequited payment, again from the current account;

d. A new form of transfer to government out of the operating account of Camelot.

Both (b) and (c) have the same effect on the national accounts arithmetic. Company profits and GDP at factor cost are higher by the amount of the transfer (28 per cent of turnover) than under (a) or (d). GDP at market prices would be the same under all four.

The tax on expenditure option (a) was rejected on definitional grounds. A tax is defined as an unrequited compulsory payment to government. This flow is compulsory under the contract between OFLOT and Camelot, but the level was bid for under the 'auction' arrangements of appointing the lottery operator and signing the contract was voluntary. This contrasts with the Customs levy, the rate of which was imposed in the 1993 Budget.

Nevertheless, there is an intuitive objection to options (b) or (c). It could be argued that the return on capital sought by Camelot is the 1 or 2 per cent of turnover that is ultimately left to them, not the 29 or 30 per cent implied by (b) or (c). The 28 per cent should therefore be treated as a charge to the operating account (option (d)). In order to balance the income and expenditure measures of GDP, this has to be regarded as a new component of the adjustment to factor cost.

The final payments to be classified are those to beneficiaries. These are likely to be capital grants in the main, but could also include current grants. Many will be paid to charities, in the personal sector, but they could also be paid to companies (e.g. theatre companies, football clubs) or local authorities (e.g. local museums, historic buildings) or even central government bodies (e.g. national museums). Arrangements have been made for the Department of National Heritage to provide the necessary detail. Payments to and by local authorities will be identified separately on the local authority expenditure returns used for the national accounts. No distribution had been made by end-December 1994.

Investment by NILO of the Lottery Fund will bring interest receipts to the Lottery Fund, not shown on the diagram.

The main effects on the sector accounts may be summarised as follows:

**Personal Sector**
(UK Economic Accounts (UKEA), tables A9, A17)

Income from employment: Pay of Camelot staff, additional retailers staff.
Income from self-employment: Profits of self-employed retailers.
Consumers' expenditure: Sales of tickets, etc. **less** prizes (50 per cent of turnover).
Capital transfers received: grants to charities.

**Industrial and Commercial Companies**
(UKEA tables A10, A17)
Gross trading profits: Profits of Camelot, retailers.
Capital transfers received: grants received by the sector.

**Central Government**
(UKEA tables A14, A17)

Taxes on expenditure: Customs levy (12 per cent of turnover)
Other receipts: The "28 per cent" from Camelot.
Current/capital transfers paid: Distribution of the 28 per cent.

**Local Government**
(UKEA tables A17)
Capital transfers received: grants received by the sector.

# NATIONAL LOTTERY FLOWS