



PO-CH/NL/0292

PART A

Part A

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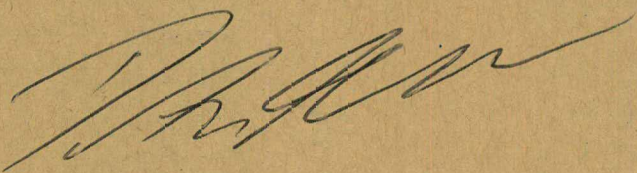
Begins: 8/12/87.  
Ends: 31/12/87.

  
PO -CH /NL/0292  
  
PART A

Chancellor's (Lawson) Papers:

PROPOSALS FOR A NATIONAL LOTTERY

Disposal Directions: 25 year



18/10/95.

PO -CH /NL/0292  
PART A

From : D L C Peretz  
Date : 8 December 1987

FINANCIAL SECRETARY

- cc Chancellor  
CST  
PMG  
EST  
Sir P Middleton  
Mr Anson  
Sir G Littler  
Mr Cassell  
Mr Kemp  
Mr Scholar  
Mr Culpin  
Mr Gilmore  
Mrs Lomax  
Mr Odling-Smee  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr M Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Cropper  
Mr Call

*[Handwritten notes in red ink:]*  
[Notes/outs]  
Before → paper (Harkins HMF)  
I had like views of this &  
advice (a week) - will now  
hold a mtg. w. Mr.

**A NATIONAL LOTTERY**

Following your meeting in September you asked us to work up a more detailed proposal for a public sector lottery, in the form of a paper that could be circulated to colleagues.

2. In preparing this you asked us to consult with Rothschilds, who had indicated that they had carried out considerable background work which it would be useful for us to draw on.

3. As you know, I contacted Michael Richardson at Rothschilds early in September, and he promised that he and two colleagues would be ready to discuss the issue within a week or so. In the event, we heard no more from Rothschilds at all - for entirely understandable reasons - until last week's letter from Michael Richardson. By then we had decided to forget about drawing on Rothschilds' advice, and were more or less ready to put a paper to you. We have delayed this by a few days to see if

there is anything in the paper now sent in by Rothschilds that we should take into account.

4. I am now attaching a draft paper, which in fact is not very different from the one we had been planning to put to you before Mr Richardson's letter of 2 December arrived.

5. I have also taken the opportunity of the delay to have a further discussion with GEP. This note and the attached draft reflect their comments; but I should record that the public expenditure side of the Treasury have considerable reservations about the whole idea of a national lottery.

#### Rothschilds' paper of 2 December

6. The Rothschilds' paper notes five points of interest.

i) It suggests that in current circumstances a national lottery could attract funds from individuals who would otherwise have become small shareholders, now disenchanted with the equity market after its recent collapse. If this were true I would see it more as a reason for not proceeding with the proposal. Indeed part of the argument for it, in economic terms, is that it would tap funds that would otherwise have been spent rather than saved. In fact I find it difficult to believe that a lottery would be tapping the same flows of finance that would otherwise go into acquiring equities.

ii) Reputable financial institutions would be prepared to put up money for a national lottery operation. This is perhaps not very surprising for something that would presumably be a licensed monopoly, so long as the take permitted for the operator was large enough.

iii) It advocates substantial Post Office participation. We ourselves had thought that the best approach would be to contract the operation out to a private sector body,

operating under licence : but I suppose it would be open to the contractor to use Post Office counter outlets, for a fee.

- iv) Rothschilds' proposal to get around the problem they see of "hypothecation" looks attractive, but not very realistic. Their idea is that the Treasury would take the proceeds, and decide how they are to be used. We rather doubt whether a lottery set up on this basis would have the public appeal needed to raise significant amounts of money or, if decisions lay with the Treasury, be very acceptable to colleagues.
- v) Televising the draw might provide an extra source of revenue. I suppose there might be a number of extra financial spin offs of this kind. We would need to do more work to estimate how substantial they were likely to be in terms of money receipts.

#### Key issues

7. The process of writing the paper up has highlighted three key issues.

8. First, there is the fundamental question of whether the proceeds are to be used to increase spending on the chosen causes; or to allow a given level of spending to be financed with a lower burden of taxation or borrowing. The proposal in the draft paper assumes that there would be an increase in spending on the chosen causes, but suggests that it might be possible in practice to contain that increase to achieve some reduction in taxation (or borrowing). We think this has to be accepted if the idea is to attract the support it would need; and for it to be a success.

9. Second there is the question of whether the proceeds would increase public expenditure; or whether we could confine it to a private sector operation, supporting causes in the private sector (but thereby reducing pressures on Government funding). This is interlinked with the question of how much Treasury/Government

control there would be on distribution of the proceeds. The recommended scheme, in the paper, is the approach you favoured at your last meeting; clearly in the public sector, though with allocation decisions slightly at arms length from central government.

10. Whether this scheme would add to public service provision depends on whether the proceeds are channelled to public service activities (the NHS) or to private sector causes (Covent Garden). But in both cases it would add to the public expenditure planning totals.

11. Beyond that the public expenditure side of the Treasury are concerned that there is a fair chance that any board or commission set up to administer the proceeds would create new pressures on conventionally funded public spending. There would be pressures for departments to provide funds to match lottery support; if lottery proceeds fell short of expectations and projects could not be supported, departments would be pressed to make good the difference; and any financing of capital projects could lead to a continuing need to finance running costs from departmental programmes.

12. The third key issue is the amount likely to be raised. This is course very uncertain. Potential promoters have mentioned quite large sums. But I find the estimates (updated) made by the Royal Commission on Gambling more persuasive. These suggest that net proceeds might amount to only £100m a year after 5 years of operation. Such a pattern implies, for example, that a quarter of the adult population buys a £1 ticket every fortnight. After allowing for a tax to be levied to compensate HMG for loss of tax revenues on alternative forms of gambling, this would be a net £75m a year. The net amount would be lower still if allowance were made for loss of other indirect tax revenue. Given the objections to be overcome, and the inevitable bureaucratic problems of passing legislation and getting a single national lottery operation going, this does perhaps raise the question of whether the game is really worth the candle.

*Expenditure  
of other  
comms?*

?

A different approach?

13. Personally, I remain attracted to the rather different approach of a radical freeing up of restrictions on the operation of private lotteries. At present the Government places a £10,000 limit on the size of regular small lotteries; with big national societies allowed to run lotteries of up to £120,000 provided they are only infrequent - perhaps annual - events. Why not abolish or at least greatly increase these limits? This would allow specific causes (opera houses, sports facilities, or even local health authorities etc) to raise significant sums through operating lotteries, thereby perhaps reducing some of the pressures that they place at present on public spending/tax revenues.

14. There would need to be some arrangement for approving or licensing such operations, to make sure they were properly run, raising money for desirable causes. There might also need to be some procedure to avoid market congestion. Moreover with this approach we would probably simply have to accept some loss of tax revenues; and would face some of the public expenditure pressures mentioned in paragraph 11. Against that it would preserve a degree of choice, and competition between operators; lotteries could be associated with individual causes, and this might make them more attractive; and the change could probably be made without new legislation.

Handling and next steps

15. You will no doubt want to discuss these issues, and the draft paper, with us; and consider the public expenditure implications with the Chief Secretary. After that, Treasury Ministers will presumably want to clear their lines with the Home Office (and No. 10) before approaching other colleagues. Although we assume the Treasury would need to put a paper to H Committee in due course, the number of spending Ministers represented on that Committee suggests there might be a case for taking work forward in a rather smaller inter-departmental working group first, composed of, say, Treasury, Home Office, Customs, and perhaps Scottish officials only.

16. I should draw attention to one particular minor issue : whether we want to open up for discussion with other departments the implications for the premium bond scheme, or whether to keep this as an in-house Treasury issue. In a sense it is separate, in that premium bonds tap the gambling instinct to help with Government borrowing, rather than to raise revenue.

17. Finally, in case there is any doubt, I should say that we are fairly clear that it would take a significant piece of legislation to establish a national lottery. The single clause in the ~~1979~~ <sup>1968</sup> Finance Bill was inserted purely as a way of giving the opportunity for a general Parliamentary debate on the issue.

DLCP

D L C PERETZ



DRAFT

A NATIONAL LOTTERY FOR THE UK

*Royal Commission  
for the Culture of 1978*

*the 1978  
recommendation*

Case for a national lottery

The Royal Commission on Gambling (chaired by Lord Rothschild) recommended in 1978 that a national lottery for good causes should be set up. We decided not to adopt its recommendation when Parliament debated the issue the following year. Instead, we concluded that it was best to encourage and improve local lotteries. In this climate, many local lotteries have been established and some have achieved outstanding success. Nevertheless, there has been continuing steady support for a national lottery. There is no organised lobby or pressure group, but many corporate organisations and private individuals have urged Treasury and other Ministers to establish a national lottery. Its advocates believe it would command widespread public enthusiasm and raise a worthwhile amount of extra revenue for use on such popular causes as the health service or the arts.

*Annex  
viii*

2. Many other countries run successful national or state lotteries of this kind, although it is true to say that some have fewer alternative forms of gambling than the UK. While we should not assume that success elsewhere would guarantee success here, commentators believe the general indication from overseas experience is encouraging.

3. This paper therefore seeks colleagues' agreement in principle to considering the idea of a national lottery further; identifies the objections the proposal is likely to encounter; outlines a possible scheme and lists some important questions which officials should be invited to address in working up the details.

### Likely difficulties

(i) It has been the Government's longstanding policy to meet current demand for gambling but not to stimulate it. Whether or not the establishment of a national lottery is seen to conflict with this would probably depend in practice on the type of cause to which the proceeds were devoted.

(ii) The establishment of a national lottery would require primary legislation. The Business Managers will be able to advise in due course on how this might best be fitted into the current programme.

(iii) The concept is likely to encounter Parliamentary opposition from the anti-gambling lobby and from those who will claim it is an inappropriate way of financing a higher level of services. Parliament has debated the idea twice in the last 20 years. In 1968 a Finance Bill clause providing an opportunity for debate on a national lottery was defeated on a free vote; in November 1979, we ourselves in a debate on the Royal Commission's report decided not to adopt the recommendation for a national lottery on the grounds that it would require major legislation, be highly controversial and would be far too competitive with local lotteries. However, support for the concept has continued since then.

(iv) The proposal would also be bound to be opposed by the existing gambling industry and by local authorities and voluntary organisations running their own small lotteries in support of local good causes. Both groups would be concerned that a national lottery would attract funds away from them but their fears may well be exaggerated. There would also be opposition on moral grounds eg from some in the churches.

(v) A national lottery could divert resources away from other forms of gambling and consumer spending and so reduce the tax take from them. This point is explored in more detail in Annex 2.

(vi) Difficult issues also arise on the public expenditure treatment of the projects a lottery would finance and the fact that its very existence could give rise to additional pressures on spending departments' programmes (see paragraphs 9 and 10).

### Outline of a possible scheme

5. Overseas experience suggests that to attract and maintain adequate support, about 50% of the lottery takings would have to constitute the prize fund, and that the size of the prizes would be more important than the number. It is likely that 10% of the takings would be required to meet administrative costs. This would leave about 40% as a pool of finance for potential projects, or a lower percentage were it decided to levy a tax on stakes or prize money (eg to compensate for loss of tax revenue).

6. The actual operation of a lottery would almost certainly best be carried out by a private sector organisation, under licence or contract. Since it would be a licensed monopoly, we should need to ensure that there were adequate arrangements for supervision and reporting to Parliament; and it might be sensible for the contract/licence to be put out to competitive tender at suitable intervals (say 3 or 5 year periods). There is a separate question about how decisions would be taken about the allocation of the net proceeds. We have identified four possible approaches.

(i) The operation could be supervised by a Government department and the proceeds could be paid directly into the Exchequer as general revenue. It seems unlikely that this approach would secure much public or Parliamentary support, or catch the public imagination in the way required to secure success.

*not a*

(ii) The lottery could be supervised by a Government department, with the net proceeds kept separate from general revenues, and allocated to deserving projects by the responsible Minister. This would retain the fullest Government control over distribution of the proceeds, while allowing the lottery takings to be associated with particular items of public expenditure. But such a close degree of Government involvement might not achieve the kind of public support needed to ensure success and the method of finance would, of course, breach the general principle of the non-hypothecation of revenue.

*hypothecation  
feasible  
(for the  
no 2.6 funds  
form)*

(iii) A new independent board or Commission could be established, with the functions of licensing and supervising the operator, and allocating the net proceeds within broad guidelines set by the Government (which could, if necessary, be reviewed annually). This would distance the Government from individual decisions, but preserve a broad influence over the use of the proceeds. The guidelines would probably include a figure for the target amount to be raised each year.

*unacceptable  
to the  
V. small*

(iv) A private sector body might be licensed not only to operate the lobby but also to decide on the allocation of the proceeds. Broad guidelines might be set in the enabling legislation but otherwise decisions would be for the operator.

*intentional*

7. In terms of ensuring the popular appeal and general success of the operation, options (iii) and (iv) appear to offer the best approach.

*disagree*

*that v state bonds allocated @ output -  
Gg 90% NHS, 10% Arts; then release  
min. w/ other*

Public or private sector?

8. An important aim would be to relieve some of the pressures on planned spending programmes and taxation by providing a supplementary source of revenue to support particular projects. These should therefore either be activities within the public sector, for example, particular improvements in the health service; or activities in the private sector, for example, in the field of arts or sport, that would otherwise have claims for support from public expenditure programmes.

9. If allocation of the proceeds was determined by a public sector body (Government department or publicly appointed Commission), the spending it financed would be classified as public expenditure and be included in the planning total. We should not accept that the proceeds should be allowed to add pro rata to the public expenditure planning total. We should examine carefully how far the lottery proceeds could be used to substitute for planned expenditure that it had previously been assumed would have to be financed by conventional revenue and borrowing. Nevertheless, in practice the existence of a lottery could well add to pressures on spending programmes, either by highlighting areas where the public thought more should be spent or by supporting capital projects which gave rise to substantial future running costs. Moreover, the total lottery proceeds in any year would inevitably be uncertain: it would be important to be cautious in planning the amount likely to be available, and to guard against the assumption that any shortfall would be made good from conventional sources of finance.

10. The scheme described in paragraph 6(iv) minimises public sector involvement in the allocation of proceeds and so avoids counting project support as public expenditure. But there remains a risk that the Government might come under pressure with a private sector operation of this kind to match lottery financing of projects with support from general government revenues. There is also the

possibility that the licensed operator might support politically contentious projects.

11. While it would be premature to discard any options at this stage, it seems best to concentrate on the approach outlined in paragraph 6(iii) under which project support would be classified as public expenditure.

### Expected proceeds and cost

12. If we want to proceed, a good deal of further work is needed to establish the feasibility of a national lottery, and the details. Although somewhat dated, we have the work carried out for the 1978 Royal Commission to draw on. And in recent months the Treasury has received a number of submissions from potential lottery operators and other interested parties.

13. The three most important issues are:-

(a) Likely size of proceeds available for distribution

Estimates for potential turnover range from £200million to £3billion a year. If the net proceeds were 40% (see paragraph 5) the amount available for projects would therefore range between £80million and £1.2billion a year. There is general agreement that turnover might start at a relatively low level, and increase substantially over 3-4 years. For example, a turnover of £¼billion (net proceeds £100million) a year would require 10 million people (25% of the adult population) each to buy a £1 ticket, once every two weeks. A turnover of £2.5billion (net take £1billion) would require 10 million people each to spend £5 on tickets every week. Annex 1 describes estimates of potential take made by extrapolating the estimates of the 1978 Royal Commission; and other estimates made separately by Rothschilds on the basis of overseas experience. It should be possible to refine these estimates further;

but nevertheless any estimate is bound to be subject to substantial uncertainty.

(b) Loss of tax revenues

This is an important issue which could crucially affect the viability of any scheme. At present, total gambling expenditure is around £2 billion a year. Some of this gambling is taxed and yields revenue of around £800 million a year. Annex 2 gives details. A first broad indication is that for each £100 million of turnover in a national lottery, there might be a loss of about £10 million revenue from other forms of gambling. To the extent that expenditure on lottery tickets substituted for consumer spending on taxed goods, there would be a loss of VAT too, although this would be partly offset if the winnings themselves were devoted to taxable expenditure. There are various ways to compensate for this. One would be to levy a tax of, say, 10% on national lottery stakes but this would mean reducing either the prize fund and/or the net proceeds available for supporting chosen projects to that extent. A further option would be to levy a tax on winnings. Any such action might affect the lottery's popularity.

(c) Setting up and running costs

We would need an assessment of these costs and how they would be met. The running costs would have to be financed from the allocation for administration (suggested to be around 10% in paragraph 5). Such an assessment would also be crucial in establishing the minimum turnover necessary for a viable lottery

14. Further investigation of these issues would enable us to put together an overall financial analysis, in order to judge whether the results we could expect showed a national lottery to be worthwhile.

#### Use of proceeds

15. We need to consider in detail the kind of projects that might sensibly be supported by the proceeds and the guidelines that might be laid down in legislation. The Royal Commission on Gambling advocated a national lottery <sup>in support of</sup> sport and the arts. The mix and definition of other areas for support should, they suggested, be left to the supervising authority. Other potential candidates might include the health service, as proposed most recently by the Royal College of Surgeons.

#### Other matters for further study

16. There are some broader social questions on which further work is also required.

(a) Impact on charitable giving. Charities at present receive £1.5 billion a year from personal donors. They already face reductions in covenanted income as income tax rates have fallen. A national lottery would be seen as a competitor.

(b) Assessment of likely objections. See paragraph 4.

(c) Type of lottery. Ticket selling agencies etc.

[(d) Premium bonds. If a national lottery were established, it might be sensible at the same time to wind down the premium bond scheme operated by the Department for National Savings.]

777  
v. initiative



Next steps

17. If colleagues see attractions in pursuing this idea further I suggest we establish a working group of officials charged with preparing detailed proposals which we could consider at an early stage. I see no need to make any public announcement, pending this further work.

**A NATIONAL LOTTERY: ESTIMATES OF POTENTIAL TAKE**

1. It is difficult to say what would be the total turnover of a national lottery. There are major unknowns, such as public demand; price of tickets; frequency of draws or games; and whether public enthusiasm could be maintained or increased.

2. Some estimates have been made. The Royal Commission in 1978 believed that a national lottery would have a turnover of £100 million in year 1, rising to £120 million in year 5 at constant prices. Updating these figures by reference to the RPI gives a range of about £200-250 million. This can be expressed in various ways, but, for example, it implies expenditure of around 50p a week by 25% of the adult population. The amount available for projects on this scenario would be £80 million (year 1), rising to £100 million (year 5).

3. Rothschilds' estimate of turnover (made in December 1986) is much higher. It is informed by overseas experience, particularly in Australia where the turnover of some newly established state lotteries has increased substantially. It assumes spending per capita of the population of £14 a year in year 1 and £56 a year in year 3. The annual turnover on this basis would rise from £784 million to £3,136 million, yielding £313 million rising to £1,254 million for projects over this period.

4. To achieve a turnover of £780 million, a lottery would, for example, require 10 million people (a quarter of the adult population) each to spend £1.50 a week on tickets. If the turnover were to increase fourfold over 3 years, it would, for example, require expenditure of £6 a week by the same group, or £3 a week by 20 million people.

5. The Royal Commission studied overseas lotteries in some detail. They acknowledged that large lotteries could be run efficiently and fairly; and that they had potential for raising substantial sums of money for good causes. But they also pointed out that overseas experience should not be taken as a sign that a national lottery would be successful in the UK.

A NATIONAL LOTTERY: EFFECT ON REVENUE FROM BETTING AND GAMING

1. During the 1980s, the volume of spending on gambling has remained fairly constant at around 1% of total consumer expenditure. Total gambling expenditure is now about £2 billion a year. Tax revenue is about £800 million a year, mainly from the following sources:

	<u>Tax Take</u> <u>£ million</u>
General betting duty	320
Pool betting	235
Gaming	150
Bingo	50

A national lottery is likely to siphon off some spending on existing taxed gambling. A crucial task before a national lottery was established would therefore be to ensure there would be no net loss of revenue. (Some forms of gambling - including lotteries and newspaper/magazine competitions - are not subject to tax.)

2. From these figures, a crude and very approximate extrapolation suggests that the main loss would be from pool betting, which is subject to the highest rate of duty (42½%). If there were a national lottery, about a third of current spending might switch. If racing and other general betters (duty rate 8%) split stakes 50:50 between racing and a national lottery, it can be inferred that there might be an overall switch of about a third. A small switch might also be made by bingo players. It seems unlikely that there would be a marked effect on gaming duty, most of which comes from hard gambling in casinos etc.

3. It is impossible to give a precise estimate of tax loss from such broad assumptions and dated material. But an order of magnitude can be derived. If a national lottery annual turnover were £100million, it might accrue from £65million new money/untaxed gambling and £35million taxed gambling (about a third, rounded up slightly for bingo etc - see paragraph 2). Assuming the £35million was switched in equal proportions from pools and general betting, the tax loss at current rates would be about £9million a year.

4. On top of this, there would be a further loss of VAT revenue to the extent that a lottery diverted resources from consumer spending on taxed goods. For illustrative purposes, if half the £65million mentioned in paragraph 3 came from this source, the VAT loss might be as much as £5million but in practice some of this is likely to be offset by winners spending their prize money on taxable goods.

C O N F I D E N T I A L



FROM: P D P BARNES  
DATE: 9 December 1987

PS/FINANCIAL SECRETARY

A large, handwritten signature in dark ink, appearing to be "PDP".

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Sir G Littler  
Mr Cassell  
Mr Kemp  
Mr Scholar  
Mr Culpin  
Mr Gilmore  
Mrs Lomax  
Mr Olding Smee  
Mr Peretz  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Cropper  
Mr Call

**A NATIONAL LOTTERY**

The Economic Secretary has seen Mr Peretz's submission to the Financial Secretary of 8 December.

2. The Economic Secretary sympathises with Mr Peretz's proposals to deregulate/privatise charitable lotteries.

Handwritten initials, possibly "PDP", in dark ink.

P D P BARNES  
Private Secretary



*mpw*

FROM: MISS M P WALLACE

DATE: 14 December 1987

PS/FINANCIAL SECRETARY

- cc PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Anson  
Sir G Littler  
Mr Cassell  
Mr Kemp  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Gilmore  
Mrs Lomax  
Mr Odling-Smee  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr M Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Cropper  
Mr Call  
Mr Tyrie (with Mr Peretz's  
minute of 8 Dec)

**A NATIONAL LOTTERY**

The Chancellor has seen Mr Peretz's minute of 8 December. Before any paper leaves the Treasury, he would like the views of Ministers and advisers (in writing) and will then hold a meeting.

*mpw.*

MOIRA WALLACE

not minuted

PMP

FROM: MARK CALL  
DATE: 15 DECEMBER 1987

PS/CHANCELLOR

↓  
1 for you  
2 for FST or hold  
3 for mg  
4 for this  
5 for I will sell  
6 for I will sell  
7 for I will sell  
8 for I will sell  
9 for I will sell  
10 for I will sell

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Anson
- Sir G Littler
- Mr Cassell
- Mr Kemp
- Mr Scholar
- Mr Culpin
- Mr Peretz
- Mr Gilmore
- Mrs Lomax
- Mr Odling-Smee
- Mr Spackman
- Mr Turnbull
- Mr Gieve
- Mr M Richardson
- Miss O'Mara
- Mr Parsonage
- Mr Rich
- Mr Cropper
- Mr Tyrie

Ch/ The FST is holding a meeting and other Mins/advisors may well delay their comments until after that. But you might like to see this.

mpw 16/12

A NATIONAL LOTTERY

The Chancellor asked for views.

I tend to agree with Mr Peretz that the proposal for a National Lottery may be missing the mark and that the alternative approach outlined in paragraph 13 of his minute of 8 December, would be better.

2. Although it is difficult to estimate the proceeds of a National Lottery, it would be unlikely to yield an amount significant in NHS terms. Furthermore, a National Lottery raises the question whether public expenditure would be offset. Even if not it would be difficult to convince people who would argue that without the earmarked lottery funds, direct public expenditure on that area would have been higher. Thus if lottery proceeds were to be directed into mainstream programmes it would look as if the Government,



or rather the Treasury, was pulling a fast one. I could just see this working if additionality could be demonstrated - but then if the cause was so worthwhile, why was it not financed either by public expenditure or by private sector charitable donations?

3. I think there is a much better case to be made for the alternative radical freeing up of restrictions on the operation of private lotteries. Smaller private lotteries associated with individual causes would have greater appeal and be easier to market than an injection into a much larger programme. If we think of the outputs achieved for the lottery funds the latter would be a drop in an ocean whereas the former could be much more easily linked with the purchase of a ticket.

4. At the margin, extensive private lotteries would probably reduce public expenditure, through both central and local government. A more compelling reason, though, for going this route would be the removal of the State as mediator, and another step to breaking down the expectation that government is the provider. This would be consistent with our approach to charitable giving. It could be particularly effective in the arts.

*Mc*  
MARK CALL



FROM: FINANCIAL SECRETARY  
DATE: 21 December 1987

**CHANCELLOR**

- cc Chief Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Anson
- Sir G Littler
- Miss Mueller
- Mr Cassell
- Mr Kemp
- Mr Monck
- Mr Scholar
- Mr Culpin
- Mr Gilmore
- Mrs Lomax
- Mr Odling-Smee
- Mr Spackman
- Miss Peirson
- Mr Turnbull
- Mr Peretz
- Mr Gieve
- Mr Richardson
- Miss O'Mara
- Mr Parsonage
- Mr Rich
- Mr Cropper
- Mr Call
- Mr Tyrie

*[Handwritten notes in red ink:]*  
 [As it - on (some) - hypotheticals,  
 has not to check rate  
 spend on NHS left to chance?  
 [annual fluctuations]  
 [only possible if there is income  
 spend on arts - or towards an  
 extra. But state probably difficult  
 what to over when go? not  
 difficult if there is a specific  
 project plan art.]  
 [Consider only spend on arts  
 - it will NHS - in subsidies  
 for other finance. get figs]

**NATIONAL LOTTERIES**

I have discussed these papers with the Economic Secretary and with officials. Mr Peretz will be submitting an annotated agenda for your meeting and a slightly revised draft paper for H Committee. I just wanted to highlight a few issues in advance of your discussion.

2. First, I think it needs to be emphasised that in recent weeks the idea of a national lottery (for the NHS) has been coincidentally gaining some support. The Royal Colleges have suggested a national lottery (and so has David Owen). With all

**CONFIDENTIAL**

the recent criticism of the NHS, I think that there will probably never be a better opportunity to get colleagues' agreement to and public support for a national lottery.

**Local Lotteries or a National Lottery**

3. The option of freeing up the restrictions on the operation of local lotteries has received some support amongst officials and from the Economic Secretary. I do not agree that this is the preferable course. I think that:

- (i) A national lottery will raise much more money than the sum of the proceeds from many small lotteries, scattered around the country;
- (ii) There are economies of scale in setting up and running a lottery. I am not sure that, for example, individual health authorities would find it worthwhile to buy the professional and technical expertise required to run a lottery. Nor am I convinced that left to themselves various local organisations will club together to run joint lotteries as some have suggested;
- (iii) In practice, deregulation will mean, at best, one or two large commercial organisations setting up pseudo-national lotteries. In this case, the Government would have no say in how the proceeds were disbursed unless these proceeds were taxed.
- (iv) A national lottery will be better placed to use national advertising on TV

**Proceeds**

4. Obviously, we need to be fairly clear about the likely scale of the proceeds before taking any decisions. I think the net figure suggested by officials of £100m p.a. (gross £250 m) is much too pessimistic, viewed in the following contexts:

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- a big difference!*
- (i) Outside commercial organisations such as Rothschilds and GTECH have suggested that gross proceeds might build up to something of the order of £3-5 billion p.a. over a period of years. Even allowing for the vested interest these companies have in overselling an idea they wish to be involved with, I cannot believe that those with experience of running overseas lotteries could be so far wide of the mark;
  - (ii) The draft paper refers to total gambling expenditure in the UK of £2 billion p.a. But this is a net figure. The gross figure is roughly £8 billion p.a. It seems very pessimistic to me to think that a properly promoted national lottery could not attract gross proceeds of more than £¼ billion;
  - (iii) Overseas experience suggests that the assumed annual per capita expenditure of roughly £5 is much too low. The average annual per capita expenditure in US states which had lotteries in 1985 was \$85. (Vermont had the lowest spending per head at \$6 and Washington D.C. the highest at \$180). The figures for Australia and Canada are similar to the US average figures.

5. In my view the scale of proceeds does not alter the argument about whether we should set up a national lottery as against encouraging local lotteries. But the scale of proceeds does influence the type of lottery we might contemplate. If we thought the proceeds would be as low as £100m p.a. I think we would need to use them for (in Roy Jenkins' words) "desirable but not essential" causes such as sport or certain arts projects.

6. If, however, we are talking about proceeds of £1 billion then we could make a valuable contribution to the NHS and other more major areas.

Encouragement of Gambling?

7. Officials' estimate of £250m gross proceeds translates into 25% of the population buying a £1 ticket every fortnight. If my instinct is correct then we may receive gross proceeds of up to £3 billion. At that level, a quarter of the population would be spending £300 a year on lottery tickets, or half the population spending £150 p.a. These are, of course, very large sums and they beg the question - should we be encouraging 'gambling' on this sort of scale?

8. I would not be worried about this, because:

*9/10m  
1m of base  
Revenues*

- (i) I guess that a lot of the money would take the place of other gambling (though not all);
- (ii) The money would be going on good causes;
- (iii) If we were worried about the scale we could always limit spending by setting a limit on proceeds (by only selling a set number of tickets each week.)

Public Lottery

9. One final point; the draft paper is written on the firm assumption that we should go for a lottery in the public sector. You yourself suggested some time ago that we should not fudge this and pretend that public spending is not public spending. I agree that the national lottery - if we have one - should be firmly in the public sector.

CONCLUSION

10. I favour a national lottery and putting a paper to colleagues. The timing seems right to me.



FROM: CHIEF SECRETARY

DATE: 22<sup>nd</sup> December 1987

CHANCELLOR - 2

cc:  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Mr Anson  
Sir Geoffrey Littler  
Mr Cassell  
Mr Kemp  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Gilmore  
Mrs Lomax  
Mr Odling-Smee  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr M Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Cropper  
Mr Tyrie

### A NATIONAL LOTTERY

You asked for views on Mr Peretz's paper of 8 December.

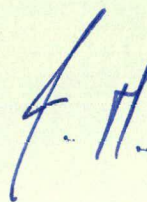
2 I am sceptical about the idea of a National lottery. I fear it may appear a political gimmick and that it would be politically difficult to sustain. It would seem particularly difficult to justify at a time when we do not have a problem with raising revenue through more conventional routes. Moreover, we would run into unwelcome criticism from existing private sector pools promoters. Moreover, it would also run counter to our normal preference to see the public sector withdrawing from activities which can be undertaken as well, or better, by the private sector. A National lottery is the precise reverse of Privatisation.

3 Establishing the lottery would only be the start of the problem. Allocation of the sums raised would be a running sore. As Mark Call has pointed out, direction into mainstream programmes

would provoke criticism that we were substituting for more conventional funding of programmes. Equally, it would seem to me difficult to justify Government directing funds into causes which it did not believe merited funding from national taxation.

4 But I do favour lotteries at more local level and I believe that the way forward may be to liberalise the rules permitting them. It does not seem to me to run into the same difficulties outlined above. It would allow selection of priorities by the individual promoters of lotteries - and could provide a useful safety valve where public money has failed to meet a local need. The Arts Council ~~say~~, or District Health Authorities would seem ideal promoters, although we would need to be clear about the extent to which proceeds counted as public expenditure and what to do about additionality.

5 There are problems but I think we should seriously examine local lotteries.



JOHN MAJOR

CONFIDENTIAL

FROM: P J CROPPER  
DATE: 22 December 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Sir G Littler  
Mr Cassell  
Mr Kemp  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Gilmore  
Mrs Lomax  
Mr Odling-Smee  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr M Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Tyrie  
Mr Call

A NATIONAL LOTTERY

You have asked for views.



P J CROPPER



CONFIDENTIAL

A NATIONAL LOTTERY

I am not against a national lottery on principle and I doubt if the anti-gambling lobby will turn out in great numbers. Three questions concern me.

1. The market. Is there room in the gambling market for another big participant? We must always remember that the very big taxable surplus of the football pools only arises because gambling is so restricted in this country. Remove the restrictions, and would we not soon encounter a drastic reduction in the taxable surpluses of all the participants? Free entry and free competition would result in a higher and higher proportion of the stake money having to be paid out in prizes - as the competing outfits struggled for survival. The 42½ per cent pools levy would not be replicated as more operators came into the market. This consideration may rule out Mr Peretz's alternative of removing the ceiling on lotteries and letting the private sector get on with it. There might be nothing left for either the Treasury or the charities at the end of the day.

2. Motivation. Given that the Treasury's interest lies in maximising the surplus on gambling as a whole - and not in feeding the appetite of the gamblers for a flutter - would it make very much difference how a national lottery was presented. Would many more punters be brought in by the thought that the surplus on the lottery was going to be devoted to hospital building, buying pictures for the National Gallery etc etc? Or are we in the business of offering a no frills gambling service, like a no frills dealing service on the Stock Exchange, where you put your money in and, with a great deal of luck, get a prize out? Will people buy a lottery ticket in the street because they are moved by a placard showing the plans for the new dialysis wing, or a reproduction of the Titian that is about to go abroad? On the answer to this

question depends how we say we are going to use the lottery's surplus. Will it be just taxed away, as in the case of football pools, and used to augment or replace other sources of revenue? Or will there have to be an elaborate system for allocating the surplus to the designated causes - and of designating good causes at the outset?

3. **Allocation of Surplus.** Assuming that there is a surplus, and that we cannot get away with just transferring it to the general pot of revenue, how are we going to choose the good causes? Will it be a ministerial task? Will we set up a board consisting of the wise and the good, who will sit and deliberate? Will the money be used for additional expenditures, or will we quite cynically select appealing items from existing programmes and hypothecate the lottery surplus to them?

These questions have been raised, but not conclusively answered, in papers and discussions. Whether the gambling market has the capacity for a big new participant is something nobody can answer without going out and doing the research. And that needs to be disinterested research - not the optimistic forecast of a would-be promoter. Whether people will buy more lottery tickets if they know the surplus is going to good causes is something one can only guess at, unless one moves in gambling circles. The only question that can be safely answered on the basis of in-house Treasury experience is whether the surplus of the lottery should be used to fund additional public expenditure or whether it should be used to substitute for existing sources of money.

  
P J CROPPER

22 December 1987

From : D L C Peretz  
Date : 23 December 1987

**CHANCELLOR**

cc CST  
FST  
PMG  
EST  
Sir P Middleton  
Mr Anson  
Sir G Littler  
Miss Mueller  
Mr Cassell  
Mr Kemp  
Mr Monck  
Mr Scholar  
Mr Culpin  
Mr Gilmore  
Mrs Lomax  
Mr Odling-Smee  
Mr Spackman  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr M Richardson  
Miss O'Mara  
Mr Parsonage  
Mr Rich  
Mr Cropper  
Mr Call  
Mr Tyrie

PS/Customs & Excise

Ch  
I think that the second annex to the annotated agenda covers most of the information you sought about other countries' lotteries. Would you like us to get this put into a table, or can it stand as is?

AT  
3/12

Admin's info still reqd.

(17) National Lottery  
800, answers re particulars to questions (b) & (c).

**NATIONAL LOTTERY**

As promised in the Financial Secretary's minute of 21 December, I am attaching an annotated agenda for your planned meeting, and a slightly revised draft paper. You have also had comments from the Chief Secretary, the Economic Secretary, and the three political advisers. And you will have seen the minutes of the discussion at PCC. You have also seen my earlier minute of 8 December.

2. It is hard to know the best starting point for a discussion. You will see I have put expected proceeds first, on grounds that this colours much what follows.

3. I have attached a couple of annexes to the annotated agenda, prepared by Mr Rich, giving some figures for gambling in the UK, and on the experience with state and national lotteries overseas. This material could be annexed to the paper to be circulated to

colleagues, although if we decide to advocate a single large national lottery the material will need to be presented in a slightly different way.

DLC

D L C PERETZ

*behind* | **PS** I have just seen the Home Secretary's letter of 22 December. This is extremely irritating. We have gone out of our way in MG to have no contact at all with the Home Office on this subject. The last contact we had was at the time of the previous round of Ministerial correspondence in Jan-March. At that point Mr Hurd indicated he was thinking of proposing some raising of the "local" lottery limits after the election - but we had assumed the idea had died, since until today we had heard no more of it.

The letter affects handling and tactics, if nothing else, since we will have to relate our initiative to his. But I assume you will still want a discussion about which approach we should propose. It gives us a clear opening to say that we favour a national lottery, and have a proposal to make. And if we want to go down the deregulation route, I have little doubt we would want to propose something a good deal more radical than the Home Office.

## **NATIONAL LOTTERY : ANNOTATED AGENDA**

### **1. What would the net proceeds be?**

Estimates range from total stake money of £½ billion, giving net proceeds of under £100 million (based on the 1978 Royal Commission estimate), to total stake money of over £3 billion, giving net proceeds of over £1 billion (based on estimates made recently by potential promoters, Rothschilds bank and overseas experience). Important considerations are :

- i) does a successful result depend crucially on the degree of "hype" put into promoting the exercise?
- ii) the size of the existing market, how far a lottery would tap a new market, and how far it would divert money going into other forms of gambling (it is more obviously a direct competitor with the pools than with, say, betting on horses and dogs which involves a greater degree of skill, and where the percentage of stakes paid out as winnings is much higher).
- iii) the tax loss from the diversion of spending.

The two annexes attached give figures for current expenditure on gambling in the UK; and some figures on overseas experience.

### **2. A single national lottery, or deregulation of "local" lotteries.**

How far does this decision depend on estimates of the total likely proceeds? (If small, then is the effort to set up a national lottery worth it?). Would a single national lottery would produce bigger proceeds, because it could be promoted more vigorously? Other arguments for and against : presentational aspects; economic philosophy; lack of control over use of the proceeds with deregulated lotteries; extent of regulation (eg over beneficiaries, permitted operators, maximum prize payout, maximum size) that would still be needed.

### 3. Use of the proceeds

- i) do we accept that to get the idea off the ground the proceeds have to be used to increase total spending on the chosen causes, including some increase in the public expenditure planning total - but allowing some reduction in the burden of taxation and/or borrowing, and in the long run reducing some of the future pressures on public spending?
- ii) which causes should be supported? If the amounts of money raised are large, we would presumably want to direct them towards substantial areas of spending; if only modest then it might be better to direct them to areas where proportionately they would seem larger (sports, arts and so on). Pros and cons of a lottery devoted only to the health service?

### 4. Selling the idea

We need to consider what our response is to the difficulties listed in paragraph 4 of the draft paper and the strength of the likely opposition. In addition :

- i) do we accept that, however desirable, a lottery with proceeds paid into the general pot of government revenues would not attract sufficient support to get off the ground?
- ii) how substantial a piece of legislation are we prepared to contemplate? (At first sight deregulation might be achieved with relatively minor legislation - for example to permit local health authorities to run lotteries - but this may turn out to be over optimistic on closer investigation).

## **5. Premium bonds**

If we are going to start interdepartmental discussion, do we want to discuss the future of the premium bond scheme in that context; or should this be kept as something to be considered separately by the Treasury?

## **6. Handling**

- i) before opening the subject up to interdepartmental discussion, Treasury Ministers will presumably want to raise the idea bilaterally with the Home Secretary and No.10/the Lord President.
- ii) do we want to/can we avoid the H Committee machinery?
- iii) what sort of paper do we want to circulate : something like the present draft; a version that also leaves open the deregulation approach; or a proposal for deregulation only? Once we have decided which approach to go for the paper will need sharpening up to argue the chosen case more strongly.

*Peretz note*  
*23 Dec. Last.*

Annex

Extent of Gambling in the UK

1. The National Income "Blue Book" gives a figure of £2 billion a year. The Family Expenditure Survey implies a range of £1.5-£2.5 billion a year. These figures measure "true turnover" or money lost. They are net of winnings for major gambling activities - pools, horses, dogs, bingo, slot machines and casinos. A high proportion of stakes are returned as winnings, and spent or ploughed back. This does not apply to lotteries, raffles, prize competitions and the like, but these are a very small part of the total gambling scene.

2. Total money staked is therefore far more than the £2 billion noted above. The 1978 Royal Commission estimated £7.2 billion. Current estimates are:

	<u>£ billion</u>
(i) <u>Gambling subject to tax</u>	
Horse/dog racing	4.4
Casinos	1.6
Jackpot machines	0.8
Bingo	0.8
Pools	<u>0.6</u>
	8.2
(ii) <u>Gambling not subject to tax</u>	<u>0.3*</u>
	8.5

\*Most of this is on small unregistered club and charity lotteries, raffles and competitions about which information is not held centrally. The largest lottery schemes have to be registered with the Gaming Board. Ticket sales in 1986 were £22 million.



3. In addition to the above, sales of Premium Bonds (which might be regarded as money staked, even though the "stake" is returnable on demand) are £200m a year.

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AnnexNATIONAL LOTTERIES IN OTHER COUNTRIES

1. Many other countries run national or state lotteries. Appendix 1 lists some examples, and shows how the net proceeds are applied.

2. Current information about the size of the lotteries is sparse. Some figures have been provided by sources such as G-Tech and Rothschilds to support their proposals for a UK national lottery. An analysis by G-Tech of lottery sales in various State lotteries in the USA and elsewhere is in Appendix 2.

3. There is little other up to date information about state or national lotteries. But various sources have reported the following:

	<u>Total sales</u>
	<u>fbn a year</u>
— Australia	0.5
— France	1.5
— Canada (Lotto 6/49)	0.5
— Spain	4.0
USA (those states covered in Appendix 2)	4.5

The accuracy of these figures is subject to confirmation. For this purpose, and to collect more information about the lotteries run by many countries it would be necessary to undertake further enquiries. One source would be the International Association of State Lotteries; others would be organisations promoting large scale lotteries under state control - eg in Europe, USA, Canada and Australia.

4. The Royal Commission on Gambling studied some overseas lotteries, although it did not publish details of turnover. It noted that large lotteries had shown their potential for raising substantial sums for good causes. It also noted that such success often stemmed from the limited alternatives permitted, so that there

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was no guarantee of similar success in Britain, where virtually every other form of gambling was already permitted. The Commission therefore argued that in assessing the prospects for a British "good causes" lottery, it would be better to rely more on enquiries and opinion here than on overseas experience.

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HOW SOME GOVERNMENTS ALLOCATE PROFITS

Many government-sponsored lotteries, national or regional, hypothecate the net revenues to a particular area of public concern. Some examples are:

<u>Jurisdiction</u>	<u>Allocation</u>
Queensland, Australia	National Treasury
Western Australia	Sports, health, charities, culture, medical research
Rhineland-Pfalz, Germany	Social development, health, sports, charities, education
Israel	Education, health
Japan	Medical equipment
Korea	Civil housing, Olympic fund
Mexico	Public assistance
Suisse Romande, Switzerland	Culture, charities, medical and scientific research
Arizona, USA	Culture, transportation
Michigan, USA	Education, charities
Pennsylvania, USA	Senior citizen programmes

UNITED STATES ON-LINE LOTTERY SALES

APPENDIX 2

1985

	<u>POPULATION</u>	<u>TOTAL</u>	<u>ANNUAL</u>
	<u>(000)</u>	<u>ON-LINE SALES</u>	<u>PER CAPITA</u>
		<u>(millions)</u>	<u>SALES</u>
		<u>US\$</u>	<u>US\$</u>
Arizona	3.1	60.83	19.62
Connecticut	3.2	293.31	91.66
Washington, DC	0.6	108.39	180.65
Delaware	0.6	37.87	63.12
Illinois	11.5	1,000.68	87.02
Maine	1.1	12.58	11.44
Maryland	4.3	699.39	162.65
Massachusetts	5.8	820.27	141.43
Michigan	9.2	815.35	88.63
New Hampshire	1.0	10.75	10.75
New Jersey	7.5	878.30	117.11
New York	17.7	1,188.59	67.15
Ohio	10.2	773.05	75.79
Pennsylvania	11.9	1,136.40	95.56
Rhode Island	1.0	21.59	21.59
Vermont	0.5	3.17	6.34
Washington	0.5	92.47	21.51
Total U.S. On-Line	<u>93.5</u>	<u>\$7,954.72</u>	<u>\$85.08</u>

SOME NON-U.S. ON-LINE LOTTERIES(1983)

New South Wales	5,308	695,403	130.63
Quebec, Canada	6,438	529,858	82.30
Ontario, Canada	8,600	439,710	51.13

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ANNEX 2A NATIONAL LOTTERY: EFFECT ON REVENUE FROM BETTING AND GAMING

1. During the 1980s, the volume of spending on gambling has remained fairly constant at around 1% of total consumer expenditure. Total net expenditure on gambling is now about £2 billion a year. Total money staked is around £8½ billion. Tax revenue is about £800 million a year, mainly from the following sources:

	<u>Tax Take</u> <u>£ million</u>
General betting duty	320
Pool betting	235
Gaming	150
Bingo	50

A national lottery is likely to siphon off some spending on existing taxed gambling. A crucial task before a national lottery was established would therefore be to ensure there would be no net loss of revenue. (Some forms of gambling - including lotteries and newspaper/magazine competitions - are not subject to tax).

2. From these figures, a crude and very approximate extrapolation suggests that the main loss would be from pool betting, which is subject to the highest rate of duty (42½%). If there were a national lottery, about a third of current spending might switch. If racing and other general betters (duty rate 8%) split stakes 50:50 between racing and a national lottery, it can be inferred that there might be an overall switch of about a third. A small switch might also be made by bingo players. It seems unlikely that there would be a marked effect on gaming duty, most of which comes from hard gambling in casinos etc.

3. It is impossible to give a precise estimate of tax loss from such broad assumptions and dated material. But an order of magnitude can be derived. If a national lottery annual turnover were £100 million, it might accrue from £65 million new money/untaxed

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gambling and £35 million taxed gambling (about a third, rounded up slightly for bingo etc - see paragraph 2). Assuming the £35 million was switched in equal proportions from pools and general betting, the tax loss at current rates would be about £9 million a year.

4. On top of this, there would be a further loss of VAT revenue to the extent that a lottery diverted resources from consumer spending on taxed goods. For illustrative purposes, if half the £65 million mentioned in paragraph 3 came from this source, the VAT loss might be as much as £5 million but in practice some of this is likely to be offset by winners spending their prize money on taxable goods.

**CONFIDENTIAL**

FROM: A G TYRIE

DATE: 23 DECEMBER 1987

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Peretz  
 Mr Turnbull  
 Mr Gilmore  
 Mr Cropper  
 Mr Call

~~Other [unclear]~~  
 Pse Dale 21/12  
 FST for his number  
 advised for Per  
 There is one  
 I need for my  
 a large  
 a major combat  
 (a) how  
 much is raised  
 govts &  
 in cash form  
 (b) what  
 is split on  
 who decides  
 etc.

A NATIONAL LOTTERY

I agree with the Financial Secretary

I suspect that a national lottery would raise very large sums of money, a good deal of which would be additional to existing sources of revenue from gambling. A lottery would only be worth doing if these additional funds were raised. Mr Peretz's suggestion, that we deregulate the operation of private lotteries by removing existing restrictions, has the drawback that we would probably forego most of the additional revenue. Could a number of small lotteries possibly raise remotely as much as a well advertised well organised national lottery? Unlikely.

Nevertheless there are considerable attractions with the Peretz route:

- i. It would alay the concerns of the public expenditure side of the Treasury. They are concerned that single issue national lotteries would lead to resource misallocation (more raised for a cause than could reasonably be needed). They are also concerned that,



were the national lottery to be run through a semi-independent body, the chairman of it could become an effective lobbyist for more government spending, for example, through matching funding.

ii. The lower key deregulation route would be easier to sell to colleagues. The Home Office/Lord Whitelaw anti-gambling lobby could prove quite an obstacle.

iii. Small scale deregulation would probably also be easier to sell to the charities/voluntary world. They would at least all have the opportunity to set up their own lottery, or (if very small) have the opportunity to group together to set one up.

iv. The Peretz route would involve very simple legislation.

[Savage] Despite these strong advantages I still hanker after a national lottery because I am reluctant to forego the big money raising opportunities it offers. GEP's objections would fall, I think, if a national lottery were not hypothecated and I doubt that we need hypothecation to make a success of a national lottery. This would point simply to taxing a national lottery, much as we do with Littlewoods now.

However I doubt that we could get such a blatant incentive to gamble past your Cabinet colleagues. Health, particularly in the current climate, is perhaps the one area for which colleagues would be prepared to accept a national lottery. So if we want a national lottery we need to find a way to allocate funds to health while safeguarding GEP's patch. I don't have an off-the-shelf allocation scheme to suggest now, but I am sure it is not beyond us to find one.

AGT.

A G TYRIE



*JMG*

FROM: J M G TAYLOR

DATE: 31 December 1987

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
Mr Cropper  
Mr Tyrie  
Mr Call

**NATIONAL LOTTERIES**

The Chancellor was grateful for the Financial Secretary's minute of 21 December, the Chief Secretary's minute of 22 December, and for the contributions of Special Advisers. He will hold a meeting on this in the New Year.

*JMG*

J M G TAYLOR