

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

22 March 2016

Report of the Director of Central Services and Monitoring Officer

Part 1- Public

Executive Non-Key Decision

1 ONLINE COMMUNITY LOTTERY

1.1 Introduction

1.1.1 As a result of the ongoing financial challenges facing the Council, we are considering how we might do things differently, more efficiently and with increased income opportunities where these exist. Members will be aware that a Savings and Transformation Strategy was adopted by Council on 16 February 2016, which set out a framework for addressing our financial challenges. One of the objectives set out in that Strategy was to be open to accept 'cultural' change in the ways we work and offer services to the public in order to release efficiencies and savings.

1.1.2 In pursuance of that objective, this report seeks the approval of Members to proceed with the launch of an online lottery for Tonbridge and Malling to provide discretionary support to local voluntary and community groups.

1.2 Lottery Market place

1.2.1 As Members will be aware, there are a number of lotteries running in the UK. Details of these are summarised below.

Provider	Odds of Jackpot win	Odds of any prize	% share to good causes
Euromillions	1:116 million	1:13	28%
National Lottery	1:45 million	1:9	28%
Health Lottery	1:2 million	1:108	20%
People's Postcode Lottery	Not available		27.5%

- 1.2.2 To the best of our knowledge there are no Borough-wide lotteries being delivered within Tonbridge and Malling at the present time. There are however 78 small society lotteries registered with the Borough Council.
- 1.2.3 Non-commercial or society lotteries are an established way to raise money for charities and other not-for-profit good causes. A non-commercial organisation is defined under the Gambling Act 2005 as one established –
- For charitable purposes
 - For the purpose of enabling participation in, or of supporting sport, athletics or a cultural activity; or
 - For any other non-commercial purpose other than that of private gain.
- 1.2.4 Lotteries of this type are small-scale and raise sums of money for charities and other good causes within the Borough. They may be promoted through face to face sales, over the counter, by post and via remote means e.g. online, over the phone or via email. Generally speaking, however, we believe that the majority of small society lotteries in the Borough are promoted through face to face sales i.e. by selling physical tickets in advance of a lottery/ draw. This will inevitably result in high administration costs for the good causes in question e.g. through production and distribution of physical tickets.
- 1.2.5 As an alternative to the traditional approach, we believe that an opportunity exists within the market place for the Borough Council to consider delivery of an online lottery, which would maximise the return of funds to the local community whilst minimising the administration for local voluntary and community groups. This report sets out a proposal for delivery of such a lottery.

1.3 **Local Authority Lotteries**

- 1.3.1 In simple terms, a lottery is a type of gambling that has 3 essential elements: one has to pay to take part, one or more prizes are awarded and those prizes are awarded by chance.
- 1.3.2 The Gambling Commission places specific requirements upon the proceeds of lotteries and other monetary limits through licence conditions and codes of practice. These reflect specific limits imposed by the Gambling Act 2005, which creates 2 broad classes of lottery – (1) the small society lottery and (2) large society lotteries and lotteries run for the benefit of local authorities.
- 1.3.3 In respect of local authority lotteries, the requirements include the following –
- There is no maximum price of a lottery ticket
 - Every ticket in the lottery must be the same price

- A local authority lottery must apply a minimum of 20% of the gross proceeds of each lottery directly to a purpose for which the authority has power to incur expenditure. Up to a maximum of 80% of the gross proceeds of each lottery may be divided between prizes and the expenses of the lottery.
- In a single local authority lottery the maximum value of tickets that can be sold is £4 million. The maximum aggregate value of lottery tickets that can be sold in any calendar year is £10 million.
- The maximum prize in a single local authority lottery is £25,000 or 10% of the proceeds (gross ticket sales), whichever is greater.
- No lottery organised by a local authority may operate in such a way that a player can win a prize greater than £400,000
- Rollovers are permitted provided the single maximum single prize is not breached.

1.4 **Delivery Options**

1.4.1 Traditionally, lotteries have operated through sales of physical tickets. This has served local causes well for a number of years, but with the increasing use of the internet it is considered that the most efficient way to both administer a lottery, and attract players, is through the development of an online lottery.

1.4.2 The Council may either look to deliver a lottery in-house or through an External Lottery Manager (ELM). These 2 options are evaluated below –

- **In-house**

The Council does not presently have the necessary software systems that would enable it to run an online lottery. It is estimated that the initial set up costs alone could be considerable, potentially up to £50,000. On top of this we would also have the staffing costs of running the lottery.

- **External Lottery Manager (ELM)**

There are a number of existing providers of lotteries in the market place. These ELMs are capable of delivering all aspects of the lottery, including ticket payments, prize management and marketing. There would of course be a cost to a partnership with an ELM.

1.4.3 An important consideration in whether to deliver a lottery in-house or through an ELM is the element of risk. Until a lottery is 'live', there can be some uncertainty about the number of players, which need to be set against the potential set up costs were the Council to progress a lottery in-house. Given this uncertainty

together with the other considerations set out in this report, the preferred option is to use an ELM.

1.4.4 Preliminary discussions have taken place with 3 ELMs, which for reasons of commercial confidentiality are set out in the restricted **Annex 1**.

1.4.5 For the reasons set out in Annex 1 it is recommended that Capen Ltd is appointed as the ELM.

1.5 Structure of lottery

1.5.1 It is proposed that the lottery would be structured as follows

- Ticket price - £1 per week, Participants are able to sign up online or via mobile and pay by direct debit or payment card
- Draw frequency – once per week (Saturday)
- Players can choose to buy a ticket to support a specific good cause (50% to the ticket price to the chosen good cause and 18% to central fund administered by Council) or if purchased directly i.e. without specifying a good cause (68% of ticket price to central fund)
- Good causes can apply to join the lottery via the website. The process will be designed to be as simple as possible. All such applicants would then need to be approved by the Council before they are provided with their own branded page within the site. The cause keeps 50% of all ticket sales generated through their page, and paid their income automatically on a monthly basis. Good causes would be provided with marketing material to help promote/ grow the lottery. Any monies due under the central fund would be paid automatically to the Borough Council.

Allocation of proceeds: see table below

Proceeds Apportionment				
	Specific Good Cause		Central Fund	
	<i>% Allocation</i>	<i>£ Allocation per ticket</i>	<i>% Allocation</i>	<i>£ Allocation per ticket</i>
Specific Good Cause	50	£0.50	-	-
Prizes	20	£0.20	20	£0.20
Central Fund	18	£0.18	68	£0.68
External Lottery Provider	12	£0.12 (inc VAT)	12	£0.12 (inc VAT)
Totals	100	£1.00	100	£1.00

Player Modelling analysis*

Number of players	Receipts per annum
1000	£35,360
2000	£70,720
3000	£106,080
4000	£141,440
5000	£176,800

* This modelling assumes a ticket price of £1, with the players buying 1 ticket per week and continuing to play for 52 weeks. It also makes no distinction between players selecting individual good causes and those playing without specifying a particular good cause i.e it assumes a return £0.68 in the pound.

Number selection and prize structure

- 1.5.2 Players are provided with a unique 6 number entry into the lottery. To win the jackpot the ticket must match these 6 numbers. Multiple tickets are able to be purchased, with each ticket having a unique set of 6 numbers. Each player is also entered into a free bonus draw for a guaranteed £1000 prize, and 'Bolt on' prizes are also possible. The jackpot is an insured prize. It is a guaranteed pay out of £25,000 per jackpot, plus £25,000 to the good cause supplying the winner.

Number Selection and Prize Structure		
	<i>Winning Odds</i>	<i>£ Prize</i>
6 numbers	1:1,000,000	£25,000 (plus £25,000 to good cause supplying the winner)
5 numbers	1:18,220	£1,000
4 numbers	1:823	£100
3 numbers	1:69	3 free plays

- 1.5.3 The central fund would be administered by the Borough Council. It is proposed that the fund would be used in the first instance to support existing commitments to voluntary sector bodies and community organisations, thus ensuring that all of the proceeds go to good causes within the Borough.

1.6 **Responsible Gambling**

- 1.6.1 It is recognised that gambling can lead to a range of problems for a small minority of individuals and their families. Lotteries are a form of gambling and as such we are required to ensure that children and other vulnerable people are not exploited by the proposed lottery.
- 1.6.2 The minimum age for participation in a local authority lottery is 16 years of age. A person commits an offence if they invite or allow a child to enter such a lottery.
- 1.6.3 The Council must take all reasonable steps to ensure that information about how to gamble responsibly and how to access information and help in respect of problem gambling is readily available.
- 1.6.4 The Gambling Commission have set out specific social responsibility requirements in their licence conditions and Codes of Practice. These would apply to any licence held by the Borough Council for the purposes of operating this lottery.

1.7 **Legal Implications**

- 1.7.1 Lotteries are illegal unless they fall into one of the categories specifically permitted by law. The relevant law for the purposes of the proposals in this report is the Gambling Act 2005, which creates a number of categories of permitted lottery. One of these is a local authority lottery.
- 1.7.2 All local authority lotteries must be run under an operating licence issued by the Gambling Commission. A local authority lottery must apply a minimum of 20% of the gross proceeds of each lottery directly to a purpose for which the authority has power to incur expenditure.
- 1.7.3 A local authority may employ an ELM to manage all or part of its lottery. All ELMs must hold a lottery manager's operating licence issued by the Commission before they can manage a local authority lottery. ELMs must also hold a remote gambling licence if they intend to sell tickets by means of remote communication e.g. internet.
- 1.7.4 The employment of a licensed ELM does not absolve the Council from its responsibility to ensure that the lottery is conducted in such a way as to ensure that it is lawful and fully complies with all licence conditions and relevant codes of practice. The Council would still require an operating licence of its own from the Gambling Commission.
- 1.7.5 Provisional discussions have already taken place with the Gambling Commission, in order to ensure that the proposed lottery meets with any requirements it may have. A number of further requirements will be addressed as part of the application process.

1.8 **Project timeline**

1.8.1 Subject to the agreement of Members, a proposed timeline is set out below

22 March 2016 – Decision by Cabinet

w/e 1 April 2016 – Application submitted to Gambling Commission

w/c 23 May 2016 – Launch event (subject to approval of licence)

4 June 2016 – First draw

1.9 **Financial and Value for Money Considerations**

1.9.1 The costs of operating the lottery are set out below

- £10,000 initial payment to Capen Ltd for setting up the lottery, website design, branding support, digital strategy support and campaign management.
- £3,000 marketing costs (estimated) for launch of lottery
- £488 – cost of applying for operating licence from Gambling Commission
- £244 – annual licensing fees payable to Gambling Commission
- Ongoing staff time in marketing the lottery and approving applications from community groups.

1.9.2 Income from the lottery would be distributed as set out in paragraph 1.5 above.

1.9.3 It is intended that the lottery website would be designed so as to allow for secondary revenue income opportunities from advertising.

1.9.4 The Gambling Commission imposes a number of financial requirements for local authority lotteries. These include a requirement that accounting records must be kept for a minimum of 3 years and must be made available to the Commission on request.

1.10 **Risk Assessment**

1.10.1 The proposed lottery offers a low risk opportunity for voluntary and community groups to raise funds for their causes. It will allow such groups to reduce/eliminate the overheads associated with running a traditional lottery whilst at the same time receiving a guaranteed share of receipts from supporters who play the online lottery.

1.10.2 The financial risk to the Borough Council will be limited to the initial start-up costs, licence fees payable to the Gambling Commission plus the ongoing staffing costs of marketing and approving applications from voluntary and community groups.

1.10.3 The prize fund will be fully insured, with the premiums payable by the External Lottery Manager. There will therefore be no financial risk to the Borough Council in the event that a player is successful in winning the jackpot or any other of the prizes on offer.

1.11 **Equality Impact Assessment**

1.11.1 The proposed lottery will deliver benefits to voluntary and community groups. As such, the scheme will provide a positive contribution to promoting equality.

1.12 **Recommendation**

1.12.1 It is **RECOMMENDED** that

- (1) An online community lottery be launched as detailed in the report;
- (2) The Director of Central Services be authorised to apply to the Gambling Commission for a licence to operate a remote local authority lottery and to make consequential amendments to any documentation in order to meet the requirements of the Commission;
- (3) Capen Ltd be engaged as an External Lottery Manager for the purposes of the lottery. The costs of appointing Capen, and the initial marketing costs, to be met from the invest to save reserve;
- (4) The draft criteria at **Annex 2** be approved for acceptance of good causes into the lottery and the Director of Central Services be authorised to approve or reject applications
- (5) Authority be delegated to the Director of Central Services to approve the final arrangements for launch of the lottery;

Background papers:

Nil

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