

De Minimis Assessment (DMA)



Department for
Digital, Culture
Media & Sport

Title of regulatory proposal	Society Lottery Reform Package
Stage	Consultation
Lead Department/Agency	DCMS
Expected date of implementation	06/04/2019
Origin	Domestic
Date	15/12/2017
Departmental Triage Assessment	EANDCB = -£0.1m

Call in criteria checklist

Significant distributional impacts (e.g. significant transfers between different businesses or sectors)	No
Disproportionate burdens on small businesses	No
Significant gross effects despite small net impacts	No
Significant wider social, environmental, financial, or economic impacts	No
Significant, novel, or contentious elements	No

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SUMMARY

Rationale for government intervention

The government regulates the lottery market to ensure the growth of returns to good causes via large society lotteries in a way that has no detrimental impact on The National Lottery. This includes caps on sales and prize limits for society lotteries.

Moderate deregulation will reduce potential barriers to growth in the society lottery industry, while allowing the Gambling Commission to monitor any effects on The National Lottery.

Policy options

Option 0: Do nothing: No change to sales or prize limits for society lotteries. This would continue to protect the unique space in which The National Lottery operates, but would not allow society lotteries room to grow nor to generate greater returns to good causes.

Options 1-5: Consult on a range of options that reduce restrictions on society lotteries, also considering the impact of tightening restrictions on per draw and maximum prize limits. The full list is laid out below with options' 1b, 2b and 3c being the preferred options. These options are in line with the Gambling Commission's recommendations. It is believed that these measures will enable the society lottery sector to maximise returns, whilst ensuring that any changes are not to the detriment of The National Lottery, as well as ensuring regulatory requirements are consistent with a lottery's size.

Large society lotteries

1. Individual sales limits per draw

Option 1a. Retaining the current limit of £4 million;

Option 1b. Raising the limit to £5 million (**Government's preferred option**);

Option 1c. Raising the limit to £10 million;

Option 1d. Lowering the limit to £2.5 million

2. Individual prize limits per draw

Option 2a. Retaining the current limit of £400,000;

Option 2b. Raising the limit to £500,000 (**Government's preferred option**);

Option 2c. Raising the limit to £1 million;

Option 2d. Lowering the limit to £250,000

3. Annual sales limits

Option 3a. Retaining the current limit of £10 million;

Option 3b. Raising the limit to £50 million;

Option 3c. Raising the limit to £100 million (**Government's preferred option**)

Small society lotteries

4. Individual sales limits per draw

Option 4a. Retaining the rule that a society lottery is small and does not require a Gambling Commission licence if its proceeds cannot exceed £20,000;

Option 4b. Raising the limit to £30,000;

Option 4c. Raising the limit to £40,000

(Government has no preferred option)

5. Annual sales limits

Option 5a. Retaining the rule that a society lottery is small if the aggregate proceeds of society lotteries promoted by that society in that calendar year do not exceed £250,000;

Option 5b. Raising the limit to £400,000;

Option 5c. Raising the limit to £500,000

(Government has no preferred option)

Summary of business impact

The overall impact to business (in this case civil society) with regards to the proposed options is positive, with the exception of the option to reduce the maximum per draw sales limit and prize limit, which would have a negative impact on those societies already offering draws and prizes at that level.

The options to increase the limits would bring significant expected non-quantifiable benefits to individual society lotteries and the industry as whole. This is because societies will have greater freedom to raise more money and expand their business, as well as experiencing benefits from a reduced regulatory burden. These non-monetised benefits are expected to be of an order of magnitude higher than the monetised benefits.

There are some minor familiarisation costs for the largest lotteries that employ IT systems to control their annual and draw sales (estimated to be £20,000).

For the preferred options, the net quantified benefit over a ten year period is estimated to be between £53,000 - £60,000. These benefits are experienced by societies who will only require a local authority licence if the annual sales limit for small society lotteries is raised, with between 196 to 224 former large society lotteries falling out of Gambling Commission licensing. The EANDCB equates to -£0.1m (rounded to the nearest 0.1m).

There may be negligible transition costs to large society lotteries as they familiarise with higher prize and sales limits which have not been deemed proportionate to cost. Furthermore, no disproportionate cost is anticipated for small and micro businesses. In reality, it is unlikely these small societies are raising money anywhere near the current limits and will remain unaffected with the proposals to increase these limits.

SUPPORTING EVIDENCE

Rationale for government intervention

1. The government's objective is to maximise returns to good causes from society lotteries without causing detriment to The National Lottery.
2. There is insufficient evidence at present to predict the full impact of further deregulation on The National Lottery. However, in NERA's *Review of the UK Gambling Market (2015)* for the Gambling Commission, it was suggested that "under small changes to existing

limits the impact on The National Lottery is likely to be small"¹. The Commission recommend a 25% increase to the current annual draw limit. The Commission will also develop a series of triggers to determine when societies are once again approaching the limits, enabling us to review and respond accordingly in the future.

Policy options

3. Policy Objectives:

- Allow society lotteries to grow and drive an increase in good cause returns, without causing detriment to The National Lottery good cause contribution.
- Assess the impact of growth of society lotteries on The National Lottery.
- Maintain the distinction between the society lottery market and The National Lottery (e.g. preserving TNL's monopoly, as intended by the National Lottery etc Act 1993 and the Gambling Act 2005).

Option Zero (Do Nothing)

4. There are no benefits or costs to business of maintaining the status quo (as this option is the counterfactual).

Options 1-5

5. The proposed changes to the limits are outlined within the main body of the consultation document and are summarised as follows:

Large society lotteries

Individual sales limits per draw

- Option 1a. Retaining the current limit of £4 million;
- Option 1b. Raising the limit to £5 million (**Government's preferred option**);
- Option 1c. Raising the limit to £10 million;
- Option 1d. Lowering the limit to £2.5 million

¹ "Review of the UK Gambling Market – Project Phase I For the Gambling Commission", NERA (2015) as referenced in Gambling Commission advice.

Option 1a: Retaining the current limit

6. Increasing the limits in the past has led to growth in a proportion of society lotteries, with some coming close to the new limits.
7. Retaining the current limit is therefore unlikely to maximise the potential for society lotteries to make greater returns to good causes. Although the current trajectory suggests that for most societies, there is still some space for growth under the current framework, we are aware that a number of larger operators would likely be in a position to exceed the £4 million limit in the coming years.

Option 1b: Raising the limit to £5 million (Government's preferred option)

8. **We are proposing a preferred option to raise the per draw sales limit to £5 million, following the Gambling Commission's recommendation.**
9. This would enable the society lottery sector space to grow, while continuing to provide a clear distinction between society lotteries and The National Lottery.
10. Such an increase would allow societies to offer larger per draw prizes (of up to £500,000) to their players.
11. An increase of this scale permits the Commission to monitor the impact on the society lottery sector and The National Lottery to inform future uplifts. Understanding the impact of such an increase to the limits would contribute valuable information to future reviews.

Option 1c: Raising the limit to £10 million

12. The Lotteries Council (the major industry body for society lotteries), The Health Lottery, and charities supported by The Health Lottery's funding have argued for an increase to £10 million sales per draw, and in particular, a £1 million prize in order to generate increased funds for good causes.
13. We do not see a pressing need for reform on this scale, and instead favour gradual increases in the size of the market. It will take time for lotteries to grow their sales from current levels to £10 million and we feel that more understanding of the impact on the sector is needed before deregulating to this level.

Option 1d: Lowering the limit to £2.5 million

14. In 2017, 70 operators (the majority belonging to branded schemes) had per draw sales above £2.5m, though none had sales above £3m. Therefore, this option is likely to lead to a reduction in the amount of money that society lotteries can raise and be incompatible with our overall aims for reform, unless it were to be combined with a significant increase to the annual limits, for example to £100m. In this instance, societies would be able to hold smaller, but more frequent, draws.

Individual prize limits per draw

Option 2a. Retaining the current limit of £400,000;

Option 2b. Raising the limit to £500,000 (**Government's preferred option**);

Option 2c. Raising the limit to £1 million;

Option 2d. Lowering the limit to £250,000

Option 2a: Retaining the current limit

15. This would only be an option should we decide not to increase the individual per draw sales limit.
16. The Gambling Commission only started collecting data on the maximum prizes offered by society lotteries in April 2018, however we are aware that the majority of lotteries do not offer the top prize.

Option 2b: Raising the limit to £500,000 (Government's preferred option)

17. This would be the maximum individual draw prize limit should we increase the individual per draw sales limit to £5 million, our preferred option, as at present, the maximum prize is either £25,000 or, if more, 10% of the proceeds of the lottery. We are also seeking views on whether to cap the maximum prize at this amount if we raise the per draw limit to £10m.
18. An increase in the individual per draw prize limit to this level would be a positive response to those in the sector requesting greater flexibility to allow them to offer a larger prize, whilst remaining distinct from the life-changing prizes offered by The National Lottery, although it would parallel the current top prize offered by the Thunderball game.

Option 2c: Raising the limit to £1 million

19. The call for an increase in the individual draw prize limit to £1 million was made by the Lotteries Council, coupled with its call for an increase in per draw sales to £10 million. However, we are only aware of one lottery that is looking to offer such a prize.
20. This would be a significant increase from the current limit, and runs the risk of bringing society lotteries into closer competition with The National Lottery by enabling society lotteries to offer a 'life-changing' prize.
21. There is no evidence that current sales levels are such that a £1 million prize could realistically be offered for some time, unless we also changed the rule that the individual prize limit should be no more than 10% of sales.
22. We believe that the 10% rule should be retained, to ensure that the primary purpose of society lotteries as catalysts for raising money for good causes is maintained.

Option 2d: Reducing the current limit to £250,000

This would be the maximum permitted prize if we were to reduce the per draw limit to £2.5m. Although we do not currently have detailed data on the top prizes offered by society lotteries, we know that in practice few offer the highest permitted prizes, thus reducing the prize level in itself is unlikely to have a significant detrimental impact on the sector.

Annual sales limits

- Option 3a. Retaining the current limit of £10 million;
- Option 3b. Raising the limit to £50 million;
- Option 3c. Raising the limit to £100 million (**Government's preferred option**)

Retaining the current limit

23. Retaining the current limit would restrict further growth in the sector, particularly if we were to increase the per draw limit.

Option 3a: Raising the limit to £50 million

24. Raising the annual sales limit to £50 million would allow larger societies to grow substantially before hitting the upper limit, and may assist in long-term fundraising plans.
25. A higher annual limit allows greater flexibility for societies to offer either larger draws, or more frequent draws. Some societies hold successful large raffle-style lotteries, or a combination of large quarterly raffles to complement and grow a weekly subscription. This can leave little left over for regular smaller weekly or monthly lotteries.
26. At this limit, societies could hold a weekly lottery of c. £961,538 proceeds, with a top prize of £96,154; a monthly lottery of c. £4.2 million with a top prize of over £416,000; or 12 lotteries reaching the current maximum individual lottery proceeds limit of £4 million.

Option 3c: Raising the limit to £100 million (Government's preferred option)

27. Raising the annual sales limit from £10 million to £100 million was a key request from the sector, including the Lotteries Council and the Institute of Fundraising, and was also the Gambling Commission's recommended option.
28. Allowing significantly higher level of annual sales would allow the society lotteries sector to continue to grow, rule out the need for further increases in the foreseeable future, and align the sales limits with the proposed increases in prize and individual per draw sales limits.
29. The Gambling Commission advise that increasing the annual limit to £100 million will not affect The National Lottery as there would still be significant limits on society lotteries prizes and individual per draw sales.
30. Although this is a significant change, the per draw caps mean that societies will not be able to compete with The National Lottery, as under the preferred options in this consultation the proceeds of a single draw could not exceed £5 million sales, or have a prize higher than £500,000 (and would also be limited to twenty draws a year for a prize of this size).
31. Increasing to this limit has the potential to reduce administrative costs by removing the need for societies to adopt an umbrella structure.

Small society lotteries

Individual sales limits per draw

Option 4a. Retaining the rule that a society lottery is small and does not require a Gambling Commission licence if its proceeds cannot exceed £20,000;

Option 4b. Raising the limit to £30,000;

Option 4c. Raising the limit to £40,000

(Government has no preferred option)

Annual sales limits

Option 5a. Retaining the rule that a society lottery is small if the aggregate proceeds of society lotteries promoted by that society in that calendar year do not exceed £250,000;

Option 5b. Raising the limit to £400,000;

Option 5c. Raising the limit to £500,000

(Government has no preferred option)

Assessment of business impact

Benefits

32. Overall the preferred consultation options are beneficial to society lotteries due to proposing increases in previously stricter sales limits. The consultation will also seek stakeholder views on increasing the thresholds at which a lottery becomes considered large.

1. Raise individual sales limit to £5m

33. An increase in the draw limit with an increase in annual limits allows individual draws to grow. This gives society lotteries flexibility in the ways in which they can choose to grow their lottery, either through more draws or larger draws or a mix of both. This growth in revenue (sales) will also drive growth in contribution to good causes.

34. Data collected by the Gambling Commission shows that only a small number of lotteries came within 20% of the individual proceeds limit for large society lotteries, with only 11 draws in the six years to March 2017 falling within this bracket. In 2016, fifteen societies ran individual draws that came within 20% of the £4m limit.

35. The maximum prize that can be offered by a large society lottery is £25,000 or 10% of the proceeds of the lottery, whichever is the higher. Raising the individual draw proceeds will consequently raise the maximum prize from:

- a. £4m to £5m: maximum prize of £500,000

36. A higher prize may attract a larger customer base, which increases sales and therefore increases returns to good causes.

Table 1: Actual number and percentage of societies operating within 20% of the current proceeds limits (individual and annual)

	2011 2012	2012 2013	2013 2014	2014 2015	2015 2016	2016- 2017
# individual draws	11475	12462	12900	13137	13682	14281
# operators running lotteries	440	442	438	428	436	432
# draws within 20% of Annual limit	1	0	3	2	5	0
% draws within 20% of annual limit	0.01%	0%	0.02%	0.02%	0.04%	0%
# operators within 20% of Individual limit	0	3	2	9	15	27
% operators within 20% of Individual limit	0.00%	0.67%	0.46%	2.10%	3.42%	6.14%

Source – Gambling Commission Lottery returns (2011 to 2017)

II. Linking Prize to good cause contributions

37. Evidence from Nera suggests one of the most important determinants of demand for a lottery ticket is the prize, with increased prizes exerting a positive effect on demand. Allowing society lotteries to determine their maximum prize up to £500,000 provides lotteries with an alternative way of increasing demand for their draws. This in turn increase their returns to good causes.

III. Raise the Annual Sales limit to £100m

38. A number of society lotteries operating close to the £10m limit have chosen to adopt an umbrella structure in order to continue growing. The Call for Evidence highlighted that running lotteries across multiple societies adds significant costs - one operator estimated the cost of setting up a new lottery to be £141,740². Running costs were estimated to be approximately £88,937 by another operator³.
39. Average real growth of the industry is 11% over the past 10 years. Although the lottery sector is very diverse, it can be expected that if this rate of growth continues more societies will approach the limit and separate into multiple societies if the limit is not raised.
40. An increase in the annual sales limit therefore ensures society lotteries close to the limit have the ability and the incentive to grow, rather than the incentive to slow growth artificially or split into multiple society lotteries and form an umbrella lottery.
41. The Gambling Commission anticipate that taking into account the individual draw limit, and current growth projections, some schemes would have to further split their structure to avoid breaching a £25m limit by 2020.

IV. Raise the Threshold limits for small society lotteries

42. By raising the threshold you increase the number of lotteries that can be registered with Local Authorities at a lower cost to the businesses (rather than licensed with the Gambling Commission). This provides potential savings to the societies in administrative burden and a reduction in their costs.
43. The lowest category for large society lotteries i.e. annual lottery proceeds of up to £100,000) incurs an application fee of £147 and subsequent annual fee of £348. In comparison, registration of a small society lottery with a local authority costs £40, with an annual fee of £20.
44. The number of lotteries affected by this decision depends on the increased threshold. It is not evident that there is a need to raise the limits, however, if there is demand from the sector, then subject to consultation we may raise the limit to either £400k or £500k (which would take between 196 and 224 out of Gambling Commission regulation and into local authority control).
45. This will affect at least 196 society lotteries representing a saving of £107 per application and £328 a year in ongoing savings.

² MacMillan Response to Call for Evidence 2015 (not published)

³ People's Postcode Lottery Response to Call for Evidence 2015 (not published).

46. Tables 2 and 3 show the number of operators falling in scope of a Local Authority registration if the individual draw threshold were to be raised to £30k or £40k, or the annual sales threshold was raised to £400k or £500k.

Table 2: Impact of raising the Individual draw threshold for small society lotteries

(2016-17) Raising the individual draw threshold[1]	to £30k	to £40k
# Individual draws in scope*	11,590	12,319
% of total individual draws*	81%	86%
Average extra per Local Authority	31	32

Source – Gambling Commission Lottery returns (2011 to 2017)

Table 3: Impact of raising annual proceeds limit for small society lotteries

(2016-17) Raising the annual draw threshold[2]	to £400k	to £500k
# operators in scope	196	224
% of all operators	45%	52%
Average extra per Local Authority	0.54	0.62

Source – Gambling Commission Lottery returns (2011 to 2017)

47. Lottery returns for 2014-2015 show 157 active operators who had annual proceeds of less than £250,000 and individual proceeds of less than £20,000 (i.e. classified as ‘small’ society lotteries by the Gambling Act). These 157 operators choose to remain licensed due to the integrity that comes with holding a Gambling Commission licence or future plans for fundraising through lotteries. *Note: This number has reduced slightly since 2011 as a result of some work undertaken by the Commission to persuade some operators that they did not require a Commission licence.*

Costs

1. Raise individual sales limit to £5m

48. Small costs to business due to familiarisation costs. However this is a benefit to the large lotteries near the current limits and should apply no significant direct or indirect cost to society lotteries.

49. IT staff time to update existing systems probably would be needed if the systems had monitoring flags in place (to place an alert if/when the lottery reached a trigger point of e.g. within 10% of annual or individual limits) but this time would be minimal and be

incorporated into the IT personnel daily tasks – according to the Gambling Commission without going to the industry, cost should be approximately £100 per affected society, caveated that many societies will use an ELM's system which would bring the cost down as the ELM would install an update to the whole software it uses. Obviously not all societies would be affected, only those with the top category licence (approximately 200 operators).

II. Raise the Annual Sales limit £50 - £100m

50. Familiarisation cost as in *I. Individual sales limit* (above).

III: Raise the Threshold limits for small society lotteries

51. Cost of £40 per lottery to apply for the LA license.

Summary Tables

Table 4: Large Society Lotteries Options - Costs and Benefits

Large Society Lotteries							
Policy option			Limit change	Transition cost	Annual cost	Annual benefit	EANDCB
Option 1	Amend per draw sales limit	a	£4m (status quo)	£0	£0	£0	£0
		b	£5m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified
		c	£10m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified
		d	£2.5m	negligible	£0	Negative impact anticipated (not quantified)	Not quantified
Option 2	Amend maximum prize per draw	a	£0.4m (status quo)	£0	£0	£0	£0
		b	£0.5m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified
		c	£1m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified
		d	£0.25m	negligible	£0	Negative impact	Not quantified

						anticipated (not quantified)	
Option 3	Increase annual sales limit	a	£10m (status quo)	£0	£0	£0	£0
		b	£50m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified
		c	£100m	negligible	£0	Positive benefit anticipated (not quantified)	Not quantified

52. It is not known how many large society lotteries will increase their sales and prize limits in line with the proposals. However, there are only small familiarisation costs anticipated as they adjust to the new limits. There are also annual benefits assumed, associated with being enabled to raise more money. These remain unquantified as it is not known how these societies will change their business models to account for the changes being proposed.

Table 5: Small Society Lotteries Options - Costs and Benefits

Small Society Lotteries								
Policy Option		Limit Change	Scope	Transition Cost (IT/Familiarisation)	Annual Cost	Annual Benefits	EANDCB	
Option 4	Individual sales limit per draw	a	£20,000 (status quo)	51,617 (total draws, as of 2015)	£0	£0	£0	
		b	£30,000	11,590 draws	£0	£0	Positive benefit anticipated (not quantified)	Positive EANDCB anticipated (not quantified)
		c	£40,000	12,319 draws	£0	£0	Positive benefit anticipated (not quantified)	Positive EANDCB anticipated (not quantified)
Option 5	Annual Sales Limit	a	£250,000 (status quo)	0	£0	£0	£0	
		b	£400,000	196 society lotteries	£20,000	£0	£64,288	-0.1m
		c	£500,000	224 society lotteries	£20,000	£0	£73,472	-0.1m

Risks and assumptions

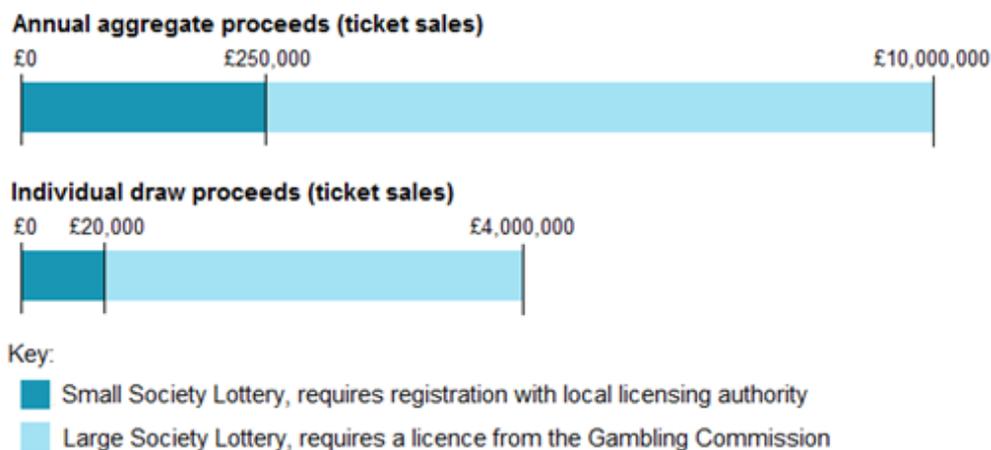
53. Society lotteries are permitted under the Gambling Act 2005 as a means of raising money for good causes. Under the Act, non-commercial societies (such as charities and voluntary organisations) must apply to be registered with a local authority to run a small lottery, or be licensed by the Gambling Commission to run a large lottery.

54. In a large society lottery the maximum value of tickets that can be sold per draw is £4 million and the maximum aggregate value of lottery tickets that can be sold in any calendar year is £10 million. The maximum prize in a single lottery is £25,000 or 10% of the proceeds (gross ticket sales), whichever is greater. Therefore, a society that sells

the maximum number of tickets in a single large lottery (£4 million) could award a maximum top prize of £400,000.

55. For small society lotteries, the maximum draw size is £20,000, with the annual maximum aggregate value set at £250,000. The maximum prize is £25,000.

Figure 1: Society lottery proceeds by society size



The purpose of these limits is to ensure society lotteries are run primarily for the benefit of the good causes they support and remain distinct in size from the National Lottery. The monopoly structure has been considered to be an effective model for maximising returns to good causes on a national scale. This is because a pure monopoly is capable of attaining 'profits above and beyond what you would see under perfect competition'. Whilst increasing competition in the lottery market will not result in perfect competition it could erode the size of the revenue The National Lottery makes. This is a problem in regards to the society lottery market where 'profit' isn't allowed to be retained by the company and must be used to fund good causes⁴. All revenue after expenses and prizes

⁴ [Less than 1%](#) of Camelot's revenue after tax is kept as profit.

is used to fund good causes and therefore by introducing competition and competing away these abnormal 'profits' you in turn reduce contributions to good causes.

Call-in check list explanations

Distributional Impacts

Conclusion: There are not significant distributional impacts.

Small and Micro Business Assessment (SaMBA)

Small and micro businesses (lotteries) only have propensity to raise small amounts of money. It is assumed that they will not reach the limits currently in place. Therefore, there is no anticipated disproportionate cost burden placed on these lotteries and they will not be impacted by the proposals at all.

Conclusion: There are no disproportionate benefits that accrue to small society lotteries.

Gross Effects

Conclusion: There are not significant gross effects.

Wider Impacts

Raising the per draw and annual sales limits in line with the Government's preferred options is likely to increase the amount of money societies can raise for the good causes they support. While we are not in a position to quantify this at present, we know that the sector has shown year on year growth since 2009, and that without changes to the limits, this growth is unlikely to be able to be sustained. The current annual limit of £10m has meant that some societies have chosen to split or set up new societies in order to raise more funds. This creates admin costs which have been estimated at between £88,937 and £141,740. A significant increase in the annual limit would therefore potentially see a greater proportion of lottery proceeds going to good cause projects, as less would be required for admin costs. However if limits are reduced, this is likely to limit the ability of societies to raise funds or cause them to split which would increase admin costs reducing the proceeds going to good causes.

Government's preferred options should enable society lotteries to grow without causing detriment to The National Lottery. Evidence to date indicates that the growth in the society lottery sector has not been detrimental to The National Lottery as the two make distinct offers to consumers - with society lotteries generally characterised by small wins for a specific good cause, and The National Lottery offering large prizes in support of a wide range of causes.

Conclusion: The majority of proposals should enable growth in the society lottery sector, with the potential for a greater proportion of proceeds distributed to good cause projects.

Evidence to date does not suggest that Government's preferred option will have a detrimental impact on The National Lottery, but the Gambling Commission will monitor this.

Significant, Novel, or Contentious

Conclusion: This is not a novel or contentious issue.