***De Minimis* Assessment (DMA)** Department for Digital, Culture Media & Sport	
Title of regulatory proposal	Society Lottery Reform Package
Stage	Final
Lead Department/Agency	DCMS
Expected date of implementation	2020
Origin	Domestic
Date	21/06/2019
Lead Departmental Contact	Glenn Austin (glenn.austin@culture.gov.uk; Tel. 020 7211 6169)
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

Society lotteries operate to raise money for good causes, and pre-date the National Lottery. When the National Lottery launched in 1994, the limits already imposed on society lotteries were increased as a concession to them from the new competition. Since then, the framework of limits has served to keep the society lotteries sector relatively small, and to keep it distinct from the National Lottery.

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 1-3: The government consulted on a range of options on changing per draw sales and maximum prize limits, and annual sales limits for large society lotteries, and sales limits for small society lotteries. These options took account of advice from 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.

The consultation ran between June and September 2018. We received 1,629 responses from a range of organisations and individuals.

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**)

The government's preferred way forward is to implement option 1b, 2b, and 3b. It is Government's ambition to also introduce a higher tier licence with an annual limit of £100m and we intend to launch a further consultation, looking at what measures should accompany a higher £100m licence. This will be accompanied by a separate assessment of the impact.

Summary of business impact

The overall impact to business (in this case civil society) with regards to these reforms is positive. The options to increase the limits would bring significant expected non-quantifiable benefits to individual society lotteries and the industry as a 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.

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).
There may be familiarisation costs to large society lotteries close to current limits as they familiarise with higher prize and sales limits . We estimate this to be £10,500 in terms of time costs and overhead costs. No disproportionate cost is anticipated for small and micro businesses.

The EANDCB equates to less than £0.1m (rounded to the nearest 0.1m).

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 will 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.

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

Policy options

3. Policy Objectives:

- Allow society lotteries to grow and increase their returns to good cause, without causing detriment to the National Lottery.

- 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 The National Lottery'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).

Final Proposals

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

   Large society lotteries:

- **Increase** the individual per draw sales limit from £4 million **to £5 million**;
- **Increase** the individual per draw prize limit from £400,000 **to £500,000**;
- **Increase** the annual sales limit from £10 million to **£50 million**, with the ambition to introduce a split tier licence for large society lotteries so long as we can be assured this will increase returns to good causes across the sector. We aim to run a second consultation to gather evidence about the case for an upper tier licence of £100 million, and what additional licensing conditions should be attached.

   Small society lotteries:

- **No change** to existing per draw and annual sales limits.

Raising the individual per draw sales limit to £5 million

6. The current per draw sales limit of £4 million has been in place since 2009. We believe this incremental increase will enable societies to raise more funds for good causes from individual draws, while maintaining a clear distinction with the scale of the draws made for the main National Lottery games such as Lotto (with average weekly sales of £38.4 million) and EuroMillions (with average weekly sales of £35.8 million). Gambling Commission will monitor the impact.

7. As highlighted in the consultation, the number of individual draws has increased because some of the larger society lotteries are taking action to avoid coming close to breaching the limits. We consider that for the vast majority of the sector, increasing the per draw limit to £5 million, combined with the new annual limit of £50 million (potentially rising to £100 million in the future), delivers additional headroom and provides society lotteries with the flexibility to increase the size and frequency of draws as they wish, so we do not see a pressing need to increase the per draw limit to £10 million at this time.

8. The current limits mean that a lottery would have to grow its sales by 25% before breaching a £5 million cap, a significant increase which is likely to take place gradually. We note the clear desire expressed by the sector for increased growth, but also the concerns expressed by others about the potential impact of allowing larger society lottery draws. By increasing gradually and monitoring the impact on the sector, we will be in a better position to determine the timing and level of future increases to ensure the right balance is struck across the lottery sector.

Raising the individual per draw prize limit to £500,000

9. Increasing to this level allows for some additional flexibility for those operators that wish to offer a larger prize, whilst remaining distinct from the life-changing prizes offered by the National Lottery. Whilst we recognise that it does then bring the top prize potentially offered by society lotteries in line with the National Lottery's Thunderball top prize, we are comfortable that distinction will remain for the National Lottery for three main reasons. Firstly, in practice, a society lottery would have to sell exactly £5 million of tickets to offer a £500,000 prize and this is unlikely because they would be at risk of breaching their licence if they went just over that, and very few are even close to operating at this scale. Secondly, the frequency of draws sets the National Lottery's Thunderball apart, at 4 times per week. Lastly, Thunderball sales account for a relatively small proportion of total National Lottery sales (approximately 4% of total sales) so the new per draw prize limit does not compete with the flagship Lotto and EuroMillions draws.

10. From spikes in sales data and a body of academic literature, we know that large jackpots are a key driver of National Lottery lottery sales, whereas society lottery customers are not motivated to the same degree by large jackpots. In their consultation response, the People's Postcode Lottery spoke in favour of increasing the prize limit to £500,000, saying they "believe that this increases flexibility for prizes for society lotteries whilst maintaining the very large difference in prizes between society lotteries and the National Lottery." In addition, research published by the Gambling Commission (2019) shows that players of society lotteries are more motivated to play by the opportunity to donate to good causes, compared with the National Lottery, with 55% and 15% citing that as a reason for participation, respectively. With the exception of the People's Postcode Lottery and the Health Lottery, top prizes are fairly modest (see Table 1 below showing a sample of society lottery top prizes):

Table 1: Top Prizes Offered by Society Lotteries (a sample)

Society Lottery	Top prize (per draw)	Other draws
People's Postcode Lottery	Up to £30,000	Monthly up to £400,000
The Health Lottery	Minimum £25,000	Monthly up to £250,000
Age UK	£2,000	Quarterly £25,000
Royal British Legion's Poppy Lottery	£2,000	Quarterly £20,000
British Heart Foundation	£1,000	Quarterly up to £15,000
Cancer Research UK	£1,000	£15,000 (3 times a year)
Macmillan	£1,000	Quarterly £10,000
Battersea Dogs & Cats Home	£600	Quarterly £3,000

11. We also considered the alternative option in the consultation of increasing the per draw limit to £10 million but to cap the maximum prize at £500,000. This would enable society lotteries to increase their sales, and returns to good causes, without enabling them to offer 'life changing' jackpots. This option was particularly favoured by the People's Postcode Lottery. However, as outlined above, we do not believe it would be right to increase the draw limit to £10 million at this time, therefore this option does not come into play at this time.

Increasing the annual sales limit to £50 million now and running a second consultation about what measures should accompany an upper tier £100 million licence

12. Increasing the annual sales limit attracted polarised views. The society lotteries sector and their beneficiaries were strongly in favour of increasing the annual sales limit to £100 million, whereas the National Lottery sector and its beneficiaries were strongly against any change to the existing limit due to concerns about the impact this may have on the National Lottery and returns to good causes.

13. Having reviewed the different evidence sources submitted as part of the consultation, in line with advice received by the Gambling Commission, we consider that the growth of society lotteries has not had a significant impact on the National Lottery to date. We believe that these reforms will not result in a negative impact on the National Lottery, and will support our aim that the two sectors remain distinct. Close monitoring by the Gambling Commission will identify any potential issues should they arise. However we also feel that it is right that society lotteries operating at scale should be subject to higher regulatory requirements than smaller lotteries.

14. Society lotteries have already been able to achieve significant growth over recent years, for example People's Postcode Lottery has annual sales of over £300 million by circumventing the £10 million annual limit through the umbrella structure. Increasing the annual sales limit to £50 million will reduce or remove the necessity to adopt an umbrella or multiple lottery structure, and therefore reduce administrative costs and enable more to be returned to good causes for the vast majority of the sector.

15. Adding additional licences, either within an umbrella structure or a multiple lottery structure is costly. Prior to the consultation we heard evidence that the cost of setting up a new lottery licence to be over £140k, and additional annual running costs of around £89k. In its response to the consultation, Cancer Research UK said that it was considering options for growing its lottery, but estimated that moving to a multiple licence model would cost around £345k to set up, with additional annual running costs of around £130k, therefore reducing the proportion of income for charitable causes. A significant uplift to the annual sales limit would avoid lotteries having to incur these costs, and enable more funding to be returned to good causes, and give plenty of headroom to the sector for the future.

16. **We will initially raise the annual sales limit to £50 million, with the ambition of introducing a second higher tier licence with a £100 million annual limit, when we are satisfied this will raise overall returns to good causes, and will not negatively impact on the National Lottery.** The initial increase to £50 million should enable us to monitor the impact on the sector and build an evidence base, particularly with regard to the effect on good causes returns. We aim to launch a further consultation on introducing a higher tier licence to gather evidence about what additional licensing conditions should be attached to improve clarity for players and boost returns to good causes as we are particularly concerned that the regulatory framework is not currently suitably robust for larger scale society lotteries. This consultation will allow us to gather evidence on the case for a further increase to £100 million. As a result of increasing these limits we expect to see returns to good causes increase across the sector, especially by the largest umbrella lotteries, and we will look at this carefully.

Small society lotteries

No changes to current sales limits

Assessment of business impact

Benefits

17. Overall the preferred consultation options are beneficial to society lotteries due to proposing increases in previously stricter sales limits.

I. Raise individual sales limit to £5m

18. 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.

19. 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.

II. Raise individual prize limit to £500,000

20. 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

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

IV. Raise the Annual Sales limit to £50m / £100m (two tier licence)

22. A number of society lotteries operating close to the £10 million 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 £141,740. Running costs were estimated to be approximately £88,937 by another operator.

23. 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.

24. 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.

<u>Costs</u>

I. Raise individual sales limit to £5m and raise the Annual Sales limit from £10m to £50 - £100m

25. It is not known how many large society lotteries will increase their sales and prize limits in line with the proposals. However, there are currently 8 umbrella society lotteries and 3 charities that have multiple licences for their society lotteries, that are operating over the existing per draw sales limit. Furthermore we are aware of a further **2** society lotteries that are close to the current *annual* sales limit. That gives a total of 13 society lotteries who may bare a familiarisation costs from considering the individual and annual sales limit changes. This is established as a time cost, which can be calculated using the

Annual Survey of Hours and Earnings (ASHE)[2]. We assume the time cost imposed for consideration of the regulatory changes to be one working day (7.5 hours), this may vary in reality. We assume that the director and chief executive for a given society lottery will be directly involved and the time cost is imposed upon them. Using the ASHE survey, we use both the mean hourly rates for “Corporate managers and directors” in addition to “ Chief executives and senior officials” to calculate the time cost. These are estimated to be £28.52 per hour and £56.61 per hour. These hourly rates summated equal £82.59, then, multiplied by 7.5 hours (one working day) the estimated time cost is £600 (rounded to nearest hundred) per society lottery. Multiplied by 13, this gives a figure of approximately £8,100 (rounded to the nearest £100). Factoring in overhead costs (fixed administration costs, such as expenses for premises (rent or building depreciation), telephone, heating, electricity, IT equipment, etc), the OECD suggests considering 30%[3] uplift where there is an absence of data. This gives a total familiarisation cost of £10,500.

26. However the change in sales limits provides an ongoing benefit to the large lotteries near the current limits and should apply no significant ongoing direct or indirect cost to society lotteries.

27. 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).

28. 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.

29. We don’t anticipate the option to raise prize limits to have any immediate time costs associated to it.

[2] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14

[3] https://www.oecd.org/regreform/regulatory-policy/34227698.pdf

Risks and assumptions

30. Large 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 be licensed by the Gambling Commission to run a large lottery.

31. In a large society lottery the maximum value of tickets that can currently 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.

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 causes[4]. All revenue after expenses and prizes 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)

Large society lotteries do not fall within the definition of a small or micro business. Furthermore the measures are by nature deregulatory - designed to free up Society Lotteries to grow. Therefore, there is no anticipated disportionate 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 and micro businesses

Gross Effects

Conclusion: There are not significant gross effects.

Wider Impacts

Raising the per draw and annual sales limits 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.

These reforms 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

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

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 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 this will have a detrimental impact on the National Lottery, but the Gambling Commission will monitor this.

<u>Significant, Novel, or Contentious</u>

Conclusion: There are no novel or contentious issues.