

CONSULTATION ON SOCIETY LOTTERY REFORM

NCVO RESPONSE

7 September 2018

General comments

NCVO's main objective in this consultation is to ensure that the resources that go to good causes are maximised in a sustainable way, whilst maintaining public trust and confidence in charities.

In our approach to the proposed changes to the regulatory regime for society lotteries, we have been guided by the principle that the purpose of society lotteries is to raise money for good causes, and that they are an ethical way of raising money. Together with the National Lottery, society lotteries are seen as the most benign form of gambling, being at the lower end of the spectrum in terms of expenditure and risk.

Furthermore, the value of society lotteries to the charitable and voluntary sector means that the changes to the regime that are being proposed are important, especially in the current challenging funding and financial environment. Society lotteries are one of the few ways in which charities can successfully engage with their donors and supporters, raising awareness and money for the cause.

At the same time, we are mindful that substantial changes to the way society lotteries operate could have a negative impact on the way the public view the good causes associated with them, with possible implications for public trust and confidence in charities.

We therefore recommend that the changes to the regime should be accompanied by strong measures for monitoring society lotteries and their role in the wider gambling marketplace. The Gambling Commission and charities themselves may also want to consider taking additional steps to avoid any perception that charities may be used mainly as devices to further commercial interests.

Transparency

An important way in which charities could prevent some of the potential negative consequences mentioned above, is by communicating clearly with the public about their activities in relation to society lotteries. Fundraising and other income generating methods have always been of particular public interest, with the public wanting more information about how much money goes towards charitable activities and how much goes towards administration costs. We think the public should be empowered to decide which charity lotteries best deliver the charitable outcomes they are seeking by playing.

At the moment, information on the breakdown of a society lottery's ticket towards prizes, expenses and good causes can be difficult, and in some cases impossible, to find. NCVO recommends that society lotteries should communicate more clearly the breakdown of lottery proceeds going towards prizes, expenses and good causes. Ideally, this information should be on the face of lottery tickets. We recognise this is complicated, as society lottery operators will not know in advance exactly how much of a particular draw will go to good causes, but it should be possible to find a way to square this circle. One option could be to publish the amount raised for good causes over the past year (for society lotteries in their first year, this could instead be the amount they aim to raise).

Making this information clear on an individual lottery basis will increase transparency overall and enable the public to make informed decisions about where their money was going. With regards to society lotteries, we would like to see the proportion going to charity being the defining characteristic that attracts the public to play. This would not only allow the public to make an informed decision on which lottery to support, but also naturally encourage lotteries to maximise the amount going to good causes.

Large society lotteries

Do you consider that the individual per draw sales limit should be amended?

- **Yes - the limit should be increased to £5 million (Government's preferred option)**

NCVO considers that this is a moderate rise in the per-draw sales limit, roughly in line with inflation since 2009 (when the £4m limit was set).¹ A rise on this scale reflects our previous position on society lottery limits.

We also recognise that ensuring that both the per-draw and annual proceeds caps are divisible by five makes sense for operators who do not offer products apart from conventional lotteries (such as scratch cards). Although very few operators have been within 20% of the current per draw limit in the past few years, it seems likely that a rise in the annual proceeds cap could make the per draw limit more problematic as a knock-on effect.

Do you consider that the individual per draw maximum prize limit should be amended?

- **Yes - the limit should be increased to £500,000 (Government's preferred option)**

Our engagement with NCVO members with their own society lotteries indicates that prize levels are not a priority for charity-led society lotteries: prizes are almost always far below the current limits as they stand. However, there is a case for increasing the limit on the top prize as a way to allow societies the freedom to determine the top prize that would be appropriate to promote a particular lottery.

In addition, given the 10% link between the per-draw limits and the prize limits, if the per-draw limit is raised then the prize limit would necessarily have to go up.

We are aware of concerns about the impact of prize rises in the context of the lottery marketplace. However the Gambling Commission has advised that small changes to existing limits are likely to have minimal impact on The National Lottery, and that while society lotteries offer a differentiated product with smaller prizes, substitution between the two is likely to remain minimal. Polling evidence also shows that there would only be a small effect in potential player composition from a shift from £400,000 to £500,000.²

We would highlight the additional concern that this increase could mean that societies are exposed to a higher level of risk where proceeds from tickets sales fail to cover the increased prize sum. In addition, careful consideration needs to be given to the impact of this change on smaller society lotteries and the possibilities given to them to grow in the lottery marketplace.

Do you think that if the maximum prize is capped at Government's preferred option of £500,000, the per draw sales limit should be increased to £10 million, as an exception to the general prize limit of 10% of sales?

- **No**

¹ The Bank of England inflation calculator (<https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>) indicates that £4,000,000 in 2009 would be worth £5,100,830.37.

² Camelot's evidence to the Culture, Media and Sport Select Committee in 2016 (<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/select-committee-on-charities/charities/written/37080.html>).

Our preference is for the 10% rule to be retained, meaning that the maximum prize can be no more than 10% of draw proceeds. This would ensure that the primary purpose of society lotteries as catalysts for raising money for good causes is maintained.

A higher percentage would mean that lotteries can offer higher prizes without necessarily achieving the respective higher sales levels. But this creates the risk that more proceeds go towards the prize instead of the cause, going against the primary purpose of society lotteries.

If you run a large society lottery, do you think you are likely to offer higher prizes if we make changes to the maximum prize limits?

Not applicable since NCVO does not run a society lottery.

If yes, in what timeframe:

Not applicable since NCVO does not run a society lottery.

Do you consider that the annual sales limit should be increased?

- **Yes - the limit should be increased to £100 million**

NCVO's previous position has been to support a modest increase to the annual proceeds cap to reflect inflation. This would broadly amount to a new cap of £15m.

On further consideration and consultation with members, we have been persuaded that the time is right to go further than this. It is likely that the impact of keeping the threshold at the current level or only applying a very modest increase would do nothing to alleviate the bureaucratic burden for the largest charities, and potentially deter medium and moderately large charities from growing their fundraising. We therefore support a rise in the annual proceeds cap to £100m: even if currently it is only a small number of society lotteries that are of a size that could breach the limits, this may change as an increasing number of societies grow their lotteries as their main source of fundraising.

Our support for such a substantial increase from the current level does require us to address the issue of umbrella lotteries and how far they should be able to expand.

In the past, NCVO has not taken a position on the lottery marketplace, and in particular we have avoided commenting on the fairness to the National Lottery operator of allowing multiple society lotteries to be marketed under a common brand. But in view of the changes likely to be implemented, we urge government to regulate properly the class of umbrella lotteries, with its own set of limits on individual draws, annual sales and prizes.

As pointed out by the Culture, Media and Sport Select Committee umbrella lotteries, such as those run by the Health Lottery and People's Postcode Lottery, are in law groups of individual society lotteries, marketed under a national brand. However, provided that none of the individual lotteries exceeds the current limits on proceeds and prizes, the total amount that the umbrella lottery is permitted to raise is the aggregate of the maximum amounts each of the constituent lotteries may raise: so an umbrella lottery formed of ten large society lotteries would be permitted to raise ten times the maximum for a single lottery per year. We agree with the Committee that it is wrong that the maximum limits on society lotteries should be bypassed in this way, and with the rise from £10 million to £100 million resolving this issue becomes a matter of urgency.

Small society lotteries

Should the sales thresholds for small society lotteries (£20,000 for an individual draw, and a £250,000 annual sales limit) be raised?

- **Yes**

NCVO is supportive of reducing the regulatory burden for smaller charities and new entrants into the society lottery marketplace and has argued for measures to achieve this. For instance, we recognise that starting a society lottery is expensive and it may not be possible to immediately meet the 20% statutory contribution for every single draw. The Gambling Commission should consider allowing organisations starting up society lotteries to spread the 20% statutory contribution to good causes over a year for their first year.

In that spirit, we would support a moderate rise in the limits for small society lotteries to make things easier for new entrants. We recognise that this needs to be balanced against the need to ensure appropriate regulation, protect public trust and confidence in charities, and consider the capacity of local authorities to deal with any increase in their responsibilities. More generally, simplifying the start-up process, so that organisations do not have to resort to an external lottery manager, would allow more charities to enter the market and maintain their own lotteries.

If yes, what would be an appropriate level for:

a) the individual per draw sales limit

- **£30,000**

We support a proportionate rise in the limits for smaller society lotteries to reduce the burden on smaller charities, bearing in mind the need for checks and balances on their operation and the capacity of local authorities. A rise to £30,000 is slightly more than inflation since 2005.

b) the annual sales limit

- **£400,000**

NCVO does not take a position on exactly what the new limit should be. We support a proportionate rise in the limits for smaller society lotteries to reduce the burden on smaller charities, bearing in mind the need for checks and balances on their operation and the capacity of local authorities. A rise to £400,000 is only somewhat more than inflation since 2005.

Do you foresee any associated benefit to your company/charity as a result of this proposal (e.g. reduced admin costs)?

Not applicable since NCVO does not run a society lottery.

Do you foresee any associated cost to your company/charity as a result of this proposal? If yes, please give details e.g. transitional costs, cost of changes to websites, etc.

Not applicable since NCVO does not run a society lottery.

Over the next 5 years, if this proposal was implemented, how much would it cost to make necessary changes?

Not applicable since NCVO does not run a society lottery.

Do you consider that your customers are playing your lotteries because of the good cause or prize? Which is more important to your customers?

NCVO does not operate any lottery scheme. However, charities who run their own lotteries are consistently of the view that donors are mainly supporting a cause rather than seeking to win a prize.

Would your company/charity change the percentage of proceeds used to payout prizes as a result of this proposal? How would this change?

As a result of this proposal would your current advertising practice change in any other way?

Not applicable since NCVO does not run a society lottery.

Do you think that as a result of these proposals returns to good causes will increase?

- **Yes (please specify)**

The changes we support would enable an increase in returns to good causes, removing existing and potential future barriers that prevent society lotteries to grow.

Some of the changes represent a very rapid rise from current levels, so it is even more important that they are accompanied by increased transparency and measures to ensure that lotteries are operated in a fair and ethical manner.