

Report to Cabinet

24th January 2019

By the Cabinet Member for Community and Wellbeing



Horsham
District
Council

DECISION REQUIRED

Not Exempt

Potential Council Lottery

Executive Summary

This report recommends that the council establish a council lottery to raise money for local good causes. The scheme could provide them with a sustainable source of funding which they chose how to spend; for example, it could provide revenue funding which many local good causes find difficult to obtain. It would also raise additional income for the council's community grants fund which it distributes to local good causes. The lottery could provide a legacy for the Year of Culture. Groups that run events as part of this initiative might wish to continue beyond 2019. They could apply to be part of the scheme and therefore, receive ongoing income to support cultural events.

The scheme would operate on a one year trial basis, followed by a progress report to allow a review of the success of the lottery. Council lotteries are becoming more established (over 30 are either already operational or are in the process of being set up). These are run in conjunction with an External Lottery Management company which is responsible for the day-to-day running of the scheme and also shares the operational risk with the council.

These lotteries are principally run online with a dedicated website. Tickets are purchased via the website (though there is a dedicated phone number for those that do not have access to a computer). The purchase price is usually one pound and there is an option of paying by direct debit. The draw takes place once a week, with the winner needing to match six numbers. The top prize is usually £25,000 down to £25. The income from the ticket is distributed as follows:-

- 60% to local good causes;
- 20% for the prize money;
- 17% to the External Management Lottery (ELM) Company for running costs; including relevant insurance to cover the prize fund;
- 3% VAT.

There are two different ways that the 60% per ticket for local good causes is distributed:-

- i) Where the player **nominates** a local good cause on the website, 50% of the price of the ticket goes to this good cause and 10% to the council fund;
- ii) Where the player **does not nominate** a good cause the whole 60% goes to the council fund.

It should be noted that the money the council receives from the lottery will be used to cover the running costs of the scheme e.g. marketing and promotion, to ensure that the scheme is self-funding. However, this is likely to be a small fraction of the total money raised and is the only money that the council will use directly from the lottery. The money that the council receives will be redistributed via the community grants fund and will be in addition to the existing budget for this fund.

Local good causes that want to raise money via the council lottery must make an application to the council but there is no upfront costs for them to join. They receive the funding straight into their bank accounts once a month. Experience elsewhere suggests that it would be possible to raise approximately £113,000 between year one and two; based on 2% of the adult population playing and buying 1.68 tickets per person (this is the average achieved by the first council to set up a lottery three years ago). It is likely that approximately £68,000 of this would go straight to local good causes. The remainder would come to the council. Most would be redistributed to good causes via the community grants fund but with some (£4,000) being used to cover the operational costs.

The success of the proposed lottery is very closely linked to the number of local good causes that join the scheme. The council has strong links with the voluntary sector and also has many communications channels that it can use to encourage local good causes to be part of the lottery and to promote the scheme to local residents to raise money for these causes by playing the lottery. The set up costs are modest (approximately £9,000). These will principally be covered by the money that comes to the council from the lottery during 2019/20. However, any excess costs will be covered by an existing budget. Ongoing costs would be covered by the money raised from the lottery (approximately £4,000).

The risks associated with establishing a lottery are low. However, lotteries are a form of gambling and this issue would need to be managed. Research confirms that there is low risk that playing this form of lottery leads to problem gambling. However, controls would be put in place by the External Lottery Management Company to ensure that potential high risk players are identified and that under age players cannot access the lottery.

Recommendations

The Cabinet is recommended to approve:

- i) The establishment of a council lottery for a one year trial;
- ii) The provision of a progress report after year one to agree the continuation or cessation of the lottery;
- iii) The delegation of the award of the management contract to the Director of Community Services;
- iv) The procurement of an External Lottery Management Company to provide the expertise to establish a lottery and be responsible for the day-to-day running of this service.

Reasons for Recommendations

- i) To raise funding for local voluntary and community groups;
- ii) To allow the council to determine if the lottery is raising sufficient funding for local good causes;
- iii) For expediency
- iv) To provide expertise to the council and advice and support to the local good causes that join the scheme.

Background Papers - None

Wards affected: All

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Background Information

1 Introduction and Background

- 1.1 The council has a long track record of supporting and working in partnership with the voluntary and community sector. Indeed, the Voluntary Sector Support Service is now being run in-house. This report proposes launching a council lottery which would build on the support that the council already provides by raising additional funding. The proposed initiative would also recognise the important role the voluntary sector plays in the local community.
- 1.2 The proposed lottery would create a sustainable stream of funding for local good causes, as well as generating additional income for the existing community grants fund run by the Community Development Team. The emphasis will be on providing funding for local smaller good causes and there would be no upfront cost to them joining the scheme.
- 1.3 The lottery would be run in conjunction with an External Lottery Management company (ELM) which would provide expertise in establishing the lottery and ultimately be responsible for the day-to-day running of the scheme.
- 1.4 This approach is now becoming more established with 30 councils either having an operational lottery or in the process of setting one up. The first council lottery was launched in 2015. This front runner has now raised over £140,000 for good causes.

2 Relevant Council policy

- 2.1 The proposal supports two of the objectives of the Corporate Plan. These are:-
 - Great value services** – by generating income that can be used to supplement that community grants fund;
 - Support our communities** – by providing direct funding for local voluntary groups so that they have a sustainable source of income which they can choose how they use this income. This can support community resilience.

3 Details

How a council lottery could operate

- 3.1 The model outlined in this report is typical of many of the council lotteries that are currently operating. However, Horsham District Council may choose to make changes to this after an ELM is appointed.
- 3.2 Each lottery ticket costs one pound and are generally purchased on-line (they can be paid for regularly via direct debit). The lottery has a dedicated website (as well as a dedicated phone number) where the tickets are purchased. The draw is once a week with the winner matching six numbers. The top prize is £25,000 down to £25. The winner is generally informed via email. The person playing the lottery can nominate a local good cause to receive income from the lottery. The good causes add their own page to the dedicated lottery website which explains what they do, to encourage players to nominate them (they receive advice and support on this). There is no cost to the good cause to be part of the scheme. If the player does not make a nomination a proportion of the ticket sale goes to the council by way of a central fund which it then distributes (see more details in paragraph 3.4).

- 3.3 The income from the ticket is distributed as follows:-
- 60% to local good causes;
 - 20% for the prize money;
 - 17% to the External Management Lottery (ELM) Company for running costs; including relevant insurance to cover the prize fund;
 - 3% VAT.

- 3.4 There are two different ways that the 60% of the money for local good causes is distributed:-
- i) Where the player **nominates** a local good cause on the website, 50% of the price of the ticket goes to this good cause and 10% to the council fund;
 - ii) Where the player **does not nominate** a good cause the whole 60% goes to the council fund.

It should be noted that the money the council receives from the lottery will be used to cover the running costs of the scheme e.g. marketing and promotion, to ensure that the scheme is self-funding. However, this is likely to be a small fraction of the total money raised and is the only money that the council will use directly from the lottery.

Potential income from the lottery

- 3.5 The first council lottery was established by Aylesbury Vale District Council just over three years ago. Since that time approximately 30 councils have either established a lottery or are in the process of doing so. There are no councils in West Sussex running a lottery. There are a couple in Surrey and one in East Sussex. The emphasis on supporting local good causes means that the lotteries run in these areas would not be a threat to a lottery run in the Horsham district. There are other lotteries operating in the district by voluntary organisations. Feedback from other council's is that establishing a new lottery is not a threat to these; indeed some voluntary organisations chose to close their lotteries and join the council run scheme.

- 3.6 Experience from other lotteries indicates that between year one and two it is possible to achieve market penetration of 2% of the adult population playing the lottery, and an average of 1.68 tickets sold per person. Based on this information the Table 1 indicates that it would be possible to raise a total of £113,000 for local good causes between year one and two from the launch of the lottery. Based on experience elsewhere a third of the money raised goes to the council fund; which would mean that approximately £68,000 could be raised directly by good causes. The remainder (£45,000) would come to the council fund. The running costs of approximately £4,000 would be taken from this money whilst the remainder would be distributed to good causes via the community grants fund. If only 0.5% of the population buy one lottery ticket, there is a risk that the money coming to the council fund would not be sufficient to cover the running costs. However, 10% is the minimum that would go into this fund; based on experience elsewhere it is likely to be £5,000 (which equates to a third of 60% raised for good causes).

| Ticket per person/ week | Total (£) (60%) | Maximum for nominated causes (£) (50%) | Minimum for central fund (£) (10%) | Total (£) (60%) | Maximum for nominated causes (£) (50%) | Minimum for central fund (£) (10%) | Total (£) (60%) | Maximum for nominated causes (£) (50%) | Minimum for central fund (£) (10%) |
|-------------------------|--------------------------------|--|------------------------------------|---------------------------------|--|------------------------------------|--------------------------------|--|------------------------------------|
| 1.00 | 0.5% population playing | | | 0.75% population playing | | | 1.0% population playing | | |
| | 16,848 | 14,040 | 2,808 | 25,272 | 21,060 | 4,212 | 33,696 | 28,080 | 5,616 |
| 1.68 | 0.5% population playing | | | 0.75% population playing | | | 1.0% population playing | | |
| | 28,305 | 23,587 | 4,717 | 42,457 | 35,381 | 7,076 | 56,609 | 47,175 | 9,435 |
| 1.68 | 1.5% population playing | | | 2.0% population playing | | | 2.5% population playing | | |
| | 84,914 | 70,762 | 14,152 | 113,225 | 94,354 | 18,871 | 141,523 | 117,936 | 23,587 |

Table 1 –Potential income for good causes raised through a council lottery¹

- 3.7 Table 2 gives examples of income that other council lotteries are raising for good causes, as well as the number of good causes that are part of the schemes.

| Council | Total raised for good causes | Number of good causes joined the lottery | Timescale |
|---------------------------------|------------------------------|--|-----------|
| Tandridge District Council | £60,000 | 133 | 6 months |
| Hart District Council | £25,000 | 65 | 1 year |
| Aylesbury Vale District Council | £140,000 | 180 | 2.5 years |

Table 2 – Examples of other council lotteries

- 3.8 It is interesting to note from this small sample that the lotteries which are supported by a larger number of good causes are generating more income. There are two aspects that will, therefore, be important in the success of the lottery. First to ensure that local good causes support the scheme and that there is extensive marketing and promotion. The latter will also need to be ongoing to ensure that the lottery continues to be successful.

Why run a lottery?

- 3.9 The council has strong links with the voluntary and community sector across the district and recognises the valuable role that these groups play in many aspects of the community. The council currently has a modest grants fund which it uses to support the sector. The lottery provides an opportunity to enhance these grants, with a small upfront cost.
- 3.10 Local good causes could receive a regular sustainable source of income. There are no upfront costs to the good causes to join the scheme. They receive advice and support in promoting themselves to maximise their income. They do need to apply to the council to be part of the scheme which gives the council control over the groups that can receive funding. For example, only good causes that provide activities and services within the district would be accepted. Any income they raise via the lottery goes straight into their bank account once a month. The groups can then decide how they wish to spend this income. For example, it can be used for revenue funding or match funding if they are applying for grants. The money that the council receives will provide additional funding to the existing community grants fund (after deductions are made to cover the lottery running costs). The mechanism

¹ Based on population of 108,000 over 19 years old in the Horsham District. Taken from West Sussex County Council Population Estimates and Forecasts (August 2016).

to distribute this funding may need to be reviewed in light of the increased budget for the grants that will be available due to establishing the lottery.

- 3.11 The lottery could provide a legacy for the Year of Culture. Groups that run events as part of this initiative might wish to continue beyond 2019. They could apply to be part of the scheme and therefore, receive ongoing income to support cultural events.

4 Next Steps

- 4.1 The first next step will be to procure an ELM. These organisations provide considerable experience and knowledge during the set up phase. It will also be responsible for setting up the dedicated website and once the scheme is operational it will be responsible for the day-to-day running of the lottery. Furthermore, these organisations provide advice and support to the local good causes to enable them to maximise the number of nominations via the lottery, and, therefore, the income that they receive.
- 4.2 The next step will be to obtain a gambling licence from the Gambling Commission. The ELM can provide advice on this process. The council will take the lead with the general promotion of the lottery and, using its existing contacts in the community, will encourage local good causes to join the scheme. Most council lotteries have held a launch event to raise awareness and encourage ticket sales prior to the lottery starting. The intention is to launch the lottery in early autumn (it can take several months to obtain a gambling licence).

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The Community and Well Being Policy Development Advisory Group considered this proposal at its meeting on 18th December 2018. It supported the proposal of establishing a council lottery. Concerns were raised that lotteries are a form of gambling and that safeguards would need to be in place in relation to this, and in particular to ensure that under 16's could not play the lottery. These issues are addressed in section 9 of this report (Risk Assessment). The Group also suggested that more money might be need to be spent on promotion and marketing and that the scheme should be reviewed after the first year. Both of these issues have been addressed in this report with an increase in the proposed budget for marketing and promotion and the recommendation to produce a progress report after year one.
- 5.2 The voluntary and community sector were asked for their feedback on the principle of establishing a council lottery. One comment was received which was generally supportive. However, it did go onto to express concern that some good causes would put in a lot of effort to achieve success but would not get an equitable part of the dividend in return. This could be addressed by the use of the community grants fund.
- 5.3 Legal implications considered by the Monitoring Officer are addressed in section 8 of the report. The financial implications considered by the Director of Corporate Resources to ensure financial probity are addressed in section 7 of this report (Resource Consequences).

6 Other Courses of Action Considered but Rejected

- 6.1 One course of action would be to retain the status quo and not establish a council lottery. However, this means that the opportunity to provide income for local good causes and to supplement the community grants scheme would not be realised.
- 6.2 The Council could run the lottery without the support of an ELM which would give savings from their fee during the set up phase and the income that they derive from the ticket sales. However, these organisations have considerable expertise in this area and would be responsible for the day-to-day running of the lottery. This would reduce the risk in running a lottery and would also give significant savings in staff time. It is considered that this is the most cost effective and operationally efficient approach to running the scheme.

7 Resource Consequences

- 7.1 The set up costs for this project are approximately £9k to £10k. This includes the following:-

| | |
|--|---------------|
| External Lottery Management company | £3,000 |
| Gambling License (includes administration fee) | £936 |
| Lotteries Council Membership | £375 |
| Marketing/promotion e.g. launch event | £5,000 |
| TOTAL | £9,311 |

- 7.2 The costs associated with the ELM is a one off fee. As stated earlier in the report, the company would receive an income from the ticket sales to cover operational costs as well as matters such as insurance for the prize fund. In light of the comments made by the Policy and Development Advisory Group the marketing and promotion budget for setting up the scheme has been increased to £5000 and to £3000 as an ongoing cost (as set out in paragraph 7.4).
- 7.3 The funding for setting up the lottery will primarily come from the money raised by the lottery. Any excess costs in 2019/20 will be topped up by budget from the Transformation Fund. The financial risk is that the lottery is discontinued after one year and the council would make a £9,000 loss.
- 7.4 The approximate on going costs are as follows:-
- | | |
|------------------------------|---------------|
| Gambling Licence | £692 |
| Lotteries Council Membership | £350 |
| Marketing/promotion | £3000 |
| TOTAL | £4,042 |
- 7.5 The ongoing costs would be covered from the income received from the council lottery to ensure that this project is self-funding. This would reduce the amount of income that would be available to the community grants scheme. However, as the income from the lottery rises the percentage from the overall sums raised to cover these costs would be minimal. This would be the only money received by the council which would not go into the community grants scheme. The council would not divert money from the lottery for any other purposes.

- 7.6 The Director of Corporate Resources and Head of Finance suggested amendments to the financial implications of the proposed project. These primarily related to emphasising that the set up costs will come from the money that comes to the council from the lottery and that there are no exit costs if the council withdraws from the contract with the ELM after one year. The report has been amended to incorporate these comments.
- 7.7 The staff implications of this project can be incorporated within existing resources. The most significant impact on staff resources will be during the set up phase. Legal Services and Procurement will be required to procure the ELM. Legal Services will also need to apply for the gambling licence. The Communications Team will take the lead on promoting and marketing the scheme. The most significant impact will be on the Community Development Team which will need to encourage local good causes to join the lottery, establish an approvals system for those that apply to join the scheme and review the process for distributing the money that the council receives from the lottery via the community grants fund. In some instances this will build on processes and procedures that the Community Development Team already have in place.
- 7.8 The lottery website will be set up by the ELM. However, it would be useful to have a link to this site from the council's website which will need to be implemented by Technology Services
- 7.9 Once the lottery is established the day-to-day operation of the scheme will be the responsibility of the ELM. This will include supporting the local good causes that join the scheme; each of which will have an account manager provided by this organisation. It will also provide the customer service role and carry out the weekly draw. The implications on staff time will, therefore, reduce once the lottery is established (to approximately 1 day a month). Ongoing marketing and promotion will be required, as will distributing the funds via the community grants scheme.

8 Legal Consequences

- 8.1 The power to set up a lottery is within the general power of competence conferred by section 1 of the Localism Act 2011. Lotteries are regulated under the Gambling Act 2005 and the establishment of a local authority lottery must comply with the requirements of this. The Act creates eight categories of permitted lotteries. One of these categories allows for local authority lotteries which requires the local authority to be licensed by the Gambling Commission.
- 8.2 Local authority lotteries are promoted by local authorities themselves. These differ from society lotteries registered with a licensing authority. Local authorities **may use the net proceeds of such lotteries for any purpose for which they have power to incur expenditure**. Local authorities that allow players to participate in their lotteries by means of remote communication (internet, telephone etc.) will be required to hold a remote lottery operating licence.
- 8.3 Lotteries must return a minimum of 20 per cent of the proceeds to the purpose of the society or local authority. The model outlined in this paper is based on 60 per cent of the ticket sales being distributed to local good causes (with a deduction from the money received by the council to cover running costs).

- 8.4 The Act allows local authorities to employ ELM's to manage all or part of their lotteries so that they may benefit from the experience or economies of scale that come with employing such organisations. The fact that a local authority may employ a licensed ELM company to manage all, or part, of its lottery does not absolve the local authority from its responsibility for ensuring that the lottery is conducted in such a way as to ensure that it is lawful and fully complies with all licence conditions and the codes of practice. Although the council will not be responsible for the day-to-day running of the lottery it is ultimately responsible for its governance.
- 8.5 Before appointing an ELM the council will need to satisfy itself that the organisation holds a valid operating license, personal management licenses and will conduct the lottery in a lawful and compliant way. The council will complete due diligence on any ELM being considered to run the scheme. Any necessary agreements or contracts entered into must be in accordance with the Council's Contract Procedure Rules. Legal Services should be instructed to approve the contract before it is signed.

9 Risk Assessment

- 9.1 A full risk assessment is included as an appendix to this report. This identifies the risks, the likelihood and impact of the risks and mitigations measures for these. The risk assessment demonstrates that all of the are considered to be low.
- 9.2 The main risk is associated with concerns over the promotion of gambling. An assessment by the Gambling Commission ("Participation in gambling and rates of problem gambling – England 2016. Statistical Report. April 2018") determined that playing a lottery resulted in a very low risk of players becoming problem gamblers. Only 2% of lottery players have issues with problem gambling. This is principally because this form of gambling does not give any instant gratification and therefore, lead to addiction. However, problem gambling is an issue that must be taken seriously and the council will work with the ELM to ensure that systems are in place to minimise the risk of players developing problem gambling. A requirement of the gambling licence is that effective policies and procedures should be put in place to promote socially responsible gambling. Examples of such procedures are that a limit can be set on the amount of money that can be spent on tickets and the company can produce regular reports, highlighting players that are buying large numbers of tickets. The age limit for playing a lottery is 16. Players need to register to play the lottery and confirm their age. Checks are made by the ELM to ensure that no underage players are able to register. Finally, the website and all literature will make reference to support that is available from Gamble Aware. This is an independent charity tasked to fund research, education and treatment services to help to reduce gambling-related harms in Great Britain.
- 9.3 There is a risk that good causes do not join the scheme and the public do not buy lottery tickets. This would result in a reduction in the amount of money raised by the lottery. The council will need to ensure that it implements an effective marketing and promotion campaign. This will initially focus on encouraging local good causes to join the scheme. The experience of the ELM will also be invaluable in providing advice on this issue. Experience elsewhere shows that having a large number of good causes joining the scheme is more likely to ensure its success. Nevertheless, general marketing and promotion of the lottery to the public will also be vital and the

council is well placed to use all of its existing communication channels. In addition, strong links with the voluntary sector will be used to encourage these groups to, not only join the scheme, but also to promote the lottery.

- 9.4 A typical contract with an ELM includes a break clause after one year. This would allow the council to halt the scheme if it is not successful with no exist costs associated with this. However, at this point the council would have incurred the set up costs and staff time to establish the lottery. Once the scheme has been operating for a year a progress report will be produced for Cabinet to determine if the lottery should continue.
- 9.5 There is a possibility that the top prize is won regularly impacting the prize fund. This risk is passed onto the ELM as it will be required to have the appropriate insurance to cover this eventuality.

10 Other Considerations

- 10.1 There are no direct impacts on Crime & Disorder or Human Rights from this proposal. In terms of Equality & Diversity there will be an opportunity for most groups to join the scheme. However, a list of criteria will be drawn up to assess all of the groups that apply to benefit from the lottery. This will ensure that the good causes benefit the local community. These criteria will be publicly available. Finally, in terms of Sustainability, this scheme could be beneficial as it will provide funding for groups that support social and environmental issues in the community.