

Society Lottery Reform: Consultation response by the Institute of Fundraising

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ABOUT US

The Institute of Fundraising is the professional membership body for UK fundraising. Our mission is to support fundraisers through leadership, representation and education, and we champion and promote fundraising as a career choice. We have 600 Organisational members who bring in more than £9 billion in income, and over 6,000 Individual members.

EXECUTIVE SUMMARY

The IoF welcomes the opportunity to contribute to this consultation on society lottery reform. Three years on from the CMS Committee's call for evidence and succeeding parliamentary report backing increased fundraising limits on charity lotteries, and 13 years since the Gambling Act fixed many of those limits, a government review of whether current restrictions are necessary and appropriate is well-received.

The IoF welcomes the acknowledgement from the Minister that lotteries "are a fundamental part in the giving landscape", raising vital funds that make a huge difference to the lives of millions of people. But more than this, they create an important touch point with donors, offer charities a different way of engaging with supporters, and are an excellent way to develop brand awareness. They enable charities to reach different audiences, often resulting in people becoming regular donors and supporters. Not-for-profit organisations that run society lotteries report that people who buy society lottery tickets often go on to take out direct debits and leave legacies and support in other ways. Moreover, there is considerable evidence that charities are able use society lottery funding to meet their day-to-day running costs due to its largely unrestricted nature. This is hugely important as often these costs are not covered through funding from other sources, i.e. grant giving bodies.

We recognise that the running of society lotteries does require regulation and we are mindful of the need for charities to promote lotteries in a safe and responsible manner. Certainly charities should do everything they can to promote responsible gambling, and we have also considered whether there would be a wider impact on the lottery market as a whole from regulatory change.

Having consulted with our members, the IoF believes that there are significant benefits in raising lottery limits and welcome the Government's overall approach to change the limits, even where we think it could go further in some specific areas. We agree with the Government's position that current limits are impacting the effectiveness and efficiency of an increasing number of charity lotteries - restricting their ability to raise funds to

deliver more for their beneficiaries and causes, adding to administration costs, and complicating the operation of the sector. This is particularly pressing given that **55%** of charities that responded to our survey reported growth in lottery ticket sales over the last three years, reflecting their popularity with the public as a means of raising money. With society lotteries reporting that they are close to limits, raising them will allow for further growth therefore 'future-proofing' lotteries.

We welcome the Government's commitment to "ensuring both society lotteries and the National Lottery are able to thrive". There is potential for society lotteries to be even more successful and make a greater contribution to the income of the sector. By relaxing and simplifying some of the present restrictions on revenues, individual prize draws and the minimum contribution (the '20% rule'), society lotteries can deliver significantly more for good causes. **58%** responded that overall the rules should be raised to allow society lotteries to offer higher prizes and more draws. It is worth noting that these changes merely set the maximum limits – they by no means dictate that all society lotteries can, will, or should meet these limits. Introducing flexibility to support and enable those who need it is a welcome step forward.

This response will put forward the benefits, challenges and priorities for charities in this ever-growing area of fundraising, and advocate for a regulatory system that maximizes returns to good causes and ultimately supports charitable giving and fundraising.

Our response to the consultation is informed by a survey conducted with 107 IoF members to ask for views and thoughts on different aspects of society lotteries, which we refer to throughout. Respondents' comments are highlighted in text boxes.

CONSULTATION QUESTIONS

Large lotteries

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

We welcome the Government's proposal to raise the limit; however, our position remains (as it has done since 2014) that the **limit should be raised to £10 million** rather than £5 million.

The 2009 increase in draw limits from £2 million to £4 million increased the amount provided to good causes by 53% in the following two years (from £100 million in 2009/10 to £153 million in 2011/12).

There has been a decade between the last change and this proposed one; in which time substantial growth has taken place of the sector, with returns to good causes going from £95 million in 2008-09 to a record £255.56 million in 2016-17. As such, the Government's proposed increase of £1 million does very little to 'future-proof' the draw limit should the length of this reassessment period be repeated.

The IoF's position is supported by the majority of our survey respondents who said individual per draw sales should be raised to £10 million.

"Raising the limit to £10m will help future proof society lotteries, which will allow contributions to good causes to be maintained or increased in future years."

"A larger limit will allow for increased donations to good causes. A smaller increase will likely mean a decrease in charitable funding."

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

We welcome the Government's proposal of raising the limit, but our position remains that the **limit should be raised to £1 million** rather than the proposed £500,000 to allow greater flexibility for society lotteries.

The limit has remained the same since 2005 so is now worth less in real terms. Both prize and cause influence player motivation; therefore increasing prize size has the potential to raise lottery demand, boosting overall proceeds without raising operating costs significantly - resulting in greater proceeds for good causes.

The largest proportion of respondents (**41%**) held a preference for a £1 million prize limit. While some indicated that being unable to offer larger prizes doesn't restrict them in the same way that other regulation does, preference remained towards flexibility.

Even with a £1 million prize potential, society lotteries maintain both a differentiated product and smaller jackpot from the National Lottery. As such, according to NERA

Economic Consulting's report '*Assessment of Lottery Market Issues*': "substitution between society lotteries and the National Lottery is likely to remain minimal".

3. 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?

Whilst we favour a £1 million maximum prize, we prioritise the draw limit being raised to £10 million in all scenarios. **46%** of respondents agreed this should be the case.

4. 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?

51% of respondents didn't know whether they would offer higher prizes if changes were made to limits. Of the quarter who answered affirmatively, **60%** said they would offer higher prizes in 1-5 years.

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

The IoF strongly support the Government's proposal to **increase annual limits to £100 million**, in line with the Gambling Commission's 'Review of society lotteries advice' to DCMS 2017.

This would address extra administration costs and bureaucracy faced by larger lotteries that are forced to run lotteries across multiple societies using an umbrella structure. It would allow them to grow substantially before hitting the upper limit, and may assist in long-term fundraising plans by providing greater flexibility for societies to offer either larger draws, or more frequent draws. Additionally, this change would align the sales limits with the proposed increases in prize and individual per draw sales limits.

Importantly this move future proofs this limit, avoiding the need for parliament and government to reconsider the issue in the near future.

The Centre for Economic and Business Research 2014 report '*the Economic Impact of People's Postcode Lottery*' found that medium deregulation (including raising the turnover limit to £100 million) helped deliver a higher proportion return to good causes than a low deregulation model (raising the annual turnover limit to £50 million). This buttresses the findings of NERA Economic Consulting's report '*Assessment of Lottery Market Issues*' that the impact of deregulation of society lotteries would likely be "an increase in total proceeds available to good causes".

Small lotteries

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

We strongly support changing the thresholds for small society lotteries - **69%** of our respondents said that the **sales threshold should be raised**. The existing limits have been in place since 1976, so do not reflect the growth of the sector. This increase would ensure that regulatory requirements are consistent with a lottery's size by reducing the regulatory burden. Reasons cited were that small lotteries provided predictable, regular and consistent income from one year to the next, and this change would enable this to a greater extent.

a) the individual per draw sales limit

82% said that the per draw limit should be **raised to £40,000**, with additional multiple comments from respondents suggesting £50,000 would be preferable.

b) the annual sales limit

88% said the annual sales limit should be **raised to £500,000**.

"The key value of society lottery to us is the unrestricted income it provides, which has enabled us to improve our organisational structure and efficiency in ways that wouldn't have been possible without this income."

"Society lottery income is very important for us, as it is largely unrestricted income, unlike the majority of our other funding streams."

"This provides us with vital, largely unrestricted income, which is contributing towards several important innovations within our organisation, as well as ensuring we can reach even more vulnerable children across the world."

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

When asked about the challenges of running a lottery the majority of respondents mentioned the regulatory burden, with **65%** agreeing that the rules and regulations are complicated to understand and work with, and **61%** agreeing that filling out the forms and paperwork takes a lot of time and administration. If the Government's proposals mitigate these challenges then benefits will be felt across society lotteries. That said, if the government is not ambitious enough in its changes, the benefits will be short-lived in the context of a rapidly growing sector and reassessment will again be required.

Only **6%** of respondents said the benefits of running a society lottery were purely financial. Over **65%** of respondents cited that: lotteries provide increased brand awareness and engagement with a given cause in communities; running a lottery is a good complement to other events and fundraising activity; and that lotteries often bring new supporters who haven't supported a given charity before.

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

45% of respondents said it would cost less than £1000.

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

The majority of respondents thought that both the cause and the prize were important to people (**50%**), while **34%** considered that people play their lotteries because of the good cause more than the prize.

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

62% said they did not know if they would offer higher prizes.

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

89% responded that their practices would not change, meaning that there is little to be concerned about in terms of Share of Voice in the lottery market; particularly considering marketing spend by lotteries can boost the whole market due to marketing spillovers.

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

We believe that the changes Government are proposing will increase the return to good causes, as well as have additional multiple benefits for charities that go beyond the specific financial return delivered through lotteries – however, we believe that going further in some areas than the proposed changes would bring about even more public benefit.

“Lotteries are a productive and lower-risk way for charities to raise money for their good causes. Supporters like this approach. For us, a higher limit would mean we could attract more supporters without having to be checking all the time that we were getting too close to the maxima.”

The majority of respondents (**58%**) thought that the rules should be raised to allow society lotteries to offer higher prizes and more draws. **39%** said “the limits on prize draws and ticket sales restrict us being able to grow our lottery and raise more money” and **23%** said that “the limits on prize draws and ticket sales incur additional costs”.

HOW LOTTERIES COULD WORK BETTER FOR CHARITIES

While this consultation proposes welcome steps in the right direction, there are some key areas which we believe would support society lotteries that are not included in the scope of this consultation and that we would like to put forward for consideration.

1. Flexibility in the application of the 80:20 rule

We agree with the consultation premise that “*the regulatory framework for society lotteries should not be overly burdensome and new entrants should not face unnecessary barriers*”. While the 80/20 rule is not specifically being consulted on (despite long-standing calls for a re-examination of this area), when assessing the barriers to operation the primary legislation of the Gambling Act cannot be overlooked.

One-off sizeable start-up costs make it difficult for society lotteries to reach the statutory minimum to good causes in the first year of operation, therefore this rule acts as a disincentive for employing this type of fundraising. In line with the 2015 CMS Select Committee report and the IoF’s recommendations spanning from 2014, we would encourage the Government to allow the minimum contribution for good causes to be aggregated across all draws and to be met over a longer period of time - ideally up to three years. This will remove barriers that charities face in starting society lottery fundraising, allow further investment in lottery programmes and reduce risks, so that charities can invest to build a player base and gain momentum.

When the Centre for Economic and Business Research surveyed the likely impact of reducing regulation in 2014, it was found that relaxing the minimum 20% contribution rule for new, smaller society lotteries would be likely to encourage growth in the sector. Indeed, 41% of the society lotteries who took part in the survey wanted to see the ‘20% rule’ relaxed. The Gambling Commission statistics for the year to March 2017 show a return to good causes of 43.6% from society lotteries, so there is no reason to think that charities wouldn’t continue to go above and beyond what is required of them.

“The 20/80 rule is killer for anyone wishing to make a substantial initial investment and would expect higher returns in the long run.”

2. Regularity of review

The Government announced its intention to consult on lotteries in 2012, and it is only now the sector has been given the opportunity to feed back – despite the 2015 CMS Committee report on society lotteries recommending that limits be reviewed every three years.

We support this recommendation, on the grounds that it will enable limits to develop in line with the lottery landscape. The 2005 Gambling Act set the majority of limits, and the only change seen since was in 2009 to per draw limits. A more iterative approach will ensure that society lottery policy is evidence-based at all times and assessed depending on how the lottery market responds.

3. Regulatory/bureaucratic burden

In keeping with ensuring *“the regulatory framework for society lotteries should not be overly burdensome and new entrants should not face unnecessary barriers”*, we would encourage government to work with the Gambling Commission to provide greater support to charity lotteries – be this through simplification and streamlining of current processes, or additional guidance and support for charities. This echoes the 2015 CMS Committee report which recommended that *“the Gambling Commission look again at whether the administrative burdens of applying for a licence could be simplified any more for small, start-up lotteries, and at whether other regulations on lotteries are disproportionately burdensome for the benefit produced”*.

This is an opportunity not only to address the bureaucratic burden resulting from the current regulatory limits, but also accessibility and understanding of the regulation itself. Multiple respondents commented unprompted on the complexity of the rules and processes, and the unobliging nature of the Gambling Commission in regards to charities (see text box). When asked about the biggest challenge to running a society lottery a majority (**65%**) said *“the rules and regulations are complicated to understand and work with”*, and **61%** said *“filling out the forms and paperwork takes a lot of time and administration”*.

“One of the best changes would be to provide greater clarity around the rules, simplify processes, and for the Gambling Commission to provide quicker and clearer support to charities.”

“Regulation is making this much more complicated, especially for an industry without specialist lawyers, in many cases, to interpret and understand the rules. Assistance with this would be helpful for all society lottery managers - training days?”

“The hoops we had to jump through...were absurd. The Gambling Commission were almost obstructive at time, seemingly reading of a one-size-fits-all flow chart and the application process was overly-complicated.”