



Department for  
Digital, Culture,  
Media & Sport

## **Consultation on Society Lottery Reform**

**29 June 2018**

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## Foreword by the Minister for Sport and Civil Society



Since the introduction of the Gambling Act 2005, there have been significant changes in the lottery sector and the environment in which lotteries operate. Society lotteries are now a fundamental part of the giving landscape, and, alongside The National Lottery, play an important role in supporting good causes across the UK.

Society lotteries raise hundreds of millions of pounds every year for many good causes and I greatly appreciate the impact they have as a fundraising tool for their charities and non-commercial organisations. Through the Call for Evidence launched in December 2014, we received many examples of ways in which society lotteries support the third sector. Often this funding is relied on to support the day-to-day running of charities, and can generate further revenue when used as match funding or invested in fundraising activities.

Recipients of funding for valuable projects from both The National Lottery and society lotteries tell me that these are “complementary sources of funding that enable us, in different ways, to carry out our vital work.”

The Government is committed to ensuring both society lotteries and the National Lottery are able to thrive. Our aim in this consultation is to achieve a balance between enabling the sustainable growth of society lotteries on the one hand while also protecting the unique position of the UK-wide National Lottery as established under the National Lottery etc. Act 1993, which has raised £38 billion for good causes since it started in 1994.

I note the Gambling Commission’s advice that to date the growth of the society lottery sector has not been at the detriment of National Lottery sales, and that a relatively small increase in the limits is unlikely to disrupt the current balance between the two sectors. I am keen to hear views from respondents on whether the options under consideration - and our preferred options in particular - will maintain this important balance and allow the lottery sector as a whole to grow in a sustainable and complementary manner to ensure we continue to support the third sector for many years to come.

I look forward to hearing your views.

A handwritten signature in blue ink that reads "Tracy Crouch". The signature is written in a cursive, flowing style.

**Tracy Crouch MP**

## How to Respond

This consultation covers Great Britain. We welcome comments from all stakeholders who may be interested. This consultation is being conducted via an **online survey, and will close on 7 September 2018**. Please respond via the link on the gov.uk webpage.

If you have any questions, or if you require any other format, please get in touch at: [societylotteriesconsultation@culture.gov.uk](mailto:societylotteriesconsultation@culture.gov.uk)

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Copies or a summary of responses may be published after the consultation closing date on the Department's website: [www.gov.uk/DCMS](http://www.gov.uk/DCMS). This will include a list of the organisations that responded, but not any individual's personal name, address or other contact details. All responses and personal data will be processed in compliance with the Data Protection Act 2018 and the General Data Protection Regulation.

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## Executive Summary

This consultation sets out the Government's proposals for society lottery reform. It is, in particular, informed by responses to the Department for Digital, Culture, Media and Sport (DCMS) Call for Evidence (December 2014 - March 2015), recommendations made by the then Culture, Media and Sport Select Committee in March 2015, and advice from the Gambling Commission. Having carefully considered the Select Committee's report, we asked the Gambling Commission to bear in mind three objectives in their advice:

- the regulatory framework for society lotteries should not be overly burdensome and new entrants should not face unnecessary barriers;
- public trust and confidence in society lotteries and the good causes with which they are associated should be maintained;
- reform should not jeopardise the position of the National Lottery and its returns to good causes.

Following careful consideration of their advice and the evidence we have received from stakeholders, we are consulting on options in the following four areas:

- Large society lotteries: Individual per draw sales limits;
- Large society lotteries: Individual per draw prize limits;
- Large society lotteries: Annual sales limits;
- Small society lotteries: Individual per draw and annual sales limits.

**We believe that Government's preferred options in these areas will support 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 options are:

### Large society lotteries

- **Individual per draw sales limits**
  - Retaining the current limit of £4 million;
  - **Raising the limit to £5 million (Government's preferred option);**
  - Raising the limit to £10 million;
  - Reducing the limit to £2.5 million.
- **Individual per draw prize limits**
  - Retaining the current limit of £400,000;
  - **Raising the limit to £500,000 (Government's preferred option);**
  - Raising the limit to £1 million;
  - Reducing the limit to £250,000.
- **Annual sales limits**
  - Retaining the current limit of £10 million;
  - Raising the limit to £50 million;
  - **Raising the limit to £100 million (Government's preferred option).**

### Small society lotteries

Changing the thresholds at which smaller society lotteries require a Gambling Commission licence would bring more lotteries into a lighter touch regulatory regime, and therefore reduce regulatory burdens.

- **Individual per draw sales limits**
  - Retaining the rule that a society lottery is small and does not require a Gambling Commission licence if its proceeds cannot exceed £20,000;
  - Raising the limit to £30,000;
  - Raising the limit to £40,000.

**(Government has no preferred option)**
- **Annual sales limits**
  - 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;
  - Raising the limit to £400,000;
  - Raising the limit to £500,000.

**(Government has no preferred option)**

The DCMS Select Committee also asked us to consider recommendations on betting on lotteries from Camelot, including measures to prohibit betting on EuroMillions, banning betting on all lotteries, and to reclassify bets on lotteries as 'pure' lotteries (that all betting transactions on lotteries or lottery-style draws should be classed as lotteries, and therefore the operators would have to acquire a lottery licence and comply with all the restrictions applicable to lotteries). In response, we have introduced separate legislation to prohibit betting on the EuroMillions draw, including those held in other European countries, bringing it into line with other products in The National Lottery portfolio. The Government's consultation and response are available [here](#).

The Gambling Commission is addressing other issues raised by the DCMS Select Committee, including introducing measures on transparency, and triggers to determine future reviews. These actions address other recommendations set out in the [Culture, Media and Sport Select Committee's Report](#) on society lotteries, and the [DCMS Lotteries Call for Evidence](#).

## Chapter 1: Introduction

Since the Gambling Act 2005 (“the Act”) came into effect, the society lottery sector has seen year on year growth in proceeds, with a record £255.56 million raised for good causes in 2016-17. During this time the lottery market has become increasingly diverse, with the increased use of lotteries by major charities as a fundraising tool, and the promotion of large-scale ‘umbrella’ lotteries. The growth of the internet has enabled societies to sell more tickets remotely through their websites and reach greater numbers of potential players. Umbrella schemes - where an External Lottery Manager, a society lottery operator or a collective of society lottery operators, promote multiple society lotteries under a single brand - can provide marketing efficiencies, driving ticket sales and in turn prizes.

Between December 2014 and March 2015, DCMS ran a Call for Evidence, informed by market assessment provided by the Gambling Commission, which invited views on the changing lottery landscape, and in particular whether the current regulatory regime maintained an appropriate balance between The National Lottery and the wider gambling and lottery market.

In March 2015, the CMS Select Committee held an enquiry on society lotteries. The Committee’s report made a number of recommendations which the [Government agreed to accept or explore](#) with expert advice from the Gambling Commission.

This consultation sets proposals for reform, together with options and our preferences, which we hope will support fundraising by society lotteries while maintaining the distinct nature of the sector from the National Lottery.

In addition, the Gambling Commission is pursuing a series of measures to ensure lotteries are offered in a fair and open manner, addressing concerns raised by the Select Committee that societies could be perceived as devices to further commercial interests. Following its own consultation, the Gambling Commission made changes to licence conditions which came into effect in April 2018, to increase transparency over the breakdown of a total proceeds for large society lotteries, and incorporate current guidance on the promotion of umbrella lotteries. As good cause returns vary across operators, increased transparency will enable consumers to make an informed choice about whether to support a particular society through participating in a lottery and could benefit the sector as a whole by increasing public confidence in lotteries.

The law requires the name of the promoting society to be on the ticket and the Gambling Commission require it to be made clear to the consumer what society lottery they are participating in. Although there is no requirement within the Act to publish information on how the proceeds of a lottery are spent, society lotteries are required to supply a breakdown of the proceeds of each draw to the Gambling Commission within three months of the draw taking place. This data is published in aggregate form through the Commission’s Industry statistics, which shows the overall proportion the sector returns to good causes, returns to players in prizes and spend on expenses. Following a recent consultation, the Gambling Commission now requires operators to publish the proportion of proceeds returned to the good cause(s) in the previous calendar year. This requirement came into effect from April 2018.

The Commission has developed a series of triggers to determine when future reviews of sales and prizes should take place, and have issued guidance on [the various ways the](#)



[private sector can support society lotteries](#), and [how societies can run a lottery on behalf of another good cause](#).

We welcome your views on the range of proposals and options set out below.

## Chapter 2: Large Society Lotteries

### **Consultation Options:**

- **Individual per draw sales limits**
  - Retaining the current limit of £4 million;
  - **Raising the limit to £5 million (Government's preferred option);**
  - Raising the limit to £10 million;
  - Reduce the limit to £2.5 million.
- **Individual per draw prize limits**
  - Retaining the current limit of £400,000;
  - **Raising the limit to £500,000 (Government's preferred option);**
  - Raising the limit to £1 million;
  - Reduce the limit to £250,000.
- **Annual sales limits**
  - Retaining the current limit of £10 million;
  - Raising the limit to £50 million;
  - **Raising the limit to £100 million (Government's preferred option).**

Large society lotteries, also known as licensed lotteries, require a licence from the Gambling Commission, and are defined in the Gambling Act 2005 as any society lottery:

- for which the arrangements are such that its proceeds may exceed £20,000 for a single draw; or
- promoted by a society whose aggregate proceeds from lotteries exceed £250,000 in any one year.

The Act defines a 'society' as being established and conducted:

- for charitable purposes;
- for the purposes of enabling participation in, or of supporting, sport, athletics or a cultural activity; or
- for any other non-commercial purpose not for private gain.

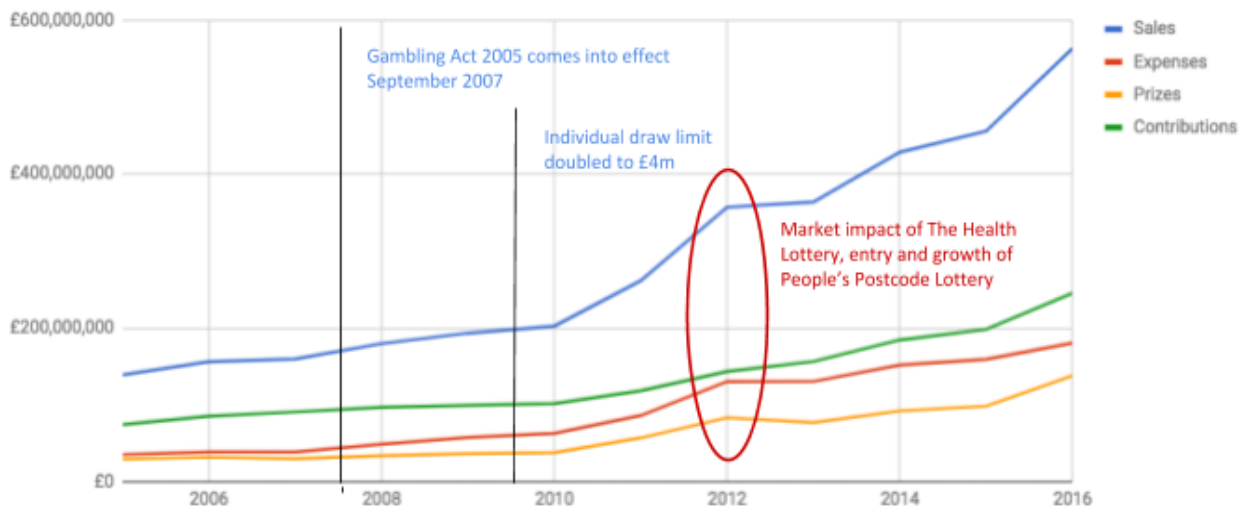
The Act deliberately imposes strict limits on the annual and individual draw sales, and on the prizes they can offer, which ensures that the primary purpose of society lotteries is to raise funds for good causes and that they remain distinct in size from the National Lottery.

Large society lottery limits were last amended in 2009, when the cap on individual lottery proceeds was increased to £4 million, which also had the effect of increasing the maximum prize that could be offered to £400,000. This change contributed to growth in the sector, and

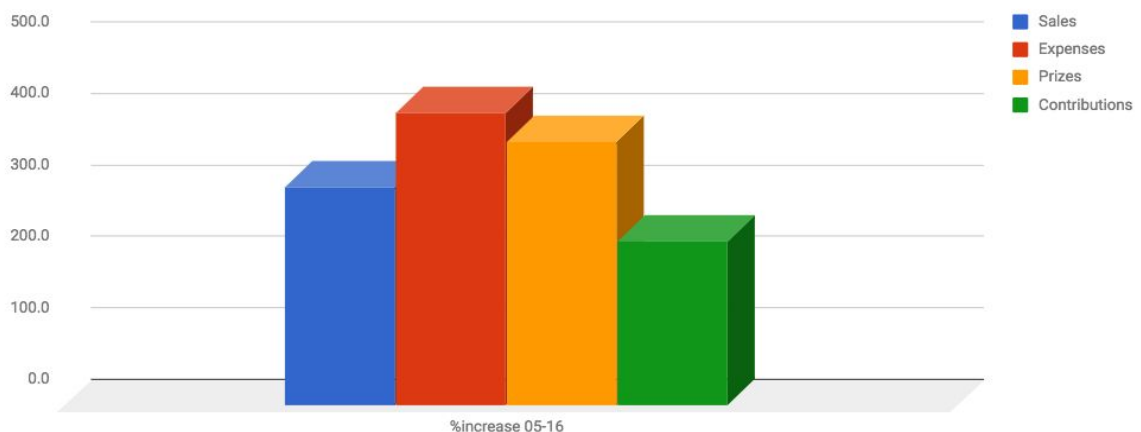
as a consequence, increased returns to good causes (see graph below), from £95 million in 2008-09 to a record £255.56 million in 2016-17.

At that time Government concluded that there was no need to increase the annual proceeds limit as no lottery was anywhere near reaching the £10 million limit. It is now apparent that, unlike in 2009, there are now a small number of operators who are close to the current limits or have adapted their model to expand within the limits, for example by setting up new societies.

### Large Society Lottery Growth 2005 - 2016



### Large Society Lottery Growth (% increases 2005 to 2016)



In the Call for Evidence, society lottery stakeholders noted that increased limits would generate greater funds for good causes through greater revenue and match-funding. We

heard that charities are able to leverage each £1 in income they receive to fundraise on average an additional £1.70 from other sources. Beneficiaries of society lottery funding were broadly in favour of moderate deregulation, retaining a balance between essential funding from The National Lottery and complementary funding from society lotteries.

### **The relationship between society lotteries and The National Lottery**

At present, it appears that competition between The National Lottery and society lotteries is marginal. Their markets are distinguished by the unique selling points of society good causes, and by the regulatory framework governing society lotteries. Society lotteries are generally characterised by lower prize, low frequency draws. This contrasts with the National Lottery, which was established as a UK-wide lottery to benefit a wide range of good causes. The National Lottery's size helps ensure returns to these good causes are maximised. This is not solely because of the pool of potential players, but also due to the ability of a large lottery with high proceeds to offer significant, life-changing prizes, which in itself is recognised as a key sales driver. Were society lotteries to significantly increase in size, the market could fragment into a number of larger lotteries. This risks decreasing overall returns to good causes from the lottery sector, as the ability of a single lottery to offer a very high jackpot would be constrained, meaning some existing players may drop out, and new players may be less likely to join.

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. However, there is insufficient evidence at present to predict the full impact of further deregulation on The National Lottery, though this could have the potential to be significant. Larger increases to the limits for society lotteries may not see sales rise to a level that would challenge The National Lottery's monopoly, but they could change the landscape in which it operates.

Competition can drive improvements in performance, but we have also heard compelling evidence of the damaging effect a split sector can have. For example, in the Netherlands sales of the two national lotteries dropped following growth of a large society lottery, leading to the eventual merger of the two national lotteries. While different regulatory environments mean these risks do not translate directly into the Great Britain market, it nonetheless goes to show the degree of impact growth in the society lottery sector could have on The National Lottery.

In contrast to The National Lottery where 12% Lottery duty is paid on every ticket, society lotteries do not pay Lottery duty (or gambling duties) on ticket sales - they are treated on a par with fundraising for registered charities. External Lottery Managers however do pay corporation tax.

Although there have been strong calls from the society lotteries sector for an increase in sales and prize limits, we have also had concerns raised about growth in the sector (in particular by Camelot and National Lottery distributors) and the impact on The National Lottery since the limits were last increased in 2009. We wanted to look at this in more detail and consider whether more needs to be done with regard to sales and prize limits to maintain the separation between the sector and The National Lottery and ensure that there is no opportunity for substitution in the future. We have also asked the Gambling

Commission for information on possible impacts to the sector of cutting the per draw and prize limits.

### **Governance of society lotteries**

While there are well-established systems to ensure high levels of transparency about both the National Lottery's results and how the good causes money is spent, it can be less easy for the public to monitor the use of funds raised by the society lotteries sector. It is the responsibility of the society to ensure that they distribute the proceeds in line with their aims and objectives. While the Gambling Commission do not generally scrutinise how the proceeds of each society lottery have been distributed, if the Commission has concerns that profits are not being distributed appropriately, it is able to ask for information/evidence and take action on a case by case basis.

The lowest risk option in terms of The National Lottery would be to maintain or reduce current limits. However, this would restrict the ability of societies to raise additional funds through lotteries. It will therefore be important to weigh up the risks, and to seek to achieve a balance between allowing the further growth of society lotteries and protecting The National Lottery from direct competition.

It is also a consideration that changes to the wider landscape may affect the forthcoming competition for the Fourth National Lottery licence, and potentially deter bidders as a consequence.

## **2.1 Individual per draw sales limits**

**Some society lotteries have reported that they are close to the per draw sales limits, and with the recent trends in growth within the sector, the current limits restrict returns to good causes. Increasing this limit will allow for some further growth.**

At present, the total proceeds for an individual lottery draw are capped at £4 million. The top prize is the greater of £25,000, or 10% of the proceeds (i.e. a maximum of £400,000).

Where lotteries are close to the limit, they will take action to ensure they do not breach the limits, and may potentially set up a second draw, or a second society.

As shown in the table below, the number of large draws taking place increased between 2011-12 and 2015-16 before dropping off in 2016-17. However the number of draws has increased over time and it may be that although the overall number of large draws remains comparatively low, this is because societies are taking action to avoid coming close to breaching limits. Indeed, the number of operators with draws above £2.5m increased sharply in 2017.

**Table 1: Actual number and percentage of licensed societies operating within 20% of the current per draw proceeds limits**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b># draws</b>	<b>11,475</b>	<b>12,462</b>	<b>12,900</b>	<b>13,137</b>	<b>13,682</b>	<b>14,281</b>
<b># operators running lotteries</b>	<b>440</b>	<b>442</b>	<b>438</b>	<b>428</b>	<b>436</b>	<b>432</b>
<b># draws within 20% of £4m limit</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>0</b>
<b>% draws within 20% of £4m limit</b>	<b>0.01%</b>	<b>0%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.04%</b>	<b>0%</b>

<b>Reducing individual limits - number of operators with individual sales above £2.5 million:</b>			
	2015	2016	2017
Above £2.5m	15	10	70*
Above £3m	10	10	-
Above £3.5m	-	-	-

\*These figures are largely attributed to lotteries that form part of branded schemes.

### Consultation options

- **Individual per draw sales limits**
  - Retaining the current limit of £4 million;
  - **Raising the limit to £5 million (Government's preferred option);**
  - Raising the limit to £10 million;
  - Reduce the limit to £2.5 million.

#### Retaining the current limit

- Retaining the current limit is unlikely to maximise the potential for society lotteries to make greater returns to good causes, as increasing the limits in the past has led to growth in a proportion of society lotteries, with some now coming close to the new limits.
- 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.

#### **Raising the limit to £5 million (Government's preferred option)**

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

#### **Raising the limit to £10 million**

- 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.
- 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.

#### **Reducing the limit to £2.5 million**

- A reduction in maximum draw size is likely to decrease the amount of money societies can raise for good causes.
- It could force societies to adapt their structures to maintain current funding levels, which would increase admin costs by creating a greater number of smaller lotteries holding multiple licences (assuming no change to annual limits) and potentially mean a lower proportion of funds going to front-line good cause projects.
- Cutting the per draw limit would further distinguish society lottery draws from The National Lottery, halting the growth of society lotteries into a space currently only occupied by The National Lottery.
- However, we share the Gambling Commission's concerns that to cut the limit would stifle growth in the sector. As the current evidence suggests that society lotteries have not had a significant effect on National Lottery sales to date, we do not believe there is a clear rationale for a cut at present.
- For these reasons, we do not believe there is merit in reducing the maximum draw size, not least as keeping the current limits in place would maintain the distinction between the two sectors, without depriving charities of vital good cause funds.
- However there may be some merit in considering a cut to per draw limits alongside a significant increase to annual limits, as this would enable lotteries to increase fundraising for good causes while limiting the size of individual draws. Such a change may however require societies to reorganise and therefore increase administration costs.

## 2.2 Individual per draw prize limits

**We consider that it is important to retain the rule that individual per draw prize limits are £25,000 or, if more, no more than 10% of sales. This is because we believe that the primary purpose of society lotteries is to raise money for good causes. We do not believe that the current prize limits inhibit sales as few lotteries offer the current maximum prize, but there is scope to allow for an uplift in this limit, particularly if linked to an increase in per draw sales.**

Across the society lottery sector, the amount currently spent on prizes remains low in all but the largest schemes, normally those run under an umbrella brand. In part, this is likely to be because for many societies, the good cause, rather than the prize, is the primary motivating factor for playing. Also, after covering expenses and returns to the good cause, the proceeds of the lottery do not accommodate a high prize payout. As society lotteries otherwise offer a similar player experience, with number-based draws and a chance to win a jackpot, or smaller prizes through scratchcards, this may constitute an important difference in consumer participation between The National Lottery and society lotteries. The unique nature of each good cause may also help limit substitution between society lotteries.

The society lottery sector has argued for a significant uplift in maximum prizes, and argued that this would help increase returns to good causes. We have considered these views carefully. Academic literature on National or State Lotteries suggests that jackpot size may increase demand for lotteries. This is however based on evidence on the impact of higher jackpots resulting from rollovers as opposed to increasing prize limits. International comparisons suggest that the jackpot and the effective price (i.e. cost of the ticket minus the probability of winning) both separately affect lottery demand to some degree. In practice, the literature indicates that the impact of higher jackpots is relatively small, with a £1 million increase in the jackpot driving at most about £50,000 of additional demand for the lottery, when the total prize pool is kept constant. As we are not aware of any research on the impact of jackpot size on society lottery play, where player motivations may differ, it should not be assumed that this finding will track directly across the sector.

There is little research into the impact of large 'aspirational' prizes on state lotteries, and whether a relaxation of prize limits could drive competition with The National Lottery. We know that high jackpots drive sales, but not the specific effect on society lotteries. We are also seeking views on whether there is merit in reducing the maximum prize to £250,000. This option could cement the distinction between society lotteries and The National Lottery, ensuring that aspirational, life-changing prizes remain the preserve of the latter.

## Consultation options

- **Individual per draw prize limits**
  - Retaining the current limit of £400,000;
  - **Raising the limit to £500,000 (Government's preferred option);**
  - Raising the limit to £1 million;
  - Reducing the limit to £250,000.

### Retaining the current limit

- This would be combined with maintaining the individual per draw sales limit at its current level, £4 million.
- Although the Gambling Commission only started collecting data on the maximum prizes offered by society lotteries in April 2018, we know already that the majority of lotteries do not offer the top prize.

### Raising the limit to £500,000 (Government's preferred option)

- 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.
- 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.

### Raising the limit to £1 million

- 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 (the Health Lottery) that is actively looking to offer such a prize.
- 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.
- 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.
- 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.

### Reducing the limit to £250,000

- Society lotteries are cause driven, rather than prize driven, and as such a reduction is likely to maintain the distinction between the sector and The National Lottery and ensure that a high proportion of proceeds goes to support good causes, rather than being returned to players.



- We do not have data on the maximum prizes currently offered, though we know many are already comparatively modest and well below this figure. Therefore a reduction would limit the freedom societies have to choose how best to run their lotteries, and may increase admin costs for lotteries who have to revise their business models, at least in the short-term.

### **Retaining the requirement that the maximum prize be no more than 10% of draw proceeds**

**We recommend that the 10% rule be retained, to ensure that the primary purpose of society lotteries as catalysts for raising money for good causes is maintained.**

The Lotteries Council has proposed that the individual top prize a lottery can offer be increased from 10% of proceeds (where that would exceed £25,000), to 50%. We believe this is to enable lotteries to offer higher prizes without necessarily achieving the respective higher sales levels.

The primary purpose of a society lottery is to raise funds for good causes. Allowing a lottery to use 50% of proceeds for prizes has the potential to turn the focus of that lottery away from fundraising as such. Indeed it is notable that many large charity lotteries offer prizes far lower than the current permitted maximum.

If we were to raise the per draw sales limit to £5 million, increasing this cap to 20% would allow society lotteries to offer a £1 million prize, and 50% would enable a maximum prize of £2.5 million.

Most society lotteries do not in any case currently offer top prizes up to the current limits, so allowing a greater percentage of sales to be used to facilitate higher prizes might only be beneficial to a small part of the sector.

A 50% prize could also pose wider problems for a society if the prize were drawn from proceeds rather than donated, as it would limit the amount available for other prizes, good causes and expenses to 50% - meaning societies may either reduce their good cause contribution to the statutory minimum of 20% or be unable to meet some costs due to a high level of prize payout.

A further option would be to retain a cap on the level of prize that a society can offer but increase the per draw sales limit. This would enable societies to sell more tickets, but would ensure that prizes are kept at a lower level and that more of the increase proceeds went to support good causes rather than be returned to players. **We are therefore interested in views on whether there is merit in increasing the per draw sales limit to £10 million if the maximum prize is capped at Government's preferred option of £500,000.**

## 2.3 Annual sales limits

**It could be argued that the current annual sales limit of £10 million is more restrictive than the individual per draw limit, and is causing significant issues in combination with the per draw limit. Societies are having to circumvent the rules by setting up additional new distinct societies to enable them to raise more funding for good causes, and thus incurring additional administrative costs. We are therefore proposing to raise the annual limit to £100 million. This would encourage more sales, but taken alongside the per draw sales and prize limits would retain the distinct nature of the society lottery sector in contrast to The National Lottery.**

The annual sales limit has not been increased since the introduction of the Gambling Act 2005. We are concerned that the current £10 million annual sales limit could restrict the fundraising activities of large society lotteries and propose that this be raised.

Table two shows that although the number of operators within the 20% limit is small, it is steadily growing and has increased from three in 2012-13 to 27 in 2016-17. In addition, a number of societies operating lotteries close to the £10 million limit, such as Macmillan Cancer Support have chosen to adopt a different structure, with multiple separate societies operating under a main charity, in order to continue growing.

Through submissions to the Call for Evidence, we are aware that running lotteries across multiple societies adds significant costs. The Lotteries Council estimated that the administrative costs of setup could total £10,000 in the first year. One operator reported that the cost of setting up a new lottery (including promotion, marketing, and an additional prize fund) came to £141,740. The subsequent running costs were estimated to be approximately £88,937 by another operator.

**Table 2: Actual number and percentage of licensed societies operating within 20% of the current annual proceeds limits**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b># draws</b>	<b>11,475</b>	<b>12,462</b>	<b>12,900</b>	<b>13,137</b>	<b>13,682</b>	<b>14,281</b>
<b># operators running lotteries</b>	<b>440</b>	<b>442</b>	<b>438</b>	<b>428</b>	<b>436</b>	<b>432</b>
<b># operators within 20% £10m p.a. limit</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>9</b>	<b>15</b>	<b>27</b>
<b>% operators within 20% £10m p.a. limit</b>	<b>0%</b>	<b>0.67%</b>	<b>0.46%</b>	<b>2.10%</b>	<b>3.42%</b>	<b>6.14%</b>

Source – *Gambling Commission Lottery returns (2011 to 2017)*. Data only relates to large society lotteries.

### Consultation options

- **Annual sales limits**
  - Retaining the current limit of £10 million;
  - Raising the limit to £50 million;
  - **Raising the limit to £100 million (Government's preferred option).**

The current annual sales limit is causing significant issues in combination with the per draw limit. There is a misalignment between the per draw sales limit of £4 million and the annual sales limit of £10 million which may only allow up to two annual lottery draws.

We have heard clear evidence from the sector about how the current limit is restricting their abilities to fundraise, with some societies only able to hold two draws per year. Frustratingly, the lack of alignment between the current per draw and annual limits means that successful societies reaching the top of current limits are unable to hold a third draw as to do so would take them over the annual threshold. Our proposal to raise the per draw limit to £5 million sales would address this misalignment, but would still see societies only able to offer a maximum of two draws.

In order to navigate their way around this, some societies, including major charities, have been setting up additional new societies to enable them to raise more funding for good causes, and thus incurring additional administrative costs, potentially amounting to tens of thousands of pounds. The Government therefore believes that it is sensible to increase the annual limits to enable societies to sell more tickets annually, which will potentially resolve both issues of allowing more draws and reducing the administrative burden of multiple licensing in a way which will maintain the distinction between society lotteries and the National Lottery.

#### Retaining the current limit

- Retaining the current limit would restrict further growth in the sector and thus their ability to raise funds for good causes, particularly if we were to increase the per draw limit.

#### Raising the limit to £50 million

- 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.
- 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.
- 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 in any year reaching the current maximum individual lottery proceeds limit of £4 million.

**Raising the limit to £100 million (Government's preferred option)**

- 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. This will enable them to raise significantly more money for the good causes they support.
- Allowing a 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.
- 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.
- 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).
- Increasing to this limit has the potential to reduce administrative costs by removing the need for some societies to adopt an umbrella structure or reducing the number of societies they operate.

## Chapter 3: Small Society Lotteries

### Consultation Options

Changing the thresholds at which smaller society lotteries would require a Gambling Commission licence would bring more lotteries into a lighter touch regulatory regime, and therefore reduce regulatory burdens.

- **Individual per draw sales limits**
  - Retaining the rule that a society lottery is small and does not require a Gambling Commission licence if its proceeds cannot exceed £20,000;
  - Raising the limit to £30,000;
  - Raising the limit to £40,000.

(Government has no preferred option)
- **Annual sales limits**
  - 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;
  - Raising the limit to £400,000;
  - Raising the limit to £500,000.

(Government has no preferred option)

Small society lotteries do not require a Gambling Commission licence but must be registered with the local authority in the area where the principal office of the society is located. A small society lottery is defined in the Gambling Act 2005 as:

- a lottery for which the arrangements are such that its proceeds may not exceed £20,000 for a single draw; or
- a lottery promoted by a society where the aggregate proceeds from all such lotteries promoted by that society do not exceed £250,000 in that calendar year.

This allows small society lotteries to operate at a minimum cost and a low level of regulatory burden.

**There has not been a strong call from the sector for us to change sales limits for small society lotteries, but increasing the limits would help towards our objective of minimising the administrative and regulatory burdens.**

### 3.1 Sales limits

The limits for small society lotteries have not been changed since the Gambling Act 2005 came into force in 2007. Despite this, feedback received by the Gambling Commission in response to a survey of local authorities suggests that current limits are not perceived as restrictive. Indeed some societies choose to be licensed with the Commission despite operating lotteries beneath the threshold required to do so.

By increasing the level at which lotteries become regulated by the Gambling Commission, we would significantly reduce the regulatory burden on the smaller large lotteries by moving them into a lighter local authority regime. The Commission advise that shifting this burden onto local authorities may impose a risk on their capacity to regulate an increased market. Local authorities receive fees to register and monitor lottery operations, but may not have the capacity to actively regulate an increased number of operators.

There would also be other considerations. For example, the law currently provides that once a society promotes a large lottery, none of the other lotteries which it promotes can be a small society lottery until the end of the fourth calendar year after the large lottery was promoted (paragraph 31(5) of Schedule 11 to the 2005 Act). If the limits are changed, we would need to consider how to apply the new limits and what regulatory changes might be required to deal with this requirement, for example through transitional arrangements. There may also be an impact on the current fee categories for Gambling Commission licences, and we are aware that the limit for small society lotteries has been applied as the threshold for other requirements, such as the limit for the remote ancillary licence and particular technical standards. The Gambling Commission may wish to review those areas for consistency of approach, should the limits change.

**We are consulting on proposals to retain the current limits, or to amend individual per draw sales limits to £30,000 or £40,000 and annual sales limits to £400,000 or £500,000. The two options are not linked, and Government has no preferred option.**

The tables below set out the Gambling Commission's estimates of how many operators and draws would be impacted.

**Table 3: Impact of raising the Individual draw threshold for small society lotteries**

(2016-17) Raising the individual draw threshold to ...	to £30,000	to £40,000
# 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 (2016-17)

**Table 4: Impact of raising annual proceeds limit for small society lotteries**

(2016-17) Raising the annual draw threshold to ...	to £400,000	to £500,000
# operators in scope	196	224
% of all operators	45%	52%
Average extra per local authority	0.54	0.62

Source – Gambling Commission Lottery returns (2016-17)

Local authorities have also expressed concern regarding resource pressures of regulating increased numbers of small societies. We note that local authorities are able to recoup some costs through charging a registration fee and an annual fee.

## Chapter 4: Implementation

Changes to sales and prize limits can be implemented using the Secretary of State's powers under s99 of the Gambling Act 2005 (for large lotteries) and paragraph 60 of of Schedule 11 of that Act (for small lotteries) to vary the limits via a statutory instrument.

The limits are also detailed in the Gambling Commission's Licence Conditions and Codes of Practice (LCCP), which would need to be amended to match any changes to the legislation. The Gambling Commission may consult on how the LCCP ensures compliance with any legislative change separately.

## Chapter 5: Consultation Questions

Please note the questions below are for reference only. **ALL Consultation responses should be submitted via the online survey.**

### Large Society Lotteries

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

- No - the limit should remain at £4 million
- Yes - the limit should be reduced to £2.5m
- **Yes - the limit should be increased to £5 million (Government's preferred option)**
- Yes - the limit should be increased to £10 million
- Other: please specify

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

- No - the limit should remain at £400,000
- Yes - the limit should be reduced to £250,000
- **Yes - the limit should be increased to £500,000 (Government's preferred option)**
- Yes - the limit should be increased to £1 million
- Other: please specify

*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?*

- Yes
- No
- Don't know

*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?*

- Yes
- No
- Don't know

*If yes, in what timeframe:*

- Less than 1 year
- 1-5 years
- 5-10 years
- 10+ years

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

- No - the limit should remain at £10 million (no change)
- Yes - the limit should be increased to £50 million



- **Yes - the limit should be increased to £100 million (Government's preferred option)**
- Other (please specify):

### 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
- No

If yes, what would be an appropriate level for:

a) the individual per draw sales limit

- £30,000
- £40,000
- Other (please specify):

b) the annual sales limit

- £400,000
- £500,000
- Other (please specify):

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

- Yes (please specify)
- No

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.

- Yes (please specify)
- No

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

- Less than £1,000
- £1,001 - £2,000
- £2,001 - £3,000
- £3,001 - £4,000
- Greater than £4,000 (please specify)

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

- Good cause more than prize
- Prize more than good cause
- Both
- Other (please specify):

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?*

- *Yes (please specify)*
- *No*

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

- *Yes (please specify)*
- *No*

## Annex A: Lottery Sector at a Glance

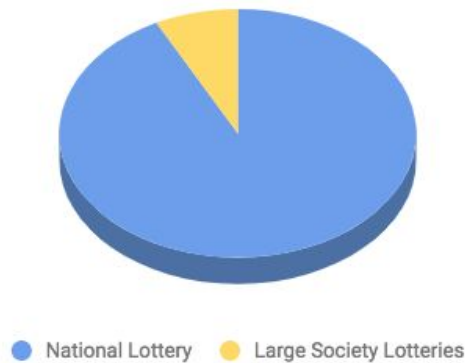
### The National Lottery

- Founded by The National Lottery etc. Act 1993
- Has raised over £37 billion for Good Causes to date
- Funding is distributed by 12 lottery bodies specified by the Act
- In 2016-17 £1.6 billion was raised for good causes.

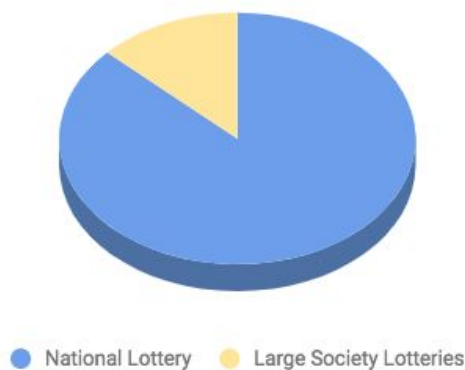
### Society Lotteries

- Governed by the Gambling Act 2005
- Categorised as large or small according to thresholds set by the Act
- In 2016/17 large society lotteries raised approximately £255.56 million for good causes
- 491 non-commercial societies hold 847 large society lottery licences issued by Gambling Commission (2016-17)

Total Sales (2016/17)



Total Contribution to Good Causes (2016/17)



## Annex B: Current Regulatory Framework

Under the Gambling Act 2005, 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.



For a large society lottery, the maximum value of tickets that can be sold in respect of any lottery is £4 million, and the maximum aggregate value of lottery tickets 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. In contrast, the maximum draw size in a small society lottery is £20,000, with the annual maximum aggregate value set at £250,000. The maximum prize is £25,000. These levels apply regardless of whether the prize comes from lottery proceeds or has been donated.

	<b>National Lottery</b>	<b>Large Society Lotteries</b>	<b>Small Society Lotteries</b>
<b>Percentage return to good causes</b>	No minimum  (average 25% from 1994-present)	Must return 20% minimum  (46% average across all large society lotteries)	Must return 20% minimum
<b>Maximum draw size</b>	Unlimited	£4 million	£20,000
<b>Maximum Prize</b>	Portfolio of games: <ul style="list-style-type: none"> <li>• Lotto – unlimited</li> <li>• Euromillions - €190 million</li> <li>• Scratchcards etc – variable prize limits</li> </ul>	Higher of £25,000 or 10% of sales (up to £400,000)	£25,000
<b>Maximum Annual Turnover</b>	Unlimited	£10 million	£250,000
<b>Tax</b>	12% Lottery Duty	None. (ELMs pay corporation tax in usual manner).	None. (ELMs pay corporation tax in usual manner).

## Annex C: Respondents to the Call for Evidence

A New Direction (AND)  
Adur Voluntary Action  
Amgueddfa Cymru  
AMV BBDO  
Anonymous  
APOPO  
Arts Council England  
Arts Council of Northern Ireland (ACNI)  
Arts Council of Wales  
Association of British Bookmakers (ABB)  
Association of British Orchestras (ABO)  
Association of Charity Lotteries in the European Union (ACLEU)  
Association of Chief Executives of Voluntary Organisations (ACEVO)  
Association of Convenience Stores (ACS)  
Association of Independent Museums (AIM)  
Battersea Dogs and Cats Home  
Big Lottery Fund  
Blue Cross  
Book Aid International  
British Film Association  
British Heart Foundation  
British Paralympic Association  
British Red Cross  
British Swimming  
Camelot UK  
Canal and River Trust  
Cancer Research UK  
Cathedral and Church Buildings Division  
Chairs of the 13 Postcode trust X  
Chartered Institute for Archaeologists  
Child & Youth Finance International (CYFI)  
CHILDREN 1st  
Children North-East  
Children's Society  
Community Foundation for Northern Ireland  
County Sports Partnership Network (CSPn)  
Creative England  
Creative Industries Federation  
Creative Scotland  
Cryptic  
Daisy Chain  
Dementia Adventure CIC  
Destined Ltd  
Edinburgh Young Carers Projects  
England and Wales Cricket Board  
England Hockey  
Foundation and Friends of the Royal Botanic Gardens Kew  
Friends of the Earth Scotland

Frontier  
Gibran UK Ltd  
GTECH  
Hafal  
Head4Arts  
Health CICs  
Heritage Lottery Fund  
Historic Houses Association  
Hospice UK  
Independent Theatre Council  
Institute of Fundraising  
Into Film  
Knowsley Council  
Literature Wales  
Livity (individual)  
Llamau  
Local Hospice Lottery Ltd  
London Youth Games Foundation  
Mac Birmingham  
Macmillan Cancer Support  
McColl's Retail Group  
Mid Wales Opera  
Missing People  
Musgrave Retail Partners GB  
My Lotto 24 and Lotto Network  
National Ice Skating Association of Great Britain (NISA)  
National Museum Directors' Council (NMDC)  
National Trust  
NCVO National Council for voluntary Associations  
Ndlovu Care Group  
Nesta  
NfpSynergy  
Northern Ireland Council for Voluntary Action (NICVA)  
One Voice  
People's Health Trust  
People's Postcode Lottery  
Porchlight (individual)  
Poundland  
Quaker Action on Alcohol and Drugs  
Quarriers  
Remote Gambling Association  
RNIB  
Royal Botanic Garden Edinburgh  
Royal Zoological Society of Scotland  
RSPB  
Rural Shops Alliance  
Sadler's Wells  
Save the Children  
Scope  
Scottish Orienteering Association  
Scottish Sports Alliance

Scottish Wildlife Trust  
Sheffield City Council  
Snowsport Scotland  
Somewhereto\_ (individual)  
South Worcester Hospices Lottery  
Southbank Centre  
SPAR (UK)  
Spirit of 2012  
Sport England  
Sport Northern Ireland  
Sport Wales  
SportScotland  
St Raphael's Hospice  
Sterling Management Centre  
Sustrans  
The ASA  
The Bingo Association  
The Churches Conservation Trust  
The Co-operative Group  
The Conservation Volunteers (TCV)  
The Eden Project  
The European Lotteries  
The Fermanagh Trust  
The Heritage Alliance  
The Institute of Conservation  
The Lotteries Council  
The National Archives  
The National Lottery Retailer Forum (individual)  
The Playhouse Derry Londonderry  
The Power to Change  
Tottenham Hotspur Foundation  
UK Sport  
UK Theatre and Society of London Theatre  
Visible Fictions  
Vizeum UK  
Wales Council for Voluntary Action  
Welsh Government  
WHSmith  
Woodland Trust  
World Lottery Association  
WWF World Wildlife Fund

A number of individuals also responded to the call for evidence.