

## **National Lottery Forum response to DCMS Consultation on Society Lotteries Reform: September 2018**

### **Summary**

- The Lottery Forum is concerned the Government's current proposals risk blurring the distinction between the largest society lotteries and The National Lottery.
- We believe these proposals could risk confusing players and risk the cannibalisation of Good Cause funding, helping larger society lotteries and disadvantaging smaller ones.
- There is conflicting evidence around the impact of these proposals on the performance of The National Lottery. Further research is required.
- At a time when returns to Good Causes have declined, and the competition for a new National Lottery licence is about to commence, we would urge caution on making changes, the impact of which cannot be fully predicted.

### **Background**

1. The National Lottery Distributors are responsible for distributing money raised by National Lottery players for good causes.
2. Funding is distributed across the UK by the National Lottery Distributors, making a difference to the lives of millions of people and improving places across the UK. Since the National Lottery began in 1994, over £38 billion has been raised and more than half a million grants awarded. This has had a transformative impact on society in the UK.
3. National Lottery Good Cause funding enables a uniquely broad and diverse range of charitable and community activity to flourish. Any changes to regulations should ensure that the largest amount of money possible is channelled into Good Causes via the National Lottery Distributors, as set out in statute. This will protect and support the Distributors' ability to deliver maximum benefit to citizens and communities
4. There are 12 Lottery Distribution Bodies. This is a joint submission from members of the National Lottery Forum, collectively responsible for distributing nearly 94 percent of the National Lottery funding for good causes. These are: the British Film Institute, the Big Lottery Fund, the Heritage Lottery Fund, Sport England, UK Sport and Arts Council England. The National Lottery Forum brings together the Chief Executives from each of the aforementioned Distributors and provides an opportunity for them to discuss joint working and share best practice.

## Full Response

5. Since its inception, the core purpose of The National Lottery, set out in statute and supported by successive Governments, has been to maximise the amount of funding for Good Causes. Since 1994, The National Lottery has had a huge impact on the quality and richness of national life, with National Lottery players generating around £30m every week for Good Causes. Every corner of the UK has benefitted from over half a million projects that have received over £38bn of investment.
6. The National Lottery's popularity among players and its success are inextricably linked with the fact it was set up as a national, UK-wide game with monopoly status. The National Lottery was designed to deliver the highest possible return and long-term benefit through economies of scale and transparent, efficient management of funds. Over the last 24 years, large jackpots have attracted large numbers of players, which has in turn generated huge investment into Good Causes.
7. The National Lottery Distributors value and support society lotteries as part of the ecology of charitable giving in the UK. People who take part in single society lotteries have traditionally been motivated by cause rather than prize and the funds they generate have played an important part in the rich tradition of charitable giving in this country.
8. The current regulatory framework has allowed income from society lotteries to grow, while in the main preserving a clear distinction between them and The National Lottery. The appearance and growth of large umbrella society lotteries (or External Lottery Managers, ELMs) has however begun to change the lottery landscape. Their ability to offer significant prizes and to market their products with large nationally focused marketing campaigns means that this type of lottery has begun to compete with The National Lottery.
9. For example, the marketing spend of the largest ELMs outstrips the closely regulated marketing spend of The National Lottery. This makes the largest ELMs appear to be of a similar scale to The National Lottery.
10. Despite this, the consultation makes limited remarks about the lottery market as a whole, other than to restate the desired outcome of not damaging The National Lottery. In particular, there are no recommendations concerning ELMs. There is currently no cap on what ELMs can spend on operational and marketing costs, unlike The National Lottery, and we suggest that such a cap should be considered.
11. Although ELMs are required to clearly identify that they operate on behalf of separate society lotteries, it is questionable whether participants in some of the major games are aware that separate lotteries are being supported. This lack of clarity to the player coupled with the nature of marketing activity by some ELMs could lead the consumer to conclude that the operator was a single 'national' lottery.

12. This situation described above is likely to be accentuated by the proposal to raise the maximum amount society lotteries can generate from £10m to £100m per year. For ELMs this could lead to a de facto upper limit of many times that. It is arguable that these changes, alongside an apparent lack of willingness to clarify the position of ELMs in the regulations, will lead to narrowing in the eyes of consumers between The National Lottery and the External Lottery Manager run games. This could erode The National Lottery's monopoly status, splitting large jackpots that would otherwise have the potential to attract more players, and thereby risking a drop in future Good Cause returns overall.
13. Indeed, contrary to the evidence presented by the Gambling Commission, the economic analysis by Frontier Economics (commissioned by Camelot) found that competition has reduced National Lottery sales to a substantial extent and that the cannibalisation effect on The National Lottery of increasing society lotteries' sales has been significant. This trend will continue into the future if left unchecked and will accelerate if society lotteries are able to offer higher prizes more regularly.
14. Furthermore, some very recent consumer research by Camelot<sup>1</sup> showed that increasing the jackpot to the proposed £500,000 would not only increase consumers' likelihood to play society lotteries more, but to a very significant extent this increase in play would be at the expense of The National Lottery. This effect would be magnified if more jackpots of this size were allowed each year as seems to be permitted by raising the maximum amount large society lotteries can generate from £10m to £100m per year.
15. In short, we believe the Government's current proposals risk exacerbating this situation and therefore there is a high risk to the clear distinction between society lotteries and The National Lottery. We believe that the Government's proposals could risk confusing players and could risk the cannibalisation of Good Cause funding.
16. Moreover, we are concerned that there is conflicting evidence around the impact of these proposals on the performance of The National Lottery. At a time when returns to Good Causes have declined and the competition for a new National Lottery licence is about to commence, we would urge caution on making changes, the impact of which cannot be fully predicted.
17. If Good Cause income is affected by these changes, this will have potentially profound implications for our ability to work strategically and collaboratively. National Lottery Distributors are experts in their fields. Each Distributor takes a long view of the interests of the nation, consults the public on our strategies and works with all the relevant stakeholders to make sure National Lottery funding has the maximum impact on the cultural, sporting and community life of the UK. Significant reductions in

---

<sup>1</sup> Verve Research, Society lotteries online survey, August 2018

our funding will curtail our ability to do this and in turn will limit our ability to complement Government culture, sport and civil society strategies.

18. While the Lottery Forum welcomes the role society lotteries play in funding good causes, it is important to recognise that The National Lottery funds a far greater depth and diversity of organisations in the UK across a wide range of Good Causes, including countless small community based groups. The larger society lotteries and the ELMs disproportionately support larger better established charities and arts and heritage bodies. Any diminution in the income available to the National Lottery Distributors through these changes would favour those who are already well resourced at the expense of those who are not and have little.

19. For the reasons outlined above, the Lottery Forum urges caution on how any changes to the current regulatory arrangements are brought forward. Specific to the questions in the consultation, the National Lottery Forum's position is that:

- There should be no increase to the per draw sales limit, the per draw prize limit or the annual sales limit for large society lotteries.
- Specific regulation for ELMs, such as a cap on operational and marketing expenditure, should be considered.
- Further research is required to fully understand the impact of changes to large society lottery limits on The National Lottery, and on overall returns to Good Causes.