

Report to: **Overview & Scrutiny Panel**

Date: **9 November 2017**

Title: **Formation of a Community Lottery for South Hams & West Devon**

Portfolio Area: **Cllr Keith Wingate, Portfolio Holder for Business Development**

Wards Affected: **All**

Approval and clearance obtained: **Yes**

Urgent Decision: **No**

Date next steps can be taken: After Full Council 14 December 2017

Author: **Darren Arulvasagam,
Group Manager, Business Development
Darren.Arulvasagam@swdevon.gov.uk**

Recommendations:

The Panel **RECOMMENDS** to Executive to **RECOMMEND** to Council to:

- 1) APPROVE & IMPLEMENT the proposed business case for the establishment of a joint South Hams and West Devon local community lottery scheme (subject to approval from West Devon Borough Council)
- 2) Appoint Gatherwell Ltd as an External Lottery Manager (ELM) & Aylesbury Vale District Council (AVDC) to assist with project implementation (subject to a successful Contract Exemption application)
- 3) Delegate to the Head of Paid Service to nominate two responsible officers to hold the Council's lottery licence and submit the necessary application to the Gambling Commission
- 4) Delegate to the Group Manager, Business Development in consultation with the Business Development portfolio holder to approve the bespoke lottery business model policies required in order to submit a valid application to the Gambling Commission to obtain a lottery licence

1 Executive Summary

- 1.1 This report sets out the proposal to implement a joint local community lottery scheme to benefit the residents of South Hams & West Devon.
- 1.2 The scheme will be shared across both areas to widen the appeal of the lottery and reach a wider audience of participating good causes and supporters / ticket buyers. A shared scheme recognises the fact that the South Hams District and West Devon Borough Council have a shared workforce and both Councils support many of the same Voluntary and Community Sector (VCS) groups.
- 1.3 Any promotional activity by the Councils will direct residents of both Councils to the shared lottery.

- 1.4 In recognition of schemes that have been successfully operating in other local authority areas, the attached business plan (Appendix A) suggests that such a scheme could help raise over £100,000 per annum for local good causes. This amount could alleviate pressure on the Council's partnership / grants budget or be in addition to such awards at the Council's discretion. A full listing of the grants currently made by the Council to local good causes / VCS is shown in Appendix B.
- 1.5 It is proposed that an External Lottery Manager (ELM) is appointed to administer the scheme. The Council would contract with Aylesbury Vale District Council (AVDC) to project manage the formation of the lottery, the set-up of the lottery website, the application to the Gambling Commission and the preparation of the initial marketing materials and work to 'on-board' the local good causes.

2 Background

- 2.1 Lotteries have long been a way for smaller organisations to raise income. They are regulated by the Gambling Act 2005. There are different types of lotteries available; this proposal falls within the category of 'society lotteries'.
- 2.2 Society lotteries are promoted for the benefit of a non-commercial society. A society is non-commercial if it is established and conducted:
- for charitable purposes - For the purpose of enabling participation in, or of supporting, sport, athletics or a cultural activity
 - for any other non-commercial purpose other than private gain
- 2.3 There are two variants of society lotteries, the main difference being who issues the licence – local authorities permit small lotteries and the Gambling Commission permits large lotteries.

A large society lottery:

- has proceeds that exceed £20,000 for a single draw
- has aggregate proceeds from lotteries in excess of £250,000 in any one year

A small society lottery:

- does not have proceeds that exceed £20,000 for a single draw
- does not have aggregate proceeds from lotteries in excess of £250,000 in any one year

- 2.4 This proposal considers a 'large society lottery'. In all cases, lotteries have to deliver a minimum of 20 per cent of proceeds to good causes. This report recommends a lottery which sees a minimum of 50 per cent of proceeds going to good causes.
- 2.5 The proposal is for a lottery that is focused on:
- 2.5.1 *Delivering the proceeds locally* – a South Hams & West Devon lottery would deliver benefits only to local causes; players can be *assured that*

the proceeds will stay in the District & Borough. Appendix A explains how these will be allocated.

- 2.5.2 *Maximising benefits to the community* – to bolster support and to help in continuing the good work South Hams & West Devon already does with the voluntary and community sector (VCS). To achieve this there needs to be a significant benefit being delivered to the VCS.
- 2.5.3 *Minimising costs* – through the appointment of a recognised ELM there are minimal set-up costs (£15,000 max) and running costs are paid for out of the lottery ticket sales. Unlike the national lottery, where only 28 per cent of ticket sales goes to good causes, a minimum of 50 per cent of ticket sales will go directly to good causes.
- 2.5.4 *Delivering winners locally* – whilst anyone can play, it is likely that players will be locally-based and hence it will be easier to maximise the value from winners' stories, encouraging more participation.
- 2.5.5 *Facilitating a wider benefit* – whilst the lottery will help current funding of local VCS groups, it will also enable VCS groups to fundraise in partnership with the local authority and hence can be seen as the Council enabling local groups to help themselves. It will enable groups to access lottery funding without facing barriers such as licensing, administration or ability to support such an endeavour. Appendix A1 explains this in detail.

2.6 **Gambling Responsibility**

Lotteries are the most common type of gambling activity across the World, and considered to be a 'low risk' form with respect to the emergence of problem gambling. This is due to its' relatively controlled form. The South Hams & West Devon Lottery will help mitigate against many of the issues related to addictive gambling by:

- 2.6.1 The lottery only being only playable online, via direct debit and by pre-arranged sign up. Cash cannot be used to acquire tickets
- 2.6.2 There being no 'instant' gratification', 'instant win' or 'instant reward'
- 2.6.3 There being no 'high profile' activity surrounding the weekly draw
- 2.6.4 It being possible to put a maximum cap on the number of tickets an individual can purchase
- 2.7 In addition, the South Hams & West Devon Lottery website will contain a section providing links to gambling support organisations.
- 2.8 In this way the South Hams & West Devon Lottery should not significantly increase problem gambling; and the benefits to VCS / good causes in the District & Borough from the proceeds of the lottery balances against possible negative issues.
- 2.9 It is important to note that the proposed lottery will see 60% of the proceeds from ticket sales going directly to VCS / good causes as

directed by the ticket purchase. By contrast the UK national lottery only sees 28% of the proceeds from ticket purchases going to VCS. Appendix A explains this in more detail. In addition, any VCS / good cause that complies with the criteria as detailed in Appendix A1 can obtain funding through the lottery – there is no such direct benefit for these same VCS / good causes via the National Lottery.

2.10 **Invest to Earn**

The South Hams Invest to Earn Member Group discussed the formation of this lottery and agreed at its meeting on 14th September 2017 that a report to Executive recommending approval and implementation should be presented in October 2017. Whilst Members felt that lotteries were a form of gambling, they appreciated the fact that the lottery proposed would appeal more to those with altruistic rather than 'get rich quick' aims. The group also acknowledged that the proposed lottery presented VCS groups with a way to increase their income at a time when the Council would need to question the long-term sustainability of its own VCS funding.

3. Outcomes / Outputs

3.1 Please see the associated business plan (Appendix A) for details of the potential income the lottery could generate for the VCS / good causes who join the scheme.

3.2 The income generated by the proposed lottery could increase funding to local VCS / good causes or help ease the financial pressure on these VCS / good causes if the Council were to reduce its discretionary funding to such VCS / good causes in the future. A list of the current grants / funding to such groups is shown in Appendix B. It is proposed that the Council considers using any saving made in this discretionary spend to fund the Council promotional and marketing costs of operating the lottery.

4. Options available and consideration of risk

4.1 In essence the options for delivery of a lottery are either in-house or through an External Lottery Manager (ELM).

4.2 **In-house** - this option would see the setting up of the necessary posts and systems to run a lottery in-house. This has not been fully costed, but it is considered somewhere in the region of a £80-100k for set-up costs alone. This would include a lottery manager and the necessary system development to enable the lottery to run.

4.3 **External Lottery Manager (ELM)** - this recommended option would see a partnership with an existing deliverer of lotteries in the market place. This in effect means 'buying in' the skills and expertise of an existing provider and sharing the risk with them to deliver the lottery. The ELM will deliver all aspects of running the lottery, from ticket purchase and payments, prize management, and licensing, and share with South Hams District Council / West Devon Borough Council and local VCS groups the role of marketing.

- 4.4 It is proposed that an External Lottery Manager (ELM) is appointed to administer the scheme. Whilst there are a number of ELMs in the market, Gatherwell Ltd, in conjunction with Aylesbury Vale District Council (AVDC) are the only provider to offer a model which allows the Council to outsource all responsibility for the administration, set-up and ongoing maintenance of the lottery to a third party. In addition, Gatherwell Ltd offer the only solution which eliminates prize fund risk (through insurance, see appendix A for more details) to the Council. As this is the only option which achieves these aims and the model has been proven by other local authorities, no detailed, costed comparison has been prepared.
- 4.5 Gatherwell will work with the Council to set-up and bespoke the lottery platform for the new scheme and thereafter operate the lottery on a day to day basis. The initial set-up cost (£3,000, which will be split 50/50 between the two Councils if approved) covers the provision of the platform as a one off implementation cost and thereafter they cover their costs from the 20% of ticket sale proceeds. More detail about this can be found in Appendix A.
- 4.6 AVDC will be appointed to complete the start-up implementation, i.e. prepare the business case, assist with the licence application, write the bespoke policies, provide a comms strategy and marketing templates, assist with the VCS / good cause comms and on-boarding process. AVDC will also provide ongoing advice and tips for future development. AVDC will charge the Councils a total of £10,000 for this work. This will be split 50/50 between the two Councils if approved.
- 4.7 It is not proposed that the initial set-up cost is recouped. However, the formation of the lottery will enable VCS / good causes to find a solution to help protect their income if the Council were to be forced to reduce its direct funding of VCS / good causes due to financial sustainability concerns.
- 4.8 A contract procurement rule exemption will be prepared if Members approve the set-up of a lottery as the set-up costs and ongoing licence and marketing costs exceed the one quotation threshold of £7,501.
- 4.9 Members could opt not to pursue the setting up of a lottery scheme. However, South Hams District Council currently grants over £200,000 (see Appendix B for a breakdown of these) in partnership / grant funding towards numerous good causes / social oriented organisations and with the impending financial challenges, this level of funding may be unsustainable in the future. Setting up a lottery scheme, where local residents and ticket buyers directly support such good causes can help soften the impact of any potential future Council reduction in funding.

5 Proposed Way Forward

- 5.1 It is proposed to implement a community lottery of the type set out in this report, replicating that which has been successfully implemented by a number of other local authorities including Aylesbury Vale District Council (AVDC), Torbay Council, Wycombe District Council, Corby

Borough Council, Portsmouth Council, and Gloucester City Council. It is not proposed that the Council combines with an existing lottery as the VCS / good causes registered may “compete with” or not operate in all Council areas. It is also important that the good causes which are part of the scheme fit with the Council’s criteria as detailed in Appendix A1. This may not be the case with a shared lottery scheme across numerous localities. The benefits of a local lottery and benefits to the local community are discussed further in paragraph 2.5.

- 5.2 Whilst those areas are less rural than South Hams and West Devon, it is felt that combining the two Council areas and the marketing capability of the VCS within those areas, along with the marketing reach of the two Councils will generate sufficient ticket sales to justify the set-up costs and the value this will generate for the local VCS.
- 5.3 The delivery of a local lottery in South Hams & West Devon will enable local community groups / VCS to access and benefit from a nationally recognised funding model developed by AVDC in partnership with an external lottery manager.
- 5.4 Councillors are recommended to approve the business case attached (Appendix A) and agree to implementation of a local lottery scheme (in conjunction with West Devon Borough Council) by appointing Gatherwell Ltd as an External Lottery Manager (ELM) in line with the principles outlined in the business case and this report.
- 5.5 In order to submit the necessary application to the Gambling Commission, it is recommended that Members delegate authority to the Head of Paid Service to nominate two responsible officers (SLT) to hold the Council’s lottery licence and give delegated authority to the Group Manager, Business Development (in consultation with the Business Development portfolio holder) to approve the bespoke lottery business model policies required in order to submit a valid application to the Gambling Commission to obtain a lottery licence.
- 5.6 The lottery will only be progressed if both South Hams and West Devon approve its formation.

6 Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal/ Governance	Y	<p>The local authority can operate this scheme under its general powers of competence as provided by the Localism Act 2011.</p> <p>The scheme would be licensed by the Gambling Commission who would regulate the scheme under the Gambling Act 2005. They would ensure that the organisations participating in the scheme met agreed criteria such as they provide local activities or services, are properly constituted and have governance arrangements. The Gambling Commission also ensure the scheme is compliant to the licensing code of practice for gambling responsibly.</p>

		<p>The Council will hold a contract with the ELM (Gatherwell Ltd), subject to a successful contract exemption application. Gatherwell will receive a payment for the set-up cost (£3K) and will obtain a benefit from this service through the accrual of 17% of each ticket sale. Therefore, based on another authority's experience of 2,000 ticket sales per week, Gatherwell would receive £340 to cover their costs. Over a year this is £17,680. The Councils do not pay this themselves, it is recovered by Gatherwell purely from ticket sales. This would be Gatherwell Ltd.'s total income from the scheme, which effectively would accrue 50/50 from South Hams and West Devon. Gatherwell take on the risk of not recovering costs from lower ticket sales are lower.</p> <p>There is no guarantee that this level of income would be achieved, as it depends on take up of ticket sales. This type of arrangement is covered under the Concession Contract Regulations 2016. But these regulations only apply with a contract value above £400,000. A procurement contract exemption will be prepared if Members approve the set-up of a lottery as the set up costs and ongoing licence and marketing costs exceed the Council's one quotation threshold of £7,501.</p> <p>The Council will have 2 licenced individuals with responsibility for overseeing the scheme. If approved, the Head of Paid Service will nominate 2 SLT officers to hold these licences on behalf of the Council.</p> <p>A licence application is required to be submitted to the Gambling Commission and the lottery can only be formed on successful application.</p> <p>A number of bespoke policies will need to be prepared to apply for the lottery licence:</p> <ul style="list-style-type: none"> • Children and Vulnerable Person Protection policy • Fair and Open Gambling policy • Implementation procedures policy • Protection from Source of Crime and Disorder policy • Social Responsibility in gambling policy. <p>If approved, it is recommended that responsibility for preparing these is delegated to the Group Manager, Business Development (in consultation with the Business Development portfolio holder).</p>
Financial	Y	<p>Set up costs as a one-off: £13,000. This amount will be shared 50/50 with West Devon Borough Council (i.e. £6,500 each).</p> <p>Ongoing licence and marketing costs up to a maximum of £4 - £5k per annum (again to be split 50/50) – however, these costs will be deducted from revenues from ticket sales. See Appendix A for further details.</p> <p>The initial set-up costs can be funded from the Invest to Earn (Innovation fund) earmarked reserve which has a sufficient uncommitted balance.</p> <p>It is envisaged that the ongoing running costs are funded from the saving that the lottery can create in the grants /</p>

		partnerships budget. More detail about this can be found in Appendix A.
Risk	Y	<p>There are three main risks:</p> <p>i. That the scheme does not attract sufficient ticket purchases per week to make the scheme viable. If the scheme becomes unviable then it can be ceased and the Council would not reapply for its licence after the end of year one (or any year after it becomes unviable). Therefore the maximum financial risk to the Council in any given year is the cost of the licence (max £1,000) and any money expended (e.g. promotions) in marketing the lottery scheme (max £5,000).</p> <p>ii. That the prize awards exceed those predicted. The top prizes are insured by the ELM. Lower prizes are simply re-entries into the draw. All of this is funded from the prize fund, which itself is funded by the ELM's share of the ticket sales. The Council is not exposed to prize fund risk due to the contract it will hold with the ELM.</p> <p>iii. Reputational, in that the scheme is seen to encourage gambling (see paragraph 2.6 above for mitigations).</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	Y	<p>The scheme has the potential to have a positive impact on people with protected characteristics, as they will benefit from services or activities provided through the local community groups. Which people with protected characteristics will benefit is difficult to say until the community groups / good causes / VCS apply.</p> <p>People without a bank account or payment cards may feel excluded as they will be unable to take part. The council should feel confident they can justify not taking cash payments as a proportionate means of achieving a legitimate aim, i.e. to reduce the risk of gambling addiction. By taking payments online, with no instant win option, the risk of the draw appealing to gamblers is reduced. The lottery is a giving scheme using a gambling infrastructure model.</p> <p>There is likely to be a neutral impact on religious groups who may not agree with gambling as a method of raising income. However, marketing the scheme with the promotion of good causes / VCS as its focus should help alleviate this.</p> <p>Bespoke lottery business model policies will be developed to accompany the application to the Gambling Commission to obtain an operator licence.</p>
Safeguarding	Y	Not applicable – Bespoke lottery business model policies will be developed to accompany the application to the Gambling Commission to obtain an operator licence.
Community Safety, Crime and Disorder	Y	Not Applicable – Bespoke lottery business model policies will be developed to accompany the application to the Gambling Commission to obtain an operator licence
Health, Safety and Wellbeing	Y	As discussed in report, paragraph 2.6

Other implications	N	Not Applicable – Bespoke policies will be developed to accompany the application to the Gambling Commission to obtain an operator licence
--------------------	---	---

Appendices:

Appendix A – South Hams & West Devon Lottery Business Plan

Appendix B – Breakdown of Partnership grants and funding for SHDC and WDBC