

## **BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE**

**28 JANUARY 2021**

### **ESTABLISHMENT OF A MEDWAY COMMUNITY LOTTERY**

Report/Author: Phil Watts, Chief Finance Officer

#### Summary

To note the Cabinet's agreement to the launch of an on-line Medway Community Lottery ("the Lottery") to help fund discretionary support for the local voluntary and community sector and to enable such organisations to raise funds which will directly benefit local people and communities.

This report was considered by the Cabinet on 17 November 2020.

#### 1. Budget and policy framework

1.1. The establishment of a community lottery is a matter for Cabinet. Furthermore, as the costs to the Council are minimal, they will be met from within existing resources and therefore fall within the budget.

#### 2. Background

2.1. As budget pressures continue to increase over the next few years, there will inevitably be an impact on the funding available to support local voluntary and community organisations (referred to in this report as 'good causes'). In order to provide funding for good causes, without recourse to scarce Council funding, many other local authorities have introduced a local lottery.

2.2. Lotteries have long been a way of smaller organisations raising income, for which they are regulated under the Gambling Act 2005 ("the Act"). The Act creates eight categories of permitted lottery. The Act includes, as a permitted category of lottery, a "local authority lottery". Local authority lotteries are lotteries promoted by the authority and require the authority to be licensed by the Gambling Commission. The net proceeds from a local authority lottery may be used for any purpose for which the authority has the power to incur expenditure.

2.3. Local Authority lotteries have to deliver a minimum of 20% of proceeds to purposes for which the authority has the power to incur expenditure – this report proposes to deliver up to 60% of the Lottery proceeds to good causes.

### 3. Options

- 3.1. Three options were presented to Cabinet to consider:
- 3.2. Option 1: Do not establish a lottery. The reasons not to proceed with establishing a community lottery, are essentially around financial risk and reputational risk. This report will seek to demonstrate that these risks are minimal and significantly mitigated by the proposal presented to Cabinet later in the report.
- 3.3. Option 2: Establish an in-house lottery. This option would require creating a number of new posts, systems and processes and it is estimated that the cost to the Council would be in the region of £80,000 to £100,000 for set-up costs alone. This would include a lottery manager and the necessary development of software systems to enable the lottery to run. The financial risk, if the lottery were not successful, would be borne by the Council.
- 3.4. Option 3: Appoint an External Lottery Manager (ELM). This option would involve a contractual arrangement with an existing provider of community lotteries. This in effect means 'buying-in' the skills and expertise of an existing provider and passing the financial risk to the provider. The ELM would deliver all aspects of running the lottery, from ticket sales, revenue collection, prize management and licensing, and share with Medway and the good causes, the responsibility for the launch and ongoing marketing.
- 3.5. It was proposed that rather than allocating officer time and significant cost to setting up and managing an in-house lottery, an ELM be used to oversee the operations of the local lottery (Option 3).

### 4. Advice and analysis

- 4.1. There are very few ELMs in the marketplace and, as indicated, Gatherwell are specialists in delivering local authority lotteries. It was therefore proposed to utilise Gatherwell as an ELM for the lottery, initially for a one-year. Following the first year, the contract would continue on a rolling basis, subject to a three month notice being required should the Council wish to end the agreement. This is in accordance with the Council's Contract Procedure Rules (Chapter 4, Part 7, paragraph 1.8, Exceptions and exemptions).
- 4.2. Gatherwell now provides this service for around 80 local authorities, including district, metropolitan, county and unitary councils, and their remit is to increase funding to good causes. No other quotes have been obtained from lottery providers as there does not appear to be any other company that can facilitate this type of local authority lottery. We considered these other ELMs:
  - Tower Lottery – only deals with Charities (mainly air ambulances);
  - Prize Provision – only runs sports club lotteries;
  - CFP Data – only provides an online raffle and printed lottery card service;
  - Brightsource – none or very little experience in working with local authorities;

- Woods Group – none or very little experience in working with local authorities;
- Sterling Lotteries – do not primarily focus on local good causes, and require the local authority to undertake the administration of the scheme;
- Gatherwell - their model minimises officer time spent on the project and maximises funding available to local good causes. They also have an extensive record of working with local authorities and are specialists in delivering this type of lottery, and as such, understand local authorities' needs and requirements. For this reason Gatherwell was recommended as the ELM to deliver the Lottery.

4.3. The Lottery would need to have a set of aims or unique selling point that resonates with local players. Officers believe that there is place for a lottery that is focused on:

- Delivering the proceeds locally – Players could be confident that the proceeds would stay within Medway, for the benefit of local good causes;
- Maximising benefits to the community – This proposal would entail almost 60% of proceeds being given to local good causes;
- Minimising costs – This proposal involves minimal set-up costs and the lottery would be self-financing, with no financial risk to the Council;
- Positive PR – With a combination of local winners and support for local good causes, a community lottery would provide a constant stream of opportunities for positive PR;
- Empowering good causes – As well as directly funding good causes, it will also raise their profile and enable them to raise more funding for themselves and create links to repeat donors;
- Helping to shift resident's perceptions – Changing the public perception of the local authority from *provider* to *enabler*.

4.4. A particular facet of the Gatherwell lottery, that makes it such an efficient model, is that it operates entirely online. This absolutely fits with the Council Plan ways of working – '*giving value for money*' and '*finding the best digital innovation and using it to meet residents' needs*'. The lottery will be accessible via a desktop computer, mobile phone or tablet. In order to comply with the Act the Council would need to hold a remote lottery operating licence to have this type of lottery.

4.5. The proposed approach would enable charities and good causes to 'sign up' to take part in the lottery, with 50% of the revenue from ticket sales going directly to the good cause selected by the purchaser. By signing up they would have their own web page for the lottery, helping them in to recruit players and raise income. This model removes a number of hurdles for groups who might struggle to take part in their own lotteries (e.g. holding their own licence and setting up infrastructure to enable the lottery to run). This 50% is distributed to the specific good causes that sign up to the scheme, and the use of the remaining 10% (of the 60% proceeds) would be determined by the Council.

4.6. The Council would be the overall licence holder and control the good causes joining the scheme. Players buying tickets through specific web pages would

know that the proceeds are for that specific good cause. This in turn motivates the group to gain more players to support their specific cause.

## 5. How the Lottery Works

5.1. The Council would need to define eligibility criteria against which applications for good causes wishing to join the lottery would be assessed. The Chief Finance Officer met with the Deputy Leader and the Portfolio Holder for Adults' Services, supported by several officers to discuss and agree some proposed criteria. It must be either:

- A registered charity, with a board of trustees;
- A constituted group with a volunteer management committee with a minimum of three unrelated members that meets on a regular basis (at least three times per year) or;
- A registered Community Interest Company (CIC).

5.2. It was proposed that good causes wishing to join the lottery should:

- Provide services or activities that directly benefit people within Medway;
- Be independently established for charitable, benevolent or philanthropic purposes;
- Have a constitution or set of rules setting out its aims and objective;
- Operate a bank or building society account in its own name requiring at least two unrelated signatories;
- Place no undue restrictions on membership.

5.3. Furthermore, it was proposed that we should NOT accept applications from any organisations that:

- Do not provide services within the boundaries of Medway;
- Have no established management committee / board of trustees (unless a CIC);
- Aim to make and distribute a profit;
- Promote particular political or religious beliefs;
- Only benefit an individual;
- Submit an incomplete application.

5.4. Once the criteria have been agreed, Gatherwell would set up a new website and manage the publicity and recruitment of good causes to the platform. Experience of running 80 such lotteries suggests that there is no upper limit on the number of good causes and the most successful lotteries support the largest numbers of causes.

5.5. The local authorities will have significant input into the branding, marketing and launch of the lottery, even to the extent of naming the lottery, however ongoing marketing need only incur modest expenditure, with good causes largely doing this work themselves.

- 5.6. Ticket sales would all be administered by the ELM and participants would be expected to set up a monthly direct debit. No tickets are sold in shops, offices or on the street. The ELM would also be responsible for payment of prizes and distribution of proceeds to good causes and back to the Council. Each ticket costs £1 and the proceeds distributed as follows:
- 50% directly the good causes specified by individual lottery players;
  - 10% being paid to the 'central fund' held by the Council. This will be used to fund the annual licences and perhaps modest investment in publicity and marketing, but the major part of this will be available to target more resources at the voluntary sector;
  - 20% in prize money to participants;
  - 20% is paid to the ELM, however 3.33% represents VAT, which can then be reclaimed by Council and added to the central fund.
- 5.7. The percentage of the ticket sales going to good causes (60%) is significantly higher than those lotteries offering large jackpots – Euromillions and the National Lottery (28%), the Health Lottery (20%) and the Postcode Lottery (27.5%).
- 5.8. The Lottery is based on a different principle to the UK Lotto and the numbers used are the results of the Australian Super 66. This is a combination lottery that uses only the numbers 0 to 9 which are then randomly drawn by a computer. As the Super 66 is drawn weekly on a Saturday morning (UK time) the deadline for participating in the local lottery is midnight Friday. Players (aged 16 or over) are able to choose 6 numbers, and to win the weekly jackpot they must match both the numbers and sequence as drawn. Players can also win a prize if the ticket matches the sequence of the first or last 2, 3, 4, or 5 numbers drawn.
- 5.9. Players also have the option to donate their winnings to their chosen good cause if they so wish (other local authority experience has shown that circa 10% of winners have donated their prize back to the good cause).
- 5.10. The jackpot is an insured prize and is a guaranteed pay out of £25,000 per winner (even if multiple people win the jackpot it is not shared or rolled over). The ELM takes out insurance to cover all prizes and the risk of ticket sales not being sufficient to cover the prize pay-out lies with ELM. The table below details winning odds and their prizes.

Numbers matched	Winning Odds	Prize
6 numbers	1: 1,000,000*	£25,000
5 numbers	1: 55,556	£2,000
4 numbers	1: 5,556	£250

3 numbers	1: 556	£25
2 numbers	1:56	3 free tickets
<b>Overall odds of winning a prize</b>	<b>1:50</b>	<b>n/a</b>

\* Note: The odds of winning the Health lottery jackpot is 1:2,000,000 and the Euromillions jackpot is 1:140,000,000

5.11. The process of setting up a local authority lottery normally takes about six months from the date of agreement to approval by the Gambling Commission.

## 6. Cabinet - 17 November 2020

6.1. On 17 November 2020, the Cabinet considered this report which requested that the Cabinet agree the establishment of an online Medway Community Lottery to help fund discretionary support for the local voluntary and community sector and to enable such organisations to raise funds which would directly benefit local people and communities.

6.2. The report also proposed the procurement of Gatherwell as the External Lottery Manager (ELM) on the basis of their experience of running lotteries for around 80 local authorities and that their remit was to increase funding to good causes. The report noted that no quotes had been obtained from alternative lottery providers as there did not appear to be any other company that could facilitate this type of local authority lottery. As the contract could only be awarded to one economic entity, this amounted to an exceptional circumstance and therefore, the Council's Contract Procedure Rules, as set out in the Constitution at Chapter 4, Part 7, paragraph 1.8, did not apply.

6.3. The report explained that each ticket for the lottery would cost £1 with the proceeds being distributed as follows:

50% directly paid to the good causes specified by individual lottery players;  
10% being paid to the 'central fund' held by the Council and to be used for lottery related costs;  
20% in prize money paid to participants;  
20% paid to the ELM, with the 3.33% representing VAT being able to be reclaimed by the Council, to be added to the central fund.

6.4. The estimated cost of setting up the lottery was around £7,300, this would be funded from within existing budgets.

6.5. A Diversity Impact Assessment had been undertaken in relation to the establishment of the Medway Community Lottery, as set out in Appendix 1 to the report.

The Cabinet agreed the establishment of the Medway Community Lottery for the purpose of raising funds to support good causes, benefitting the residents of Medway, (Option 3). Decision no. 141/2020 refers.

The Cabinet approved the procurement of Gatherwell as an External Lottery Manager (ELM) to run the operational side of the lottery, for an initial one year period, with the contract then continuing on a rolling basis, subject to a three month notice being required should the Council wish to end the agreement, as set out in paragraph 4.1 of the report. Decision no. 142/2020 refers.

The Cabinet agreed the criteria for determining which good causes should participate in the Lottery, as defined in paragraphs 5.1 to 5.3 of the report. Decision no. 143/2020 refers.

The Cabinet agreed to authorise the Chief Finance Officer to apply for any necessary licences from the Gambling Commission to enable the Lottery to operate. Decision no. 144/2020 refers.

The Cabinet agreed to nominate the Chief Finance Officer as the personal licence holder for the Lottery and agreed to authorise him to apply for the personal licence. Decision no. 145/2020 refers.

The Cabinet agreed to delegate authority to the Chief Finance Officer, in consultation with the Deputy Leader and Portfolio Holder for Housing and Community Services, to:

- i) Manage and have oversight of the Lottery.
  - ii) Approve appropriate policies and procedures associated with the Lottery.
- Decision no. 146/2020 refers.

## 7. Risk Management

7.1. 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 Lottery will help mitigate against many of the issues related to addictive gambling by:

- Being only payable via pre-arranged sign up (not 'spur of the moment') and non-cash methods, as players have to pay in advance by direct debit;
- There is no 'instant gratification' or 'instant reward' to take part, due to the midnight deadline whilst the results are released the following day;
- Promotion of the lottery will be mainly via the good causes to their supporters;
- The lottery will be fully compliant with the Gambling Commission's licensing code of practice, which includes self-exclusion and links with support organisations.

- 7.2. Gatherwell recommend that each Council becomes a member of the Lotteries Council, which provides a range of services for its members, including acting as independent arbitrator for lottery providers should a dispute arise, free access to advice from specialists, and representation with regulators and legislators. The Lotteries Council will also make a contribution to the Responsible Gambling Trust on behalf of each of its members.
- 7.3. The minimum age for participation in a local authority lottery is 16 years. A person commits an offence if they invite or allow a child (someone under 16) to enter such a lottery. The Council will ensure that appropriate written policies are in place to help prevent and deal with cases of under-age play. Gatherwell, when acting as ELM, require players to declare their age as 16 or over and undertake back office and random checks to verify dates of birth and ensure no under-age players. As part of the licensing objectives the Council are required to ensure that children and other vulnerable people are not harmed or exploited by the lottery.
- 7.4. The Council, as licence holder will take all reasonable steps to ensure that information about how to gamble responsibly and how to access information for help in respect of problem gambling is readily available.
- 7.5. Due to these factors it is reasonable to believe that the Medway Community Lottery as proposed, will not significantly increase problem gambling, and that the benefits to good causes in the borough from the proceeds of the lottery outweigh the possible negative issues.
- 7.6. In order to comply with the licensing requirements under the Act it was proposed that the authority to apply for any operating licences on behalf of the Council be delegated to the Chief Finance Officer.
- 7.7. It was proposed that the Chief Finance Officer be nominated as the Personal Management Licence holder for the Lottery and be given authority to apply for such a licence.
- 7.8. A diversity impact assessment has been completed (Appendix 1) and there are no consequences arising from the recommendation that adversely affects or interferes with individual's rights and freedoms as set out in the Equalities Act 2010.
- 7.9. Until a few years ago, local authorities had not entered into this form of fundraising due to perceived risks to a council's reputation, contradictions with anti-poverty work, and concerns about the gambling aspects of such a service. However, things have moved on in the last few years, and there is now a clear precedent set for local authorities to get involved in this kind of activity, as long as the marketing material is clear that it is principally a fundraising platform for local good causes, the lottery is properly regulated, and supports the licensing objectives set out in the Act which are:
  - Preventing gambling from being a source of crime or disorder, being associated with crime or disorder, or being used to support crime;
  - Ensuring that gambling is conducted in a fair and open way;



- Protecting children and other vulnerable people from being harmed or exploited by gambling.

## 8. Financial implications

8.1. The estimated cost of setting up the lottery is around £7,300 as follows and it was proposed that these costs be met from the recently agreed Transformation Fund:

- Gatherwell set up fee of £5,000, which will include website design, hosting, maintenance and development; payment gateways (dedicated direct debit and payment card accounts); dedicated support telephone number, email and social media accounts; marketing strategy support and generic design creation; gambling licence application support and training for licence holders;
- Gambling Commission licence - £519 per year plus £244 application fee;
- Lotteries Council membership - £385 per year plus £25 application fee;
- Launch event – costs of circa £1,000 but will be kept as low as possible.

8.2. Once launched, the ongoing costs would be met from the 'central fund' retained by the Council:

- Gatherwell will not charge an annual fee, as its costs will be covered by the 17p (plus VAT) service charge from each £1 ticket. The full set of services outlined above will still be provided;
- Gambling Commission licence and Lotteries Council membership, which together currently cost £1,077;
- Ongoing marketing of the lottery will mainly be the responsibility of individual good causes who will promote the lottery to their supporters and the general public in anticipation of raising income. The Council will provide additional support by placing promotional material and press releases in relevant publications and on-line. It is anticipated that this will be a minimal cost, both in terms of officer time and money.

8.3. Although exact returns for the Community Lottery cannot be guaranteed, other well established local authority lotteries, in areas with similar sized populations, are achieving an average of 1,600 to 2,800 ticket sales per week. Based on 52 weeks per year x 50p contribution, monies raised directly for good causes over the year could be within the range £41,600 to £72,800.

8.4. Given the estimated ticket sales above, the amount retained by Gatherwell from ticket sales could be between £14,144 and £24,752 per year. The contract would be for one year with a rolling three month cancellation period.

## 9. Legal implications

9.1. Lotteries are regulated under the Gambling Act 2005. The Act creates eight categories of permitted lottery, including a "local authority lottery". Local authority lotteries are lotteries promoted by the authority and require the authority to be licensed by the Gambling Commission. The net proceeds from a

local authority lottery may be used for any purpose for which the authority has the power to incur expenditure.

- 9.2. Local authority lotteries can be run in-house or in partnership with an External Lottery Manager (ELM). An ELM is defined in section 257 of the Act as someone that is a person or a body who makes arrangements for a lottery on behalf of a society or local authority, but is not a member, officer or employee of the society or authority. All ELMs must hold a lottery manager's operating licence before they can manage a lottery on behalf of a local authority. This is in addition to the operating licence held by the local authority. It is important to note that whilst ELMs may run a lottery on behalf of the local authority, it is the responsibility of the local authority to ensure that the lottery is conducted in such a way as to ensure that it is lawful, and fully complies with the Act, all licence conditions and licensing codes of practice.
- 9.3. In addition to operating licences from the Gambling Commission, a local authority is required to have at least one Personal Management Licence (PML) holder for the authority, even if the lottery is run by an ELM. The ELM will have their own PML holders.
- 9.4. The Council's Contract Procedure Rules do not apply in exceptional circumstances including where for technical or artistic reasons or reasons connected with the protection of exclusive rights the contract can only be awarded to one economic entity. This is set out in the Council's Contract Procedure Rules within the Council's constitution accordingly (Chapter 4, Part 7, paragraph 1.8).

## 10. Recommendations

- 10.1 Members are asked to note the contents of this report and its Appendix.

### Lead officer contact

Phil Watts, Chief Finance Officer, Gun Wharf,  
01634 332220 [phil.watts@medway.gov.uk](mailto:phil.watts@medway.gov.uk)

### Appendices

Appendix 1 – Diversity Impact Assessment

### Background papers

None.