

APPENDIX A

SHAPE MENDIP LOTTERY

BUSINESS CASE

CLlr Philip Ham, Portfolio Holder for Transformation



**SHAPE
MENDIP**

1 Purpose of the Lottery

1.1 To help fund discretionary support for local voluntary and community (VCS) organisations and enable such organisations to raise funds directly for themselves. The Council would not take any of the proceeds for itself.

1.2 All funds raised by the lottery would be spent within the district and provide benefits to the people and communities of Mendip district.

2 Executive summary

2.1 In the medium-term, as budget pressure continues to grow on all aspects of the council's work, there will inevitably be an impact on the funding available for the VCS sector. The concept of the Council running a lottery has been in consideration for a while and the focus has been on how it would be delivered and how it could work with existing funding for VCS organisations. Historically, the Council has provided substantial financial support for the VCS within the district, helping to deliver a number of corporate aims. We currently distribute around £180,000 pa through funding and support arrangements, as well as £650,000 over the last 3 years through a Local Legacy Fund, plus other one-off support from time to time.

2.2 A Shape Mendip Lottery has the potential to help all VCS organisations active in the district by helping address any funding pressures they are facing. The lottery proposal would also help move the Council from 'provider' to 'enabler'.

By agreeing the proposal, this council would adopt a proactive approach and be one of the first councils in the country to run a lottery. The proposal is to use a model similar to that launched by Aylesbury Vale District Council (AVDC). Namely to seek a licence from the Gambling Commission and to 'buy-in' the skills and expertise of an External Lottery Manager (ELM) to run and market the lottery.

3 Supporting information

3.1 The Council is exploring new income streams, streamlining processes, reducing costs and working innovatively in partnership - this work is known as the Mendip Transformation Plan (MTP) and is our approach to addressing the financial challenges we face over the coming years following the government's decision to reduce the level of grants to local authorities.

3.2 The MTP programme considers how we can sell more services to the general public, the wider public sector and the private sector to increase the income position of the council. This fits with the changing business model of the council which is moving away from being the provider of all services to one where there is a mix of delivery models for buying and selling services, as well as moving customers towards more 'self help' digital options.

3.3 Inevitably, in the medium-term, the amount of funding available for VCS organisations will be impacted. With this in mind, the Council has been investigating ways to address this position. A Shape Mendip Lottery would create a new income stream for VCS organisations helping them address funding pressures and provide benefits to the people and communities in the district.

4 Background to Lotteries

4.1 Lotteries have long been a way of enabling smaller organisations to raise income. All local authority lotteries must be licensed by the Gambling Commission and are regulated by the Gambling Act 2005.

4.2 There are different types of lotteries available. In this instance, we are only discussing 'society lotteries' which are promoted for the benefit of the non-commercial society. A society is deemed to be non-commercial if it is established and conducted for the following purposes and activities:

- Charitable purposes;
- To enable participation in or support of sports, athletics or cultural activities;
- Any other non-commercial purpose, other than that of private gain.

4.3 In all cases, local authority lotteries must deliver a minimum of 20% of gross proceeds to community and voluntary causes – this business case recommends a minimum of 50% of proceeds going to such causes.

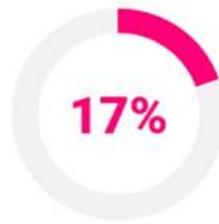
It is proposed that the Shape Mendip Lottery would split each £1 from the purchase of tickets as below:



60% to VCS orgs
via Central Fund
or Umbrella Fund



20% goes back to
ticket buyers as prizes



All ELM running
costs, incl banking
and marketing



ELM costs
are VATable

5 The Lottery Market Place

5.1 There are three well-known national lotteries running in England and Wales – these are the National Lottery, Health Lottery and the Postcode Lottery. The table below provides background statistics regarding these providers for comparison.

Provider	Odds of jackpot win	Odds of any prize win	% share to CVS orgs	% to operator/owner
Euromillions	1:116m	1:13	28%	22%
National Lottery	1:14m	1:54	28%	22%
Health Lottery	1:2m	1:209	20%	22%
Postcode Lottery	No data available		27.5%	32.5%

5.2 There are no Mendip-wide lotteries currently being delivered and only two other councils known to be a licensed lottery operator in the country. However, there are a number of community groups and charities who either run lotteries or lottery-like fundraising within the Mendip district. Known examples are the Dorset & Somerset Air Ambulance, St Margaret’s Hospice and the Blue School PTA.

<http://www.somerset-hospice.org.uk/data/lottery-leaflet.pdf>

<http://www.dsairambulance.org.uk/>

https://www.theblueschoolwells.co.uk/section.php/711/1/blue_school_pta_lottery

6 Initial Proposition

6.1 A local authority lottery requires a set of aims or a unique selling point that resonates with lottery players. It is believed there is a place for a lottery that focuses on the following aims:

- *Delivering the proceeds locally* – a Council lottery would deliver benefits only to VCS causes that provide benefits the people and communities in Mendip district. Unlike any other lottery provider, players can be assured that the proceeds will stay within the district.
- *Maximising benefits to the community* –to bolster support and help continue the good work the Council already does, there is a need for significant support and benefits to be provided by the VCS sector. This proposal would result in 60% of proceeds being given to VCS organisations, with the additional benefit that none of the proceeds being generated is taken by the Council.
- *Minimising costs* - whatever delivery route is adopted, set-up costs have to be minimised. This means the lottery will need to be largely self-financing and any funding distribution mechanism should tap into existing distribution routes.
- *Delivering winners locally* – whilst anyone could play (players don't have to live in the Mendip district), it is likely that players will be locally based (or have a local connection) hence it will be easier to maximise the value from winners' stories and encourage more participation.
- *Facilitating a wider benefit* – whilst the lottery will help current funding to VCS organisations, it will also enable such organisations to fundraise in partnership with us. This can be seen as the council enabling VCS organisations to help themselves by reducing barriers to securing lottery-type funding, such as making access to funding easier and allowing freedom on how the money can be spent. It will also open up a way for voluntary and community organisations to create new links with repeat donors and reach out a much wider audience.
- *Helping to shift residents' perceptions* - of what the Council can do and is here for. This is in line with the changing business model of the Council towards adopting a more commercial approach to service delivery, as well as moving customers towards more 'self help' options.

7 Proposed Form of the Lottery

7.1 The proposal is to use a model similar to that launched by AVDC. This is an online lottery due to the high costs of distribution and sales if it was run in any other way. The benefit of this approach is that this model has a proven track record of delivering a successful product which is achieving the aims of their lottery, i.e. helping deal with the pressure on their community funding budgets and enabling VCS organisations gain access to new funding streams.

7.2 This approach also fits with the Council's digital agenda and the lottery will be accessible 24/7 via all desktop, mobile and tablet devices.

7.3 The proposed lottery would create a new funding stream for the VCS active in the Mendip district and provide them with a platform to fundraise independently. Players can choose to buy a ticket to support either:

The Central Fund – this operates district-wide and players do not specify an organisation to benefit from the 60% of their ticket purchase. All the monies raised would be distributed direct to VCS organisations active in the Mendip district through a new grant scheme – the details of how this would work are to be developed. As the lottery grows, it could also help towards the cost of funding and support arrangements the Council may have with the VCS sector. This approach may also helpss organisations who may have fewer local supporters and/or less ability to generate funding support because of the nature and/or size of their service(s).

The Umbrella Scheme – this allows players to support a specific organisation and, in turn, this motivates participating organisations to encourage more players to support them and therefore generate more income for themselves. VCS organisations would need to meet criteria (see Annexe A) set by the licence holder (i.e. the Council) before they can 'sign-up'. Support would include their own branded web page on the lottery website and regularly updated bespoke marketing materials to help them engage with players. This option would help remove barriers for organisations who may struggle to access other funding streams or aspire to run their own lotteries (barriers for them might include difficulties in holding their own license or setting up the

infrastructure to run it). Organisations keep 50% of all ticket sales generated through their page and another 10% goes to the Central Fund.

The Council would control which organisations can join the umbrella scheme and VCS organisations would need to meet certain criteria in order to join.

Annexe A sets out the draft criteria.

Fund allocations are set out later in the paper.

It is recommended that the following actions are delegated to the Deputy Chief Executive and the Portfolio Holder for Transformation, in consultation with the Leader and Chief Executive:

- i. Holding a meeting with representatives of the VCS to gauge their support of the proposed lottery.***
- ii. Finalising the draft criteria set out in AnnexeA.***
- iii. Preparing a marketing plan to local VCS organisations that encourages their participation in the lottery***

7.4 All sales for the lottery (no matter which of the two versions the player chooses) would operate through a dedicated website (specific organisations would have their own landing pages on this website) and be funded via ticket sales made by online payment (payment card) or direct debit. This approach is needed to keep operating costs at a minimum.

Delivery Options

7.5 The Council would have to apply to the Gambling Commission for a licence to run a lottery and be the overall license holder.

7.6 The proposal is to use the services of an External Lottery Manager (ELM) to run the lottery. This is the most common form of lottery provision for Councils. In terms of procurement rules, the provision of lottery services is a public service concession. However, under the current Concessions Contracts Regulations 2016, specifically under Regulation 10(13), lottery services are expressly excluded from being governed by the procurement rules. Given the Council would be an enabler and would not be taking any money. All that would be required is a contract between the Council and the ELM. Notwithstanding the appointment of an ELM, the Council

would retain obligations to the Gambling Commission to ensure that the lottery is conducted in a lawful and fully compliant way.

7.7 Two delivery options have been considered:

Option 1: In-house - The council would set-up the necessary staffing and systems to run the lottery. Desktop research demonstrates such as approach would cost circa £80-100,000 as it would be necessary to employ a lottery manager and develop the software systems needed to enable the lottery to run. There would also be on-going software system supplier costs.

Option 2: Using an External Lottery Manager (ELM) – The Council would buy-in the services of an ELM to run all or part of the lottery and share the risk of running it with them. All ELMs must be licensed by the Gambling Commission and have the skills and expertise to deliver all aspects of running the lottery from ticket payments, prize management and licensing, through to marketing support and liason with VCS organisations.

7.8 The Council has reviewed use of an ELM and considered the approach taken by AVDC. We have had informal discussions with both AVDC and an ELM and consider that appointing an ELM would be the most cost-effective solution and would provide the necessary skills and expertise required to establish and run the lottery.

There is no requirement to carry out a competition to appoint an ELM because of the exclusion of lottery services from the procurement rules. However, the Council must satisfy itself that any ELM considered holds a valid operating licence, personal management licences (if appropriate) and will conduct the Council's lottery in a lawful and compliant way. The Council will be required to complete due diligence on any ELM being considered.

7.9 It is recommended that subject to due diligence, the Council uses an external lottery manager (ELM) to run and operate the lottery and shares the risk of running it with them; and that this action is delegated to the Deputy Chief Executive and the Portfolio Holder for Transformation, in consultation with the 151 Officer, Leader and Chief Executive:

7.10 The proposal is that the ELM would carry out all day-to-day management, including processing new players, distributing prizes, income for VCS organisations (once the Council has approved the monthly payments to CVS organisations) and assisting players should they experience difficulties. The ELM will also provide significant tailored marketing support to the VCS organisations and the Council. The ELM will send newsletters to all community and voluntary organisations signing up to the lottery providing updates on their lottery.

The resource implications for the Council are detailed in Section 11.

7.11 Ticket Price, Proceeds Apportionment and Prize Structure

Two ticket prices have been considered:

Ticket Price £1 – the minimum play would be £1 ticket per week per player, this would equate to a minimum monthly expenditure of £4.33 per player (this being 52 weeks x £1 divided by 12 months).

Ticket Price £2 – the minimum play would be £2 per week per ticket, this would equate to a minimum monthly expenditure of £8.67 per player (this being 52 weeks x £2 divided by 12 months).

In either case, players could purchase multiple tickets/support multiple organisations.

7.12 Research shows that ticket price has a significant bearing on the success of a lottery. A high ticket price reduces the administration costs, which in turn leaves more money available for the VCS. However, based on independent research by AVDC, there would be a significant drop-off in the take-up rates (up to a potential 69% less participation, equating to around 50% less revenue) if a ticket was priced at £2 instead of £1; it is noted that participants wanting to buy multiple tickets would have that option anyway under the £1 model, should they wish to spend more.

In addition, the £2 cost would also create direct competition with the National Lottery.

7.13 The public's perception of appropriate lottery ticket pricing is considered to be the most significant factor when selecting a preferred model for the lottery.

7.14 *This report recommends that the ticket price is set at £1 per ticket.*

7.15 Based on the above, a Shape Mendip Lottery would operate as below:

- Ticket price - £1 per week

- Draw frequency – once per week
- With 2 delivery options - Shape Mendip Lottery and Shape Mendip Umbrella Scheme (see 4.12 above for details)

Proceeds Apportionment				
	Umbrella Scheme (Specific Org/Cause)		Shape Mendip Lottery^A (Unspecified Org/Cause)	
	<i>% allocation</i>	<i>£ allocation per ticket</i>	<i>% allocation</i>	<i>£ allocation per ticket</i>
Specific community and voluntary organisations	50	£0.50	-	-
Prizes	20	£0.20	20	£0.20
Shape Mendip Lottery community and voluntary organisations	8	£0.08	58	£0.58
External Lottery Provider	18	£0.18	18	£0.18
VAT	4	£0.04	4	£0.04
Totals	100	£1.00	100	£1.00^B

^A Shape Mendip Lottery supports VCS organisations through SLAs and a new grant pot.

^B The Council takes no proceeds for itself. All proceeds go to VCS organisations after running costs.

Number Selection & prize structure:

7.16 The proposal would use the Australian Super 66 Lotto results to provide the winning numbers for the proposed Shape Mendip Lottery. The Super 66 is played in all parts of Australia, except New South Wales, and draws take place on Saturdays.

Players of the Shape Mendip Lottery would choose 6 numbers. To win the jackpot, the ticket must match both the numbers and the sequence as drawn. Players can win a smaller prizes if the ticket matches the sequence of the first or last 2,3,4 or 5 numbers drawn. Multiple tickets can be purchased and numbers can be changed by players.

7.17 Bolt-on 'raffle' type prizes are possible with this model. It is considered there is potential here for the Shape Mendip Lottery to partner with Mendip-based events and festivals and that this could provide significant additional benefits to VCS organisations and to the people and communities in Mendip.

7.18 Players can donate their winnings to their chosen VCS organisation, if they wish.

7.19 The jackpot is an insured prize. It is a guaranteed pay out of £20,000 per winner and there could be multiple winners. There is no rollover if there is no winner.

7.20 The ELM distributes prizes to winners as soon as the player claims their win - either immediately into the winners bank account, or to the chosen VCS organisation if the winner has chosen to donate their win back to them.

Participating VCS organisations are paid monthly by the ELM and the Council is required to authorise these payments before they are made. The process for this will be developed and it will be covered under the contractual arrangements by which the ELM is appointed.

Number Selection and Prize Structure		
	<i>Winning odds</i>	<i>£ prize</i>
6 numbers	1:1,000,000	£20,000
5 numbers	1:55,556	£1,000
4 numbers	1:5,556	£100
3 numbers	1: 556	£10
2 numbers	1:56	3 free tickets
Overall odds of winning any prize	1:50	-

Player modelling:

7.21 Set out below is a player modelling analysis. It shows that a very conservative level of players can generate a considerable income for VCS organisations.

£1 Ticket / 1 Ticket per week						
Ticket price (£)	Number of players (16+)	% Mendip Player Pop (16+)	Tickets per player/week	Number of weeks	Gross Return	Received by CVS organisation ^c
1	455	0.5	1	52	£23,660	£13,723
1	910	1	1	52	£47,320	£27,446
1	1,365	1.5	1	52	£70,980	£41,168
1	1,910	2	1	52	£94,640	£54,891

1	2,275	2.5	1	52	£118,300	£68,614
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^c: no distinction has been made in the above table between players selecting either delivery option (Shape Mendip Lottery or the Umbrella Scheme). It is very difficult to model how this split will break down with actual players therefore a total to community and voluntary organisations is shown (58% of gross return).

8 Gambling Responsibly and Risks

8.1 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 Shape Mendip Lottery would help mitigate against many of the issues related to addictive gambling by:

- Being only playable via by pre-arranged sign-up and non-cash methods
- Offering no 'instant gratification' or 'instant reward' to those taking part
- Ensuring the lottery is compliant with the Gambling Commission's licensing code of practise, including self-exclusion and support organisation links.

8.2 Due to these factors, it is reasonable to believe that a Shape Mendip Lottery would not significantly increase problem gambling, and that the benefits to community and voluntary organisations in Mendip from the proceeds of the lottery would outweigh the possible negative issues.

8.3 Licence holders and operators must comply with legislation and are regulated by the Gambling Commission; both are responsible for running lotteries in such a way that potential risks such as underage gambling, weak financial management and potential fraud are minimised. The proposed Shape Mendip Lottery operate within the law and follow the Gambling Commission's operational guidelines.

9 Delivery Timeline

9.1 Following the decision to go ahead with the proposal, based on AVDC's experience for establishing their lottery, it would take approximately three months to set-up and launch a Shape Mendip Lottery.

9.2 The key milestones in delivering this are set out below:

- By Mid July 2016 – Report to Cabinet for decision; report to Scutiny
- By End July 2016 – Invite VCS input to seek views on the proposal
- Late September 2016 – Appoint ELM. Hold launch event targeted at VCS organisations encouraging them to ‘sign-up’; PR event for members and the media
- End October 2016 – License Approved (subject to Gambling Commission)
- Mid November 2016 – First Draw

10 Options considered

10.1 Two delivery options have been considered within this business case and these have been taken into account in making the recommendations.

10.2 In addition, the success of the AVDC lottery has been reviewed and is considered to be robust; within the first six months, their lottery has exceeded all expectations with 115 organisations having joined (their target was just 10-20) and the top prize being raised from £20k to £25k as a result of increasing ticket sales.

11 Resource implications

11.1 The estimated costs to the Council are:

- £1,000 annually for licensing and administration costs
- £3,000 for marketing in the first year

Inevitably, some officer time would be required to establish the lottery and ensure its administration. This can be managed within existing resources

11.2 This proposal would help fund discretionary support to the VCS and enable such organisations raise funds directly for themselves. Until the level of funds being raised is known, it is difficult to anticipate how much money may be generated. An annual review would be undertaken to ensure that the lottery is running in line with the aims set out in this report and to agree any changes.

11.3 *This report recommends that the Council agrees to provide £1k for the annual licence and administration costs and £3k for marketing in the first year.*

It is also recommended that in-kind support is provided, subject to this being funded from existing resources.

12 AVDC model and ELM contractual matters

12.1 In developing their local authority lottery model, AVDC's contract with Gatherwell Ltd included a 1% return from the ELM's management element of ticket sales from other lotteries which are set-up in the same way across the country; this applies just to the first three years of their arrangement.

12.2 The purpose of the 1% is to cover AVDC's time in jointly promoting the lottery product and it credits their efforts in making the it work for a local authority. It should be noted that this falls outside any contract the Council might have with same ELM as the 1% would only come from this ELM's share, it would not have any impact on the VCS and prize apportionments in any Shape Mendip Lottery.

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Extension: 657

Background Documents n/a

ANNEX A: Shape Mendip Lottery Umbrella Scheme

Draft Criteria for Accepting VCS groups

As part of the proposed Shape Mendip Lottery, voluntary and community organisations can sign up under an umbrella lottery scheme. Below are the draft criteria that will be used in deciding whether or not to allow an organisation to join.

Application Fee

There is no application fee to join.

Criteria for joining:

We want to enable as many VCS organisations as possible to join. The Council has been granted a licence to run the lottery by the Gambling Commission and part of its licence obligations are to ensure that organisations meet certain criteria.

YOUR ORGANISATION MUST:

- Provide local community activities or services *within* the Mendip District, which benefit the people and communities of Mendip - visitors to Mendip may also benefit from the services/facilities, but not to the exclusion of local residents
- Have a formal constitution or set of rules
- Have a bank account requiring at least 2 unrelated signatories
- Operate with no undue restrictions on membership

AND BE:

A constituted group with a volunteer **management committee** with a minimum of three unrelated members that meets on a regular basis (at least 3-4 times per year); or, **a registered charity with a board of trustees.**

OR BE :

A registered **Community Interest Company** and provide copies of their Community Interest Statement, details of the Asset Lock included in their Memorandum and Articles of Association, together with a copy of their latest annual community interest report.

WE WILL NOT PERMIT APPLICATIONS THAT:

- Are incomplete
- Are from groups that promote a particular religious or political belief
- Are from organisations that do not do work within the boundaries of Mendip
- Are from individuals
- Are from organisations which aim to distribute a profit
- Are from organisations with no established management committee/board of trustees (unless they are a CIC)

PLEASE NOTE THE FOLLOWING:

The Council reserves the right to reject any application.

The Council will reserve its rights to not accept or cease to license any organisation with a minimum of 7 days notice for any reason, unless where fraudulent or illegal activity is suspected where cessation will be immediate.

PLEASE ALSO NOTE DETAILS ARE TO BE CONFIRMED FOR:

How an organisation terminates their participation in the lottery.