

Hitting the Jackpot: How Charity Lotteries and the National Lottery are complementary, not in competition

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Foreword from Lord Mancroft



Britain is lucky to have a thriving lotteries sector that provides regular and sustainable funding for a huge range of charities and good causes across the whole country. Funds raised from lotteries support good causes ranging from small local community groups to multi-national organisations – and virtually everything in between. This includes hospices, air ambulances, animal shelters, support for cancer patients, tackling homelessness, the arts and culture, environmental protection, and encouraging sport and well-being. Name your favourite charity and it is more than likely that it benefits from lottery fundraising!

Charity lotteries existed in Britain for many years before the National Lottery was launched. While the National Lottery is much bigger than every charity lottery put together, it works in a different way. National Lottery money is distributed by Distribution Boards, who direct the money where they think best. Charity lotteries, on the other hand, are promoted by individual charities, which spend the money they get from their lotteries in the way their Trustees think best - and they are in the best position to spend that money wisely, rather than as the latest fashion dictates. This is important because it is often the smaller charities, with less money to spend on publicity, that do the best work.

Since 1994 the two types of lottery have largely grown in tandem with each other. Indeed, the latest annual statistics, published by the Gambling Commission in November 2020, show that the combined sales from lotteries, and the combined funds to good causes from lotteries, are now both at record levels.

Ostensibly, the Government has had a policy that enables both types of lottery to thrive side by side. However, the reality is slightly different. Perhaps it is because the National Lottery funds so many of the sporting and cultural projects supported by the Government, that ministers and officials seem able to turn a blind eye to regulations that restrict the growth of charity lotteries that do not apply to the National Lottery.

Furthermore, despite their success, there are commentators, some of whom are linked to organisations that benefit from National Lottery funding, who allege that charity lotteries negatively impact the National Lottery. Camelot, the operator of the National Lottery, quotes a report by Frontier Economics that apparently supports this view, but it seems strangely reluctant to publish this report, so it is difficult for me to comment.

During the 25 years I have been involved in lotteries, I have seen no evidence of this whatsoever, and indeed the regulator, the Gambling Commission, has conducted several studies which found that the two types of lottery are co-existing well together. This view has been backed up by many other reports as well as statements from Government Ministers.

It is therefore a view which is not rooted in evidence, but which is damaging to the charity lottery sector, especially when it seeks simple changes to legislation to remove unnecessary bureaucratic limits to its fundraising. I have never understood why anyone would want to restrict a charity's ability to raise money to support the work it was set up to do.

This report brings together all the evidence about this relationship and shows that, far from negatively impacting the National Lottery, the two different types of lottery complement each other well, to the benefit of charities and the country as a whole. Long may that continue!

Lord Mancroft

Foreword from the Lotteries Council



Charity Lotteries exist to raise funds for good causes and they do a great job, raising £366.8 million last year according to the Gambling Commission. What's more it is a charity fundraising model which has proved very resilient during the coronavirus crisis, when other types of fundraising – for example events fundraising or charity shops – have struggled for understandable reasons. The funding has therefore never been more needed.

The UK Government has consistently told us that they wish the sector to thrive and clearly wish more funds to go to good causes and we welcome this support from them – even though we do argue for a better regulatory and legal framework for the sector than currently exists.

One of the issues that has held back improvements in the legal framework has been the concern that charity lotteries might somehow negatively impact on the National Lottery. The Lotteries Council therefore decided to commission nfpSynergy to undertake an independent study of the evidence in this area.

As the report shows both the Government and the official regulator, the Gambling Commission, have consistently found that charity lottery fundraising and fundraising by the National Lottery are not in competition. A number of other reports have also come to the same conclusion, and indeed there is evidence that the existence of the two different lottery types doesn't just complement each other, but can actually benefit each other – at the sales end via what is known as marketing spillover, and at the charity beneficiary end, with some charities receiving grant funding from both types of lottery and using the combined funds to forward their charitable objectives.

It has certainly never been the objective of the charity lottery sector to undermine the National Lottery in any way – for organisations set up to help fund charities that would be counter-productive! However, it is useful to have all the evidence on the issue in one place and to note that the country is benefitting from the win-win of both the National Lottery growing and the charity lottery sector growing – and overall funding to good causes from lotteries therefore being higher than ever.

Tony Vick

Chair, The Lotteries Council

Ministerial views on lottery competition

"Research published just last month by the Gambling Commission shows that both the national lottery and the society lottery sector are growing, with participation up 2%, so the overall funds raised for good causes is growing—I welcome that development. Society lotteries clearly bring tangible benefits and I look forward to seeing the impact of the changes."

Nigel Huddleston, March 2020,
Minister for Sport, Tourism and Heritage

"The final package is underpinned by independent, evidence-based advice from the regulator, the Gambling Commission. It has advised that the changes I am bringing forward today will preserve the balance in the sector and maintain the key distinction between the National Lottery, which offers the largest prizes in support of many good causes, and society lotteries, which offer smaller prizes with a focus on a specified good cause."

Baroness Barran, March 2020, Minister for Civil Society

"The distinction between society lotteries and the National Lottery ensures that the two are not in direct competition."

Helen Whately, February 2020,
Minister for Arts, Heritage and Tourism

".....It is absolutely right that we support society lotteries and grow the pie for them, while keeping the unique position of the national lottery. As the charities Minister, I am clear that all money for good causes is very welcome."

Mims Davies, July 2019, Minister for Sport and Civil Society

"The consultation aims to ensure that both society lotteries and the National Lottery are able to thrive and that society lotteries can continue to grow.....The Gambling Commission has confirmed that there is no evidence so far that society lotteries have affected the National Lottery. Indeed, over the years, both sectors have increased."

Lord Ashton of Hyde, July 2019, Chief Whip in the House of Lords

"The Government are committed to ensuring both society lotteries and the national lottery continue to thrive."

Andrea Leadsom, January 2019, Leader of the House of Commons

"The sectors grew in tandem for many years, and it is important that any reforms enable them both to flourish..... I do not believe there has been significant competition between the two sectors up to now, but reforms must be considered through that lens."

Tracey Crouch, December 2017, Minister for Sport, Civil Society and Loneliness

"As Government, we of course want to ensure that we have one strong national lottery, but that does not mean that we cannot also have strong society lotteries."

Karen Bradley, November 2017, Secretary of State for Culture, Media and Sport

Introduction

There has been considerable change in the lottery sector over the last decade, with various reforms to the sector and strong growth among large Charity Lotteries. Whilst seeing strong overall growth, the National Lottery has seen some dips in its sales and returns made to good causes, most recently in 2017. Various consultations and inquiries have discussed potential explanations for this, including, changes in the mechanisms of ticket prices, the odds of winning, and the possibility that competition from Charity Lotteries may be a threat to the National Lottery. This report seeks to establish what evidence there is for this last claim, as well as for alternative explanations, and to explore whether it is in fact the case that Charity Lottery fundraising complements National Lottery fundraising rather than being in competition with it.

Section 1. Context, size and scale of lotteries in Great Britain.

History of Great Britain's lottery landscape

By definition, Charity Lotteries¹ can only be run to raise money for good causes in Great Britain². The Betting, Gaming and Lotteries Act 1963 permitted lotteries within law, provided that they are conducted by non-commercial societies for good causes that fulfil the purpose of the society, which should be:

- charitable
- supportive of sports, games or cultural activities
- or any other purpose that is not for private or commercial gain

Regulated by local councils, the maximum permitted limits for a lottery were a 5p ticket price, a £100 prize, £750 gross income and 10% expenses. However, few local authorities policed these limits and breaches were widespread. During the 1970s the limits were increased, but so were the regulatory requirements. In 1979, the Lotteries Council was formed to give a collective voice to all those operating and supporting prize-led fundraising through lotteries and competitions.³

With its' "life-changing" jackpots and promises of support for a wide variety of good causes, the National Lottery was launched in 1994. This followed a decision by Parliament that "*a single National*

¹ Legally known as Society Lotteries, but more popularly known as Charity Lotteries.

² The lottery legislation in Northern Ireland is different from the rest of the United Kingdom, so this report discusses lotteries in Great Britain (England, Wales and Scotland) unless otherwise stated.

³ The Lotteries Council, 'Lotteries Council History'. <https://www.lotteriescouncil.org.uk/governance/lotteries-council-history>.

Lottery, operated as a monopoly, would be the most effective way of raising funds for a wide range of good causes on a national scale".⁴ Since then, policymakers have sought to retain a clear distinction between the National Lottery and other lotteries, to ensure that the National Lottery is in the best position to be able to fundraise on a large scale whilst permitting societies "to continue to fundraise at a lower level through lottery activity".⁵ The National Lottery has been operated by Camelot since its creation. The fourth licence period will begin in 2023, following the extension from ten to fourteen years of the third licence in 2012.

Table 1: Comparing Charity Lotteries and the National Lottery for regulation, legislation, prizes, geography, turnover caps and taxation

	Small Charity Lotteries	Large Charity Lotteries	The National Lottery
<i>Legislation</i>	Gambling Act 2005	Gambling Act 2005	National Lottery Act 1993, 2006
<i>Regulatory / Licensing</i>	Requires registration with the local authority in the area where its principal office is located	Regulated by the Gambling Commission	Regulated by the Gambling Commission
<i>Sales per draw</i>	Maximum £20,000	Maximum £5m	Unlimited
<i>Prize per draw</i>	Maximum £25,000	Maximum £25,000 or 10% of the proceeds up to £5m (ie £500,000), whichever is greater	Unlimited (varies across game type and depends on size of draw) with the highest jackpot being £170m ⁶
<i>Annual sales</i>	Maximum £250,000	£250,000 – £50m	Unlimited
<i>Percentage return to good causes</i>	20% minimum	20% minimum; 44% average for all large Charity Lotteries	No minimum (varies across type of game, average 25% from 1994-present; draw-based games highest, scratch-cards lowest at 5 to 10%)
<i>Direct Tax</i>	None	External Lottery Managers pay corporation tax and charities pay irrecoverable VAT	Lottery Duty – 12% of sales proceeds
<i>Regulation on marketing expenditure</i>	Monitored by the Gambling Commission (35% cap removed by Gambling Act 2005)	Monitored by the Gambling Commission (15% cap removed by Gambling Act 2005)	Minimum set in licence

⁴ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

⁵ Ibid.

⁶ Wikipedia, 'National Lottery (United Kingdom)'.

https://en.wikipedia.org/wiki/National_Lottery_%28United_Kingdom%29.

<i>Regulation on investment expenditure</i>	n/a	Monitored by the Gambling Commission	Minimum set in licence
<i>Geographical coverage</i>	Great Britain [excludes Northern Ireland and Isle of Man**]	Great Britain [excludes Northern Ireland and Isle of Man**]	UK and Isle of Man

**Northern Ireland has its own strict legislation on Charity Lotteries; tickets from a society lottery registered in Great Britain may not be sold in Northern Ireland and vice versa.

Traditionally, Charity Lotteries have been characterised by low prize levels, low ticket prices, slow draw frequency (often weekly or monthly), in-person distribution or subscription entry (as well as some retail distribution), and a specific good cause association. Charity Lotteries are subject to specific legislation and regulatory regimes, which restrict the draw size, annual turnover, and prize limits. These limits are used to define the two categories of Charity Lotteries as laid out in Table 1: large and small Charity Lotteries. In 2018, a consultation held on Society Lottery Reform by The Department for Digital, Culture, Media and Sport (DCMS), led to the Government announcing moderate increases to the turnover and prize limits for large Charity Lotteries in July 2020.⁷

Government is committed to the development of both the National Lottery and Charity Lotteries at a policy level and this is set out in the DCMS departmental plan⁸. The plan states that the departmental goal is to *"enable the National Lottery and other lotteries to thrive by ensuring that the National Lottery and society lotteries continue to generate returns to good causes, while minimising risks of harm to players"*. So nearly 25 years after the launch of the National Lottery, the Government believes that both the National Lottery and Charity Lotteries are able to thrive and generate funds for good causes. The most recent stats on money raised for good causes from the Gambling Commission⁹, released in November 2020, shows the goal for both "National Lottery and other lotteries" to thrive is being achieved. The turnover and contribution to good causes for both have grown considerably in the last year and are now at record levels (see Chart 1 and Chart 2 below).

⁷ DCMS (2019), 'Government response to the consultation on society lottery reform'. 16 July 2019.

⁸ DCMS (2019), 'DCMS: Single Departmental Plan - 2019'.

<https://www.gov.uk/government/publications/department-for-digital-culture-media-and-sport-single-departmental-plan/dcms-single-departmental-plan-2019>.

⁹ Gambling Commission (2020), 'Industry Statistics – November 2020'. 26 November 2020.

<https://www.gamblingcommission.gov.uk/news-action-and-statistics/Statistics-and-research/Statistics/Industry-statistics.aspx>.

The development of multiple licence lotteries

In order to sell more than £10m tickets annually (up until July 2020 when the turnover limits increased to £50m), some of the promoters of larger Charity Lotteries have adopted a practice where draws held by different charities are promoted under a single brand, or multiple lottery licences for the same charity. Each lottery is licensed individually by the Gambling Commission and must be organised and promoted in such a way as to ensure that each individual society remains a separate, distinct entity, subject to sales and prize limits. Participants should be clear which individual society lottery they are being asked to participate in.¹⁰ Tickets are sold for each lottery in turn, and the proceeds from one society's lottery may not be used to fund any of the prizes or expenses in a different society's lottery.

These lotteries enable considerable marketing efficiencies, potentially driving ticket sales and in turn prizes and returns to good causes.¹¹ Nevertheless, they often incur high administrative costs and can be bureaucratic to operate. External Lottery Managers (ELMs), are independent of the society. An ELM is a company licensed by the Gambling Commission to administer lotteries on behalf of a society, and offers societies the benefit of both experience and economies of scale.

There are currently eight single-brand schemes¹² – the largest of which are the People's Postcode Lottery (PPL), which launched in 2005, and the Health Lottery, launched in 2011. There are also multiple licence lotteries, promoted as a single lottery, and operated to benefit a single organisation. These include the Macmillan Lottery (4 societies), the Age UK Weekly Lottery (3 societies), and Essex & Herts Air Ambulance Flight for Life Lottery (2 societies). As with many lotteries, PPL is a subscription lottery and lists over sixty Charity Lotteries, which distribute the money raised by PPL to charities working in a range of areas. Each of these Charity Lotteries is separately licensed by the Gambling Commission, and promoted and managed by PPL.

The Health Lottery offers both a subscription lottery and online instant games and scratch-cards. Their "About Us" webpage states: "*The Health Lottery is not a national lottery. It is 12 local Charity Lotteries each one representing several local authority areas across Great Britain. Each society lottery is licensed by the Gambling Commission and will raise money for health-related good causes within their respective areas.*"¹³ Prior to August 2018, The Health Lottery managed 51 Charity Lotteries that rotated on a weekly basis. These were merged to create the current 12.

¹⁰ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

¹¹ Gambling Commission (2014), 'Market advice on the lottery sectors'.

¹² The eight are People's Postcode Lottery, the Health Lottery, Unity Lottery, Club Draw Lottery, the Weather Lottery, Your School Lottery, The Forces Lottery and the Scottish Children's Lottery.

¹³ The Health Lottery, 'About Us'. <https://www.healthlottery.co.uk/about-us/>.

It is worth noting, the main difference that the July 2020 increase in turnover limits will make is not an increase in sales, but a reduction in costs and bureaucracy. The previous limits did not serve to limit overall ticket sales by an External Lottery Manager, but instead served to increase the number of Charity Lottery licences required when the number of players increased, thereby meaning some funds had to be diverted to spend on bureaucracy, rather than going to the good causes themselves. In the DCMS response on society lottery reform, Cancer Research UK is quoted as saying that an additional lottery could cost a one-off cost of £345,000 and an annual cost of £130,000.

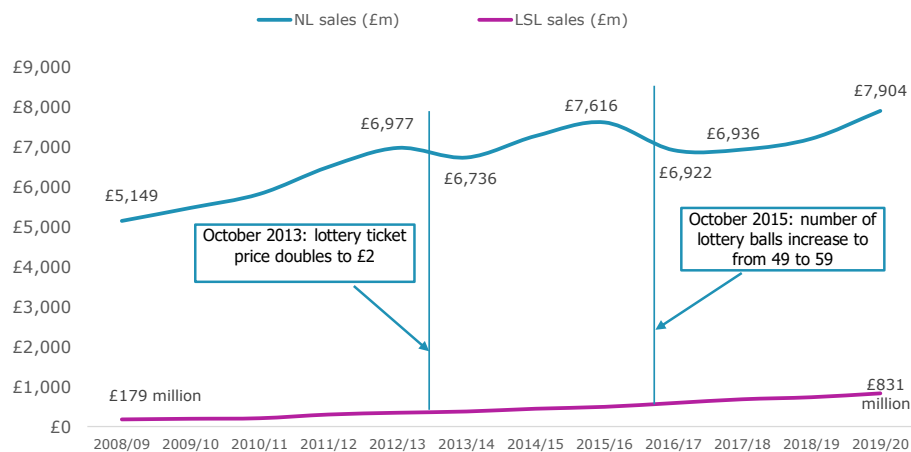
The lottery sector in data

Official industry statistics provided by the Gambling Commission enable us to analyse the lottery sector in some detail. However, it should be noted that the data available is for the National Lottery and Large Charity Lotteries; Small Charity Lotteries (those regulated by local authorities) are therefore excluded from this analysis.

Sales figures over time

Overall, the trends show that the National Lottery and large Charity Lotteries have grown in tandem for much of the last decade. Whilst society lottery sales (LSL sales) have grown consistently over the period, the National Lottery's sales (NL sales) show some dips, notably in 2013/14 and 2016/17 (See Chart 1). We will return to the possible reasons for these changes later in the report.

Chart 1: National Lottery and large society lottery sales 2008/9 to 2019/20 (millions)



Total sales for the National Lottery (NL) and large society lotteries (LSL), over time – financial year ending 31 March
Source: Gambling Commission Industry Statistics

In addition to showing the trend in sales figures over time, perhaps more strikingly, Chart 1 demonstrates the wide disparity in the size of sales figures - National Lottery figures are more than nine times bigger than all other large-scale lotteries combined. Nevertheless, Camelot is concerned that this difference is getting smaller and that the threat from these much smaller lotteries is real; when in fact, the gap between the two has never been larger. The above graph, which is based on Gambling Commission statistics, shows that in 2008 the National Lottery had £4,790m more sales than all large Charity Lotteries combined; in 2018 this had grown to £6,471m more sales than all large Charity Lotteries combined, and is now over £7 billion greater.

Contributions to good causes

Both Charity Lotteries and the National Lottery are united by their support for good causes, and many of the good causes supported by Charity Lotteries are also supported by the National Lottery. However, the National Lottery, through its legally approved distribution bodies, tends to support specific projects whilst Charity Lotteries are often used by charities to raise unrestricted funds – those that can be applied to the general running costs of the organisation and which are often difficult to raise funds for.

Whilst Charity Lotteries must give a minimum of 20% of their proceeds to good causes, not just on average, but for every draw, the National Lottery has no minimum required contribution to good causes. This is an important issue because, as the National Audit Office report¹⁴ sets out, the range of percentage contributions for the National Lottery varies considerably and both online instant-win games (average contribution of 14%) and scratch-card games (average of 10%) fall below the 20% minimum that Charity Lotteries are required to meet.

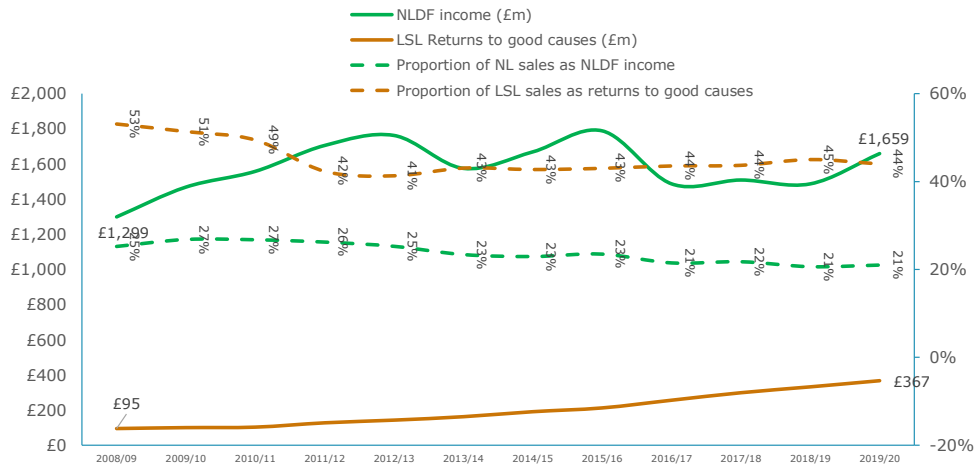
However, it should be noted that the National Lottery (unlike Charity Lotteries) is required annually to contribute 12% of its sale proceeds to the Exchequer as Lottery Duty. Charity lotteries do not pay Lottery Duty since, as summarised in the DCMS response on Charity Lottery reform: "*Society lotteries are not subject to tax, in line with the long-standing principle of not taxing charitable fundraising*¹⁵."

¹⁴ National Audit Office (2017), 'Investigation: National Lottery funding for good causes'. 13 December 2017. <https://www.nao.org.uk/report/investigation-national-lottery-funding-for-good-causes/>.

¹⁵DCMS (2019), 'Government response to the consultation on society lottery reform'. 16 July 2019. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817544/Response_to_Consultation_on_Society_Lotteries_PDF.pdf.

However, Charity Lotteries do pay tax through irrecoverable VAT and those that contract an ELM also indirectly pay corporation tax, as the fee the society pays the ELM will reflect the tax the ELM pays.

Chart 2: Contributions to good causes, and as proportion of total sales



Source: Gambling Commission statistics

The proportion of proceeds given to good causes, as well as the actual amount given, has varied over time with the National Lottery generating £1,299m in 2008/9 and £1,659m in 2019/20. Large Charity Lotteries generated £95m and £367m in the same timeframe. The National Lottery’s contributions to good causes are shown in Chart 2, in terms of National Lottery Distribution Fund (NLDF) contributions.¹⁶

Contributions to good causes reflect the pattern of total sales for both lottery types. Contributions from large Charity Lotteries have steadily increased over the decade, reflecting their growth in sales and number. However, the proportion of sales that are contributed to good causes by large Charity Lotteries dropped from 53% to 44%, averaging 45% over the period. There were two dips in contributions by the National Lottery, largely mirroring the National Lottery’s drops in income. Between 2012/13 and 2013/14, National Lottery contributions to good causes dropped by £236m, whilst its sales dropped by £241m. As Chart 1 shows, this dip in income for good causes followed shortly after the increase of the ticket price from £1 to £2 and the London Olympics, which resulted in additional ticket sales during 2012.

¹⁶ The Gambling Commission publishes online quarterly figures for NL contributions to good causes (which are not identical to NLDF figures) and Charts 1 and 2 are an amalgam of these two sources.

Between 2015/16 and 2016/17, contributions to good causes fell by £196m, and sales dropped by £694m. However, contributions to good causes had also fallen by £129m in the previous year when sales rose by £340m. Overall, the National Lottery contributed on average around 26% over this period. This second dip followed shortly after the number of balls was increased from 49 to 59.

Just as there is a wide disparity in sales by the National Lottery and Charity Lotteries (Chart 1), the same is true for contributions to good causes. In 2008/09, the National Lottery's contribution was nearly 14 times higher than those of large Charity Lotteries, whilst ten years later it was 5.5 times higher.

However, the gap in net actual contribution to good causes of the National Lottery and Charity Lotteries was **greater** in 2018/9 than it was in 2008/9. While the relative size between the National Lottery and Charity Lotteries has shrunk, the actual amount for good causes is **larger** now than it was 10 years ago, despite the growth of Charity Lotteries over that period (see Chart 2).

Explaining the variations in National Lottery turnover and contributions

The decline in contributions to good causes by the National Lottery, along with its dips in sales figures (despite overall growth), have prompted a range of attempts for explanations, including a National Audit Office investigation and a DCMS Select Committee inquiry into the future of the National Lottery, ahead of the fourth National Lottery licence being awarded in 2023.¹⁷

The data displayed in the charts above shows only correlation - it is not possible to determine cause and effect from this alone. Nevertheless, a number of interpretations and explanations have been offered, which will be explored in greater detail in Sections 2 and 3 below. It is worth summarising the five main hypotheses for the peaks and troughs in National Lottery income seen in Charts 1 and 2.

Changing the Lotto game price from £1 to £2

When the cost of the main lotto changed from £1 to £2 in 2013, the income and sales for the National Lottery dropped by nearly £250m between 2012/13 and 2013/14. The hypothesis is that the steep and sudden price increase put several people off playing the main draw.

The impact of the London Olympics

¹⁷ National Audit Office (2017), 'Investigation: National Lottery funding for good causes'. 13 December 2017; DCMS Committee (2019), 'The future of the National Lottery inquiry'. July 2019.

In order to capitalise on the London 2012 Olympics and the need to raise funds for sport, the National Lottery ran a number of games in order to maximise the generation of funds. Once the Olympics had finished, the additional income associated with the games also declined in 2013/14.

Increasing the number of balls from 49 to 59 and changing the jackpot cap

In 2015, the number of balls in the main Lotto draw changed from 49 to 59, thereby reducing the chances of winning dramatically. While this was initially successful, it resulted in a decrease in income in 2016/17. This was compounded by the reduction in the jackpot cap from £55m to £22m. These changes negatively affected National Lottery sales - which reduced by nearly £700m.

Move towards scratch-cards and instant win games

The move to increased National Lottery sales of scratch-cards and instant wins is not a specific incident that causes changes between years, but an ongoing background change. The key issue is that scratch-cards and instant wins have a lower average contribution to good causes (10p and 14p respectively), which means that, even if the total sales remains the same, the amount for good causes decreases.

Misguided National Lottery marketing

It is also worth noting that the Chair of Camelot, Sir Hugh Robertson, in an interview in 2020, talked about fluctuations in lottery income¹⁸. He said he was: *"not embarrassed to admit the National Lottery lost its way after the ticket price hike in 2013 followed by a misguided advertising campaign.....I was really worried in Rio when I sort of got the sense that this wonderful thing might be about to go wrong."*

¹⁸ Daily Telegraph (2020) <https://www.telegraph.co.uk/news/2020/05/29/exclusive-coronavirus-boost-national-lottery-camelot-prepares/>

Section 2. What impact, if any, are Charity Lotteries having on the National Lottery?

What evidence is there that Charity Lotteries are having a negative impact on the National Lottery

The Camelot perspective

Camelot has operated the National Lottery since it began in 1994. The company has repeatedly insisted that the growth of the Charity Lottery market, and particularly of the largest Charity Lotteries, is a threat to the health of the National Lottery and in need of urgent attention. In a 2018 House of Lords Short Debate, Lord Foster of Bath expressed this viewpoint, arguing that these *"huge umbrella-type lotteries"* give less money to good causes than the National Lottery, pay no tax, have a huge promotional budget, and thus *"distort the lottery market and undermine the original intention that there should be a single, national lottery, and they reduce funds to good causes."*¹⁹

Camelot insists that it supports "traditional" Charity Lotteries; its concern lies only with what they term "synthetic" National Lotteries, by which it means: *"Charity Lotteries which operate on an industrial scale, are marketed under an 'umbrella' brand and compete at a national level with The National Lottery."*²⁰ They say such lotteries: *"clearly encroach into the territory originally intended by Parliament to be the sole preserve of The National Lottery. This challenges the established policy principle that there should only be one national lottery to ensure maximum benefit to society, and undermines the Secretary of State's and the Gambling Commission's express statutory duty to maximise returns to National Lottery Good Causes (there being no equivalent duty in relation to Charity Lotteries of any kind)."*²¹

Camelot gave an extensive response to the 2018 DCMS Consultation on society lottery reform, reflecting its concerns that *"the proposed reforms could have a severe and irreversible negative impact on the National Lottery model and Licence to operate, now and in the future."*²² Camelot argued that the Government's proposals to increase the prize and proceed limits for Charity Lotteries

¹⁹ House of Lords Short Debate (2018), 'National Lottery - Question for Short Debate – in the House of Lords'. 16 July 2018.

²⁰ Camelot UK Lotteries Ltd. (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

²¹ Ibid.

²² Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform'. 7 September 2018.

would blur the distinction with the National Lottery, undermining its "*unique proposition in offering life-changing jackpots which serve as a powerful motivation to play.*"²³

In particular, Camelot opposed an increase in the cap on jackpots for Charity Lotteries, arguing that this will risk "*further cannibalising sales of National Lottery products which represent the most efficient means of generating returns to society ... [Increasing the top prize would] create direct competition with the National Lottery's Thunderball game, which ... generated returns to society of £124m last year, a sum greater than the total proceeds raised by the People's Postcode Lottery in 2017, and delivered in a more efficient way.*"²⁴

Analysing this claim briefly, it should be noted that players of PPL gave £94m to beneficiaries in 2017 and £117m in 2018, which is approximately one third of the £298.6m raised by large Charity Lotteries as a whole in 2017/18. The National Lottery currently, as Chart 2 shows, has a lower percentage contribution to good causes (at 21%) than either large society lotteries (approximately 44%) or PPL (approximately 32%). Even if lottery duty at 12% is included in the comparison (though tax to government is not normally considered a good cause!), the National Lottery is at best equal to PPL and below large society lotteries in terms of percentage contribution.

However, even if there were substantive evidence, (which we have been unable to find in researching for this report), that Charity Lotteries cannibalise the National Lottery, substantially more is raised by Charity Lotteries than is lost from the National Lottery. This is not a zero-sum game. Charity Lotteries raise far more than the claimed loss to the National Lottery, and the National Lottery has seen far bigger drops in income from increases in ticket prices or the number of balls, as will be explored later in the report.

Furthermore, it is important to note that returns to good causes are not exactly like for like between the National Lottery and Charity Lotteries, since the National Lottery often funds specific projects, whilst Charity Lotteries are more likely to offer unrestricted funding. In other words, Charity Lotteries and the National Lottery are complementary not just in their generation of funds, but also in the way they distribute them.

Most importantly, Camelot's claim of large Charity Lotteries "cannibalising" its sales needs further attention. In 2018, Camelot commissioned Frontier Economics to analyse the effect of competition on National Lottery sales. Frontier's econometric studies found "*robust evidence*" of negative effects

²³ Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform'. 7 September 2018.

²⁴ Ibid.

on National Lottery sales from the Health Lottery's entry to the market, and from competitor advertising (from the Health Lottery, PPL, and Lottoland), even when controlling for other sales drivers.²⁵

Since Lottoland is a profit-making company (see Section 3), it would be helpful if this impact from 'competitor advertising' could be broken down between that caused by large Charity Lotteries and that caused by private gambling companies. Frontier estimate that "*National Lottery sales have been cannibalised by £703m as a result of competition over the period 2011 to 2017, leading to a reduction of National Lottery returns to society of £266m over the same period*".²⁶ The figure of £266m appear to include lottery duty, given that it is a higher percentage of £703m than the National Lottery contribution to good causes. Additionally, it is not specified whether "competition" is exclusively related to Charity Lotteries, or whether this includes companies such as Lottoland, which is a profit-making enterprise. Frontier go on to argue that the evidence suggests there will be a stepped increase in impact if the prize and sales limits are raised.

Unfortunately, when we asked Camelot, via Fronter Economics, for access to the original reports so that we could examine the analysis on which these estimates are based, Camelot would not release them. Even if it is possible to directly attribute the cause of these losses to competition from Charity Lotteries, it is important to place these figures in context. Over the period 2011 to 2017, National Lottery sales totalled £48.97b, making £703m approximately 1.4% of total sales. Returns to society from the National Lottery were approximately £12.41b. If we subtract lottery duty of £84m (at 12% of ticket sales) from £266m, the net loss to good causes is around £182m. Over the seven-year period 2011 to 2017, this averages at £38m lost per annum including lottery duty, or around £26 million per annum over the seven-year period excluding lottery duty.

This is significantly less than the funds raised by Charity Lotteries in the same period, which totalled £1,390m. Therefore, even in a worst-case scenario where Charity Lotteries are having an impact on the National Lottery (for which the Frontier Economics work is the **only** piece of evidence), it is clear that Charity Lotteries are raising far more for good causes than the calculated net loss (or suggested negative impact) on good cause funding from the National Lottery. The size of the lottery cake is growing.

As we shall see in the next part of Section 2, the Gambling Commission has also commissioned econometric analysis on this topic, which reaches different conclusions. However, as with Frontier

²⁵ Camelot UK Lotteries Ltd. (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

²⁶ Ibid.

Economics, the detailed analysis is not publicly available.²⁷ The fact that no other such analysis has been undertaken (let alone an in-depth comparison of the two existing analyses) supports Frontier's argument for the need for more detailed econometric analysis and supplementary evidence-gathering to provide greater understanding of the lotteries ecosystem²⁸.

Whilst accepting that the pay out and jackpot structures of the National Lottery and Charity Lotteries are different, and that many people play the National Lottery to win life-changing jackpots, Camelot disputes the claim that this means that they do not compete.

However, it is hard to understand why Charity Lotteries would negatively impact sales of Lotto tickets, whilst other National Lottery products – e.g., scratch-cards would not. The former DCMS Permanent Secretary, Sue Owen, giving oral evidence to the House of Commons Public Accounts Committee on 24 January 2018 stated: *"we don't think that the different games are cannibalising each other."*²⁹ So why would Charity Lotteries reduce sales of Lotto tickets, when other National Lottery products, often at a lower level of contribution to good causes, apparently do not? We have been unable to find an answer to this question.

Costs of marketing and prizes, for good causes

Camelot maintains that the marketing shift towards a focus on prizes (rather than good causes) and the increased marketing budgets of large multiple licence lotteries has helped to establish a marketing "arms race". It claims that the National Lottery is now *"forced to compete for share of voice"*, ultimately at the expense of its returns to good causes.³⁰ In written evidence submitted in 2019, Camelot stated that, *"in this financial year, The National Lottery will spend three times more on advertising than it did in 2010 for half of the impact."*³¹ Meanwhile, in oral evidence given in January 2019 to the Public Accounts Committee, Nigel Railton, Chief Executive of Camelot UK, noted: *"from a marketing perspective, when we launched the third licence in 2009, we had a 90% share of voice for lottery, so if you saw a lottery ad, it was probably ours. We are spending the same*

²⁷ Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform', 7 September 2018: discusses Frontier Economics (2018) 'Review of Gambling Commission Evidence: A note for Camelot' and Frontier Economics 'The Impact of Competition on The National Lottery' June 2017 [neither publicly available].

²⁸ Ibid.

²⁹ House of Commons Public Account Committee.

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/decline-in-national-lottery-income/oral/77503.html>.

³⁰ Camelot UK Lotteries Ltd. (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

³¹ Camelot UK Lotteries Ltd. (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

*amount of money now, and we have a 43% share of voice. In the last two years, our share of voice has decreased by 25%. We are getting outspent by our competitors — these industrial-level Charity Lotteries. We were outspent in 2017. They spent more than us despite having 4% of our turnover. How? Because our competitors either do not pay tax or do not pay good causes. That is a structural issue that we face.*¹⁸²

This argument is not strictly right. Firstly, the National Lottery has been given a large amount of free airtime by the BBC formerly, and ITV more recently, which is not counted in their marketing figures. Similarly, their results, and details of prize winners, are widely reported in many of the national newspapers and other websites. If these “gifts-in-kind” were counted as a cost (as a charity would have to do under SORP³³), the marketing figures would likely be substantially higher.

The second reason that a focus on marketing expenditure is misleading is that the real issue in looking at any potential competition between the National Lottery and Charity Lotteries is the amount raised for good causes. If the levels of marketing expenditure are part of the discussion, so should the levels of prizes. As the DCMS makes clear in their response to the consultation on society lottery reform, the levels of prizes for Charity Lotteries are much lower. The top single prize in the PPL draw is £30,000 and the top prize for the Health Lottery is £105,000³⁴.

The National Lottery has a typical weekly draw prize of tens of millions and even the instant win prizes range from £100,000 to £4m. Overall, the National Lottery give away far more money proportionally in prizes than any of the Charity Lotteries. Conversely, Charity Lotteries tend to spend more on marketing than they do on prizes, partly because their players are motivated more by the cause, and partly because, without the widespread media coverage that the National Lottery secures, there is no alternative. Chart 2 shows that typically large Charity Lotteries contribute just over 40% to good causes and the National Lottery contributes just over 20% to good causes.

Camelot maintains that the perceived marketing problem should be addressed by reinstating an expenses cap for large Charity Lotteries at between 5-10% of sales, in recognition of the scale at which some Charity Lotteries now operate.³⁵ Prior to the Gambling Act 2005, maximum expenses were capped at 15% for large lotteries and 35% for smaller lotteries.

³² Oral Evidence to the House of Commons Public Accounts Committee, ‘Oral evidence: Decline in National Lottery income’, HC 631, 24 January 2018.

³³ The Charities Statement of Recommended Practice (SORP).

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/870619/charities-sorp-frs102-2019a.pdf.

³⁴ Review of PPL and Health Lottery website, December 2020.

³⁵ Camelot UK Lotteries Ltd. (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

According to the Gambling Commission, the removal of the caps by the Gambling Act 2005 enabled societies “to invest in lotteries as a means of fundraising ... thus changing the market from a stagnant to a thriving one.”³⁶ Annual proceeds from large Charity Lotteries were £139m in 2005/6, prior to the Act coming into force.³⁷ As **Error! Reference source not found.** shows, by 2008/09, annual proceeds had grown to £179m and continued to increase to over £800m according to the latest figures. The removal of the cap made the Charity Lottery sector commercially viable for ELMs, whose involvement allows societies to outsource the administration of their lottery to professionals whose knowledge and expertise help maximise proceeds and as a result, increase the return to good causes. The proportion of ELM-managed lotteries substantially increased once the Act came into force in 2007; from 20% in 2008/09 to nearly 80% a decade later.

Reintroducing a cap on expenses for large lotteries is likely to reduce the overall return to good causes from Charity Lotteries. Ticket sales may fall, or prizes may increase to sustain participation. Furthermore, new large lotteries may be inhibited from developing as marketing costs are often high at the start and it can take a number of years for a lottery to establish itself and survive, let alone expand. According to Gambling Commission advice from 2014 on the economics of starting or running lotteries, “those who currently have access to significant retail infrastructure, such as supermarkets, may balk at the return on investment for lottery products through advertising compared to other products they sell. Those without such an infrastructure may find it hard to set up or maintain, where sales and return to retailers are potentially comparatively very small.”³⁸

It is also not clear why there should be a cap on marketing while there is no cap on prizes. Both act as mechanisms for boosting ticket sales, and both serve to reduce the amount going to good causes, however necessarily.

A different environment for the National Lottery in Northern Ireland

Camelot argues that further evidence of the negative impact of large Charity Lotteries’ marketing can be seen by looking at the National Lottery’s performance in 2018 in Northern Ireland as compared to Great Britain (see Table 2). Charity Lotteries registered in Great Britain cannot operate

³⁶ Gambling Commission (2017), ‘Review of Charity Lotteries advice’. October 2017.

³⁷ Ibid.

³⁸ Gambling Commission (2014), ‘Market advice on the lottery sectors’.

in Northern Ireland, and those registered in Northern Ireland face very restrictive limits.³⁹ Camelot argues that it is the “*absence of competition from “synthetic” national lotteries*” that led to the National Lottery’s performance metrics being consistently higher in Northern Ireland than the rest of the UK. The fact that large Charity Lotteries do not operate in Northern Ireland may well at least partly explain the difference in marketing share of voice. However, it should be noted that, despite the 35% difference in marketing share of voice, there were only differences of 5% in participation, 7% in positivity, and 10% in perceived relevance.

Table 2: National Lottery performance in Northern Ireland compared to Great Britain

	<i>Northern Ireland</i>	<i>Great Britain</i>
Marketing share of voice	80%	45%
Participation (“played last week”)	51%	46%
Positivity towards the National Lottery	49%	42%
Agreement with the statement: “The National Lottery is relevant to me”	47%	37%

The evidence on the different status of the National Lottery takes no account of the different cultural and religious situation in Northern Ireland compared to Great Britain. It is hard to directly compare the two regulatory regimes, as the different regulations for Charity Lotteries in Northern Ireland may be due to a different attitude to gambling.

Marketing Spillover

It should also be noted that there is evidence to suggest that marketing spend by different lotteries can have the effect of boosting the whole market, through what is called marketing spillover. In 2012, NERA reported that “*the economic literature also provides some examples where existing games have benefitted from market entry or improvements in a competitor’s game, probably reflecting marketing spillovers.*”⁴⁰ In 2014, the Centre for Economics and Business Research (CEBR) found that “*the academic literature reports some evidence of complementarities – where demand for one lottery boosts demand for another lottery. This is due to factors such as marketing spillovers, which occur when advertising boosts demand for rival products.*”⁴¹

³⁹ For instance, restrictions include a prize limit of £25,000 or 10% of annual proceeds; annual sales limit of £1m, or £80,000 for a single draw). Although a consultation and proposals to change this were anticipated to lead to a new Bill in 2015 this has still not happened - it is unknown when this legislation will be passed.

⁴⁰ NERA Economic Consulting (2012), ‘Assessment of Lottery Market Issues: Draft Report for the National Lottery Commission, the DCMS and the Gambling Commission’.

⁴¹ Centre for Economic and Business Research (2014), ‘What have we got to lose? How Charity Lotteries could do even more for good causes: An analysis of the contribution of the sector and the potential impacts of regulatory change’.

The key idea behind “marketing spillover” is that marketing can increase the size of the cake overall, rather than simply being competitors stealing each other’s market share. One study from Stanford Business School showed that in the restaurant delivery business, ads for one restaurant could increase the sales of other restaurants by up to 25%⁴². The study concluded that emphasising the difference and uniqueness of any product in its marketing was the key to effective advertising. Many other studies have found similar effects in a variety of markets and with a range of products⁴³. It is also worth noting that people who taking part in gambling activities typically take part in a range of activities, with online gamblers typically having an average of 3 accounts and many taking part in multiple gambling activities⁴⁴. This is supported by internal polling of their players by People’s Postcode Lottery, who found that over 70% of their players also played the National Lottery - far higher than the overall percentage of the population who do so. It seems likely that if you play one lottery you are more likely to play another as well.

Evidence that the National Lottery and Charity Lotteries are complementary

Interestingly, one of Camelot’s potential competitors for the fourth licence, the New Lottery Company⁴⁵, describes Charity Lotteries as the “least concerning” change when considering ways in which the significant evolution of the gambling market over the last 25 years may potentially lead to lost revenues for the National Lottery.⁴⁶ It is certainly true that within the Charity Lottery sector the idea that Charity Lotteries somehow compete or threaten the future of the National Lottery is much disputed. The Health Lottery views it as “*a myth*” that should be dispelled, complaining to the DCMS Select Committee that, by requesting opinions on the impact of Charity Lotteries on the National Lottery in their consultation, they are unhelpfully perpetuating the message of a negative impact, whilst “*in reality Lottery sales have increased since the growth in the overall lottery market.*”⁴⁷

⁴² Stanford Graduate School of Business (2016), ‘Beware the Little-Known “Spillover” Effect of Online Ads’. 28 September 2016. <https://www.gsb.stanford.edu/insights/beware-little-known-spillover-effect-online-ads>.

⁴³ Erdem, Tülin, and Baohong Sun. “An Empirical Investigation of the Spillover Effects of Advertising and Sales Promotions in Umbrella Branding.” *Journal of Marketing Research* 39, no. 4 (2002): 408-20.

<https://www.jstor.org/stable/1558554?seq=1>;

Votola, Nicole L., and H. Rao Unnava. “Spillover of negative information on brand alliances.” *Journal of Consumer Psychology* 16, no. 2 (2006): 196-202.

https://onlinelibrary.wiley.com/doi/abs/10.1207/s15327663jcp1602_10;

Lu, Qiang Steven, Chinmay Pattnaik, and Mengze Shi. “Spillover effects of marketing expertise on market performance of domestic firms and MNEs in emerging markets.” *Management Decision* (2016).

<https://www.emerald.com/insight/content/doi/10.1108/MD-12-2014-0667/full/html>.

⁴⁴ Connolly A, Davies B, Fuller L, Heinze N, Wardle H. (2018) *Gambling in Great Britain in 2016: evidence from England, Scotland and Wales*. Gambling Commission, 2018.

⁴⁵ It is worth pointing out that the New Lottery Company is owned by Northern & Shell, which started the Health Lottery.

⁴⁶ The New Lottery Company (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

⁴⁷ Health Lottery (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

The Lotteries Council argues, *"there is a myth that £1 more spent on Charity Lotteries is £1 less spent on the National Lottery. This is no more true than saying that £1 spent on British Gas is £1 less spent on the National Lottery."*⁴⁸ Far from leading to an erosion of proceeds and so returns to good causes for the National Lottery, it is argued that the launch of the Health Lottery coincided with an increase in proceeds across Charity Lotteries and the National Lottery, and so a corresponding increase in returns to good causes. Moreover, the Lotteries Council writes of its concern that: *"Camelot continually blame Charity Lotteries whenever they have any problem with their own sales, when the overwhelming evidence ... is that their sales problems have been of their own making, and when regular studies by the Gambling Commission have found that there is no problem."*⁴⁹

The Gambling Commission concluded in its 2017 advice to DCMS that: *"our position remains that on our assessment of the evidence available, there has not yet been a significant impact on the National Lottery from [umbrella lottery] schemes."*⁵⁰ Camelot (through the work commissioned from Frontier Economics) has been critical of the Gambling Commission's advice to DCMS regarding the competitive relationship between the National Lottery and the largest Charity Lotteries, arguing that it is *"largely ... based on assumption rather than hard evidence"*. For instance, some evidence (e.g. regarding the Health Lottery's entry into the sector) is *"observational rather than econometric"*, providing no counterfactual "no entry" scenario.⁵¹ In 2012 and 2015, the Gambling Commission commissioned researchers to construct an econometric model to identify key drivers in National Lottery demand and the impact of society lottery growth.⁵² In February 2017, an update of this forecast with current data found the same conclusion as the earlier studies, namely, that there is *"no statistically significant effect of Charity Lotteries affecting National Lottery sales."*⁵³

Unfortunately, just as the analysis for Camelot is not publicly available, neither is this latest analysis for the Gambling Commission, so it is not possible to further examine and contrast these studies with their opposing conclusions. Given that the Gambling Commission is the industry regulator of

⁴⁸ Lotteries Council (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁴⁹ Lotteries Council (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁵⁰ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017

⁵¹ Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform', 7 September 2018: discusses Frontier Economics (2018) 'Review of Gambling Commission Evidence: A note for Camelot' and Frontier Economics 'The Impact of Competition on The National Lottery' June 2017 [neither publicly available].

⁵² Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017. Includes reference to NERA (2015), 'Review of the UK Gambling Market – Project Phase I for the Gambling Commission' [not publicly available].

⁵³ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

both the National Lottery and Charity Lotteries, its view that Charity Lotteries have not had a significant effect on the National Lottery is an important one.

The Gambling Commission concludes in its advice to DCMS that, despite well over 100% growth in the Charity Lottery sector over the past five years, *"there is no further evidence of impact on National Lottery sales."*⁵⁴ The significant difference in the size of the two markets means that *"although a significant growth for the society lottery market, that growth is comparatively low in terms of actual spend against that of the National Lottery. It would have been unlikely to have made a significant impact, even if all of those sales had been at the expense of the National Lottery."*⁵⁵

The Lotteries Council maintains *"the legal and regulatory landscape should help grow both Charity Lotteries and the National Lottery; and evidence shows they can co-exist and, even, are good for each other."*⁵⁶ The recent consultation on the potential reforms to the Charity Lottery sector makes it clear that the Government is keen to take into account the potential for the National Lottery to be affected, and the need to preserve its distinctiveness, whilst ensuring that the regime governing Charity Lotteries encourages the maximum return for good causes.

In her evidence to the Public Accounts Committee in January 2018, when asked about the impact of other lotteries on National Lottery income, the then permanent secretary of DCMS Sue Owen said: *"There is the issue of the market and increased competition from other lotteries. That does not come out as significant.....At the moment they are generating £500m of sales a year, which is nothing like enough to explain the shortfall that we have seen in lottery income, and at the end of the day society lotteries do return money to good causes at different rates."*⁵⁷

DCMS is clear that the reforms aim to set the annual sales and prize limit at a level that would still protect the National Lottery's ability to raise funds for good causes, whilst enabling greater flexibility to help ensure that returns to good causes are maximised and that regulatory regimes are not overly burdensome.⁵⁸ For instance, Cancer Research UK point out that increasing the annual limit would allow them to continue to raise funds without having either to slow their fundraising or incur costly administration costs from restructuring to operate multiple lotteries. They estimate that

⁵⁴ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017

⁵⁵ Ibid.

⁵⁶ Lotteries Council (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁵⁷ PAC Oral evidence, January 2018.

⁵⁸ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

implementing a multiple licence model would cost them £345,000 with additional ongoing annual running costs of £130,000 – all money that could otherwise go to their good cause.⁵⁹

The Gambling Commission acknowledges, “currently, the differing proposition for the consumer is the level of prize that the National Lottery is able to offer.”⁶⁰ They therefore insist that any reforms to Charity Lotteries should maintain the distinction that Charity Lotteries are characterised by the good causes they support and lower prizes, whilst the National Lottery offers the largest jackpots for a variety of causes.⁶¹ The Government made the decision to increase the prize cap from £400,000 to £500,000, despite 82% of responses to the consultation being in favour of increasing the limit to £1m and a few arguing that there should be no limit. It was argued, “unlike commercial gambling products, the primary purpose of Charity Lotteries is to raise money for good causes, and thus prizes should not be the sole driver of play.”⁶² Evidence from a Gambling Commission survey supports this since, of those who bought tickets for a Charity Lottery or other lottery, 55% reported gambling to support good causes. This compares to 15% who bought tickets for the National Lottery draws, and 5% of those who bought scratch-cards.⁶³

The Gambling Commission concludes that Charity Lotteries compete with the National Lottery only at the margins and the changes to the limits of a magnitude outlined would require monitoring, but would be expected to have little impact upon the National Lottery.⁶⁴ This reflects the conclusion that NERA came to, that with “small changes to existing limits the impact on the National Lottery is likely to be small.”⁶⁵ NCVO refers to polling evidence showing that there would only be a small effect in potential player composition with a shift of jackpot from £400,000 to £500,000.⁶⁶

In 2014, the Centre for Economics and Business Research (CEBR) concluded, “there is little evidence to support the notion that Charity Lotteries undermine the National Lottery” and that relaxing regulations would result in an increase in Charity Lotteries’ returns to good causes which would, “in all likelihood, complement rather than detract from those provided by the National Lottery”.⁶⁷

⁵⁹ Cancer Research UK (2018), ‘Response to the DCMS Consultation on society lottery reform’. 7 September 2018.

⁶⁰ Gambling Commission (2017), ‘Review of Charity Lotteries advice’. October 2017.

⁶¹ Ibid.

⁶² DCMS (2019), ‘Government response to the consultation on society lottery reform’. 16 July 2019.

⁶³ Gambling Commission (2019), ‘Gambling participation in 2018: behaviour, awareness and attitudes. Annual report’. February 2019.

⁶⁴ Gambling Commission (2017), ‘Review of Charity Lotteries advice’. October 2017.

⁶⁵ ‘Review of the UK Gambling Market – Project Phase I for the Gambling Commission’, 2015. Not publicly available; quoted by Gambling Commission in ‘Advice provided to DCMS on Charity Lotteries’, October 2017.

⁶⁶ NCVO (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

⁶⁷ CEBR (2014), ‘What have we got to lose? How Charity Lotteries could do even more for good causes: An analysis of the contribution of the sector and the potential impacts of regulatory change’.

Similarly, NERA found the introduction of the Health Lottery “*is likely to have raised the total amount of money raised by lotteries for good causes.*”⁶⁸

As mentioned above, there is some evidence of complementarities – where demand for one lottery boosts demand for another lottery, due to marketing spillovers, as well as the possibility of improved cost effectiveness and greater drive towards professionalisation from the introduction of new entrants into the market.⁶⁹ Thus CEBR notes that the launch of the Health Lottery in 2011 may have acted as a catalyst for the professionalisation and expansion of the Charity Lottery sector which has been seen in recent years.⁷⁰ As Chart 2 shows, large Charity Lotteries’ returns to good causes have grown from £95m in 2008/09 to over £300m a decade later, reflecting their growth in sales and number. Taking the same time frame, National Lottery returns to good causes also increased, from £1.32b to £1.64b, although in this period there were two spikes above £1.9b in 2012/13 and 2014/15. Nevertheless, this relative volatility does not in itself conclusively indicate that greater Charity Lottery activity is having a negative impact on the National Lottery. In particular, while National Lottery sales are volatile (see Chart 1), the increase in Charity Lottery sales and returns has been steady increasing for well over a decade. It is difficult to see how the steady increase in Charity Lotteries’ sales is the cause of the volatile sales of the National Lottery.

⁶⁸ NERA Economic Consulting (2012), ‘Assessment of Lottery Market Issues: Draft Report for the National Lottery Commission, the DCMS and the Gambling Commission’.

⁶⁹ Ibid.

⁷⁰ CEBR (2014), ‘What have we got to lose? How Charity Lotteries could do even more for good causes: An analysis of the contribution of the sector and the potential impacts of regulatory change’.

Section 3: What other factors may be influencing the National Lottery's raising of funds for good causes?

Factors internal to the National Lottery's operation

"The only times National Lottery proceeds have fallen ... has been due to decisions made by Camelot. Arguably, a greater threat to the National Lottery has not been Charity Lotteries, but Camelot!"⁷¹

This claim by the Lotteries Council may be something of an exaggeration, as it rules out the influence of any external factors at all. However, it is undeniable that National Lottery proceeds and returns to good causes have not seen the same steady increase shown by Charity Lotteries (Charts 1 and 2). As we saw in Section 1, between 2012/13 and 2013/14, National Lottery contributions to the National Lottery Distribution Fund dropped by £236m, whilst sales dropped by £241m. Between 2014/15 and 2015/16, contributions fell by £129m (whilst sales rose by £340m) and then dropped by a further £196m between 2015/16 and 2016/17, whilst sales fell by £694m.

According to the National Lottery Distribution Fund Annual Report 2019:⁷²

- In 2012-13 income benefited from significant ticket sales generated by the Olympic Games inspired Millionaires' Raffle, two extended Euromillions rollovers, and an unclaimed prize of £64m
- In 2014-15 income includes the transfer of funds on the closure of Olympic Lottery Distribution Fund (OLDF) of £149m
- In 2015-16 income benefited from a 15-week Lotto rollover, following the introduction of the 59-ball Lotto game and two extended Euromillions rollovers

The larger than usual boost in 2012/13 is generally accepted to be the result of products linked to the London Olympic Games in 2012. This would also help to explain the fall in National Lottery sales in the following year, 2013/14.

In 2017, the National Audit Office published the report of an investigation exploring possible explanations for the more recent fall in National Lottery income for good causes, following a

⁷¹ Lotteries Council (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁷² National Lottery Distribution Fund (2019), 'Annual report and accounts for the year ended 31 March 2019'.

considerable increase over the preceding decade, including increases in Camelot's profits which have been proportionately greater than increases in either Lottery sales or returns for good causes.⁷³

In explaining the drop from 2016/17, both the Gambling Commission and Camelot have acknowledged the role of changes in the Lotto draw. In 2013, a new Lotto was launched with an increased price of ticket from £1 to £2, additional prizes, and raffle. In 2015, a Lotto was launched with an additional 10 balls, there was a removal of the cap on the number of consecutive Lotto rollovers (four), and the jackpot cap was set at £50m. In January 2016, the Lotto jackpot cap was raised to £55m but in August it was reduced to £22m.

The House of Commons Public Accounts Committee reported asking Camelot: "*whether these contradictory game changes had contributed to people spending less on the Lotto game. Camelot accepted that, after a short-term boost to sales, these game changes had contributed heavily to a disappointing year in 2016-17.*"⁷⁴. Nigel Railton, the CEO of Camelot, in the same evidence session conceded that: "*the matrix was changed from one in 49 to one in 59. The idea behind that was to increase the size of the jackpots. The general feeling in lotteries is that if you get bigger jackpots, more people play. Initially that was quite successful, but in 2016-17 it was not. That contributed heavily to our disappointing year in 2016-17.*"

The DCMS identifies the drop in participation in the Lotto as the main reason for the fall in National Lottery income to good causes. There has been a move towards instant games over draw-based games (thus. favouring games with a lower return to good causes). However, the DCMS was unable to determine the individual financial impact of a range of other potential contributory factors such as:

- economic factors,
- changes in consumer behaviour,
- consumer reaction to recent game changes (leading to a fall in positivity towards the Lottery brand),
- competition from Charity Lotteries and other gambling products,
- or the global long-term decline in draw-based games, which offer the highest return to good causes of the various Lottery games.⁷⁵

⁷³ National Audit Office (2017), 'Investigation: National Lottery funding for good causes'. 13 December 2017.

⁷⁴ House of Commons Committee of Public Accounts (2018), 'The future of the National Lottery Thirty-First Report of Session 2017-19'.

⁷⁵ National Audit Office (2017), 'Investigation: National Lottery funding for good causes'. 13 December 2017.

The Association of Charity Lotteries in Europe (ACLEU) argues, the shift in focus from traditional lottery products, with the highest returns to society, to short-odds games like scratch-cards and different forms of remote gambling, is a greater threat to state lotteries than Charity Lotteries.⁷⁶ This has happened, they argue, during the current licence term of the National Lottery, with the percentage to good causes decreasing from 28% to 25% due to an increase in scratch-card sales. Similarly, ACLEU argues, the Danish state lottery (Danske Spil) heavily invested in a new range of short-odds products following the opening of the online market, thereby neglecting its traditional lottery games, and resulting in a decrease in returns to society. ACLEU argues that to maximise returns to good causes, the Government should make a clear distinction in the new licence terms between long-odds lotteries with high returns to society and short-odds games without such returns.⁷⁷

For example, the National Lottery has been increasingly promoting scratch-cards which have a much lower return to good causes than the main lottery draw. In April 2018, the summary of the Public Accounts Committee inquiry into the Future of the National Lottery described the cannibalisation in this way: *"the drop in returns for good causes was because more players bought scratch-cards, whilst sales of draw based games, with higher returns to good causes, declined"*.⁷⁸ However, in evidence to a House of Lords Select Committee in January 2020, Nigel Railton of Camelot defended the potential cannibalisation of the main lottery draw by scratch-cards (or suggested they generated a greater gambling problem compared to the main lotto draw).⁷⁹

In their written evidence to the DCMS Select Committee inquiry, the New Lottery Company, (a potential competitor to Camelot in bidding for the next licence), has also highlighted other possible internal factors behind the decline in National Lottery contributions to good causes. They argue that: *"one of the most significant changes in the National Lottery space was the change of ownership for the incumbent lottery operator to an overseas investment body, namely the Ontario Teachers' pension fund that is solely focused on return on investment"*.⁸⁰ This, they argue, was the reason for the changes to the Lotto (doubling its price and quadrupling its odds), which led to it being *"almost decimated"* and a consequent *"dramatic downturn in player good faith and participation"*.⁸¹

⁷⁶ Association of Charity Lotteries in Europe (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁷⁷ Association of Charity Lotteries in Europe (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁷⁸ UK Parliament (2008), 'The future of the National Lottery'. 5 April 2008.

<https://publications.parliament.uk/pa/cm201719/cmselect/cmpublic/898/89803.htm>.

⁷⁹ Select Committee on the social and economic impact of the gambling industry. Oral Evidence. 28 January 2020.

⁸⁰ The New Lottery Company (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁸¹ *ibid*

As a result, "Camelot UK had to increase their operational footprint to other jurisdictions often losing its best resources to overseas pursuits, back filling with less knowledgeable leaders who ultimately dropped the ball with suppliers, partners and players. All which would have been done with the knowledge and approval of the Gambling Commission who are therefore partly culpable for many of the perceived failings over the duration of the 3rd licence, including the reduced percentage of returns to good causes as a result of increased sales of scratch-cards and online instant win products."⁸²

Growth in online and other forms of gambling of the National Lottery

The National Lottery shares a commitment to giving to good causes with Charity Lotteries and shares the ability to offer unlimited jackpots with the private gambling sector. In contrast to the potential threat of Charity Lotteries, some have argued that a far greater threat comes from the private sector. While participation in the National Lottery, "Another Lottery", and scratch-cards has remained broadly flat, some forms of gambling, (mostly online), have seen increases since 2015. Sports betting has nearly doubled from 3.5% to 6.7% of the population, as has online fruit machine-style or slot machines from 1.8% to 4.2%⁸³. The growth of scratch-cards and mobile phone-based gambling may also be a factor.

Growth in prize draws masquerading as lotteries

There is a perceived threat (to Charity Lotteries as well as the National Lottery) from "the growth of online betting products linked to ... lotteries that give an impression that players are taking part in a lottery but are actually a harder form of gambling," with significantly higher pay-out ratios.⁸⁴ As the Lotteries Council put it, "a greater threat to the sector [comes] from gambling companies offering products that masquerade as lotteries but, in fact, are bets on the outcome of particular [overseas] lotteries."⁸⁵

⁸² The New Lottery Company (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁸³ Gambling participation in 2019: behaviour, awareness and attitudes.

⁸⁴ House of Commons Culture, Media and Sport Committee (2015), 'Charity Lotteries Fifth Report of Session 2014-15'. March 2015.

⁸⁵ Lotteries Council (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

The Gambling Act 2005 prohibited bookmakers from taking bets on the outcome of the National Lottery, in order to maintain the “*clear blue water*” between the National Lottery and commercial gambling.⁸⁶ Due to a technicality in how the National Lottery EuroMillions game is structured as a separate game in each participating country, some commercial gambling operators were legally able to offer bets on EuroMillions. This apparently led to significant consumer confusion, with many players uncertain whether they were playing a National Lottery EuroMillions game or taking bets on its outcome.⁸⁷ In 2016, legislation was introduced to extend the prohibition to cover all EuroMillions games, thereby eliminating consumer confusion and protecting returns to good causes.

Nevertheless, it remains possible for gambling companies to offer bets on overseas lotteries. The Lotteries Council notes that there has been “*a drift of members (especially football clubs) turning away from the highly-regulated Charity Lottery sector and to the uncapped area of offering bets on lotteries. This has the effect of pushing consumers towards spending their £1 on gambling products offering higher prizes, with all the risks of problem gambling that those entail, rather than Charity Lotteries ... these gambling products encroach on, and sometimes exceed, the prize levels offered by the National Lottery and have the potential to damage the returns to good causes.*”⁸⁸

Similarly, the Health Lottery argues, “*high value gambling product pay-outs are being marketed as lottery games [and] eclipse anything on offer by Charity Lotteries 400 times over in some instances. Examples of which include Lottoland and Derby County football club lottery both of which have marketed prizes in excess of £400m.*”⁸⁹

Lottoland started offering bets in the UK on worldwide lotteries in 2013. The Gibraltar-based operator offers consumers the opportunity to bet on the outcome of over 30 state lotteries without purchasing an actual ticket for the draw. By using a system called insurance-linked securities, Lottoland protects itself against lottery winners by up to €100m per year, enabling Lottoland to sell online “tickets” slightly cheaper than real lottery tickets, yet offer much higher prizes to winners than Charity Lotteries. Since participants do not buy tickets from the actual lotteries, this system arguably reduces returns to good causes for those lotteries which make a contribution to good causes - since Lottoland makes no comparable donation from its proceeds.

⁸⁶ DCMS (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

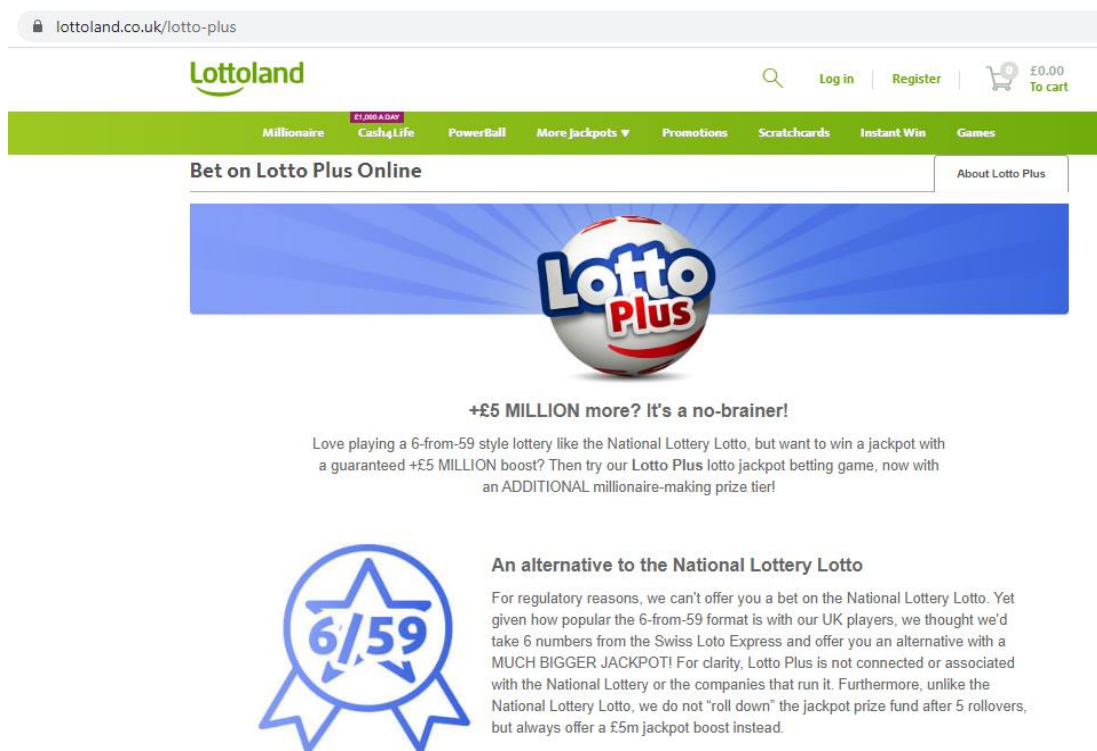
⁸⁷ An internal survey from Lottoland found that 29% of their players did not understand the difference between playing National Lottery EuroMillions and placing a bet through Lottoland on its outcome. Described in DCMS (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

⁸⁸ Lotteries Council (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

⁸⁹ Health Lottery (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

Lottoland sees itself in direct competition with the National Lottery in its marketing of "Lotto Plus", stating that: *"for regulatory reasons, we can't offer you a bet on the National Lottery Lotto"*, but instead players are offered the opportunity to play "Lotto Plus", which is *"an alternative to the National Lottery Lotto"* but with a bigger jackpot.

Figure 1: Lottoland's Lotto Plus



The screenshot shows the Lottoland website interface. At the top, the URL is lottoland.co.uk/lotto-plus. The Lottoland logo is on the left, and navigation links for 'Log in', 'Register', and a shopping cart (containing £0.00) are on the right. A green navigation bar contains links for 'Millionaire', 'Cash4Life', 'PowerBall', 'More Jackpots', 'Promotions', 'Scratchcards', 'Instant Win', and 'Games'. Below this, the main heading is 'Bet on Lotto Plus Online' with an 'About Lotto Plus' link. The central focus is a large blue banner with a 3D 'Lotto Plus' ball. Below the banner, the text reads: '+£5 MILLION more? It's a no-brainer!' followed by: 'Love playing a 6-from-59 style lottery like the National Lottery Lotto, but want to win a jackpot with a guaranteed +£5 MILLION boost? Then try our Lotto Plus lotto jackpot betting game, now with an ADDITIONAL millionaire-making prize tier!'. To the left of the text is a blue circular icon with a star and '6/59'. To the right, under the heading 'An alternative to the National Lottery Lotto', the text states: 'For regulatory reasons, we can't offer you a bet on the National Lottery Lotto. Yet given how popular the 6-from-59 format is with our UK players, we thought we'd take 6 numbers from the Swiss Loto Express and offer you an alternative with a MUCH BIGGER JACKPOT! For clarity, Lotto Plus is not connected or associated with the National Lottery or the companies that run it. Furthermore, unlike the National Lottery Lotto, we do not "roll down" the jackpot prize fund after 5 rollovers, but always offer a £5m jackpot boost instead.'

Nevertheless, there does not appear to be any robust research into the potential impact of these competitors on the National Lottery, or indeed on the wider lottery market. As discussed earlier, Camelot refers to analysis by Frontier Economics on the impact of competitor advertising, which seemingly lumps together large Charity Lotteries such as PPL and the Health Lottery with Lottoland.⁹⁰ It makes no sense to lump these two very different types of alternative games of chance in any assessment of perceived competitive threats to the National Lottery. Indeed, countries

⁹⁰ Camelot UK Lotteries Ltd. (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

like Australia and Denmark have banned betting on lotteries altogether, such is the threat they regard it as being to their national lotteries, while leaving Charity Lotteries unaffected.

Section 4. Have Charity Lotteries had an impact on state lotteries in other countries?

The ACLEU argues that State and Charity Lotteries can "*perfectly co-exist next to each other, as shown in the Netherlands, Sweden, Germany and Spain*".⁹¹ ACLEU notes that most European countries have State-owned lotteries that donate part of their income to the treasury and/or to good causes, whilst some countries (like Britain) also have Charity Lotteries offering funding that is often unrestricted, long-term, and free from political interference.

People's Postcode Lottery in Great Britain is an organisation which was set up purely to raise funds for good causes and not for commercial gain. It is owned by Novamedia, a social enterprise which operates seven Charity Lotteries across Europe. PPL has argued that restrictions on proceeds and prize sizes have created an overly restrictive regime for Charity Lotteries in Great Britain.

In contrast, Camelot views the PPL lotteries run by Novamedia in the Netherlands and Sweden as threatening competitors to those countries' national lotteries. Camelot notes with caution that it believes, in 2015, the two state-owned lotteries in the Netherlands merged in direct response to declining sales and returns to good causes resulting from an increasingly competitive Charity Lotteries market.⁹² Whilst the Netherlands state lottery has recently overtaken the Dutch Postcode Lottery in sales,⁹³ it should be noted that this example is not directly comparable to Britain, since the Dutch regulatory framework is very different.

For instance, in the Netherlands there are no limits on the size of draws, annual proceeds or prizes (other than allowing for a maximum of 69 draws a year), with the result that Charity Lotteries offer multi-million Euro jackpots comparable to those offered by the state lottery. Dutch Charity Lotteries must return 40% to charities, whereas the state lottery returns 15% to the state, some of which funds sports and charities. The Netherlands also has different broadcast rules, meaning that the Dutch Postcode Lottery has a far more prominent television presence, producing its own TV shows.⁹⁴

⁹¹ Association of Charity Lotteries in Europe (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁹² Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform'. 7 September 2018.

⁹³ Winning Post article, 12 July 2019. Dutch State Lottery sales in 2018 up 6.2% to €405m, compared with the Dutch Postcode Lottery sales of €371m, up 1.0%. Referenced in DCMS (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁹⁴ DCMS (2019), 'Government response to the consultation on society lottery reform'. 16 July 2019.

In general, Charity Lotteries benefit from more compelling messaging about the good causes they support and extensive promotion on television.⁹⁵

Despite leading to the merging of the two state-owned lotteries, ACLEU argues that the introduction of Charity Lotteries in the Netherlands, (as in Sweden and Spain), has led to an increase in sales of both the incumbent state lottery as well as the new entrants and, more importantly, an increase in returns to good causes. Reflecting the difference in the relative proportion of their income donated to good causes, in 2018, lotteries in the Netherlands raised €672m for society - of which €161m was from the state lottery and €511m from the three largest Charity Lotteries.⁹⁶ The total income for good causes from the Dutch State Lottery grew again in 2019 to €173.1m⁹⁷, based on turnover increasing a further 12% year on year.

This means that the combined return from all the lotteries generating funds for good causes is now much higher than it was in 2013, implying that, far from diminishing total returns for good causes, competition has increased them.

⁹⁵ DCMS (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁹⁶ Association of Charity Lotteries in Europe (2019), 'Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery'.

⁹⁷ iGaming Business (2020), 'Nederlandse Loterij turnover grows 12% in 2019'. 22 April 2020. <https://www.igamingbusiness.com/news/nederlandse-loterij-turnover-grows-12-2019>.

Section 5. Recommendations and key tests

To solely blame Charity Lotteries for the volatility in National Lottery returns to good causes is, at best, a substantial simplification of the existing research and evidence and, at worst, flies in the face of the overwhelming evidence to the contrary. There is no quick and easy explanation for these periods of decline, and as we have seen, a number of factors are likely to have contributed to it. For these reasons, based on the research, the Government's reforms to turnover and prize caps on Charity Lotteries seem unlikely to pose any great threat to the National Lottery that Camelot fears.

This synthesis of existing research, evidence, and commentary on the lottery sector has revealed considerable change in the lottery sector over recent years, seemingly without a corresponding investment in up-to-date research. The growth of the Charity Lottery sector in terms of income, as well as its evolution with the development of different products and the move online, means that claims being made ten or even five years ago can quickly become outdated.

Although the consultation on society lottery reform has concluded, this is an ongoing debate. For instance, the Gambling Commission noted in its advice to DCMS that it intends to review its 'branded lotteries' advice after the consultation is over, *"taking into account any changes to regulation and also accounting for changes within the lottery sector itself, particularly with regards to technological advancements such as lottery entry via text message, and the growth of the mobile platform."*⁹⁸

There is a need for greater transparency regarding the analysis of the potential impact of different lotteries, and for ongoing analysis and evidence gathering to provide greater understanding of the lottery sector. The two existing econometric analyses reach contradictory conclusions, with Frontier's research warning against reform to Charity Lotteries from the viewpoint of the National Lottery's returns to good causes, whilst NERA concludes that the introduction of the Health Lottery has likely *"increased the total amount of money generated by lotteries for good causes"*. Although difficult given their apparent unavailability, a critical analysis and comparison of these pieces of work would be beneficial, and would likely form a useful starting point for an up-to-date econometric analysis of the situation at present.

The original decision behind the founding of the National Lottery in 1994, that *"a single National Lottery, operated as a monopoly, would be the most effective way of raising funds for a wide range*

⁹⁸ Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

of good causes on a national scale”⁹⁹ is not necessarily reflected in public opinion. nfpSynergy have repeatedly found that the majority of the public are opposed to laws and regulations that stop Charity Lotteries from raising as much money as the National Lottery, or that make it harder for Charity Lotteries to compete with the National Lottery (64% and 66% respectively in their latest survey from 2018).¹⁰⁰

Furthermore, the proportion of MPs opposed was very similar - 62% against laws that stop Charity Lotteries from raising as much money, and 66% against those that make it harder for them to compete¹⁰¹. This implies the majority of the public and MPs do not necessarily agree that policymakers should ensure the National Lottery “*is in the best position to be able to fundraise on a large scale whilst permitting other good causes to be able to continue to fundraise at a lower level through lottery activity,*”¹⁰² but rather that all such lotteries should be able to compete with one another.

Similarly, ACLEU’s positivity about the growth of Charity Lotteries in Netherlands is tied to the result of an increase in returns to good causes, regardless of the fact that, by far, the largest proportion raised for good causes is by Charity Lotteries rather than the state lottery.¹⁰³ At the same time, it is important to note that the public’s views do not influence whether or not reforms would actually impact on the National Lottery.¹⁰⁴

⁹⁹ Gambling Commission (2017), ‘Review of Charity Lotteries advice’. October 2017.

¹⁰⁰ nfpSynergy (2019), ‘Research release: public and MP attitudes towards Charity Lottery regulation’; see also nfpSynergy (2013), ‘A Chance to Give: how lotteries for charities and good causes could raise more money, but regulation is holding them back’.

¹⁰¹ *ibid*

¹⁰² Gambling Commission (2017), ‘Review of Charity Lotteries advice’. October 2017.

¹⁰³ Association of Charity Lotteries in Europe (2019), ‘Written evidence submitted in response to DCMS Select Committee Inquiry on the future of the National Lottery’.

¹⁰⁴ nfpSynergy (2013), ‘A Chance to Give: how lotteries for charities and good causes could raise more money, but regulation is holding them back’.

Key criteria to judge whether Charity Lotteries and the National Lottery are complementary or competitive

Is the gambling industry in growth or stagnant overall?

The gambling industry overall has seen substantial growth in the last 10-15 years. In 2009 the total value was £16.5b and by 2017 the total value was £33.8b,¹⁰⁵ (with Charity Lotteries at well under 2% of this total). This suggests that there is **not** a finite pot of consumer expenditure for gambling, but a dynamic and growing one. Given this market dynamic, there is no reason at all to suggest that an extra £1 spent on Charity Lotteries is £1 less spent on the National Lottery.

Are the contenders using the same marketing channels and mechanics?

The National Lottery is largely sold through retailers and increasingly through online portals. In contrast, the majority of Charity Lotteries (the main exception being the Health Lottery) are sold through subscription models where players pay a regular amount through direct debits, or via direct mailing. This largely negates the impact of roll-overs or prize size, while for the National Lottery the opposite is true.

Are the motivations for lottery players the same?

The motives of National Lottery players are different from Charity Lottery players: 55% of Charity Lottery players are motivated primarily by supporting good causes, while just 15% of National Lottery players are¹⁰⁶. This reflects the respective marketing of the two games. With the National Lottery focusing on life-changing prizes and Charity Lotteries focusing on the contribution to good causes, they are likely to attract different players. Where an individual plays both games, they are unlikely to be substitutes for each other; in other words, if somebody plays the National Lottery for a life-changing prize, they probably will not stop playing for an alternative game whose prizes are not life-changing.

¹⁰⁵ London Loves Business (2017), 'The growth of the online gambling industry'. 14 December 2017. <https://londonlovesbusiness.com/the-growth-of-the-online-gambling-industry/>.

¹⁰⁶ Gambling Commission, Gambling Participation report page 12. <https://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-participation-in-2018-behaviour-awareness-and-attitudes.pdf>

Are the demographics of players the same?

There are similarities between the demographics of people who buy National Lottery tickets and those who buy Charity Lottery tickets¹⁰⁷. Both tend to be biased towards men¹⁰⁸, and people who make donations to charity are also more likely to buy National Lottery and Charity Lottery tickets. There are differences in the age profile between the two. While the percentage of people aged 55-64 who buy a National Lottery ticket is more than twice that of people aged 16-24 (48% vs 21%), for Charity Lotteries there is much less difference between the two age bands (16% vs 15%).

Have any studies shown proof of Charity Lotteries affecting the National Lottery?

The two econometric research studies are contradictory. The Camelot funded study suggests that there is an impact of around £38m per year, including lottery duty, between 2011-2017 or around 2% of the total for good causes, and about a fifth of the drop of £188 million in contribution caused by the price hike in 2013¹⁰⁹. Equally, the £38m is considerably smaller than the growth in contributions to good causes shown in Chart 2 from large Charity Lotteries during the same period. Therefore, the very least that can be said is that the total for good causes has increased - even if we accepted the accuracy of the Frontier Economics study. The NERA study also suggests there was minimal impact and that competition from the Health Lottery may even be good for the total raised for good causes. The example from the Netherlands also shows how competition can be good for the total amount raised for good causes.

What is the view of the regulators and Government?

The Gambling Commission has made clear in its statements that it does not believe the National Lottery is impacted on by Charity Lotteries. The DCMS has agreed with this view and stated in its Charity Lottery reform consultation that it believes both types of lottery can co-exist and be complementary.

Are the lotteries of similar size and market dominance?

This is not quite the right comparison since any competition is not between two equal individual lotteries but one very large individual lottery, in the form of the National Lottery, and a multitude of much smaller players. The largest of these is not even 10% of the size of the National Lottery sales.

¹⁰⁷ nfpSynergy (2019), 'Public and MP attitudes toward charity lottery regulators. 3 January 2019. <https://nfpsynergy.net/free-report/public-and-mp-attitudes-toward-charity-lottery-regulators>.

¹⁰⁸ nfpSynergy – public and MP attitudes towards charity regulation slide 19.

¹⁰⁹ Camelot UK Lotteries Ltd. (2018), 'Response to the DCMS Consultation on society lottery reform'. 7 September 2018.

In competition regulation, it is usually smaller players who complain about the impact of a dominant larger player. In this case it is the larger player, indeed the State monopoly, that is concerned about the impact of the much smaller players.

Are there other sources of industry disruption?

There are plenty of sources of industry disruption that would impact on the National Lottery apart from Charity Lotteries. These include the growth in online gambling, the growth in online gambling masquerading as lotteries, and the changes to game play and marketing approach made by the National Lottery itself. In addition, events such as the London Olympics and the presence of large prize rollovers are also factors.

What does other countries' experience show?

The best-documented experience is from the Netherlands, where there are a number of lotteries that compete with the State lottery. Since 2013, the contribution to good causes from the State Lottery and its three main competitors has grown considerably, and in the last year alone the contribution to good causes from the State Lottery grew by €173m. Furthermore, this is in a country where the competition is much more direct: the non-State lotteries are of a similar size to the State Lottery and can host their own TV draw show, which is not easily allowed in the UK.

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Appendix A

A brief summary of inquiries, consultations, research and evidence related to the UK lottery sector ordered by recency.

DCMS Select Committee, 'The future of the National Lottery inquiry' launched July 2019

An inquiry to consider whether changes are needed in the operation of the National Lottery as the process begins to award a new licence from 2023. Two questions were asked of respondents which are of particular relevance here:

Question 5: What has been the impact of Charity Lotteries, or other changes to the lottery market, on the main National Lottery draw?

Question 3: How should the next licence be structured to maximise returns for good causes?

Prior to the Inquiry being closed due to the December 2019 general election, 23 pieces of written evidence were submitted. If an inquiry on this subject is held in the future, the Committee may refer to the evidence already gathered as part of this inquiry.

DCMS 'Consultation on Society Lottery Reform' June – September 2018; Government response 16 July 2019

Consultation on specific changes to the sales and prize limits of Charity Lotteries, with the intention of enabling both Charity Lotteries and the National Lottery to thrive.

1,629 responses were received, comprising: 641 participants of an online survey; 175 written responses; 16 responses from UK and Scottish Parliamentarians, and 800 responses to two organised campaigns from individuals and organisations, which submitted duplicate copies of the same letter. DCMS Ministers held meetings with key stakeholders.¹¹⁰

Led to the decision to raise the per draw sales limit from £4m to £5m, the maximum prize from £400,000 to £500,000, and the annual sales limit from £10m to £50m. Once the impact of the £50m annual limit is seen, a further consultation is intended on introducing a higher tier licence to allow for a limit of £100m.¹¹¹

People's Postcode Lottery (2018). 'Charity Lotteries and The National Lottery'. May 2018.

Summary of evidence supporting the case that Charity Lotteries' activities complements National Lottery fundraising.

House of Commons Public Accounts Committee, 'The future of the National Lottery Thirty-First Report of Session 2017-19', April 2018

Inquiry in response to decline in National Lottery returns for good causes whilst increase in Camelot's profits.

6 pieces of written evidence published; Government response; Camelot's response.

National Audit Office, 'Investigation: National Lottery funding for good causes' 13 December 2017

¹¹⁰ DCMS (2019), 'Consultation on Society Lottery Reform'. June-September 2018.

¹¹¹ DCMS (2019), 'Government response to the consultation on society lottery reform'. 16 July 2019.

Investigation exploring why National Lottery income for good causes fell in 2016-17. Meanwhile increases in Camelot's profits have been proportionately greater than increases in Lottery sales and returns for good causes.

Gambling Commission, 'Advice provided to DCMS on Charity Lotteries' October 2017

DCMS requested the Gambling Commission to provide advice to inform potential reforms, and seek to balance different priorities:

- the regulatory framework for Charity Lotteries should not be overly burdensome for existing or potential lotteries, and should be flexible to enable them to maximise returns to good causes
- any reforms should not jeopardise the position of the National Lottery and its ability to raise funds for good causes¹¹²

Includes 3 parts:

Society Lottery advice, Phase 1, October 2015

Charity Lotteries advice, Phase 2, January 2016

Review of society lottery advice October 2017

Refers to NERA, 'Review of the UK Gambling Market – Project Phase I for the Gambling Commission', 2015 (not publicly available).

House of Commons Culture, Media and Sport Committee, 'Charity Lotteries Fifth Report of Session 2014-15', March 2015

Since the continuing success of the National Lottery is of vital importance to the arts, culture, heritage, sport and voluntary sectors and charities, "maintaining the health of the National Lottery is now an essential task of Government."

"We have been guided in our approach by the principle that the regulatory regime governing Charity Lotteries should encourage the maximum return to good causes and provided that the lottery remains focused on its primary purpose, the licensing regime should be light, including continued exemption from gambling and lottery taxes."¹¹³

Camelot's written evidence to House of Commons Culture, Media and Sport Committee's Charity Lotteries Inquiry 2015

Includes as Appendix 1: Frontier Economics, The Economic Case for One National Lottery, October 2014

- Camelot commissioned Frontier Economics to assess the economic rationale for a single provider of National Lottery products and whether increased competition at a national level for lottery products resulting from a relaxation in the caps on the size and jackpots available to large-scale Charity Lotteries would impact on the returns to good causes and wider society.¹¹⁴

Includes as Appendix 2: Frontier Economics, 'Comparison of the returns from The National Lottery's Lotto Game and The Health Lottery', January 2014.

¹¹² Gambling Commission (2017), 'Review of Charity Lotteries advice'. October 2017.

¹¹³ House of Commons Culture, Media and Sport Committee (2015), 'Charity Lotteries Fifth Report of Session 2014-15'. March 2015.

¹¹⁴ Frontier Economics (2014), 'The Economic Case for One National Lottery'. Published as Appendix 1 to Camelot's written evidence to House of Commons Culture, Media and Sport Committee's Charity Lotteries Inquiry 2015.

Gambling Commission, 'Market advice on the lottery sectors' September 2014

Advice requested by DCMS on various matters relating to the operation of regulatory policy in the lottery sectors. Considers how boundaries between the National Lottery, society lottery and commercial gambling markets may be being eroded, and whether any such erosion is affecting public perception and/or return to good causes from the National Lottery and Charity Lotteries.¹¹⁵

Centre for Economic and Business Research, 'What have we got to lose? How Charity Lotteries could do even more for good causes' February 2014

An analysis of the contribution of the sector and the potential impacts of regulatory change commissioned by the Lotteries Council and the Institute of Fundraising ahead of a forthcoming consultation into Charity Lotteries by the DCMS.¹¹⁶

nfpSynergy, 'A Chance to Give' 2013

Considers how regulation is holding Charity Lotteries back from raising as much money as they might, and what the public think about this.¹¹⁷

NERA Economic Consulting, 'Assessment of Lottery Market Issues: Draft Report for the National Lottery Commission, the DCMS and the Gambling Commission, April 2012

Commissioned by the National Lottery Commission (NLC), the Department of Culture, Media and Sport (DCMS) and the Gambling Commission (GC) to consider the impact of the Health Lottery or similar multiple Charity Lotteries on the wider lottery market, including on the National Lottery. It is intended to provide information that will be useful when considering the need for, and nature of, any change to the existing regulations applying to Charity Lotteries.¹¹⁸

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¹¹⁵ Gambling Commission (2014), 'Market advice on the lottery sectors'.

¹¹⁶ Centre for Economic and Business Research (2014), 'What have we got to lose? How Charity Lotteries could do even more for good causes: An analysis of the contribution of the sector and the potential impacts of regulatory change'.

¹¹⁷ nfpSynergy (2013), 'A Chance to Give: how lotteries for charities and good causes could raise more money, but regulation is holding them back'.

¹¹⁸ NERA Economic Consulting (2012), 'Assessment of Lottery Market Issues: Draft Report for the National Lottery Commission, the DCMS and the Gambling Commission'.

nfpSynergy is a leading research consultancy in the UK that provides high quality market research and consulting services exclusively for charities and non-profits. From our origins in syndicated tracking research on public attitudes for non-profit clients, we have grown our portfolio to include several key audiences as well as tailored research and consultancy programmes. Our aim is to provide ideas, insights and information that help non-profits thrive.

We run both syndicated and bespoke research to help charities of all sizes understand their audiences and the positioning and performance of their brand activities. We have been tracking audience engagement with charity brands for over 15 years and have expertise in setting key questions for brand engagement through our Charity Awareness Monitor (CAM) and Charity Brand Evaluator (CBE) models.

Our tracking surveys monitor the attitudes and opinions of stakeholder groups relating to the not-for-profit sector. In addition to our ongoing research programmes that track the general public's awareness and engagement across the charity sector, we have developed:

- Charity Parliamentary Monitor (CPM) – tracking perceptions with MPs and peers
- Specific under-researched audience programmes like BAME and LGBTQ+
- Primary Healthcare Monitor (PHM) – with primary healthcare professionals
- Syndicated tracking studies on the general public in Scotland, Northern Ireland, Wales and the Republic of Ireland.

If you have any queries about the research, data or analysis in this briefing please contact Joe Saxton on joe.saxton@nfpsynergy.net

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