



Northumberland County Council

CABINET

DATE: 06th August 2019

Northumberland Lottery

Report of Kelly Angus, Executive Director of HR/OD & Deputy Chief Executive

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services and Cabinet Secretary

Purpose of Report

The purpose of this report is to provide an overview of the proposal to implement a Northumberland Lottery. The lottery would be open to both members of the public and staff, and would support local charities and good causes with its proceeds.

Recommendations

It is recommended that Members:

1. Consider the proposal for approval to proceed with implementation;
2. If approved, agree the lottery brand to be used, either
 - The Northumberland Lottery, or
 - The Northumbria Lottery

Link to the Corporate Plan

Links to the operating principles of financial prudence and resourcefulness

Key Issues

1. Local authorities have the ability to operate a lottery and use the net proceeds of such lotteries for any purpose for which they have power to incur expenditure. This therefore can provide an additional source of income for the Council.
2. By introducing a local authority lottery via Gatherwell Ltd (a lottery management service) which allows the income from ticket sales to be apportioned between approved good causes and the Council, can also provide an alternative income stream for local good causes. This in turn could reduce the reliance on local good causes from council funding
3. The proposed initial set up costs of £8,860 to implement the lottery is expected to be fully recovered by year 2 based on forecast lottery ticket sales.

BACKGROUND

1. Local authority lotteries are on the increase, as it allows Councils to sell tickets to the public to raise money for 'good causes' in its communities. Aylesbury Vale District Council launched the first lottery in 2015 and has raised more than £280,000 for local good causes and at the same time given the voluntary and community sector (VSC) access to new funding streams.
2. The Aylesbury Vale Lottery can be viewed at www.valelottery.co.uk
3. The Gambling Commission defines a 'local authority lottery' as a lottery promoted by the local authority itself which can use the net proceeds of such lotteries for any purpose for which they have power to incur expenditure. All local authority lotteries must be run under an operating licence issued by the Gambling Commission. Over 60 local authority licences have been awarded by the Gambling Commission.

GATHERWELL PROPOSAL

4. Developed in collaboration with Aylesbury Vale District Council, the company Gatherwell was formed in 2015 to develop an online lottery solution offering higher contributions to local good causes than any other major lottery in the UK (up to 50p of each £1 ticket sold).
5. Gatherwell are an external lottery manager (ELM) approved by the Gambling Commission. This means that the lottery is run by the local authority through Gatherwell via their on-line platform, and the Council controls oversight and governance.

6. Lottery tickets are £1 and players can choose their own numbers. Players select six numbers. The draw is held at 8pm every Saturday night and the prizes are aligned to the numbers matched as shown in the table below:

Matching Numbers	Prize
6 Numbers	£25,000
5 Numbers	£2,000
4 Numbers	£250
3 Numbers	£25
2 Numbers	3 free tickets

7. The prize fund is underwritten by Gatherwell, so there is no risk or exposure to the Council.
8. The proposed distribution of the £1.00 ticket is as shown in the table below. There is flexibility with how the 60p is split between both local good causes and the central fund, however the promotion of 50p to local good causes has demonstrated in other LA lotteries to have the most positive effect on sales.

Breakdown of £1.00 ticket sale	Recipient
50p (50%)	Selected local good causes (chosen by the player)
10p (10%)	Central council fund and to cover initial set up costs in year 1 and on-going annual gambling licence fees and excess to contribute to Community Chest
17p (17%)	Gatherwell Administration Fee
20p (20%)	Prize Fund
3p (3%)	VAT

9. The Gatherwell platform allows supporters/purchases of lottery tickets to select the good cause they wish to support at time of purchase. They also have the option to select the council central fund if they have no preference. This would mean that the council central fund would receive the 60% of the ticket sales.
10. Good causes and registered charities apply to join the lottery via the website. Once approved by the Council, they are provided with their own branded page within the site and provided with regular updates, and bespoke marketing materials to help promote the lottery. The causes then keep 50% of all ticket sales generated via their web page. This is paid to them on a monthly basis directly via Gatherwell, and can provide a new regular income stream.
11. The good causes do not incur any costs. All running costs are covered within the 17% administration contribution from the ticket sales.
12. For the Council there is an initial one off cost of £5,000 for access to the on-line platform, which includes bespoke branding for the "Northumberland Lottery". This is expected to be funded from the 10% central fund contribution the Council will receive from the scheme.
13. The estimated annual recurring costs to the Council is £1,042. This is made up of annual licence costs of £692 which is based on a licence which allows maximum ticket sales of £500,000 per annum (equates to max average of 9,615 ticket sales a week). Should ticket sales exceed this a higher licence would be required, but this would be unlikely.
14. The Council is required by the Gambling Commission to pay a remote gambling licence fee as supporters will be purchasing lottery tickets via an online platform. The two fees payable (application fee and annual fee) vary depending on the ticket sales proceeds. For the year 2019-20 the total costs are estimated to be £408 increasing to £912 by 2022/23 depending on ticket sale proceeds.
15. In addition to this the Council would be required to pay an annual membership fee of £350 to the Lotteries Council. By being members, the Council is able to meet two of its obligations set by the Gambling Commission licence, which is to provide a financial contribution to support problem gambling (that the Lotteries Council make on members behalf) and the ability to reference a gambling-related independent arbitrator in a complaints procedure
16. It is also recommended that an annual marketing budget of £2,000 is allocated to promote sales.
17. It is expected that the estimated annual marketing and licence costs of £3,820 would be funded from the 10% central fund contribution each year that the Council will receive from the scheme. This cost is forecast to increase to £4,324 from year 4 onwards.

18. The number of annual ticket sales to breakeven and recover costs incurred for initial set up, annual licencing fees and marketing costs is shown below.

	Year 1	Year 2 +	Year 4 +
Set up Costs	£5,000	-	-
Licence & Marketing Costs	£3,820	£3,820	£4,324
Total Costs	£8,850	£3,820	£4,342
No of annual ticket sales to breakeven (based on 10p per ticket income to the Council)	88,500	38,200	43,240

19. The projected income for good causes and the 10% central fund for the Council depends on lottery ticket sales. Prudent sales projections have been forecast based on the above 16 year old population reported in Northumberland (2017) of 266,826.

Northumberland Lottery Projections

£1 Ticket Price / 1.5 Tickets per week average								
<i>Ticket Price</i> £	<i>Number of players</i>	<i>% of Pop</i>	<i>Tickets bought per week</i>	<i>Number of weeks</i>	<i>Gross Return</i>	<i>Central Fund (10%)</i>	<i>Good Causes (50%)</i>	
1	1334	0.5	1.5	16	£32,019	£3,202	£16,010	2019/20 Target
1	2668	1	1.5	52	£208,104	£20,810	£104,052	2020/21 Target
1	4002	1.5	1.5	52	£312,156	£31,216	£156,078	2021/22 Target
1	5337	2	1.5	52	£416,286	£41,628	£208,143	2022/23 Target

20. The projections have been provided by Gatherwell based on their experience of the other public sector lotteries they administer. The 1.5 tickets bought per week is based on modelling which works on a population penetration and the average tickets per player. The actual average runs at 1.8 and 2 tickets per player however prudent modelling has been used in this forecast.

21. The model includes a part year effect for implementation during 2019/20 and demonstrates that the initial one-off fixed implementation costs would not be recovered during 2019/20 and would have an estimated £5,648 shortfall against the £8,850 invested. However, this is forecast to be recovered by the second financial year. The Council would need to fund this shortfall in year 1 until it can be recovered in year 2.

22. To implement this proposal is expected to take approximately six months; this is mainly due to the requirement for the Council to apply for a licence from the Gambling Commission which can take up to 16 weeks to be granted. The first draw would therefore be expected to be early 2020.

CONSIDERATIONS

- 23. Although anyone can buy a lottery ticket the branding of the lottery will need to be considered as marketing and branding can impact on sales
- 24. Good causes beneficiaries will need to be recruited and approved by the Council
- 25. To run a lottery the Council will have the requirement to appoint a person to have overall management responsibility for the promotion and proper management of the lottery and for compliance with the regulatory regime as a whole. This person must be a senior manager who holds the relevant delegated authority.
- 26. Although we can appoint Gatherwell as an approved external lottery manager (ALM) on our behalf to run the lottery, as the holder of the lottery licence the Council would be ultimately responsible for compliance
- 27. The relevant person(s) who hold the delegated authority will be known as Personal Management Licence (PML) Holder(s). In order to run a Local Authority lottery the Council would need at least one Personal Management Licence (PML) Holder at a cost of £370 per annum each, payable to the Gambling Commission. The Personal Management Licence needs to be renewed every five years and a fee of £370 per annum per PML Holder will be payable.
- 28. The Council can determine the split of the 60% income from the ticket sales, however the 50% to good causes (must be a minimum of 20%) has demonstrated to have the most appeal to purchasers as many will purchase to support a local good cause.
- 29. Consideration to be given to the risk that minimum annual ticket sales required to break even to cover the Council one off costs in year 1 and 2 and annual licence fees and marketing costs in year 2 onwards.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	
Finance and value for money:	<p>The costs and revenue streams associated with this proposal are detailed within the report.</p> <p>The key financial risk associated with this proposal is the achievement of tickets sales to generate sufficient income to offset the scheme</p>

	<p>costs. To mitigate this risk a £2,000 per annum marketing budget is proposed to be established which is key in promoting the scheme and maximising ticket sales.</p> <p>The Council's cost in year 1, including initial set up costs, of £8,850 is not forecast to be covered by the Council's 10% share of ticket sale income in year 1. There is a shortfall of £5,648 forecast. However this is forecast to be recovered within the second financial year of the scheme. The Council would therefore need to fund the £5,648 shortfall in year 1 until sufficient income was achieved to fund this shortfall in year two.</p>
Legal:	Gambling Commission Licence will need to be applied for to allow the Council to operate a lottery
Procurement	Any procurement considerations will be undertaken in line with the Council Procurement rules.
Human Resources:	
Property:	
Equalities: (impact assessment attached) Yes No N/A	
Risk Assessment:	
Crime & Disorder	Crime and Disorder Policy has been drafted to support the lottery implementation
Customer Considerations:	A suite of policy documents have been created to support the lottery implementation
Carbon reductions	
Wards:	

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

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