What have we got to lose? How society lotteries could do even more for good causes:

An analysis of the contribution of the sector and the potential impacts of regulatory change

February 2014
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Authorship and acknowledgements
This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The study was conducted by Scott Corfe, Cebr Managing Economist and Colin Edwards, Senior Economist. The views expressed herein are those of the authors only and are based upon independent research by them.

This study has been commissioned by the Lotteries Council and Institute of Fundraising and has utilised a combination of data obtained through a survey of 96 Society Lotteries conducted between December 2013 and January 2014, and data available in the public domain through the Gambling Commission.

The report does not necessarily reflect the views of the Lotteries Council or Institute of Fundraising. London, February 2014
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Foreword: The value of Society Lotteries

I have had the pleasure of serving as the Chairman of the Lotteries Council for the past seven years, and been working within the fundraising sector, specialising in prize-led activity for more than twenty years. This period has seen substantial changes to both regulations and market environment, not least of which being the launch of the National Lottery. Many Society Lottery operators saw this at the time as the end of the road, but in truth it proved to be a new beginning, changing public perceptions of lotteries to be an everyday recreational activity and, in so doing vastly broadening the market. Adapting to these changes and seizing the opportunities provided has not been easy, or swift to achieve, but we have collectively made it through all the same and I am hugely proud of what the Lotteries Council’s membership and the wider sector, as a whole, have been able to deliver, especially given the artificial and arbitrary constraints within which society lotteries operate.

All our members want to do is generate more income for good causes year on year. This is their ambition and ultimately their mission. In order to be able to do so, the Government needs to look at simple measures that cut red tape and better support society lotteries, rather than consider options that would induce stagnation and dramatic reductions in charitable income. We know this from years of practical experience, but thanks to the Cebr Economic Report into society lotteries, we now have the hard economic evidence to prove this.

“What have we got to lose?” clearly and concisely debunks the myths that hamper the development of society lotteries and provides a clear roadmap for progressive deregulation, which will deliver more for good causes. It offers a common sense overview of different regulatory scenarios and recommends straightforward changes that will do nothing other than better support good causes. This is an unprecedented opportunity, and is one we hope the Government will grab with both hands.

Clive Mollett
Chairman
The Lotteries Council
We at the Institute of Fundraising know that lotteries are good for fundraising. They create an important touch point with donors, offer charities a different way of engaging with supporters, and are an excellent way to develop brand awareness.

And in a challenging fundraising climate they are a great way to reach different audiences, often resulting in people becoming regular donors and supporters. Not-for-profit organisations that run society lotteries report that people who buy society lottery tickets often go on to take out direct debits and leave legacies and support in other ways. One charity found that 45% of people who left it a legacy were first recruited through its society lottery.

In 2011, the society lottery sector had plateaued at generating around £100 million in funding for good causes. The latest official figures are now running at £155 million for 2012 – 2013. What other sectors of the economy have seen that sort of growth recently?

Society lotteries are particularly good for ‘hard to fundraise’ causes because people are motivated by the prize as well as the cause. But running a lottery, while an innovative and often lucrative form of fundraising, can also be very costly, with more regulation associated with setting one up than in setting up a charity itself.

We know this from talking with our members, but thanks to the Cebr Economic Report into society lotteries, we can now refer to solid economic evidence to support our calls for more flexibility and less regulation in the charity lottery market.

Peter Lewis
Chief Executive
Institute of Fundraising
Executive Summary

This report presents Cebr’s analysis of the society lottery sector in the UK. The report examines the current contributions made by society lotteries and explores the potential impacts of regulatory change on this contribution.

The key findings of the report are as follows:

- **Society lotteries contributed £155 million to good causes in 2012/13** – A figure which has increased in every year since the financial crisis, over which time personal giving has faltered.

- **Tighter regulatory controls would threaten this contribution** – Currently society lotteries are required to donate 20% of their proceeds to good causes (the ‘20% rule’). Raising this to 28% is expected to reduce the contribution made to good causes by £35.3 million as many lotteries cease operating and others scale back. Furthermore, as a result of lower creation of new lotteries, future growth in proceeds to good causes is also likely to be reduced.

- **41% of lotteries want to see the ‘20% rule’ relaxed as a top priority** – this would encourage the creation of new smaller lotteries who find it relatively harder to meet this minimum requirement, but who could increase their contribution to good causes after establishing themselves in the market. Aggregating the 20% rule over three years for new smaller lotteries could achieve this.

- **A relaxation of individual prize, draw, and turnover limits could encourage growth** – 32% of society lotteries see this as their priority for deregulation. Increasing prize size, thus raising lottery demand, could boost overall proceeds without raising operating costs significantly, resulting in greater proceeds for good causes.

- **Expenditure caps could close 31% of society lotteries** – A limit on lotteries’ operational expenditure at 15% of total proceeds would also lead to the loss of £88.3 million in donations to good causes.

- **There is little evidence to suggest that the National Lottery would be significantly affected by partial deregulation of society lotteries**, with the overall impact likely to be an increase in total proceeds available for good causes – evidence following growth in society lotteries since 2009 suggests society lottery expansion can boost proceeds to good causes in both the society lottery sector and the National Lottery.
1 Introduction

Society lotteries offer valuable support to a wide array of good causes, channelling the proceeds earned from games of chance into charitable activities. In recent years, debate surrounding the regulations faced by the sector has increased, as the government looks to ensure that society lotteries are maximising the quantity of funds made available for good causes – a consideration which has risen in priority as both central and local government funding remains under pressure and other sources of charitable giving have suffered since the financial crisis.

This research, commissioned by the Lotteries Council and Institute of Fundraising, aims to contribute to this debate by exploring the contribution made by society lotteries in the UK. The report uses primary research as well as existing data from the Gambling Commission to examine the operational structure of society lotteries and investigate how changes in the regulatory environment are likely to influence this contribution.

The remainder of this report is structured as follows:

- Recent trends in the Charity Sector
- Current regulatory regime
- The current operation of society lotteries
- Potential impact of regulatory change
- Society lotteries and the National Lottery
2 Recent trends in the Charity Sector

The amount of money raised by society lotteries going to good causes has increased year-on-year since the financial crisis, according to Gambling Commission data shown in Figure 1 and Table 1 below. Some £155 million was raised for good causes in 2012/13, up from £94 million in 2008/09 – an increase of 65%.

Figure 1 - Society lottery proceeds going to good causes, £ millions (left hand side), and as a share of society lottery proceeds (right hand side)

<table>
<thead>
<tr>
<th>Year</th>
<th>£ value of proceeds going to good causes</th>
<th>Share of proceeds going to good causes</th>
<th>Minimum permitted share going to good causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>£94</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>2009/10</td>
<td>£101</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>2010/11</td>
<td>£103</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2011/12</td>
<td>£132</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>2012/13</td>
<td>£155</td>
<td>60%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Gambling Commission

Table 1 - total lottery proceeds, expenses and prizes (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prizes from proceeds</td>
<td>34.97</td>
<td>36.42</td>
<td>37.99</td>
<td>67.58</td>
<td>61.28</td>
</tr>
<tr>
<td>Expenses</td>
<td>49.54</td>
<td>57.98</td>
<td>66.41</td>
<td>101.29</td>
<td>130.10</td>
</tr>
<tr>
<td>Balance (to good causes)</td>
<td>94.15</td>
<td>100.57</td>
<td>103.46</td>
<td>132.11</td>
<td>154.95</td>
</tr>
<tr>
<td>Total proceeds</td>
<td>178.66</td>
<td>194.97</td>
<td>207.86</td>
<td>300.99</td>
<td>346.33</td>
</tr>
</tbody>
</table>

Source: Gambling Commission

This stands in contrast to trends for the charity sector as a whole. For example, figures released by PwC, Charity Finance Group and the Institute of Fundraising in 2013 showed that economic conditions

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1 The proceeds from a lottery are the total value of ticket sales before money is allocated to the purpose of the society or local authority or distributed to pay prizes and expenses.
continue to prove challenging to charities. More than 9 out of 10 fundraisers (93%) said that they were experiencing a squeeze on fundraising. ²

Meanwhile, public sector support for local initiatives is also under pressure. Measures announced in the Government’s most recent Autumn Statement show local authority budgets experiencing further deep cuts in the years ahead, as illustrated in Figure 2. As local government steps back from funding many good causes, the proceeds raised by society lotteries can be used to make up some of this shortfall.

Figure 2 – UK local authority budgeted expenditure, £ billions

![Figure 2](image)

Source: Office for Budget Responsibility, Economic and Fiscal Outlook, December 2013

Although the share of total society lottery proceeds going to good causes has fallen in recent years, from 52.7% in 2008/09 to 44.7% in 2012/13, the absolute £ value of proceeds going to good causes has risen strongly, and the overall sector share going to good causes remains well above the minimum permitted share for a society lottery – 20%.

Older lotteries typically provide a greater proportion of their proceeds to good causes than their younger counterparts, likely to reflect the costs faced by younger lotteries. For new entrants in the sector, there are likely to be significant set up costs involved in getting the society lottery off the ground. New entrants in particular need to invest in marketing to attract individuals to the lottery, for example. In addition, they may also need to offer higher prizes (as a share of proceeds) to increase initial demand for the lottery. Indeed, survey research presented in this report suggests that this is the case.

This relationship between lottery age, costs and prizes would account for the fall in the proportion of proceeds going to good causes, even as the value of funds to good causes increased. There was a sharp increase in the number of society lottery licences in the UK, from 542 in March 2009 to 742 in September 2013 – an increase of 36.9% - which acted to bring down the average age of society lotteries.

² PwC(March 2013)Managing in the “new normal” – adapting to uncertainty.
Figure 3 - Number of society lottery licences

Source: Gambling Commission
3 Current regulatory regime

There are a number of regulations placed on the society lottery sector, such as:

1. The “80:20 rule”
   A society lottery must apply a minimum of 20% of the gross proceeds of each lottery directly to good causes.

   Up to a maximum of 80% of the gross proceeds of each lottery may be divided between prizes and the expenses, including the reasonable fees of external lottery managers, of the lottery.

2. Caps on proceeds
   In a single large society lottery the maximum value of tickets that can be sold for one draw is £4 million. The maximum aggregate value of lottery tickets that can be sold in any calendar year is £10 million.

3. Caps on prizes
   Small society lotteries - the maximum prize in a single lottery draw is £25,000

   Large society lotteries - the maximum prize in a single lottery draw is £25,000 or 10% of the proceeds (gross ticket sales), whichever is greater. Therefore, a large society that sells the maximum number of tickets in a single large lottery (£4 million) could award a maximum top prize of £400,000. Rollovers are permitted provided the maximum single prize limit is not breached.

   There are additional regulations on the sector affecting ticket pricing, advertising, marketing, linkages between society lotteries and where tickets can be sold.¹

Some of these regulations place limits on the ability of the society lottery sector to expand and generate proceeds for good causes, as shown by the research in this report. The rationale behind some of these regulations has been to prevent society lotteries from undermining the National Lottery (by reducing National Lottery ticket sales), however evidence presented in Section 6 of this report suggests that the impact of society lotteries on the National Lottery is limited. Overall, the benefits from an increased quantity of proceeds going to good causes are likely to outweigh any negative impact upon the National Lottery.⁴

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¹ See, for example, the rules and regulations set out here: http://www.gamblingcommission.gov.uk/pdf/Promoting%20society%20and%20local%20authority%20lotteries%20-%20November%202009.pdf

⁴ See, for example, NERA Economic Consulting.(April 2012) Assessment of Lottery Market Issues.
4 The current operation of society lotteries

As of September 2013, there were 463 non-commercial society lottery operators (holding 742 lottery licenses), which together generated £346m in proceeds in the 2012/13 financial year, raising £155m for good causes in the process. The distribution of lottery proceeds across the sector is illustrated in Figure 4.

On average, society lotteries donated 45% of their total proceeds to good causes in 2012/13, far surpassing the statutory minimum requirement (described in Section 3). Operating expenses accounted for 38% of total proceeds, while 18% of proceeds were paid out in prizes.

![Figure 4 - Distribution of society lottery proceeds by lottery type, percentage of total proceeds](image)

Source: Gambling Commission industry statistics. Data relate to 2012/13 financial year

Both the age of the lottery and the size of overall proceeds have an impact on the cost structure of the lottery and the amount of money it pays out in prizes and distributes to good causes. The relationship between the age of the lottery and the distribution of its total proceeds is demonstrated in Figure 5.

As a lottery becomes more established in the market, its operational costs tend to fall as a proportion of overall expenditure. A lottery in existence for less than one year would be expected to have operational expenditures of around 35% of total proceeds based on our survey analysis. This rises to 44% between one and three years, before falling back steadily to 28% for lotteries of over 10 years. This pattern is likely to reflect the additional costs that many lotteries face during their set up period. Over the initial set up period, the lottery must raise its profile, build up a following of players and establish an efficient system of working, a process which will involve many ‘sunk’ costs that are necessary to establish a position within the market.
The relationship between the size of society lotteries and the distribution of their proceeds is slightly more complex. Amongst the society lotteries we surveyed, operating expenses appear to rise with the overall size of the society lottery, as measured by total proceeds, reaching 44% of proceeds for lotteries with total proceeds between £2m and £5m. This then falls back to 34% for lotteries with proceeds over £5m.

As lotteries increase in size, there should be greater scope for efficiency savings which should act to bring down relative costs, though regulation hinders this. The National Lottery in the UK, for example, had operational expenditures equivalent to 9% of total proceeds5 - although this is relative to ticket sales of approximately £7.0bn.6 Regulatory factors influence the development of society lotteries’ cost structures; as lotteries expand they come closer to regulatory limits, such as those relating to prize size. Such regulations are likely to hinder lotteries’ abilities to run as efficiently as possible acting, as a barrier to growth in the sector and limiting the quantity and proportion of proceeds going to good causes.

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5Sourced from: http://www.national-lottery.co.uk/ - given as the sum of operating expenses (4%) and retailers’ commissions (5%).
5 Potential impact of regulatory change

To ascertain the impact of changes in the current regulatory environment on society lotteries, this section of the report considers two categories of changes to the current regulatory framework; one category contains measures which would increase the regulatory burden on society lotteries and the other category contains measures which partially deregulate the sector. These are discussed in terms of their likely impact on the number of society lotteries operating in the sector, the cost structure of society lotteries and, ultimately, the total proceeds which are distributed to good causes.

5.1 Measures which increase the regulatory burden on society lotteries

The regulatory measures discussed within this subsection are motivated by government’s decision, in December 2012, to announce a consultation into the case for changing the regulatory requirements faced by charity lotteries. In particular, the consultation is to focus on the proportion of proceeds that charity lotteries are required to donate to good causes, however, other methods of maximising the benefits to good causes could also be explored.

Potential regulatory measures which could be considered are:

i) A cap on operational expenditures at 15% of total proceeds

ii) An increase in the minimum level of proceeds going to good causes from the current 20% level to;
   (a) 23%
   (b) 25%
   (c) 28%

Limit on operational expenditures at 15% of total proceeds

This measure, which would aim to increase the efficiency of society lotteries, would have an immediate impact upon the 83% of society lotteries estimated to have operational expenditures exceeding this limit. As highlighted previously within Section 4, the total operational costs of society lotteries currently fall substantially above this threshold, at around 38% of total society lottery proceeds. It would therefore seem reasonable to conclude that a significant proportion of society lotteries would encounter difficulties in meeting this requirement. Indeed, of those lotteries we surveyed, 31% indicated that they would cease trading if faced with such a regulation.\(^7\)

The coping strategies pursued by those society lotteries which continue will undoubtedly impact upon the effectiveness with which they raise funds and generate proceeds for good causes. These strategies therefore warrant some attention. As shown in Figure 7, the most common way in which society lotteries would expect to respond is to reduce expenditure on promoting their lottery, suggested by 61% of

\(^7\) It is worth noting that this was not a predetermined option within the survey. Respondents entered this response into an ‘other’ comments box. It could be expected that, had ‘cease trading’ been a selectable option, an even higher proportion may have responded in this manner.
lotteries. Over half of lotteries would look to cut staff costs, while 39% would attempt to reduce distribution costs.

The heavy reliance on cutting promotional costs and staff costs to make savings is likely to have implications for the demand for any given lottery; less promotional material and fewer people engaged in promotion implies less public awareness and therefore lower numbers of lottery players. Any such reduction in demand would, under an operational expenditure cap, require further reductions in costs, which may further reduce demand, thus creating a cycle of declining society lottery activity for those lotteries that have to cut back to meet such a regulation.

![Figure 7 - Society lottery response to 15% operational expenditure cap, percentage of lottery respondents](image)

Source: Survey of Society lotteries – weighted survey data

A limit on operational costs would affect new and more established lotteries differently. As highlighted in Section 4, newer entrants face relatively higher operational costs than their older counterparts. For example, a society lottery which has been in operation for between one and two years has operational expenditures around 44% of total proceeds, compared to 28% for a lottery of over 10 years.

There are many reasons why this may be the case. A new lottery faces more ‘sunk’ costs as it looks to generate awareness, refine internal processes and realise the longevity which can ultimately reduce the relative costs of operating. Any cap on operational costs applied across the society lotteries sector would therefore favour more established lotteries over new entrants. This would create an artificial barrier to entry to the sector, ultimately curtailing society lottery growth and potentially reducing the future funds available for donation to good causes.

Overall, the likely impact of a cap on operational expenditure to no more than 15% of total society lottery proceeds will be to make almost a third of society lotteries completely unviable. Meanwhile, remaining society lotteries will be forced to cut operational expenditures almost in half.
The likely outcome resulting from this policy is illustrated in Figure 8, below. Compared to the 2012/13 financial year, total prizes would fall from £61.3m to £7.2m, operating expenses from £130.1m to £11.6m and proceeds to good causes from £155.0m to £66.7m.

After the loss of almost 31% of society lotteries, those lotteries that remain in the sector are forced to substantially reduce their operating costs. As a result of cutting back many lotteries would no longer be able to sustain total proceeds of the same size. The reliance on cutting back on promotional activities to adjust to tighter regulation, as identified in Figure 7, suggests that many society lotteries may find that lottery demand suffers as a result. This would, in turn, place downward pressure on total proceeds, further compounding the need to make cost savings in order to meet the 15% limit. As a result, the overall proceeds of the remaining society lotteries contract to a sustainable level of proceeds given the new 15% operational expenditure constraint.

Increasing prizes may allow some lotteries to compensate for having a reduced public profile. But with such a significantly reduced cost base, society lotteries may not be able to support the same level of proceeds generation and could therefore be forced to scale down their operations, resulting in a lower level of proceeds across the sector. Some society lotteries may be unable to afford to effectively market their lotteries once a 15% operating expenditure cap is implemented.

*Figure 8 - Society lottery proceeds before and after a 15% operating expenditure cap, £ millions*

![Figure 8](chart.png)

*Source: Survey of Society lotteries and Gambling Commission industry statistics, Cebr analysis*

*Before figures relate to the financial data reported for 2012/13*
Increase in minimum level of proceeds going to good causes

At present, 20% of all society lotteries’ proceeds must go to good causes. While increases in this minimum requirement would necessarily increase the proportion of lottery funds going to good causes, the effect on the quantity of funds channelled into good causes is likely to be somewhat negative, since changes in the threshold are likely to impact on both the number of society lotteries in operation and the scale on which society lotteries operate. Analysis presented earlier in this report, in Figure 1, clearly shows that the society lotteries sector has substantially increased the quantity of funds going to good causes, even though the share of proceeds going to good causes has declined in recent years.

Here we consider the effects of an increase in the 20% minimum requirement to 23%, 25% and 28%.

Our analysis suggests that increasing the minimum requirement from its current 20% level will result in a reduction in the total quantity of funds donated to good causes through the society lotteries sector. This result is driven to a large extent by the survey responses of Health lotteries, which indicate that, following an increase in the requisite minimum contribution to good causes to 23% of total proceeds, they would cease to operate within the sector.

For other society lotteries there is a more varied response, as highlighted in Figure 9. Following an increase in the minimum requirement from 20% to 23%, 100% of non-Health/Postcode lotteries surveyed would continue to operate in the sector. This falls to 92% following an increase to 25% and to 84% following an increase to 28%.

*Figure 9 – Percentage of non-health/postcode society lotteries remaining after increases in 20% threshold*

The effect of increasing the 20% minimum requirement extends beyond a reduction in the number of society lotteries in operation. As a result of such an increase, many society lotteries would look to reduce the prizes they offer to lottery players, with consequential impacts on the likely demand for lotteries. Society lotteries themselves acknowledge that prizes can be a significant factor in determining demand from players. As highlighted in Figure 10 below, 44% of society lotteries estimate that prize size has either a slight or significant impact on demand.
Such a relationship would suggest that any increase in the proportion of proceeds going to good causes which results from a decrease in the size of prizes on offer could lead to reduced lottery demand, in turn reducing the overall quantity of proceeds. Consequently, the quantity of proceeds going to good causes could decline.

**Figure 10 - Impact of prize size on lottery demand, percentage of respondents**

Taking the above factors into consideration, Figure 11 illustrates the expected impact of the changes in the 20% minimum requirement on proceeds going to good causes, with society lotteries’ £155.0m contribution to good causes in 2012/13 as a starting point. The largest effect occurs moving between the 20% and 23% requirements, when the £15.4m provided to good causes through Health lotteries falls out of the figures as these lotteries cease to operate in the sector.

At 25%, approximately 8% of non-Health/Postcode lotteries cease operating in the sector, contributing to a further £10.2m reduction in funds to good causes. At the 28% level, 16% of non-Health/Postcode lotteries become unviable, and estimated funds distributed to good causes fall to £119.7m, representing a total fall of £35.3m compared to the contribution to good causes at the 20% level.

In addition to these single year impacts, the future evolution of funds going to good causes would also be impacted by the changes in regulation. Analysis of lottery cost structures by age, highlighted previously in Section 4 showed that younger lotteries face a relatively greater challenge in meeting the current 20% rule. This suggests that increasing the requirement would deter the creation of new society lotteries, reducing growth in the sector and, therefore, future levels of proceeds available for good causes.
Figure 11 - Total proceeds going to good causes under threshold scenarios, £ million

Source: Survey of Society lotteries and Gambling Commission industry statistics, Cebr analysis
5.2 Partial deregulation of the society lottery sector

Beyond the more cumbersome regulatory measures assessed above, there are other changes to existing regulations that could enable society lotteries to reduce costs, increase efficiency and ultimately raise larger funds for good causes. For example, policymakers could review:

i) The cap on charity lottery prizes - £25,000 in the case of a small charity lottery, and £25,000 or 10 percent of the proceeds of a single draw, whichever is greater, for larger charity lotteries.

ii) The £10m annual cap on charity lottery revenues and £4m cap on individual lottery draws.

iii) The ‘20% rule’ on the balance of proceeds going to good causes for new society lotteries.

To provide an indication of the relative benefits resulting from the relaxation of each of these regulations, we asked society lotteries to rank them according to which they would most like to see relaxed or removed. The results, highlighted in Figure 12, below, would suggest that lotteries perceive the 20% rule as the most binding constraint they face, with 41% of lotteries making relaxing this regulation their number one priority. This compares to 32% who would prioritise relaxing the cap on prizes and 11% prioritising the £10m revenue cap and £4m cap on individual draws.

A significant number of lotteries responding to the survey also commented that relaxation of each of the three regulatory requirements would be just as important as each other. It would therefore be reasonable to expect that the relaxation of any of these requirements would stand to benefit a sizeable proportion of lotteries within the sector. Nevertheless, relaxation of each regulation would be expected to impact the sector in different ways. This is also clear when looking at the most preferred regulation to be relaxed/removed by size of society lottery proceeds, as illustrated in Figure 12. Larger lotteries are much more focussed on relaxing the constraints on revenues and prizes and giving more to good causes, while smaller lotteries clearly have a much stronger preference for relaxing the 20% rule.

Figure 12 - Most preferred regulation to be relaxed/removed, percentage of respondents ranking 1st

Source: Survey of Society lotteries – weighted survey data
A relaxation of the cap on charity lotteries prizes from its current level could conceivably allow society lotteries to increase in size at relatively low cost. The responsiveness of lottery demand to prize size for many lotteries, as highlighted previously in Figure 10, would suggest that an increase in prize size would be matched by an increase in lottery demand of at least the same proportions. Provided that increasing prizes does not cause administrative costs to rise to the same degree, this would suggest that the overall effect would be to increase the funds available for donation to good causes.

Analysis of society lotteries’ operational expenditures and prize sizes confirms that, on average, prize sizes do not share a strong correlation with operational expenditures, as illustrated in Figure 14. Overall, there is no evidence to suggest operational expenses would increase with prizes for most types of lottery. When combining this result with the fact that lottery demand is expected to be responsive to increasing prize sizes, an increase in the cap on society lottery prizes would therefore be expected to result in a greater quantity of funds available for good causes.
Similarly, a relaxation of the £4m cap on individual lottery draws is likely to result in an increase in proceeds over and above any rise in operational costs, ultimately boosting both the proportion and quantity of proceeds available for good causes. The effects of an increase in the revenue cap are, however, somewhat different. Allowing society lotteries to expand beyond their current £10m total proceeds limit would potentially allow society lotteries to benefit from improved economies of scale, reducing the proportion of proceeds used to cover operating expenditures.

A relaxation of the 20% rule is likely to impact the sector somewhat differently. As our analysis under Section 4 showed, newer lotteries operate much closer to the lower limit of this threshold, with lotteries under five years old typically providing 22% of their proceeds to good causes. This would indicate that meeting the 20% rule is relatively more difficult for younger lotteries.

A relaxation of the 20% requirement, particularly for new society lotteries under three years, for example, could therefore be expected to boost the creation of additional society lotteries, which given time will be more capable of raising their contributions to good causes over the 20% requirement. Therefore while in the short term relaxing the 20% requirement for new lotteries may reduce the proportion (though not the quantity) of proceeds distributed to good causes, the long term effect is likely to be to raise the funds available for good causes.
6 Society lotteries and the National Lottery

The preceding analysis in this report suggests that potential deregulatory measures could help the society lottery sector to expand further, and continue to generate growth in the amount of money going to good causes. Conversely, punitive measures to tighten existing regulation or introduce new measures, such as a cap on operating costs, could make some lotteries unviable and lead to a reduction in the amount of money going to good causes. Overall, the preceding analysis supports the case for deregulation of the sector.

Concern has been expressed in the past that deregulation in the society lottery sector could undermine the National Lottery and lead to a reduction in the amount of money going to good causes through the National Lottery. Overall, there is little evidence to support the notion that society lotteries undermine the National Lottery. For example, a 2012 report by NERA Economic Consulting, commissioned by the Department of Culture, Media and Sport and the Gambling Commission, did not find evidence to support an impact of the Health Lottery on the National Lottery:

“We have not found evidence of a significant reduction in National Lottery sales as a result of the launch of the Health Lottery.

“A plausible range for the impact on National Lottery sales is between £40,000 and £305,000 per week. We cannot definitely rule out a more substantial impact, which might have been hidden by the volatility of sales for some games, the substantially large size of Lotto and Euromillions sales, or reasons that National Lottery sales would have been expected to increase. However, even if the actual impact were significantly larger, it is still likely that the launch of the Health Lottery has increased the total amount of money generated by lotteries for good causes.”

“Even under Camelot’s estimate of a decrease in sales of £1 million per week, the reduction in returns to National Lottery good causes during the last three months of 2011 would have be less than half of the £8 million that the Health Lottery raised for its charities.”


An overview of academic literature across a range of countries, included in the NERA report, shows that the extent to which lotteries compete with each other depends on a range of factors such as product differentiation. In addition, 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. Other effects, such as improved cost effectiveness and greater drive towards professionalisation may also arise from the introduction of new entrants into the market. The launch of the Health Lottery in 2011 may have acted as a catalyst for the professionalisation and expansion of the society lottery sector which has been seen in recent years. As Figure 1 of this report shows, there was a 50.5% expansion in the quantity of proceeds going to good causes between 2010/11 and 2012/13.
The recent financial performance of the lotteries sector would also support the case for greater society lottery activity having little impact upon the National Lottery. Over the period 2009 – 2012 society lotteries’ proceeds to good causes increased from £100m to £152m in 2012. At the same time, proceeds to good causes donated by the National Lottery increased from £1.6bn to £1.95bn, resulting in an increase in the funds going to good causes from the lotteries sector taken as a whole.

Figure 15 - Proceeds to good causes, £m and National Lottery percentage of total

Source: Gambling commission and National Lottery annual reports
7 Conclusions

This report highlights the important role that society lotteries play in raising funds for charitable causes. As a growing source of support at a time when economic circumstances place other revenue streams under pressure, the UK’s society lotteries are a welcome source of financial respite within the charity sector.

The preceding analysis indicates that some deregulation of the society lotteries sector is likely to be beneficial in supporting the charitable contributions made through society lotteries. In particular, relaxing the ‘20% rule’ for new smaller society lotteries could encourage creation of more societies, allowing them to gain a foothold in the market before raising their contribution as they mature – a pattern already reflected by the increasing proportion of proceeds going to good causes of existing older lotteries.

As evidenced by the last relaxation of caps on prizes, draws and overall revenue size in 2009, a further deregulation in this area could help society lotteries to operate more efficiently as they increase the scale of their operations. At present it is likely that regulatory limits, which larger lotteries operate relatively closer to, reduce the proportion and quantity of proceeds going to good causes to a lower level than would otherwise be the case. Increasing prize size in particular has the potential to be an effective method for achieving growth in the sector, as many lotteries experience a positive relationship between the prizes on offer and the demand for an individual lottery.

If regulations were to be relaxed, the potential increase in society lottery-donated funds to good causes would, in all likelihood, complement rather than detract from those provided by the National Lottery, as has been shown to be the case following the introduction of the Health Lottery. On the other hand, moves to increase the regulatory burden facing society lotteries are likely to reduce both the number of society lotteries in operation and negatively impact upon the quantity of funds distributed to good causes.
8 Methodological appendix

Survey data
To inform our analysis, Cebr worked with the Lotteries Council to develop an online survey to gain insights into the variation in society lotteries operational structures, their ability to cope with regulatory changes and their views on the current regulatory environment.

In total 325 society lotteries were invited to complete the survey between December 2013 and January 2014. In total 96 individual society lotteries responded.

Weighting the survey data
Much of the analysis conducted throughout this report uses survey data collected from 96 society lotteries in the UK. Since this data is only a snapshot of the 463 society lotteries operating in the UK, this raw data was weighted to more accurately reflect the actual composition of society lotteries and present a more accurate picture at the aggregate sector level. Table 2 below illustrates the composition of the sample compared to the sector.

Table 2 - Sample and population weighting

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight in sample</th>
<th>Actual weight in sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Lotteries</td>
<td>54%</td>
<td>11%</td>
</tr>
<tr>
<td>Postcode Lotteries</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>39%</td>
<td>87%</td>
</tr>
</tbody>
</table>

In charts and tables where the survey data have been reweighted to reflect the composition of the sector this has been highlighted under the relevant chart. In some instances weighting the survey responses was judged inappropriate and so raw survey data are displayed, again this has been highlighted where appropriate.

Estimating the impacts of regulatory change
To estimate the impacts of changes to the regulatory framework, we used the weighted responses from the survey, applied to the sector level data available from the Gambling Commission to develop aggregate impacts. These consisted of three rounds of effects:

- First order – the effect on the number of society lotteries in operation, taken directly from weighted survey responses.
- Second order – the effects on the composition of society lottery proceeds based on the adjustments required to meet new regulations.
- Third order – consequences, such as changing lottery demand and reduced marketing spend, resulting from any required changes in composition in light of new regulation. These were calculated based on the statistical relationships between lottery demand and prize size and operating expenditure and total proceeds.
9 Bibliography

PwC (March 2013) *Managing in the “new normal” – adapting to uncertainty.*


Office for Budget Responsibility. (December 2013) *Economic and Fiscal Outlook.*


