

chapter ten

Lotteries

- 10.1 A lottery is a distribution of prizes by chance. A player makes a payment or consideration in return for the chance of winning a prize. There are a number of different styles of lottery but three are most common. In the first, a player chooses his or her own numbers from a selected range. In the case of the current National Lottery, a player chooses six numbers out of a possible forty-nine. The lottery operator then draws the numbers at a selected date and time to determine the winners. In the second, a player purchases a numbered ticket, with or without a counterfoil. Again, the operator then conducts a draw of counterfoils or numbers, or 'raffle', to determine the winner or winners. The third type of lottery is an instant lottery in which a player buys a ticket and scratches off the cover or removes the seal. The revealed numbers or logos show instantly whether the ticket is a winning ticket.
- 10.2 The National Lottery operate both draws and other products. Where a distinction between the draws and other products has been made in representations to us or in the information we have used, we have reflected that difference.

Types of lottery

- 10.3 Five types of public lottery are legal in Great Britain:
- small, or one-off lotteries;
 - private lotteries;
 - societies' lotteries;
 - local authority lotteries; and
 - the National Lottery.
- 10.4 Small lotteries at one-off events, with prizes up to the value of £250, do not need to register with any statutory body. These would include, for example, raffles at events such as sports days and fetes. Private lotteries are not-for-profit lotteries, which may be run by an employer or society. Again there is no need for registration with any statutory body. Only societies which wish to run public lotteries with proceeds in a single lottery over £20,000 or cumulative annual proceeds of more than £250,000 need to register with the Gaming Board who publish their statistics annually. Societies intending to operate public lotteries with proceeds under £20,000 register instead with the local authority. These are to be distinguished from the local authority lotteries, which are run by and for local authorities, and are required to register with the Gaming Board. The National Lottery has been licensed

and regulated by the National Lottery Commission since 1 April 1999 and prior to that was regulated by OFLOT, the Office of the National Lottery. The National Lottery is the only type of lottery that is taxed.

Free lotteries

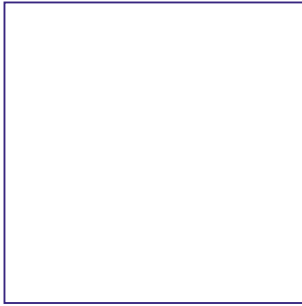
- 10.5 Lotteries where no payment, or "consideration", is made are also lawful and are subject to no regulatory conditions or controls. They are commonly used as a sales promotion or marketing device. We received evidence from websites offering free lotteries and promotions run by newspapers. As there is no legal requirement to register promotional or free lotteries, there are no data available on the numbers that are operated. Most consumers will be familiar with the common type of promotional lottery – 'no purchase necessary' – used by businesses to attract custom. However, merely offering a "no purchase necessary" option is not sufficient to make a lottery free if nobody uses it.

Premium phone line lotteries

- 10.6 There have also been cases of lotteries using premium phone lines as a method of entry. The legal status of many of these is questionable. There is anecdotal evidence about them but no comprehensive data.

Punters

- 10.7 Figures from the Prevalence Survey show that 68% of men and 62% of women surveyed had bought a National Lottery ticket in the past year. The latest survey by the National Lottery Commission shows that 82% of households had played in the National Lottery draw at some time since its launch in 1994. Data on those respondents who had played in the week before the interview showed that 71% had played in one or other of the midweek or Saturday draws and 41% had played in both.¹ The National Lottery report also found that 6% of respondents had played one of their instant lottery scratchcards in the seven days prior to interview. In comparison, the Prevalence Survey reported that 22% of both men and women had bought a scratchcard in the previous year, and 9% of men and 8% of women participated in other lotteries.²



- 10.8** A person must be over 16 to buy a chance in a lottery lawfully. According to the Prevalence Survey, the lowest levels of participation in the National Lottery Draw were found among the oldest (75+) and youngest (16-24) respondents (45% and 52% respectively). The youngest age group was the most likely to purchase scratchcards (36%).³ The highest level of participation in the National Lottery Draw was 72% and was found among respondents aged 35-54.⁴ The highest level of participation in lotteries other than the National Lottery was 9% and was found among 25-34 year olds and those aged between 45 and 64.⁵
- 10.9** Social class I scored the lowest level of participation for all types of lottery surveyed by the Prevalence Survey. It also had the lowest level of participation in the National Lottery at 56%. The highest level of participation was in social class IIIM. For other lotteries, participation levels average 8% but vary between 4 and 10%. The social class of those that had played scratchcards within the last year also shows a similar pattern: classes IIIM, IV and IIINM scored 24%.

Average spend

- 10.10** Figures produced by the National Lottery Commission suggest that the average household expenditure on the Saturday and Wednesday National Lottery draws was £5.37 among households that had played both draws in the last 7 days (past week players). Nine out of ten households spent £10 or less.⁶
- 10.11** The Prevalence Survey calculated the mean stake for those respondents who had played a lottery in the last seven days. The average stake was £2.80 on the National Lottery draw and £3 for any other lottery. It found that 89% of past week gamblers had spent £5 or less on both the National Lottery draw and all other lotteries. Only 2% of past week players had spent more than £10 on the National Lottery draw and all other lotteries. The Prevalence Survey also found that the mean past week stake was higher among men than women; £3.10 and £3.30 by men on the National Lottery draw and other lotteries respectively, and £2.50 and £2.70 by women.⁷

Type of activity	Age, %							Total
	16-24	25-34	35-44	45-54	55-64	65-74	75+	
National Lottery draw	52	71	72	72	69	61	45	65
Another lottery	8	9	8	9	9	8	6	8
Scratchcards	36	32	23	17	16	11	6	22
Any gambling activity in past year	66	78	77	78	74	66	52	72

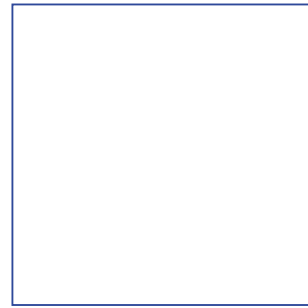
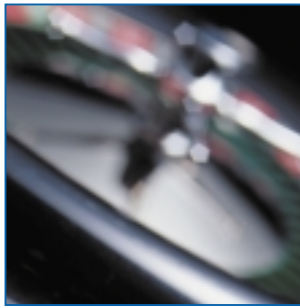
Figure 10.i: Participation in lotteries in the past year, by age

Type of activity	Social class %						Total
	I	II	IIINM	IIIM	IV	V	
National Lottery Draw	56	64	66	69	68	64	65
Another lottery	4	7	9	10	10	8	8
Scratchcards	17	20	24	24	24	19	22

Figure 10.ii: Lottery participation, by social class

Source: Sproston, Erens & Orford (2000)

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- 10.12** According to the National Lottery Commission, the highest income households (over £25,000 pa), spent the most and the lowest income households (under £4,500 pa) spent the least on the National Lottery. Those in the lowest income bracket, spent £3.68 on average on the two weekly draws which is compared with £5.97 spent by those in the highest income bracket.⁸
- 10.13** The National Lottery Commission reported that the average expenditure by people who had played their instant lottery game in the last 7 days was £2.64. 92% had spent £5 or less.⁹

The Industry

Trade Association

- 10.14** The Lotteries Council is the main representative body for lotteries other than the National Lottery. It is a not-for-profit association which represents, regulates and instructs its member organisations. Membership is open to any person or organisation engaged in activities connected with the promotion of lawful lotteries.¹⁰ The Council told us that it currently has 137 members.

Small lotteries

- 10.15** Small lotteries are lawful provided they are incidental – not the main attraction – to an entertainment. Small lotteries, possibly more commonly known as ‘raffles’ or tombolas, are frequently found at school fetes, bazaars, dinners, dances or sporting events. The promoter can spend up to £250 on prizes and tickets must only be available at the event. There is no registration requirement so no information is available on the numbers operated. We did not receive any evidence questioning the validity of such arrangements.

Private lotteries

- 10.16** Private lotteries are currently legal as long as they are run by and for the promoter. They are confined either to society members, or to people who work or reside at the same premises. There are no limits on stakes, but every chance must cost the same, and there are no limits on prizes. There is no allowance for expenses other than printing and stationery costs, so all the proceeds, after expenses, could be spent on prizes. Again there is no legal requirement to register so no data are available on the numbers being operated.

Societies’ lotteries

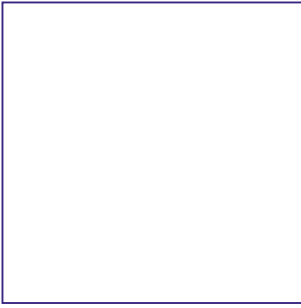
- 10.17** The operators of societies’ lotteries tend to be registered charities or sports clubs, particularly football clubs. Organisations can run the lotteries themselves or employ external lottery managers, who are registered with the Gaming Board. There are six companies and one individual registered with the Gaming Board as external lottery managers, together with 644 societies.¹¹ According to the Lotteries Council, the funding of an important number of good causes is crucially dependent on the ability of society lotteries to compete effectively in the market place.¹² Income from such lotteries may form virtually all, or only part, of a society’s income.

- 10.18** Societies which wish to run lotteries with proceeds in a single lottery of over £20,000, or cumulative annual proceeds of more than £250,000, must first be registered with the Gaming Board. There was a change in the arrangements for society lotteries at the time of the introduction of the National Lottery. This caused a discontinuity in the figures, particularly for numbers of lotteries. Looking only at the latter half of the decade, there is an upward trend. A peak in registrations in 1999-00 was largely due to the returns of the rapid draw Pronto games, which were later withdrawn from the market. In 1999-00, 4,321 lotteries were registered with the Gaming Board. This is a reduction on the previous two years but still a 75% increase on the number registered in 1996-97. Figures 10.iii and 10.iv show the numbers and turnover of societies’ lotteries.

- 10.19** Societies intending to operate lotteries with proceeds under £20,000 must register with the local authority. However, the hundreds of local authorities receiving the registrations are not required to maintain statistics, making it virtually impossible to obtain reliable information on the number of small society lotteries being operated.¹³

Societies’ Lotteries Turnover

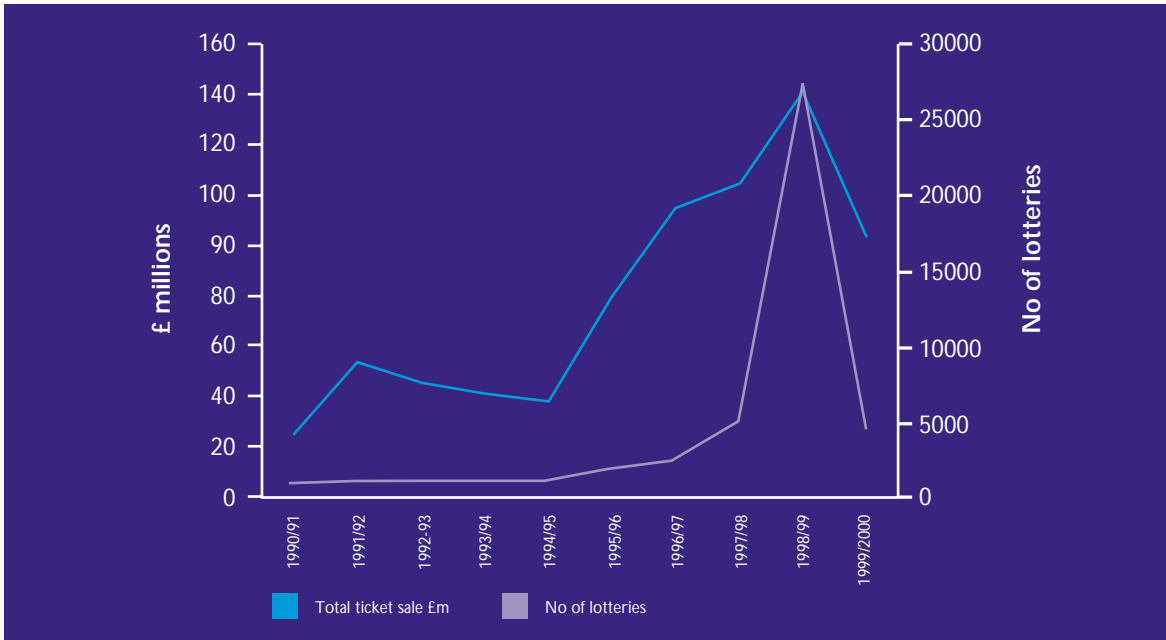
- 10.20** The turnover of the Gaming Board registered societies’ lotteries follows a very similar pattern to the overall numbers being operated. The amount taken by societies’ lotteries doubled from £24.4m in 1990-91 to £53.7m in 1991-92. After a fall, they doubled again to £78m in 1995-96 and continued to increase to £160m in 1998-99 but fell by more than a third in 1999-00 to £103.5m. DCMS report that in 1999-00, for every £1 spent on the National Lottery draw, only 2 pence was spent on societies’ lotteries.¹⁴



		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Societies' Lotteries	Total ticket sales £m	24.4	53.77	45.34	41.62	38.01	78.96	115.08	124.66	160.99	103.5
	No of lotteries	806	1049	1061	1086	1084	1862	2443	5070	27,334	4321
Local Authority Lotteries	Total ticket sales £m	2	2.11	1.14	1.33	0.73	0.6	0.26	0.21	0.11	0.08
	No of lotteries	148	149	106	85	60	47	18	11	8	4
TOTAL	Ticket sales £m	26.4	55.88	46.75	42.95	38.74	79.56	115.34	124.87	161.11	103.58
	No of lotteries	954	1198	1167	1171	1144	1909	2461	5081	27,342	4325

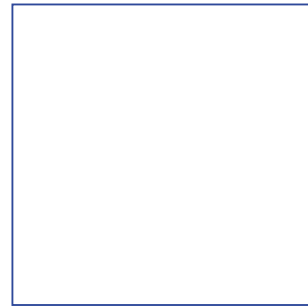
Source: Gaming Board for Great Britain

Figure 10.iii: Societies' & Local Authority lotteries



Source: Gaming Board for Great Britain

Figure 10.iv: Societies' lotteries



Local Authority lotteries

10.21 Over the last decade, the number of local authority lotteries has shown a consistent downward trend. Two local authorities were registered to operate schemes in 1999-2000. The Gaming Board reports that the total number of local authority lotteries fell from 148 in 1990 to four in 1999-2000. Trends in turnover have followed a similar pattern to that of local authority lottery numbers. In the decade between 1990 and 2000, proceeds dropped from £2m to £80,000. The period between 1990-91 and 1991-92 was the only year that saw an increase when turnover rose from £2m to £2.11m. Figures 10.iii and 10.v show the numbers and turnover of local authority lotteries.

The National Lottery

Industry structure and size

- 10.22** In 1978, the Rothschild Commission recommended "a single national lottery for good causes". The National Lottery was finally established in 1993 following a private members' bill in 1992 and a government White Paper – A National Lottery: Raising Money for Good Causes.¹⁵ The first draw was held on 19 November 1994.
- 10.23** The current operator of the National Lottery in the United Kingdom is Camelot plc, who have run it since it started. Camelot currently run two types of lottery: on-line lottery draws in which the player can choose his own numbers and can win in a variety of ways, and Instants, an instant lottery in which a player rubs off a seal to reveal if he has won a prize.

10.24 Draws are held twice a week, on Saturday and Wednesday (the first midweek draw was on 5 February 1997). The cost of entry has been £1 since the launch. A player chooses 6 out of a possible 49 numbers, or plays a 'lucky dip' when the computer randomly selects 6 numbers. A player wins when he or she matches between 3 and 6 numbers. A 'rollover' occurs if no-one matches all six numbers; the jackpot will rollover to the prize pool for the following draw. Superdraws have to be approved by the National Lottery Commission but are guaranteed minimum jackpots. The National Lottery now includes other games such as Thunderball, a third type of draw played on Saturdays with a maximum prize of £250,000, and Lottery Extra, which is only open to those playing the National Lottery game.

10.25 The National Lottery instant scratchcards, *Instants*, were launched on 21 March 1995. It is described by Camelot as "the UK's leading impulse brand".¹⁶ New games are launched regularly and offer different levels of prizes, prize structures, game designs and odds of winning. The odds of winning are normally around 1 in 5. They now represent around 96% of the scratchcard market.¹⁷

10.26 The latest figures available from Camelot state that there are 24,600 National Lottery retailers and 10,800 Instants only retailers.¹⁸ The retailers are a mix of large and small outlets but include a variety of shops, newsagents, supermarkets and garage forecourts. About two thirds of the retailers are independents and one third are multiples. Choosing the retailers is a matter of commercial judgement for the operator who has the discretion to decide how to meet local patterns of demand.¹⁹

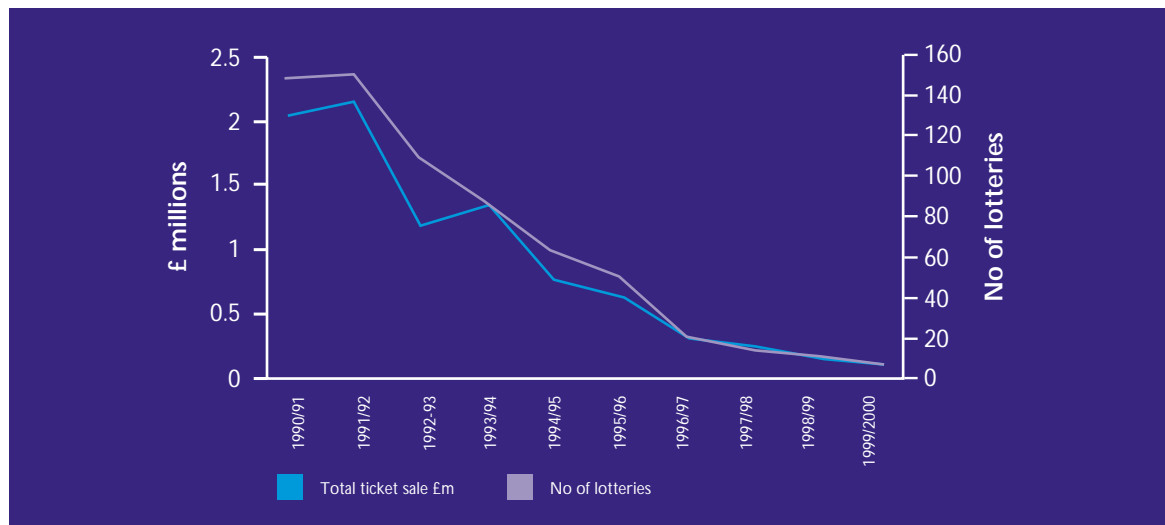
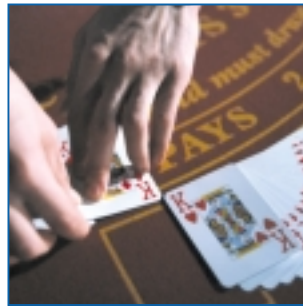
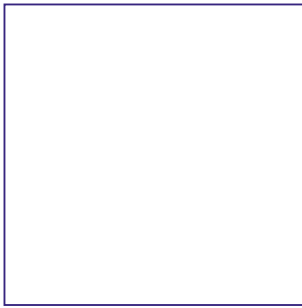


Figure 10.v: Local Authority lotteries

Source: Gaming Board for Great Britain



National Lottery Turnover

- 10.27** Between the first draw in November 1994, and the following April, the National Lottery took £1,157m. Proceeds increased for the next three years, to a peak of £4,713m in 1997-98. The greatest percentage increase was in 1996-97, the launch year of the Wednesday draw, when turnover increased by 22.5%. Turnover has fallen slightly since then.²⁰
- 10.28** Turnover on National Lottery instant scratchcards peaked the year after their launch in 1995/96 at £1,523m but has since declined every year. The steepest loss occurred in 1996/97 when proceeds fell

by 42% to £877m.²¹ Figures 10.vi & 10.vii show the National Lottery data.

- 10.29** Retailers selling National Lottery tickets receive commission linked to sales. Retailers receive 5% of ticket sales plus 1% commission on prizes paid out above £10 and below £200. The average annual commission for an on-line independent retailer is £8,187.²² The total amount paid out in commission peaked in 1997-98 when retailers received £282m. Since the launch, retailers have received £1,373m in commission.²³ According to Camelot, 94% of the population live or work within a couple of miles of a lottery outlet.²⁴

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
On-line Draw £m	1,157	3,694	3,847	4,713	4,536	4,532
Year on year % change			4.1	22.5	-3.8	-0.1
Instants £m	34	1,523	877	801	669	562
Year on year % change			-42.4	-8.7	-16.5	-16.0

Source: National Lottery Commission

Figure 10.vi: National Lottery Sales figures

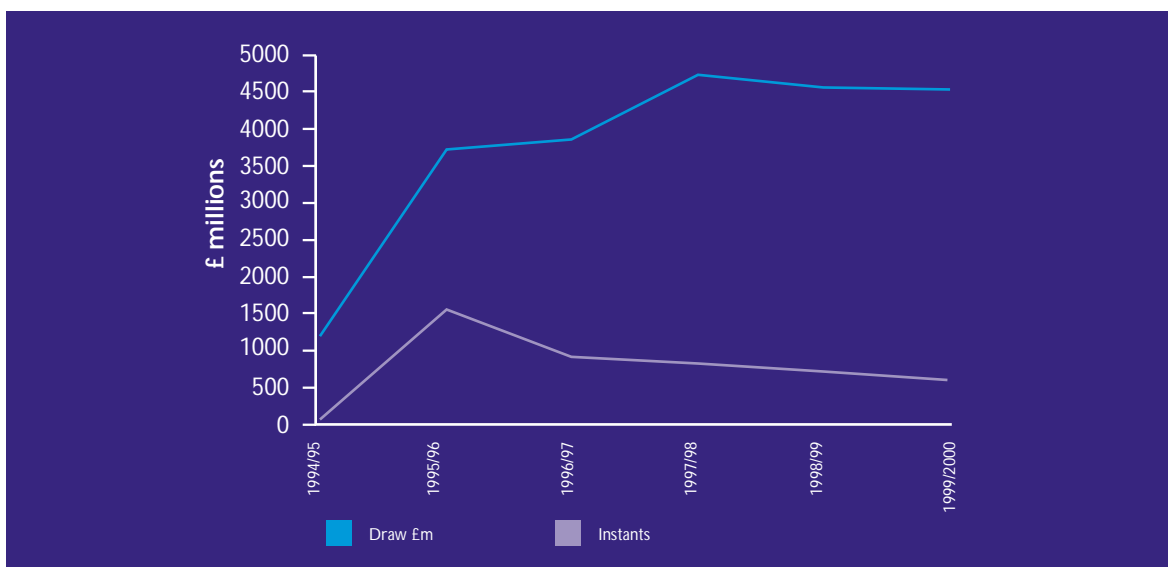


Figure 10.vii: National Lottery Sales figures



10.30 The National Lottery is the only type of lottery that is subject to excise duty. It is currently taxed at a rate of 12% of the amount staked.²⁵ The details can be found in figure 10.viii. Data from Customs and Excise show that until April 1995, in its first few months of operation, the National Lottery paid £103.9m in duties. The amount paid peaked in 1997-98 at £674.5m and declined in the following years. It paid duties of £609.2m in 1999-00. Since the first full year of play, duties from the National Lottery have made up between 39-43% of all gaming and betting duties.

Cost of Licences and Registration

10.31 Licence fees are payable on Gaming Board registered lotteries. In April 1990, fees for the registration of a society or local authority scheme ranged between £120, for those with a turnover below £10,000 and £420 for those with a turnover over £10,000. The fee for each lottery promoted ranged between £36 and £90.²⁶ In 1999-00, the fee for a society registration was £650 and £70 for a renewal. Lottery fees ranged between nil for those with a turnover less than £2,000 and £585 for those with a turnover exceeding £200,000.²⁷ The cost of registration and renewal for local authority registered schemes has been £35 and £17.50 respectively since December 1991.

Lottery Limits and Good Causes

10.32 Lottery legislation sets limits to ensure that good causes receive a significant percentage of money raised by societies' and local authority lotteries, and thus maintains the purpose of the lottery as being for a deserving cause. Current regulation specifies that up to 55% of proceeds may be spent on prizes for society lotteries registered with the Gaming Board, although prizes donated or free of charge do not count towards the 55%. No prize may exceed £25,000 or 10% of total ticket sales in value, whichever is greater. Lotteries with proceeds up to £20,000 may use up to 35% for

expenses although those with proceeds over £20,000, may use only 15% as of right, but more if approved by the Gaming Board, again up to 35%. More importantly, at least 20% of proceeds must go to the deserving cause. Figures for Gaming Board registered lotteries show that deserving causes received 47% of proceeds in 1999-00.²⁸ There is no legally prescribed amount that must go to good causes from the National Lottery. The amount is agreed between the operator and the National Lottery Commission. Good causes received £1,671m in 1998-99 and £1,581m in 1999-00 (nearly 31% of proceeds).²⁹ This is subdivided between the New Opportunities Fund (health, education and environment), the arts, sport, heritage, charities and formerly millennium projects, and distributed by independent organisations.

10.33 Society lotteries are also subject to upper limits. The total value of tickets sold in a single lottery must not exceed £1m and the total raised by a charity in any one calendar year must not exceed £5m. No such limits apply to the National Lottery.

Employment

10.34 There are virtually no data available on the number of people employed in the lotteries sector or the indirect employment created by the money raised by lotteries. There are two main reasons for this. Firstly, in the case of many lotteries there is no requirement to register with a statutory body, and in the case of local authority registrations the data are not collated. Secondly, societies' lotteries are often a fundraising mechanism. In the case of the largest charitable lotteries, a promoter or team of people may be employed but volunteers often operate lotteries. The Henley Centre estimated that the National Lottery would generate or secure 110,000 jobs in its first seven years of operation in areas such as construction, retailing, and managing and staffing new complexes which are being built with the help of lottery grants.³⁰

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Duty rate	12%	12%	12%	12%	12%	12%
Duty collected, £m	£103.9	£611.9	£557.8	£674.5	£627.6	£609.2

Figure 10.viii: National Lottery duty rate and amount collected

Source: Customs & Excise