

# Final Business Case

## A Community Lottery for Redditch Borough Council

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## 1. Executive Summary

The concept of a Community lottery has been identified by the commercial managers as a proven business model delivered in many other councils raising funds for local good causes. It works by enabling good causes to help themselves with the council facilitating this by holding the operating licence in an umbrella manner.

This business case explores how Redditch Borough Council can adopt the model to address some of the financial challenges.

The council historically provides substantial financial support for local good causes and different communities across the borough, supporting a number of corporate aims. Applying the already successful lottery model has the potential to keep the benefits enjoyed from this system of discretionary funding and could significantly reduce the council's costs to provide them. A Redditch Borough Community Lottery could help move the organisation from providers to facilitators.

The investment required is relatively low to include project implementation support and appointment of an External Licenced Management company totalling £10k with annual costs for the licence renewal, marketing and staff costs estimated around £2,500 a year.

The model proposed is considered to be a successful lottery due to its unique selling point (USP) over those already in the market place. A community Lottery facilitated by the council is focused on;

- Delivering the proceeds locally – A community lottery delivers benefits only to local causes, unlike any other provider
- Delivering winners locally – whilst anyone can play, it is likely that players will be locally based and hence it will be easier to maximise PR value from winners' stories and encourage more participation
- Facilitating a wider benefit – whilst the lottery will help offset current funding through a substitution approach, it will also enable local good causes to fundraise in partnership with the council. This can be seen as the council enabling causes (some of which it has previously supported) to help themselves.
- Ability to claim that the council take nothing from the lottery; cost recovery is possible, but it is recommended to use the proceeds generated to off-set or top up against discretionary spend.
- Helping to shift residents' perceptions of what the council can do, and is therefore in line with a commercial approach.
- Gaining access to further customer data

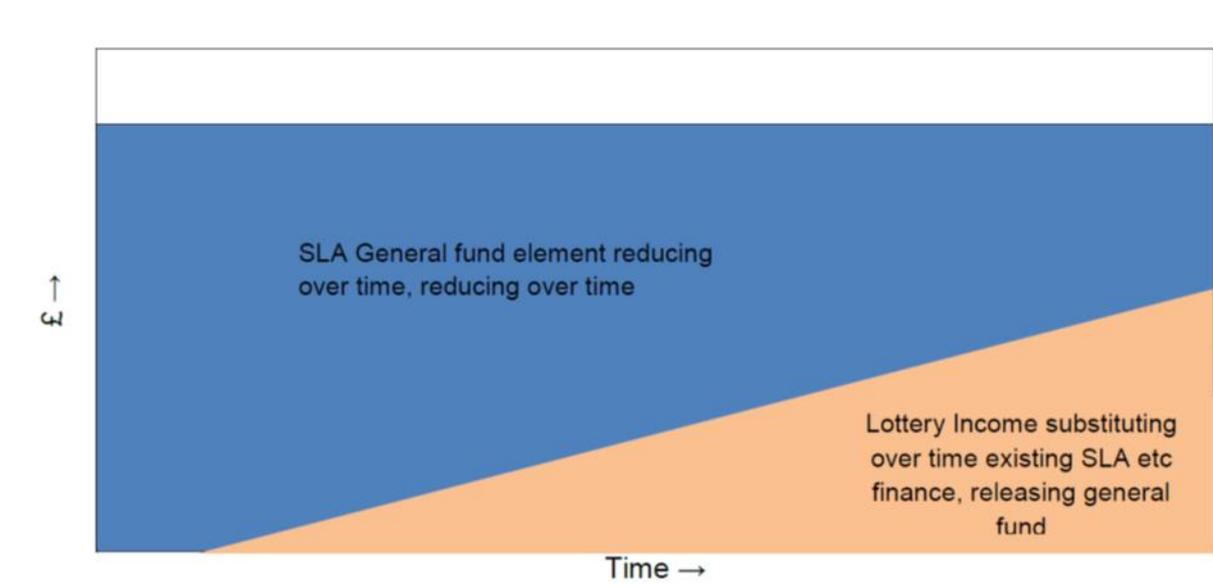
This business case explores a 'do nothing' option, internal delivery and external delivery of a lottery through a partner.

It establishes how delivery in partnership with an Externalised Licenced Manager (ELM) company is the best option replicating the already now proven model developed by Aylesbury Vale District Council and using their support to project manage the implementation.

Funds raised for the council can be used to substitute grant funding as greater pressure develops on discretionary funding.

The substitution approach conceptually works as shown in the graphic below;

Income is created from the community Lottery (50% of ticket sale price), and through an administration charge from all good causes run through the council'



The lottery is run online, and is accessible through a variety of devices. This is an increasingly popular and successful method, which fits with a drive towards a digital and commercial delivery emphasis.

There are virtually no risks in implementing the preferred model, assuming successful launch and nearly all investment risk sits with the ELM who already have the technology at hand. Ongoing financial risk is limited to the cost of the licence and marketing. Risk around ticket sales sits with the ELM.

## **2. Introduction**

Using the Five Case Model the council continues to explore how it can deliver better services and outcomes for residents. With continued reductions and pressure on budgets the council is seeking to develop more commercial income streams.

This business case explores the opportunity to develop a Community Lottery for Redditch Borough Council that can contribute to meeting pressures on discretionary funding to local good causes.

Aylesbury Vale District Council first developed the proposed model in November 2015 and since then over 50 other councils have replicated it.

## **3. The Strategic Case**

As financial pressures continue to grow, the Commercial Strategy group for Redditch Borough Council is exploring new ways of increasing income, reducing processes, bureaucracy and costs whilst maintaining high levels of service and customer satisfaction.

The group consider how to sell more services to the general public, wider public sector and private sector to increase the income position of the council, and explores what those services should and could be.

The concept of a Community lottery has been identified by the commercial managers as a proven business model delivered in many other councils raising funds for local good causes. It works by enabling good causes to help themselves whereby the council facilitates by holding an Operators Licence in an umbrella manner.

### **3.1 Organisational Overview**

Lotteries have long been a way of smaller organisations raising income. They are regulated by the Gambling Act 2005. Councils already provide a service in granting licences for small society lotteries and gambling activities used by good causes to raise funds but are not able to grant themselves a licence and thus have to apply direct the Gambling Commission for an Operators Licence.

There are different types of lotteries available, however the Community Lottery is considered as a large society lottery.

Society lotteries are promoted for the benefit of a non-commercial society. A society is non commercial if it is established and conducted:

- For charitable purposes
- For the purpose of enabling participation in, or of supporting, sport, athletics or a cultural activity
- For any other non-commercial purpose other than that of private gain.

There are two variants of society lotteries, the main difference being who issues the licence (local authorities permit small lotteries and the Gambling Commission permits large lotteries). A large society lottery:

- Has proceeds that exceed £20,000 for a single draw
- Has aggregate proceeds from lotteries in excess of £250,000 in any one year

A small society lottery:

- Does not have proceeds that exceed £20,000 for a single draw
- Does not have aggregate proceeds from lotteries in excess of £250,000 in any one year.

In all cases, lotteries have to deliver a minimum of 20% of proceeds to good causes

### **3.2 The Case for Change**

Redditch Borough Council currently provides discretionary grant funding to many organisations. These are split between major grants which are seen to meeting the strategic priorities of the council. In 2017/18 this totals so far approximately £135,000.

The council also awards smaller grants under the Stronger Communities theme which in 2017/18 totals £16,548.

Funds raised through a Community Lottery could substitute to generate savings in the discretionary fund or be used as additional grant funding. There could be a reduction in

applications from smaller organisations that are able to generate the same or greater level of funding directly through the lottery resulting in additional efficiencies for the council.

### 3.3 Existing arrangements

The council doesn't currently provide this service but as detailed above it presents a clear opportunity to generate income to help communities.

It is noted that a Community Lottery has a unique selling point (USP) to compete with those already in the market place.

A Community Lottery facilitated by the council is focused on:

- Delivering the proceeds locally – A Community Lottery delivers benefits only to local causes, unlike any other provider
- Delivering winners locally – whilst anyone can play, it is likely that players will be locally based and hence it will be easier to maximise PR value from winners' stories and encourage more participation
- Facilitating a wider benefit – whilst the lottery will help offset current funding through the substitution approach, it will also enable local good causes to fundraise in partnership with the council. This can be seen as the council enabling causes (some of which it may have previously supported) to help themselves.
- Ability to claim that the councils take nothing from the lottery; cost recovery is possible, but it is recommended to use the proceeds generated to off-set or top up against discretionary spend.
- Helping to shift residents' perceptions of what the councils can do, and is therefore in line with a commercial approach.
- Gaining access to further customer data

This business case explores a 'do nothing' option, internal delivery and external delivery of a lottery through a partner – an Externally Licenced Manager (ELM)

### 3.4 Benefits and Risks analysis

A Community Lottery has the potential to provide income to support local good causes and so, if successful, could have the following benefits:

	<b>Benefits</b>	<b>Risks</b>
<b>Financial</b>	<ul style="list-style-type: none"> <li>• A percentage of the ticket price goes directly to good causes, similar to other lotteries that operate.</li> <li>• save money by helping to substitute/reduce SLA costs over time.</li> <li>• reduced staff costs, if the council chooses to operate a lottery with an external lottery manager(ELM). This option would mean the council would facilitate self-</li> </ul>	<ul style="list-style-type: none"> <li>• this is a potentially low-risk scheme, which requires low investment, to cover officer time and external implementation support, initial licence fees and annual licence fees. Running a lottery in partnership with an external lottery manager (ELM), as discussed later, it is estimated that ongoing costs would not exceed £5000 per annum.</li> <li>• however, this risk would only be low if the lottery is run in partnership with an ELM; if it was to be run in</li> </ul>

	<p>help for community groups, as well as substituting existing costs.</p> <ul style="list-style-type: none"> <li>• deliver an income, in terms of operator charges and a central good cause fund</li> </ul>	<p>house, the risks in terms of investment could be extremely high, as detailed in the options appraisal.</p>
<b>Reputational</b>	<ul style="list-style-type: none"> <li>• enhance the council's reputation as a dynamic council which leads the way – facilitating community fundraising in a difficult economic climate.</li> <li>• enabling communities to help themselves.</li> </ul>	<ul style="list-style-type: none"> <li>• there is the possibility of damage to the council's reputation, in the unlikely case that the lottery becomes connected to corruption or avoidable failure.</li> <li>• The council's reputation could also be damaged in the event that the council launches the lottery and has to close it due to lack of interest. (However, the council could still argue it tried to do something in difficult circumstances).</li> <li>• there could also be a negative reaction from residents who may perceive the lottery to be a stealth tax, as they already pay their council tax.</li> </ul>
<b>Political</b>	<ul style="list-style-type: none"> <li>• deliver the benefits – i.e. protecting the environment, developing communities.</li> <li>• Giving to good causes brings prestige to members serving their communities. A lottery could enable similar prestige.</li> </ul>	<ul style="list-style-type: none"> <li>• discretionary giving is something that has come to part of what councils do and has come to be depended on by different pockets of the wider community. It not only creates a degree of prestige for the organisation but also individual members who support those causes and sit on decision panels. Some of this impact could be lost.</li> <li>• there is a possibility that some members will not like the reduction in this discretionary giving and will not see the lottery as a positive initiative.</li> </ul>
<b>Commercial</b>	<ul style="list-style-type: none"> <li>• starting a lottery to help replace discretionary funding is strongly tied to a commercial ethos, whereby most services have to start paying for themselves.</li> <li>• with recent bad press around national charities, their fundraising tactics and costs, this is a prime time to promote a scheme which helps local causes.</li> <li>• for participants there is a much higher probability of winning the jackpot, compared to the national</li> </ul>	<ul style="list-style-type: none"> <li>• some critics may perceive this idea to encourage gambling, which, in extreme cases, could lead to addiction and is not something a council should be doing. However, there are already a number of charity lotteries and this does not appear to be a problem. However the ELM does not promote gambling in a hard-hitting way; the emphasis is on helping the community.</li> <li>• with 185,000 charities in the UK, it could be a risk to set up another avenue of charitable giving. The council could also be criticised for taking business from other charity</li> </ul>

	<p>lottery.</p> <ul style="list-style-type: none"> <li>• with the growth in technology, operating an online lottery would provide multiple opportunities to access potential players and for them to easily participate (using a range of digital devices).</li> <li>• A Community Lottery would give more to good causes than, say the national lottery</li> <li>• Camelot, the best known lottery provider, is seen as a successful commercial company. The lottery has the potential to have positive commercial associations.</li> </ul>	<p>lotteries. However, the proposed option gives local good causes a potentially more effective facility with which to fundraise, rather than labour-intensive raffles etc. and would be giving opportunities to smaller groups.</p>
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### **3.5 Delivery options**

Working with Aylesbury Vale District Council the business case for a Community Lottery has been explored considering three options for delivery;

- i) Do nothing
- ii) Deliver in house
- iii) Deliver through external partner

i) Do nothing

Under this option, the status quo remains, with no lottery in place. Over time this will see discretionary funding come under increasing pressure with no viable alternative other than further cuts. Staff costs would still continue to rise and so the situation could never stay the same.

#### **Strengths:**

- The council continues to reap the benefits of the status quo. These include good PR for helping community groups, attracting more money into the organisations and thus the borough.

#### **Weaknesses:**

- The council is unlikely to have the finance to keep offering discretionary funding at the level, unless they choose to prioritise it at the expense of other, potentially key services.
- There is no planned alternative to assist with the delivery of these types of activities in the medium long term. This leaves politicians vulnerable in the medium long term at being faced with the decision of cutting this funding.

## ii) Deliver in house

This option would require the establishment of the necessary posts and systems to run a lottery in house. This has not been fully costed, but it is considered somewhere in the region of a £80-100k for set-up costs alone. This would include a lottery manager and the necessary development of software systems to enable the lottery to run.

### **Strengths:**

- Redditch Borough Council would be seen as leaders in the field
- The council could keep supporting community causes thus continuing towards delivering corporate objectives.
- Maintain positive PR for the council brand.
- There could be a comfortable fit with the commercial approach of going into new territory and looking for alternative ways of working.

### **Weaknesses:**

- The council does not have the internal expertise to set up the software for an online lottery. This would have to be brought in at commercial rates.
- The council would need to develop a completely new area of operation for the lottery. This would involve at the very least a lottery manager and assistant as well as having to source software to run the lottery itself and associated operating costs.
- No experience at all in this field and so no knowledge of how to deal with potential difficulties.
- There could be a negative perception from the public and charities that the council is potentially trying to take business from good causes.
- There could be a negative perception from the public that they already pay their council tax.
- The council could be seen to encourage gambling.

## iii) Deliver through external provider

This option would see a partnership with an existing deliverer of lotteries in the market place (an External Lottery Manager – ELM). This in effect means ‘buying into’ an existing lottery manager’s products.

### **Strengths:**

- The council would be commissioning experts in the field to run the lottery which would be much lower risk – less chance of malfunctioning, legal errors etc.
- An ELM takes care of complexities around lottery licences etc.
- The council could keep supporting community causes thus continuing towards delivering corporate objectives.
- Positive PR for the council brand.

- This may be a more comfortable fit with the commercial approach than option B above, as it would be less costly and very low risk and could also be a strong example of partnership working.

**Weaknesses:**

- The council could be seen to indirectly encourage gambling.
- The ELM will take a percentage of the ticket price
- There could be a negative perception from the public and charities that the council is potentially trying to take business from good causes – although in part this is mitigated by using an ELM.
- There could be a negative perception from the public that they already pay their council tax and the council is trying to take more of their money.

Taking into account the above analysis, this business case concludes that the best option is iii) **Delivery through an external provider**. This is primarily due to the now proven business model and delivery method with other councils as well as the minimised investment and risk.

**3.6 Potential scope**

The lottery works on a minimum play of one ticket per week for a minimum 4 week subscription or one off 5 week payment. This is taken monthly from the player’s account, and thus equates to a minimum monthly expenditure for the player of £4.33 (or higher should they wish to purchase multiple tickets/support multiple good causes).

<b>Ticket price and Mechanics</b>	
Cost per ticket	£1
Draw Frequency	1 per week

<b>Proceeds Apportionment</b>		
	<i>% Allocation</i>	<i>£ Allocation per ticket</i>
Good Causes	50	£0.50
Prizes	20	£0.20
The Council	10	£0.10
Lottery Provider (admin)	17	£0.17
VAT	3	£0.03
<b>Totals</b>	<b>100</b>	<b>£1.00</b>

This sees 50% return to good causes, with the council receiving 10% (to substitute discretionary funding to good causes), for all tickets purchased by supporters of local organisations.

The council will also raise 50% return from having a central fund to accommodate players who are not wanting to choose a specific good cause.

Aylesbury Vale District Council with a similar player population currently generate circa £17,000 per annum through this evidencing almost 30% of players.

<b>Prize Structure</b>		
	<i>Winning Odds</i>	<i>£ Prize</i>
6 numbers	1,000,000:1	£25,000
5 numbers	55,556:1	£2,000
4 numbers	5,556:1	£250
3 numbers	556:1	£25
2 numbers	56:1	3 free tickets

The prize structure offers players the opportunity to win prizes of up to £25,000. The odds of winning the 'grand prize' are the same as this is an insured prize and players select their numbers of choice.

### **Rate of play and ticket price**

It is clear that the ticket price has a significant bearing on the success of the lottery. A high ticket price reduces the administration costs, which in turn leaves more money available for good causes.

AVDC concluded that research<sup>1</sup> indicates there is a significant drop-off in the take-up rates (up to a potential 69% less participation, equating to around 50% less revenue) if a ticket is priced at £2 instead of £1.

A high ticket price also has the potential to reduce participation due to resistance to the (inaccurate) perception that council would be generating 'profit' from charitable enterprise.

It is the research into the public perception of appropriate lottery ticket pricing that is the most significant factor to consider when selecting a preferred model for the lottery. A £2 entry would also place the model in direct competition with the National Lottery.

### **Player modelling**

Below is the anticipated income that the lottery could generate for each local authority. In terms of the percentage take-up, the population considered is the over-16 population of areas (although it should be noted that you do not have to live in area to play the lottery – family members/friends etc. living in other parts of the country are able to play, which does increase the scope of either model).

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<sup>1</sup> Respondents' answers when asked the question: "How much should a lottery ticket cost?" The survey was carried out by an independent survey provider called The Leadership Factor in June 2013. The total respondent group was over 1,100 people.

## Redditch Player Modelling

Year	Ticket Price £	% of RBC Player Pop.	Number of Players	Tickets bought per week	Number of weeks	Gross Return	RBC share (10%)	Good Causes (50%)	Prizes (20%)	ELM (17%)	VAT (3%)
1	1	1.00%	682	1	52	35456	3546	17728	7091	6028	1064
2	1	1.50%	1023	1	52	53184	5318	26592	10637	9041	1596
3	1	2.00%	1364	1	52	70912	7091	35456	14182	12055	2127
4	1	2.50%	1705	1	52	88641	8864	44320	17728	15069	2659
5	1	3.00%	2046	1	52	106369	10637	53184	21274	18083	3191

## 4 The Financial Case

As can be seen in the Player Modelling table above, if the scheme achieves 3% take up of the player population it could be generating gross sales of £106,369.

Whilst the business model identifies the operating costs picked up by the ELM and taken from ticket sales there are still costs that fall to the council. These are:

- An initial licence application fee, annual licence fee and Membership of the Lotteries Council totalling circa £1000
- Marketing costs including staff time, amounting to less than £1,500 per annum (this includes communications and media support)

All other administration costs, website costs, hosting etc. are all borne by the ELM. This includes handling all financial transactions in a similar manner to that which a conveyancing solicitor holds money for clients. The top prize is an insured sum and the prize fund pot is built over time to cover all other winnings. If the prize fund pot was to grow unnecessarily large the scheme can hold additional prize draws to ensure distribution in accordance with the licence. Prize funds cannot be used for any other purpose.

With commissioned project management support from AVDC the investment is set out below;

	First Year Costs	Ongoing Costs
AVDC support	£6000	
Licence fees	£650	£650
Lotteries Council Membership	£350	£350
ELM Platform	£3000	
Staff Marketing		£1500
<b>TOTAL</b>	<b>£10,000</b>	<b>£2,500</b>

## 4 Next Steps

Following agreement and approval to the business case the implementation would move to securing Executive Committee approval and then the licence application process. AVDC support provides all the necessary policies to accompany the licence as well as

production of a Communications and Marketing Strategy through to assistance with the launch to good causes and subsequent ticket sales.

The Gambling Commission currently have a turnaround target of 16 weeks for new applications but during this time the ELM is able to develop the platform bespoke to the council (A name would need to be chosen and web site name secured) and complete project implementation based on ticket sales planned from estimated date for award of the licence.

With Cabinet approval sought in September 2018 it is estimated a launch could be achieved in early spring 2019.