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| <b>Report of:</b> | Director Of Regeneration, Richard Horniman<br>Executive Member for Culture and Communities, Councillor Mieka Smiles |
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| <b>Submitted to:</b> | Executive - 14 July 2020 |
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| <b>Subject:</b> | Middlesbrough Community Lottery |
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**Summary**

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| <b>Proposed decision(s)</b>   |
| That the Executive approves the development and delivery of a community lottery aimed at funding and supporting cultural activity in Middlesbrough. |

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| <b>Report for:</b> | <b>Key decision:</b> | <b>Confidential:</b> | <b>Is the report urgent?<sup>1</sup></b> |
| Decision           | Yes                  | No                   | No                                       |

| <b>Contribution to delivery of the 2020-23 Strategic Plan</b>   |  |  |
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| <b>People</b>   | <b>Place</b>   | <b>Business</b>  |
| Culture is an excellent way of engaging with communities, vulnerable people and bringing people together. A greater role for community led culture and the proposed funding should lead to an increase in engagement, leading to opportunities for improved mental and physical health. | The physical regeneration of the town needs to be underpinned by increased vibrancy and activity – particularly in the town centre where new office, leisure and housing developments would benefit from a greater sense of place and public engagement. | A strong and successful cultural offer would promote the town as a place to live and work, increase visitor numbers and improve the sustainability of local businesses. All of the above would contribute to supporting the Council’s MTFP through Business Rates and Council Tax. |

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| <b>Ward(s) affected</b>   |
| The Community Lottery will available to all wards with Middlesbrough and beyond, funded cultural activity will potentially benefit all residents. |

## **What is the purpose of this report?**

1. To seek approval to develop and deliver a community lottery aimed at raising finance to fund new and existing cultural activity in Middlesbrough.

## **Why does this report require a Member decision?**

2. The financial and legal implications of establishing a lottery require a member decision.

## **Report Background**

3. Culture is a key driver for the Middlesbrough economy, and a core element of the town's identity. Culture attracts, excites, educates and engages *people*, and enlivens, animates and defines *places*. Culture also therefore plays a role across many other strategic ambitions and socio-economic objectives.

### *Funding Cultural Activity*

4. Funding for cultural activity can come from a variety of sources, and many of these are accessed each year for activity on Middlesbrough. The availability of funding does however limit the ability of the cultural sector to achieve its ambitions, and restricts the impact it can have on the economy of the town. As a result, the opportunity to develop additional funding for the sector has been explored, and the potential for a community lottery identified.
5. The development of a community lottery would potentially offer an additional, valuable income stream to enable and support both existing and new cultural programmes and events in Middlesbrough, and if successful, could provide another viable financial option to fund high quality events that meet the aims and objectives of the town's cultural strategy. In turn increased numbers of cultural events and programmes will increase pride of place within our town, increase aspirations and increase positive perceptions of the town both locally, regionally and nationally.

### *Developing a Lottery*

6. Lotteries have long been a way of smaller organisations raising income, for which they are regulated under the Gambling Act 2005 ("the Act"). The Act creates eight categories of permitted lottery, including a permitted category of a "local authority lottery", which would be promoted by the authority (who would therefore need to be licensed by the Gambling Commission). The net proceeds from a local authority lottery may be used for any purpose for which the authority has the power to incur expenditure.
7. To meet the requirements of the Gambling Act 2005, local authority lotteries have to deliver a minimum of 20% of proceeds to purposes for which the authority has the power to incur expenditure.
8. Until a few years ago, local authorities had not entered into this form of fundraising due to perceived risks to a council's reputation and concerns about the gambling aspects of such a service. However, things have moved on in the last few years, and there is now a clear precedent set for local authorities to get involved in this kind of activity, as long as the marketing material is clear that it is principally a fundraising platform for local

cultural activity, the lottery is properly regulated, and it supports the licensing objectives set out in the Act which are:

- a. preventing gambling from being a source of crime or disorder, being associated with crime or disorder, or being used to support crime;
- b. ensuring that gambling is conducted in a fair and open way; and,
- c. protecting children and other vulnerable people from being harmed or exploited by gambling.

### *External Lottery Managers*

9. Local authority lotteries can be run in-house or in partnership with an External Lottery Manager (ELM). An ELM is defined in Section 257 of the Act as “someone that is a person or a body who makes arrangements for a lottery on behalf of a society or local authority, but is not a member, officer or employee of the society or authority”. All ELMs must hold a lottery manager’s operating licence before they can manage a lottery on behalf of a local authority. This is in addition to the operating licence held by the local authority. It is important to note that whilst ELMs may run a lottery on behalf of the local authority, it is the responsibility of the local authority to ensure that the lottery is conducted in such a way as to ensure that it is lawful, and fully complies with the Act, all licence conditions and licensing codes of practice.
10. In addition to operating licences from the Gambling Commission, a local authority is required to have at least one Personal Management Licence (PML) holder for the authority, even if the lottery is run by an ELM. The ELM will have their own PML holders.
11. As potential options have been explored for a Middlesbrough Community Lottery, a meeting has been held with Gatherwell, a leading ELM, to understand the workings of a lottery in practice – which has informed this report. It should be noted that although Gatherwell are not the only ELM in operation, Gatherwell are identified as a specialist and leading provider of local authority lottery schemes, and are identified as low risk by the Gambling Commission. They are licensed by the Gambling Commission to run lotteries on behalf of good causes and local authorities across the UK. Starting in 2015 with Aylesbury Vale, they launched the first on-line local authority lottery in the UK and now have 65 local authority awarded contracts with 51 live websites and 14 in development, as well as over 1,000 schools across the UK using ‘Your School Lottery’ platform (which is where they evolved from).
12. The research undertaken has shown that lotteries like those listed above attract a number of different supporters – those motivated by the odds and the prizes on offer, those with a dual motivation of giving to a good cause but with the incentive of winning a prize, and the altruistic supporter who will support because of the good cause alone and will often donate any prizes back to the good cause as well.

### *Middlesbrough Community Lottery*

13. Following extensive research into the potential for a community lottery in Middlesbrough, and the partnerships required to do so successfully, it is proposed that one be established to support the cultural sector, and that Gatherwell would represent an appropriate, experienced partner through which to operate. The arrangements for establishing the Middlesbrough Community Lottery are set out below.

## *Advertising and Marketing*

14. This would be carried out by a combination of the ELM, the Council and the beneficiaries of the lottery who would be able to have a link directly on their webpage. The ELM would provide tailored marketing materials and ongoing support, which can all be customised as the Council wishes.

### *Ticket purchase*

15. Tickets are purchased online only, through direct debit or payment card, and cost £1 each. This would be carried out through a site administered and managed by the ELM. The proceeds of each ticket sale would be split as follows:

- £0.60 goes to Cultural activity\*
- £0.20 covers prizes
- £0.17 to the ELM
- £0.03 VAT

*(\*For comparative purposes, 28% of ticket sales from the National Lottery go to good causes, 27.5% from the Postcode Lottery and 20% from the Health Lottery.)*

16. Individual lottery players have two choices as to how the 60% for cultural activity generated by the purchase of their ticket is distributed:

- a. the whole 60% can go to cultural activity nominated by the council; or,
- b. 50% of the ticket price can be given to a specified cultural activity registered with the lottery and selected by the player, with the remaining 10% being allocated to the council's nominated cause.

## *Prizes*

17. Players select a line made up of six numbers. Prizes will be awarded according to the number of matched numbers, as follows:

- 6 matched numbers - £25,000
- 5 matched numbers - £1,000
- 4 matched numbers - £250
- 3 matched numbers - £25
- 2 matched numbers - 3 free tickets

18. (The odds of winning the jackpot are approximately 1,000,000 to 1 and the odds of winning any prize are 50 to 1.) The ELM would take out appropriate insurance against the top prize being won.

## *Selection of the beneficiaries*

19. The council decides the criteria for cultural activity to be eligible to benefit from the lottery and determines applications from relevant organisations to register. The focus for Middlesbrough will be to support the delivery of Cultural Strategy via cultural activity.

## *Administration*

20. The ELM oversee all aspects of the lottery. They provide a bespoke website, which works across all devices, and is secure and with an assured 99% uptime. This is regularly updated to maintain interest. Alongside this, there is a dedicated local

telephone number and email address for support. Professional marketing materials are provided, which includes artwork, magazine articles etc, and social media campaign management. They manage payments and administer winner and 'activity' payment administration, and winner communications. Winners may choose to donate their winnings back and this is also handled by the ELM with minimum effort. They run a client deposit account ensuring all supporters' money is safe, and there is no risk to the council to cover prize winnings.

### *Ethical considerations*

21. Community lotteries are classed as low risk by the Gambling Commission; they are considered a form of 'incentivised giving'. There are procedures in place to mitigate the risks of problem gambling, which include:

- Maximum of 20 tickets per supporter
- No instant reward or gratification when purchasing
- Direct debit and recurring payments (no cash)
- Unable to buy single tickets, or tickets for a draw on the same day

### *Timing*

22. The recent Covid 19 crisis will have a serious impact on funding for the cultural sector, and many organisations and individuals will have suffered significant hardship and this clearly poses a threat to the long term capacity of the sector to achieve the aims set out for it at the beginning of this report. National, regional and local cultural funding is under significant pressure and the sector will take some time to reach a situation of stability.

23. Likewise, the people of Middlesbrough will also have been through a period of significant economic change, and it will also take some time to reach a situation of stability. It may not therefore be appropriate to launch a community funded initiative at this time, but the preparations could be undertaken now to enable use of the lottery as part of the recovery of both the sector and the town's wider economy.

### **What decision(s) are being asked for?**

24. That the Executive approves:

- a. the development and delivery of a community lottery aimed at funding and supporting cultural activity in Middlesbrough;
- b. the procurement of Gatherwell as an External Lottery Manager to run the operational side of the lottery;
- c. the application for any necessary licences from the Gambling Commission to enable the Lottery to operate;
- d. delegation of the management and oversight of the lottery to the Director for Regeneration and Culture, in consultation with the Executive Member for Culture and Communities, including the responsibility for approving appropriate policies and procedures; and,
- e. delegation of the role of personal licence holder for the Lottery to an officer nominated by the Director for Regeneration and Culture, and authorises them to apply for the personal licence.

## **Why is this being recommended?**

25. The recommended option would provide the simplest way for the council to operate a lottery is to engage an External Lottery Manager (ELM). There would then be a contractual arrangement with the appointed ELM for the management of the lottery on the council's behalf, including website management, administration of ticket sales and payments, prize management and marketing. ELMs are not primarily to be a vehicle for profit for commercial organisations, but the intention is that they enable councils and other societies to raise funds for their own non-commercial purposes.

## **Other potential decisions and why these have not been recommended**

26. Two options have been considered, (1) not to introduce a lottery (2) introduce the lottery. Option 1 has been discounted. To not continue to look at Community lottery would have a detrimental impact on supporting and increasing the level of financial support available to encourage high quality cultural events and projects to take place in Middlesbrough.

## **Impact(s) of recommended decision(s)**

### *Legal*

27. The Gambling Act 2005 creates eight categories of permitted lottery, one of which is a local authority lottery. Local authority lotteries are promoted by the relevant council and the net proceeds can be used for any purpose for which the authority has power to incur expenditure. A Middlesbrough Community Lottery must be run under an operating licence issued by the Gambling Commission and would need to comply with the specific licence conditions and relevant codes of practice.

28. As proposed in this report, an ELM would be appointed to manage the lottery on the Council's behalf in accordance with Section 257 of the Gambling Act. The ELM would also need to obtain the necessary consent and operating licence from the Gambling Commission. However, the Council would remain responsible for ensuring that the lottery operates lawfully, and would need to appoint a responsible officer(s) for the Gambling Commission's lottery licence.

29. Gatherwell Ltd is the operator of all of the 65 established or planned local authority lotteries. It has a proven track record of working with councils to deliver low cost lotteries and offers the flexibility to provide a scheme tailored to Middlesbrough Council requirements. As the only ELM with the demonstrable knowledge, experience and expertise, we are recommending Gatherwell Ltd as our preferred partner for establishing a Middlesbrough Community Lottery.

### *Financial*

30. A proposed decision to set up a Middlesbrough Community Lottery would have an estimated start-up cost of £9,400, including:

- Gatherwell Ltd set up fees £5,000 plus VAT
- Licence fees and affiliations £1,400
- Marketing expenses £3,000

31. A further £1,077 would be required for an annual licence fee and continued membership of the Lotteries Council. Some ongoing marketing costs would also be

required to maintain the profile of the lottery within the town. These operating costs would be met by through ticket sales, with any additional costs required in the early operation of the lottery being funded from existing cultural budgets.

32. It is anticipated that a period of further due diligence would be undertaken once final arrangements are proposed by Gatherwell, to ensure that the benefits, costs and risks remain in line with the principles of this report. A final endorsement of proposals would be sought from the Council's Section 151 Officer, Director of Public Health and Director for Legal and Governance Services prior to any launch.

### **Policy Framework**

33. The decision will not amend the Council's policy framework.

### ***Equality and Diversity***

34. An Impact Assessment would be undertaken on the final proposals agreed with Gatherwell prior to any launch.

### **Risk**

35. The risks inherent with operating any form of financial based lottery would be minimised through engagement of an experienced partner in Gatherwell. The final due diligence to be undertaken prior to launch would ensure that the Council has taken all reasonable steps to minimise and manage the financial risks.

36. The decision not to move forward with a community lottery, also however risks the Council's ability to be able to support the delivery of the Cultural Strategy, and secure the desired impact from cultural events and projects.

### **Actions to be taken to implement the decision(s)**

37. The following actions will be undertaken to progress the establishment of the Middlesbrough Community Lottery:

- a. Formalise contractual relationship with Gatherwell (by 31<sup>st</sup> July 2020)
- b. Prepare final lottery scheme proposals (by 31<sup>st</sup> July 2020)
- c. Undertake final due diligence (by 31<sup>st</sup> August 2020)
- d. Launch the Middlesbrough Community Lottery (by 31<sup>st</sup> December 2020)

### **Appendices**

None

### **Background papers**

None

| <b>Body</b> | <b>Report title</b> | <b>Date</b> |
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