

**AN ANALYSIS OF GOOD CAUSES FUNDING  
ASSOCIATED WITH THE NATIONAL LOTTERY AND  
FACTORS IMPACTING ITS LONG TERM  
SUSTAINABILITY**

**Tony Foley**

**Dublin City University Business School**

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*Commissioned by the European Lotto Betting Association (eLBA)*

## EXECUTIVE SUMMARY

### OBJECTIVE

The objective of this report is to analyse Good Causes Funding generated by the National Lottery and the factors impacting the long-term sustainability of this Fund for the term of the current National Lottery licence (2014-2034 inclusive). The commissioning of this report by the European Lotto Betting Association (eLBA) has been taken against the background context of raised concerns by political stakeholders around the long-term sustainability of Good Causes Funding.

### NATIONAL LOTTERY LICENCE TERMS APPLYING TO GOOD CAUSES FUNDING ISSUE

The National Lottery licence specifies that **good cause funding should be 65% of gross gaming revenue**. Gross gaming revenue is sales minus prizes. The primary determinants of Good Cause Funding by the National Lottery, therefore, are the performances of sales and prizes of the licence holder. The licence also specifies that **prizes should be at least 50% of sales. The actual prizes share is well above 50% which reduces good cause funding**. Unlike the UK lottery licence, which allocates unclaimed prizes to good causes, the Irish licence allows for unclaimed prizes, which are substantial, to be used by the lottery operator for the promotion of the National Lottery including prizes top-ups and marketing.

Consideration of Good Causes Funding should include the upfront payment of €405m in 2014 by Premier Lotteries Ireland (PLI) to acquire the licence. This is equivalent to an annual €20.25m good causes contribution over the 20 years on an undiscounted basis. It is equivalent in the sense that it was a transfer to the Exchequer from the successful licence bidder and was potentially available for good cause type funding. Of course, PLI, as a private company must finance this upfront payment from the subsequent cash flow generated from the operation of the licence. As such they must generate sufficient surplus, after operating costs, over the life of the licence to finance the upfront €405m fee, plus interest due on borrowing and a return for the risk associated with the project. However, it should also be noted that this upfront payment is very substantially, if partially, compensated for by the return of the unclaimed prizes amounts.

### KEY REPORT FINDINGS

- There is **no evidence-based data to support the assertion that a ban on lottery betting will significantly boost the performance of Good Causes Funding**. The three leading specialist online lottery betting brands licensed in Ireland reported only €1.4m in lottery sales in 2017, less than 0.25% of the National Lottery's draw-based sales in the same year, clearly representing minimal threat to PLI's market position. The overall sector's share is estimated to represent about 0.45% of the annual National Lottery draw based sales. In addition, in the situation where there was any restriction placed on the offering of lottery-based betting in Ireland, there is no expectation that 100% of this small amount of displaced turnover would switch to National Lottery products. Lottery numbers betting in the retail bookmakers generates a larger value of turnover than the online lottery betting offering but these products have been provided since the early 1990's and any competition that they present to the National Lottery appears to have had little impact on the growth and performance of the National Lottery under either the existing

or previous license holder, both of whom appeared to co-exist satisfactorily with the bookmaker offering in the retail environment and later online. While some estimates of this sector's turnover on lottery-related bets have been aired in the public domain, there is little clarity on the accuracy or source of these estimates. Regardless of the actual percentage of bookmaker retail turnover that lottery numbers betting represents, there is no certainty that a significant proportion of this betting activity, which is presented in a clearly different way to the lottery playing experience, would find its way back to National Lottery products.

- The National Lottery has performed well under the new licensee PLI, with significant sales and Good Cause Funding growth between its commencement in 2014 and 2018. However, **this sales growth has been notably supported by prices increases and a large growth in the retail network.** Ongoing price increases are undesirable and continued expansion of the retail network at recent rates is not sustainable. Growth in sales in the latest year, 2018, was only €4.8m or 0.6% and Good Cause Funding increased by only €2.2m in 2018, despite no obvious evidence of increased competition from lottery betting. In the context of concerns about the impact of lottery betting on Good Causes Funding, it should be noted that between 2014 and 2018, the period when the specialist online lottery betting brands entered the market, National Lottery sales increased by €117.3m or 17.1%, with Good Causes Funding increasing by €34m or 17.5%. Also, National Lottery sales as a % of overall bookmakers turnover in the Irish market increased from 24.2% in 2015 to 27.9% in 2018.
- Good Causes Funding as a % of National Lottery sales decreased from 32.3% in 2009 to 28.4% in 2018. The 2013 share was 30%. A restoration to the 2013 level would have increased the 2018 Good Causes Funding level by €12.9m.
- Prizes as a share of sales has increased over the long term and is currently 56.3%, well above the licence requirement of 50%. If the prizes ratio was reduced from the actual 2018 level (56.3%) to the average of the five years 2006 to 2010 (54.0%), gross gaming revenue in 2018 would have increased by €18.5m, with the associated Good Cause Funding in turn increasing by €12.0m.
- The National Lottery retail network expanded greatly between 2014 and 2018 from 3,700 agents to 5,842 agents, an increase of 57.9%, while retail network sales increased by only 10.9%. Much of this increase was due to the inclusion of the An Post network and discount retailers Lidl.
- The total value of unclaimed prizes between the commencement of the licence in 2014 and the end of 2018 was €71.2m. The 2018 unclaimed prizes total alone was €19.0m. If the UK licence terms applied to the National Lottery in Ireland, PLI would have contributed €247m, or an additional 8.3% more, to Good Causes Funding in Ireland in 2018 instead of the actual €228m.
- **Online sales must grow from the current relatively low base of €61.8m or 7.7% of sales in 2018** (UK Lottery at 25% in same period) but there is a fundamental issue within the terms of the National Lottery license that means unclaimed prizes are almost exclusively accrued via the retail network, where there is no audit trail around the identify of purchasers of physical tickets. The lower the value of retail network sales, the lower the level of unclaimed prizes and the lower the return to PLI arising from unclaimed prizes.
- Assuming a successful online development over the rest of the licence period and an average annual €670m in retail sales with a conservative 2.2% of sales being unclaimed prizes, the annual average unclaimed total would be €14.74m or €234.6 (€235.84m less one month of final year) over the remaining 16 years of the licence.

- Analysis of PLI's annual accounts for 2017 and 2018 shows the details of the underlying company performance. The company has returned operating losses for the last two years. Key factors in this have been an amortisation of intangibles cost of around €20m as the annual contribution to the initial licence cost of €405m plus around €20m in interest expenses to related parties. While these two amounts are substantial the underlying declared loss would be a concern in terms of the ongoing ability and desire to develop a strong online sales capability.
- Sales are determined by the number of players and the average lottery expenditure per player. Participation rates for National Lottery products are high but there are **concerns for the future level of participation** and numbers of players. **Participation rates have been declining.** If the participation rate is maintained at 2018 levels and Good Causes Funding grows in line with the expected growth in the adult population of about 20%, good causes annual funding would be an annual €274m at the end of the period of the licence. Increasing the participation rate would bring higher levels of good causes funding, however the relative underperformance of the National Lottery in the online channel compared, for example, to the UK lottery (not to mention leading bookmaker brands) is a major concern for the future sustainability of good causes funding as society continues to move to higher levels of internet transactions.
- **The National Lottery faces significant competition from across the full €6 billion gambling market, not just from lottery and lottery numbers betting** but also from other significant generators of Good Causes Funding like the widespread sports club and community-based lotteries. The National Lottery is the clear leader in terms of funding good causes but this is a key tenant of its 20-year license which also grants it certain fiscal and regulatory advantages.
- Other key factors in the long-term performance of the National Lottery and its associated Good Causes Funding include economic growth and, as noted above, population growth, consumer behaviour changes and disposable household income. In addition, the regulatory treatment of gambling under any new legislation delivered to replace the existing Acts can have an impact.
- Overall, **the impact of online lottery betting products on the performance of the National Lottery is of very small magnitude** and is very much less important than the several other determinants of National Lottery performance over the long term. The key determinant of long-term Good Cause Funding will be the success or otherwise of increasing the numbers of adults buying National Lottery products across its various sales channels, something that is primarily within the remit of the license holder to influence.

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# 1.

## INTRODUCTION, OBJECTIVE, METHODOLOGY AND DATA

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The objective of this report is to analyse Good Cause Funding from the National Lottery and the factors impacting the long-term sustainability of such funding.

The commissioning of this report is in the context of possible legislative changes to deliver the partial or full prohibition of betting on the outcomes of lottery draws offered by the National Lottery in Ireland. Following significant political and media lobbying from the National Lottery licence holder, Premier Lotteries Ireland (PLI), and despite Government opposition to the proposal, a small number of Opposition Deputies in the Dail have used the Gaming & Lotteries Amendment Bill to table amendments proposing a ban of betting on the outcome of National Lottery draws on the basis that it reduces sales demand for National Lottery tickets and therefore reduces the Good Causes Funding generated by the National Lottery.

The report is primarily based on desk research using the national and international research literature statistics and information already available from existing sources such as Indecon's 2018 'Socio-Economic Impact of the National Lottery, An Independent Assessment' Report commissioned by PLI, the Regulator of the National Lottery, Oireachtas hearings, PLI annual financial reports and other documents and other statistics such as the Gambling Prevalence report and CSO statistics. There was no approach made in advance of publication to the Lottery Regulator or PLI to secure additional data from what is already made available in the public domain. However, the report does recommend that additional information on the operation and performance of the National Lottery should be made available in future.

The Indecon 2018 report provides much useful data on aspects of the National Lottery which would otherwise not be available.

Members of the European Lotto Betting Association (eLBA) provided data on turnover relative to online lottery betting in order to identify the share of the market accounted for by the leading specialist operators in that market sector.

The main sources of data are the annual reports of the Regulator (available up to 2017) and the PLI file accounts (available up to 2018) plus the Indecon 2018 report.

Appendix B of the 2017 annual report of the Regulator identifies 31 reports which are regularly provided by PLI to the Regulator. Some of these are publicly available such as financial report but other reports which are relevant to the topic of this report are not published, such as Base Marketing Annual Budget, Annual Activity Report, Unclaimed Prizes Report and Incremental Marketing Report. While recognising the issue of commercial sensitivity, there should be a greater effort to publish additional data on the operations of the National Lottery given the clear public interest around the Good Causes Funding associated with this activity. In addition, this is particularly relevant in light of its quasi monopoly role and the significant public policy support for the National Lottery.

In the context of this report, 'long term sustainability refers to the lifetime of the current National Lottery licence, which began in 2014 and covers a twenty-year period.

The current operator paid €405 million for the right to operate the National Lottery over this period and as a privately owned commercial operator with shareholders, it has to generate sufficient financial returns after prizes and Good Cause Funding to cover operating costs and investments, financial costs, payment of initial outlay and return on initial outlay.

The structure of the report is as follows. The level of Good Cause Funding is determined by, amongst other factors, the terms and conditions of the licence and relevant legislation. These conditions are outlined in section 2. Section 3 briefly explains the proposal to prohibit betting on National Lottery numbers and draw outcomes. Sections 4 and 5 present an overview of the structure and performance of the National Lottery and gambling in Ireland with a focus on those elements which could affect the long-term performance of Good Cause Funding. Section 6 assesses the factors determining the long-term performance of Good Cause Funding and is informed by the preceding sections 2 to 5. Section 7 presents the overall assessment and conclusion.

As discussed in the report, the level of Good Cause Funding will be influenced by an array of factors. The licence and legislation provisions are of significance including the licence provision on unclaimed prizes. The performance of gross gaming revenue is also a critical factor and this is determined by sales and prizes factors. Future sales performance will be influenced by a range of factors including population and demographic change, gambling activity, lottery playing participation rates, income levels, price, competition, regulatory conditions and technology.

## 2.

### LICENCE AND LEGISLATIVE DETERMINANTS OF GOOD CAUSE FUNDING

This section identifies the licence and legislative determinants of the Good Cause Funding. The 2013 legislation governing the National Lottery states that **prizes should be at least 50% of sales**. The licence states that **Good Cause Funding should be 65% of the Gross Gaming Revenue** calculated on an annual basis (Schedule 2, clause 6).

The issue of unclaimed prizes is of significance in the consideration of Good Cause Funding. The licence states (clause 6.8) that moneys becoming unclaimed prizes shall be paid to the licensee (PLI).

Clause 6.9.2 states that any **Expired Unclaimed Prizes shall be forfeited in favour of the licensee, provided that such Expired Unclaimed Prizes shall be used:** solely for the promotion of the National Lottery and/or the Lottery Games (excluding Base Marketing), in a manner determined by the licensee, which shall include the funding of special draws and additional or top-up prizes; and which may include Incremental Marketing and advertising of the National Lottery and /or Lottery Games; or such other activities to promote the National Lottery and/or Lottery Games as specifically agreed in writing with the Regulator from time to time; no later than 365 days from the date on which they were forfeited in favour of the Licensee.

The meaning of various financial and good cause related licence terms is explained below. **Gross Gaming Revenue** is defined in the licence as 'Total Net Sales minus prizes calculated over a Financial Year'. For the purposes of this clause, 1.1.24, the word "prizes" means the amount resulting from applying the weighted average prize percentage stated in the Lottery Game rules proposed by the Licensee and approved by the Regulator, calculated over all Lottery Games over the Financial Year on the Total Net Sales".

For purposes of the analysis in this report, we are presuming that the monetary value of prizes referred to in both the Regulator's and PLI's annual reports is equivalent to the licence definition of prizes. This implies that the unpaid prizes are included in the published figure for prizes. In other words, the prizes figure refers to the prizes due to winners, as opposed to the amount actually paid to winners. Our interpretation may be incorrect and can be clarified in the context of the additional data provision by the Regulator as recommended in this report. There is very limited information available currently on the treatment of unclaimed prizes in the published accounts or financial reporting of PLI.

Gross Gaming Revenue is a very important concept in the context of Good Cause Funding as it is the basis on which the 65% good cause proportion is calculated. The written report of Oireachtas Joint Committee on Finance, Public Expenditure and Reform and Taoiseach hearings with the regulator of the National Lottery (24/4/2018) includes a somewhat different definition of Gross Gaming Revenue. The regulator is reported as saying: *"The amount allocated to good causes is 65% of the difference between sales after free ticket prizes and retailer's commission, and prizes."* ' commission. It may be simply a reporting error and can be clarified as part of the already mentioned improved data provision. Our assumption is, as per the licence, that the Gross Gaming Revenue is sales (suitably defined) minus prizes.

**Base Marketing** is "... marketing expenditure that is fundamental to the operation and promotion of the National Lottery in the ordinary course, as determined by the Licensee in consultation with the Regulator on an annual basis in advance."



**Incremental Marketing** means all marketing expenditure of the Licensee other than Base Marketing.

The relevant magnitudes of the two marketing concepts are unclear as detailed information is not published. The amount of Base Marketing may be relatively low and this is raised to a necessary level consistent with competition and promotion by incremental marketing. Or, it may be that Incremental Marketing in the form of advertising is relatively small and most of the unclaimed prizes are allocated to top-up prizes and are returned to National Lottery players. Of course, this would, in turn, increase sales and most likely also increase the value of unclaimed prizes. Improved statistical availability would clarify this issue. Improved transparency on the scale and use of unclaimed prizes is of substantial public and policy interest given the high value of unclaimed prizes being generated. The only solid information on unclaimed prizes comes from an April 2019 Freedom of Information request by the Times Ireland.

The licence refers to **Total Net Sales** which this report treats as equivalent to the ticket sales figures provided by the Regulator and PLI. The licence treats Total Net Sales as all tickets sold adjusted for cancelled tickets, non-activated tickets and free tickets.

The broad summary of the financial determinants of Good Cause and other funding is shown below in Table 2.1

**Table 2.1 Financial determinants of Good Cause and other funding in National Lottery 2017**

Element of finances	Comment	€m
Sales of all National Lottery products		800.2
Minus Prizes	It is assumed this includes unclaimed prizes. Prizes should be at least 50% of sales. In fact, the prizes percentage is much higher than 50% (56.5% in 2017)	452.0
= Gross Gaming Revenue (GGR)	As per the licence definition	348.2
65% of GGR goes to good causes	The licence says 65%, not “at least” 65%	226.3
35% of GGR (what we describe as the “remainder of Gross gaming revenue”) is available to fund -retailers’ commission -operating and promotional costs -financial costs -investment costs -profits/return to owners		121.9
(Retailers commission)		(47.0)(see note)
(Operating and promotional costs, financial costs, investment costs, profits/returns to shareholders)	The marketing/promotional role/contribution/location of the unclaimed prizes is not identified in this summary	(74.9)

Note: €47 million is included for retailer commission. This is as published in Indecon 2018. However, the PLI financial accounts for 2017 present a figure of €48.8m for retailers’ commission.

The detailed statistics are examined later in the report. Our purpose in this section is to identify in a broad qualitative manner, supplemented by some illustrative quantification, the determinants of Good Cause Funding as dictated by the licence and legislative provisions.

The Good Causes Funding is a constant 65% of gross gaming revenue. Consequently, the gross gaming revenue is a major determinant of the amount of Good Cause Funding. Gross gaming revenue is total sales less prizes. Movements in either of these two variables affects the size of the gross gaming revenue and therefore the overall amount of Good Cause Funding. With a constant prize ratio, an increase in total sales will increase gross gaming revenue and Good Cause Funding, with a decrease in sales reducing gross gaming revenue and Good Cause Funding.

A constant level of sales will result in different gross gaming revenues for different prize ratios. As mentioned above, the current prize ratio substantially exceeds the minimum 50% set by the 2013 legislation. A reduction from the 2017 56.5% prize ratio to 50%, would have increased 2017 gross gaming revenue by €51.9 million and increased 2017 Good Cause Funding by €33.7 million.

Of course, it must be recognised that there is a commercial and competitiveness aspect to the prize ratio, apart from the legislative constraint. A lower prize ratio than currently offered might reduce the attractiveness of participation in the National Lottery games and reduce overall sales. The mix of games also affects the overall prize ratio as different games have different prize ratios. Anything that increases the gross gaming revenue also increases Good Cause Funding because the funding is 65% of the gross gaming revenue. Each additional €1 million in gross gaming revenue increases Good Cause Funding by €650k or 65% of the absolute change. This means that any effort by PLI to increase profits by increasing the gross gaming revenue will automatically also increase the amount of Good Cause Funding. The remaining 35% of gross gaming revenue which covers all costs, profits and shareholders return is described in this report as “the remainder of gross gaming revenue”.

Changes in the internal distribution of the remainder of gross gaming revenue can occur without having any effect on the funding for good causes. For example, an increased role for online sales would reduce retailer’ commission and even with possible increased operating costs would likely reduce the combined retailers’ commission plus operating costs. This would increase profits/ shareholders returns without any direct impact on Good Cause Funding. Likewise, an increase in operating costs would reduce profits/returns within a constant remainder of gross gaming revenue, without any direct effect on Good Cause Funding.

# 3.

## PROPOSAL TO PROHIBIT BETTING ON LOTTERIES

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As noted in the introduction, the issue of prohibiting betting on the outcomes of lottery draws is being considered by the Oireachtas. A brief summary of the reason for this is contained in the explanatory memorandum to the National Lottery (Protection of Central Fund) Bill 2018 drafted by Deputy Jim O’Callaghan of Fianna Fail.

In simple terms, it notes that the greater is the sale of National Lottery tickets, the greater is the amount of money available for Good Causes. The explanatory memorandum states that in recent years, ‘unregulated off-shore companies’ have started offering bets on the National Lottery draws. It also states that currently there are 15 such companies active in the Irish market and that this number will increase. It is unclear who these 15 companies are, as the European Lotto Betting Association (eLBA), representing the leading specialist lottery betting brands, argues that there are only six specialist online lottery betting companies licensed and active in the Irish market.

A possible explanation may be that there are several Irish bookmaker brands who offer various types of bets relating to the National Lottery, but these would not be usually described as ‘unregulated, offshore’ operations.

The memorandum argues that people can avail of these operations to bet on the National Lottery without buying lottery tickets. This, it is argued, results in less Good Cause Funding and as such, prohibition of such betting on the National Lottery draws is proposed as a critical factor in the protection of this funding.

Specifically, the proposed Act sought to impose a new condition on all Bookmakers’ licences (Bookmaker, Remote Bookmaker and Betting Intermediary) that nothing may be done either directly or indirectly to offer bets on the outcome of any lottery game under the National Lottery Act 2013. This last statement would imply the prohibition would apply to all Bookmaker offerings on lottery related bets despite the earlier reference to unregulated off-shore operations.

Discussion of prohibition of lottery betting has continued, with amendments having been suggested to the Gaming and Lotteries Amendment Bill with the same objective at the Oireachtas Justice Select Committee in July.. With the Government, through Minister David Stanton, taking the position that based on evidence presented, lottery betting is not a material threat to Good Causes Funding, the amendments were withdrawn at the end of the last session of the Oireachtas but may be resubmitted when the Bill reaches Report Stage in the Dail Autumn session.

The precise wording and coverage of such versions of the amendments in the future is unclear. For example, will the focus be on betting on full draws offered by the National Lottery (as offered by the specialist lottery betting companies such as those in eLBA) or on the different lottery numbers products offered by the traditional bookmakers (or potentially on both)? Will the prohibition apply only to the online channel or will all relevant transactions across all platforms including offline in the retail environment be included?

In order to make any reasoned judgement on the potential impact of the prohibition, further clarity on the scope and range of the measures would be needed. For example, following discussion of their tabled amendment at the Select Justice Committee hearing in July, Sinn Fein TD Donnchadh O’Laoghaire clarified his party’s by stating that..... *“The amendment was focused on online offshore organizations taking money away from National Lotteries (not on having a bet on lotto in bookies).”* (10 July 2019)

There are substantial and numerous stakeholders and entities interested in protecting or supporting the overall sales and commercial performance and position of the National Lottery.

The Government and Oireachtas appreciate the source of additional revenue for Good Cause Funding. The Department of Public Expenditure and Reform would like the operation of the licence to be a success. An Post and An Post Pension Funds are minority shareholders in the National Lottery. The latest published information listed the National Lottery as having 5,842 retail agents (2018 PLI annual financial report data) ranging from small independent retail traders, across a range of large multiple chains to An Post's network, which benefit from the sales of National Lottery products. These retail agents received €48.8m in commission in 2017 according to PLI accounts. Very many entities receive good cause support from the National Lottery. In addition, very many people play and win prizes. The Regulator of the National Lottery states that....." she carries out her functions in a manner most likely to ensure that the National Lottery is run with all due propriety, that the interests of participants in the National Lottery are protected, that the long term sustainability of the National Lottery is safeguarded, and (subject to the above), to ensure revenues allocated to Good Causes are maximized".

The precise wording of the proposed prohibition is of economic and social significance. If there is a blanket ban on all lottery related betting, there will be an additional significant negative economic effect on the many hundreds of bookmaker shops already reported to be struggling following the doubling of the turnover tax in the 2018 Budget. If the ban is confined to specialist Remote Bookmakers offering lottery betting, the direct negative economic effect will be low, with a possible negative being reduced competition for the National Lottery in a digital channel where they already under index versus their international counterparts.

The narrower ban on the specialist online operators is likely to have a very limited positive impact on National Lottery sales, while the broader ban will have a potentially larger positive impact on National Lottery sales but without any proof or expectation that these stakes are any more likely to be reinvested in buying National Lottery tickets elsewhere than they are to be spent in the retail shops (betting on horse or dog racing, soccer, politics, etc.), spent on other cause-based gambling activities like local club lottos or raffles or indeed absorbed by other discretionary spending of these consumers.

# 4.

## NATIONAL LOTTERY PERFORMANCE, SALES, PRIZES AND GOOD CAUSES

### 4.1 SALES AND PRIZES RATIO

When examining the sales performance of the National Lottery, one should be conscious that the figures are presented in current price terms. No account is taken of price increases.

The National Lottery had two price increases under the current licence holders, in September 2015 and in September 2018. Much of the statistical data considered in this section is taken directly from, or are indirectly derived from, material in the PLI-commissioned Indecon Report of 2018, the main focus being on the 2000-2018 period.

This gives an insight into the pre-economic collapse performance, the impact of the recessionary factors involved and the pre and post PLI license award periods. PLI began operating the National Lottery license at the end of 2014, so 2015 was its first full year of operation.

**Table 4.1 National Lottery sales and prizes share 2000 to 2018**

Year	Sales €m	Prizes as % of sales
2000	495.4	52.2
2001	538.1	52.5
2002	533.1	52.7
2003	559.2	52.6
2004	578.3	52.7
2005	616.4	52.7
2006	679.1	53.3
2007	778.5	54.1
2008	840.1	54.2
2009	815.1	53.8
2010	772.0	54.6
2011	761.4	55.5
2012	735.1	55.3
2013	685.2	55.9
2014	687.7	56.6
2015	670.4	56.8
2016	750.2	56.3
2017	800.2	56.5
2018	805.0	56.3

Source. 2017 figures from Indecon 2018. 2018 figures from PLI annual financial report 2018

Sales in 2000 were just under €500m. Between 2001 and 2004, sales reached €578.3m, an increase of €40.2m over the three years. The 2005 increase was €38.1m. In 2006 to 2008, there were substantial annual increases of €62.7m, €99.4m and €61.6m respectively. The 2008

sales were the highest achieved to date at €840.1m. Between 2008 and 2014, sales declined to €687.7m. The first year of PLI operation in 2015 saw sales decline further to €670.4m.

As noted above, the first price increase (increasing the Irish Lotto minimum two lines play cost by 20% to €5 and adding two numbers to the main draw, making it statistically harder to win the jackpot but with a higher chance to win a lower tier prize) was made in September 2015. The 2016 sales performance was a substantial increase from €670.4m to €750.2m, a jump of 11.9%. 2017 recorded another substantial increase to €800.2m, or 6.7%. However, the 2018 increase was more modest at 0.6%, reaching €805.0m in sales. There was another price increase in September 2018, this time affecting the EuroMillions Plus draw with the entry jumping from 50c to €1 per line.

In the context of concerns about lottery sales, it should be noted that between 2014 and 2018, the period when the new Remote Bookmaker licenses were granted to lottery betting brands like Lottoland, MyLotto24 and others, the National Lottery sales increased by €117.3m or 17.1%.

The share of prizes in sales has increased over the period covered in Table 4.1. It was between 52% and 53% for 2000 and 2005. It reached 53.3% in 2006. Thereafter, it was between 54% and 55% for three of the four years 2007 to 2010. The exception was 2009 when it was 53.8%. In 2011, it increased to over 55% and in each year between 2011 and 2018, it was between 55% and 55.9%.

It is recognised that the prize ratio or proportion which goes back to lottery players has commercial and competitive implications. A low prizes proportion makes the National Lottery products less attractive and a high proportion, which increases the number and size of prizes available, theoretically makes playing the National Lottery more attractive. Also, the evolving mix of the National Lottery product range changes the overall prize ratio levels over time, especially with scratch cards offline and online offering higher prize ratios than draw-based products. The exact causal relationship between sales and prize proportion is unclear. The impact that a 1% change in the prizes share would have on sales is an important strategic issue. In the context of Good Cause Funding, the issue would be the impact of a 1% change in the prize's ratio on gross gaming revenue.

It is likely that the increase in the prizes ratio over the past has had a negative effect on Good Causes Funding. We should recall that the legislation governing the National Lottery says prizes should be at least 50% of sales. It does not require a higher prizes share than 50%. In 2018, if the prizes share had been 50%, with no knock-on effect on sales, gross gaming revenue would have been €51.1m higher than the actual level. On the basis of 65% of the gross gaming revenue going to good causes, the Good Causes Funding would have increased by €33.2m in 2018 alone. If sales had decreased, the positive impact on Good Causes Funding of the lower prize ratio would be less.

A more modest improvement in Good Causes Funding would be to reduce the prizes ratio from the actual 2018 level to the average of the five years 2006 to 2010 which is 56.3% down to 54.0%. Applying the lower level to the 2018 performance would increase the 2018 gross gaming revenue by €18.5m and increase 2018 Good Causes Funding by €12.0m.

For a given level of sales, the prizes proportion of sales is a major determinant of the Good Causes Funding. Over time, the prizes share has increased and is well above the 50% requirement of the legislation. Of course, it may be the case that the current prizes ratio is the most efficient one to maximise Good Causes Funding because of the link between prizes ratio and sales. However, this is not clear to be the case and we do not know the Regulator's attitude to the prizes ratio. In a consideration of the factors determining the Good Causes Funding, the prizes ratio matters greatly. This is of particular importance in assessing the future performance of the National Lottery and Good Causes Funding. Clearly, a lower prizes share of sales would increase Good Causes Funding. The prizes shares of different products are referred to in section 4.6.

## 4.2 GOOD CAUSES FUNDING RELATIVE TO SALES

In the discussion around prohibiting various betting on lottery products and the possible impact on Good Causes Funding, there has been little or no discussion on the long term or more recent performance of Good Cause Funding relative to sales. For example, in 2009 Good Causes Funding was 32.3% of sales. In 2013 this had dropped to 30.0%. In 2014 it dropped again to 28.3%. In the four full years of PLI operation of the National Lottery licence, the Good Causes Funding as a share of sales has broadly stayed at the same level as 2014; 2015, 28.0%; 2016, 28.4%; 2017, 28.3% and 2018 28.4%.

The reduction in the Good Causes Funding as a share of sales is to be expected from the increase in the prizes share and therefore the reduction in the gross gaming share. The details are presented below in Table 4.2 for the period 2006 to 2018. Of concern for the long-term sustainability of Good Causes Funding is the long-term decline in the Good Causes Funding share of total sales. However, it has stayed relatively constant at the lower level over the period of the new licence.

**Table 4.2 Good Causes Funding as % of sales**

Year	National Lottery sales €m	Good Causes Funding as % of sales	Good Causes Funding €m
2006	679.1	32.1	218.0
2007	778.5	31.5	245.2
2008	840.1	31.9	268.0
2009	815.1	32.3	263.3
2010	772.0	31.6	244.0
2011	761.4	30.5	232.2
2012	735.1	30.6	224.9
2013	685.2	30.0	205.6
2014	687.7	28.3	194.6
2015	670.4	28.0	187.7
2016	750.2	28.4	213.1
2017	800.2	28.3	226.5
2018	805.0	28.4	228.6

Source. Derived from data in Indecon 2018 and PLI annual financial accounts

In the five years (2009 to 2013) prior to PLI involvement, the Good Causes Funding as a share of sales ranged from 32.3% to 30.0%, declining each year in the period and averaged 31.0%. In the five years 2014 to 2018, the shares ranged from 28.0% to 28.4% and averaged 28.3%.

As was illustrated for the prizes share in the previous section, different Good Causes Funding to sales percentage ratios will affect the overall level of Good Cause Funds generated. The current share of sales is 28.4%. In 2013, the share was 30.0%. If the 2013 share operated currently, the 2018 Good Causes Funding would be €12.9m higher. If the 2010 share of 31.6% applied in 2018, the 2018 Good Causes Funding would be €25.8m higher.

Consideration of the level and share of Good Causes Funding should take into account the upfront payment of €405m which PLI paid for the licence. This could be regarded as equivalent to a good cause contribution in the sense that it was a transfer to the Exchequer, enabling the Government of the day to decide where to allocate the additional finance. However, it must

be recognised that this payment along with other commercial payments, such as the interest payments and returns for risk, have to be financed from the cash flow derived from the National Lottery over the 20 years of the licence. Excluding the effect of a discount rate for the upfront timing, this is equivalent to €20m per year. On the basis that it is retrospectively categorised as a form of Good Causes Funding, this would increase the overall Good Causes Funding in 2017 from €226.3m to €246.3m, or 30.6% of sales. However, this point must also be viewed against the backdrop of the new licensing condition around unclaimed prizes, which effectively offsets much of the upfront license fee payment made, therefore quantitatively negating the perceived contribution to Good Causes Funding made by the upfront license fee payment.

#### 4.3 ONLINE SALES AND PRODUCT MIX

The use of the internet to source products and services is a rapidly growing feature of commercial life and consumer behaviour. This will continue to scale into the future and the role of online activity throughout the economy will increase. Despite recent notable growth in relative terms, the online share of total National Lottery sales in 2018 remains low. On all known economic trends, it will be critical that the National Lottery rapidly increases its share of online participation significantly if sales and good cause funding are to be sustained in the medium to long term. The recent online performance is shown below in Table 4.3. In 2018, online sales were €61.8m or 7.7% of total sales. This is in contrast to 2011, when it was below 1%. Even though there has been an increase in the share in recent years, for a modern gambling business, it is still a very small proportion of total sales. By comparison, 50% of Paddy Power Betfair's global revenues come from online.

Online sales are relevant to the unclaimed prizes issue. Generally unclaimed prizes do not arise with online sales as there is direct connection or audit trail to the customer who purchased the winning ticket. Retail lottery sales, by contrast, generate a physical ticket which can be lost or forgotten about, and apart from the physical ticket, there is no basis of contract or connection between the National Lottery and the holder of the ticket.

**Table 4.3 Online sales, €m and share of total sales**

	2011	2012	2013	2014	2015	2016	2017	2018
€m	6.1	8.7	11.3	17.5	23.0	40.7	52.1	61.8
% share of total sales	0.8	1.2	1.6	2.5	3.4	5.4	6.5	7.7

Source. *Indecon 2018 and 2018 from RTE media report*

Whilst there are relatively large annual percentage increases in online sales evident in the table above, these are from a low base and remain significantly short of the 15% target that PLI themselves announced on the award of the National Lottery licence in 2014. Since PLI has been operating the licence, the amount of online sales has increased from €17.5m in 2014 to €61.8m in 2018, an increase of €44.3m in 4 years. On the assumption of a constant overall online sales level growth of even €15m per year, the situation in ten years would be online sales of 26.3%, only just eclipsing the 25% of sales performance being achieved by the National Lottery in the UK in 2018.

To keep up with the increasing use and expectations of the online channel by consumers, it is likely that PLI will have to speedily increase its online penetration but given the focus on expanding the retail infrastructure and footprint since the license award in 2014, it remains to be seen where this objective is positioned in the medium term PLI commercial strategy. Of course, as outlined elsewhere in this report, the gain to PLI from unclaimed prizes is enhanced by over the counter retail sales and reduced by online sales.



As already noted, total National Lottery sales increased by €117.3m between 2014 and 2018. This was divided between an online sales increase of €44.3m or 37.8% of the total increase and a retail channel sales increase of €73.0m or 62.2%. Despite the extensive expansion of the lottery physical retail network over the period (outlined in section 4.4), the very good economic environment and the increase in prices, the physical sales increase was only 10.9% between 2014 and 2018. Online sales increased by 253.1% but this was from a very low base. The details are presented in Table 4.4. It is notable that online sales increased by 253.1% between 2014 and 2018 despite the concerns of the National Lottery about the perceived unfair competition from the 'unregulated, offshore' specialist online lottery betting operators during this time.

**Table 4.4 Online and Retail sales performance 2014 to 2018**

	Total sales €m	Online sales €m	Retail sales €m
2014	687.7	17.5	670.2
2018	805.0	61.8	743.2
% increase 2014 to 2018	17.1	253.1	10.9

Source. Derived from data in Indecon 2018 and RTE media report for 2018

We now briefly outline the product or games mix of National Lottery sales (Table 4.5).

**Table 4.5 National Lottery sales by game, 2017**

Game	Sales revenue €m	% of
Scratch cards	231.3	28.9
Lotto	228.9	28.6
EuroMillions	173.9	21.7
EuroMillions plus	55.2	6.9
Lotto plus	52.7	6.6
TellyBingo	15.9	2.0
Lotto54321	10.8	1.3
Digital instant win	10.1	1.3
Raffle	9.0	1.1
Daily millions	8.6	1.1
Daily millions plus	3.8	0.5
Total	800.2	100.0

Source. Indecon 2018

Scratch cards are the largest single product type, accounting for €231.3m or 28.9% of total sales in 2017. This is closely followed by the Lotto main draw game with €228.9m or 28.6%. EuroMillions main draw game is next with €173.9m or 21.7%. The next two games are well behind in fourth and fifth place. EuroMillions Plus generates €55.2m or 6.9% and Lotto Plus generates €52.7m or 6.6%. The other six games each range between 2% and 0.5% of total sales.

The recent performances in draw-based games and instant games (such as scratch cards and digital instant) are shown in Table 4.6.

**Table 4.6 Recent National Lottery performances in draw based games and instant games.**

	2015	2016	2017	2018	% change 2015 to 2018	€m change 2015 to 2018
Draw €m	482.5	529.8	558.8	537.3	11.4	54.8
Instant €m	187.9	220.4	241.4	267.7	42.5	79.8

Source. 2015 to 2017 Regulator's annual reports, 2018 RTE media report

Between 2015 and 2018, draw based sales increased by 11.4% or €54.8m, while instant games sales increased by 42.5% or €79.8m. Draw based sales increased in 2016 and 2017, and decreased in 2018. Instant games sales increased in 2016, 2017 and 2018. Instant sales were 38.9% of draw sales in 2015 and 49.8% in 2018. The decline in draw based sales in 2018 of €21.5m, or 3.8%, is notable. Instant games have a higher prizes share of sales than draw based games.

#### 4.4 RETAIL NETWORK DEVELOPMENT AND RETAIL COMMISSION

PLI has engaged in a very substantial expansion of the National Lottery retail agent network since 2014. There is a small difference between 2017 figures reported by the Lottery Regulator and PLI's financial accounts (5,663) and the figure used in Indecon 2018 (5,780). In 2006, there were 3,489 retail agents. This number increased each year to 2010, when it was 3,813. It declined to 3,700 in 2014 and has increased significantly each year between 2014 and 2017. 2018 information is available from the 2018 PLI financial accounts but only for the total number of agents and not for the core versus select agents. In 2015, the number was 4,002. In 2016, there was a very large increase to 5,290 and in 2017 there was a further increase to 5,780. Overall, between 2014 and 2017, using the Indecon data, there was an increase of 2,080 retail agents or 56.2%. The 2018 total was 5,842 agents. Between 2014 and 2018, there was an increase of 57.9% in the number of agents.

The very large increase in the retail network in 2016 and 2017 was due to the introduction of "Select Channel". The Select Channel type of retail agent permits the sale of a limited range of lottery products through Payzone and PostPoint agents and all An Post offices, as opposed to the "Core" network agents.

While the retail agent network increased by 56.2% between 2014 and 2017, the value of retail agent sales (total sales less online sales) increased by only 11.6% from €670.2m to €748.1m. On a net basis, the additional 2,080 core and select retail agents were associated with an additional €77.9m in retail sales. Information is not available for this report on the different sales performance of the 3,700 agents operating in 2014 and the new agents. It may be that sales in existing agents declined and sales in the new 2,080 agents were higher than the net figure of €77.9m referred to above. However, it seems reasonable to assume that the retail sales performance of the National Lottery between 2014 and 2017 (and probably 2018) was significantly supported by the expansion of the retail agent network.

It would be interesting to know the sales performance over the 2014 to 2017/2018 period of the then existing 3,700 retail agents. The above has implications for the ongoing sales performance of the National Lottery. It is unlikely that there is substantial scope for ongoing similar expansion of the retail agent network in the future. While there are still very many retail enterprises where lottery products are not sold, it may be undesirable from a public policy perspective to facilitate the expansion of the sale of gambling products such as the National Lottery into non-traditional areas such as public houses or other environments. In addition, the commercial attractiveness of additional network expansion may be limited. Future sales performance may be more reliant on organic growth within the existing retail network than on expansion of the retail network.

The Select Channel agents began in 2016. As noted above, between 2014 and 2018, the network increased from 3,700 agents to 5,842, an increase of 57.9%, while retail sales increased from €647.4m to €743.2m or 10.9%.

Details of the changes in the National Lottery retail network are shown in Table 4.7.

**Table 4.7 National Lottery retail agent network 2006-2017**

Year	Retail agents (Core Network)	Retail agents (Select Channel)	Total agents
2006	3,489	0	3,489
2007	3,623	0	3,623
2008	3,675	0	3,675
2009	3,794	0	3,794
2010	3,813	0	3,813
2011	3,780	0	3,780
2012	3,744	0	3,744
2013	3,745	0	3,745
2014	3,700	0	3,700
2015	4,002	0	4,002
2016	4,008	1,282	5,290
2017	3,969	1,811	5,780 (5,663 in PLI accounts)
2018	na	na	5,842 (PLI accounts)

Source. Indecon 2018 and Regulator and PLI annual reports.

The Core Network increased from 3,700 to 4,002 in 2015 and thereafter remained relatively constant reaching 3,969 agents in 2017.

The trend in retailer commission is shown in Table 4.8.

**Table 4.8 Commission paid to retailers and share of retail sales 2011 to 2017**

	2011	2012	2013	2014	2015	2016	2017
Online sales €m	6.1	8.7	11.3	17.5	23.0	40.7	52.1
Total sales €m	761.4	735.1	685.2	687.7	670.4	750.2	800.2
Retail sales €m	755.3	726.4	673.8	670.2	647.4	709.5	748.1
Commission €m	47.1	45.4	42.1	42.2	40.6	44.5	47.0
Commission as % of retail sales	6.2	6.3	6.2	6.3	6.3	6.3	6.3

Source. Indecon 2018. Indecon figures for commission differ slightly from PLI annual accounts. 2018 commission data unavailable.

The commission figures are taken from Indecon 2018. However, the commission figures presented in PLI's annual financial reports are a little different, €48.8m in 2017, €45.9m in 2016 and €41.9 m in 2015. The 2018 figure is not presented in the PLI 2018 accounts.

## 4.5 PLI FINANCIAL REPORTING

Some of the main features of PLI's annual financial accounts are presented in Table 4.9. The statistics are from the 2017 and 2018 accounts, although a small change in the presentation of the accounts should be noted. The 2018 accounts do not separately identify retail commission as an individual item as was done in previous years. In 2017, commission was deducted from net income to get gross profit but in the 2018 accounts, commission and some other item(s) (which were previously included in administrative expenses) are added together to get direct costs, which are deducted from net income to get gross profit.

As already noted, it is not clear how unclaimed prizes are accounted for in the PLI accounts. It should also be noted that PLI reports a loss before tax but this is not to be interpreted as the licence holder losing money from operating the National Lottery. To arrive at the loss figure, amortisation of intangible assets, which is included in administrative expenses, is deducted from the gross profit. This item mainly represents the recovery of the initial €405m outlay to secure the licence and is effectively repayment of the original upfront fee. In addition, a substantial part of financial expenses is interest payments to related parties. PLI also pays substantial amounts to An Post and Camelot for services provided. The broad summary shows that, after prizes and Good Causes Funding, there was a net income of €121.9m. Commissions of €48.8m are deducted from this, to generate a gross profit of €73.1m.

The administrative expense of operating the National Lottery was €55.7m in 2017, which leaves an operating profit of €17.4m. There is also a "financial expenses" debit of €31.0m which results in a loss before tax of €13.6m in 2017, which increased to €25.1m in 2018. A detailed look at the composition of both administrative expenses (Table 4.10) and financial expenses is warranted to get a more complete picture of the financial performance of PLI.

**Table 4.9 Summary of 2017 & 2018 PLI financial accounts €m**

	2017 €m		2018 €m
Sales	800.2	Sales	805.0
Less Prizes	(452.0)	Less Prizes	(453.6)
Less Good causes	(226.3)	Less Good Causes	(228.5)
=Net income	121.9	= Net Income	122.9
Less Commission	(48.8)	Less Direct Costs	(52.7)
=Gross profit	73.1	= Gross profit	70.2
Less Administrative expenses	(55.7)	Less Administrative expenses	(65.1)
=Operating profit	17.4	=Operating profit	5.1
Less Financial expense	(31.0)	Less Financial costs	(30.2)
=Loss before tax	(13.6)	=Loss before tax	(25.1)

Source. PLI financial accounts 2017 & 2018

The first three items of Table 4.10 are self-explanatory. Online costs, employee costs and accommodation costs are €17.4m in total in 2017 and €19.0m in 2018. Other overheads are €13.0m in 2017 and a slightly different description of €15.5m in 2018. Just over €20m of the amortisation of intangibles is the annual contribution to the initial licence cost of €405m.

**Table 4.10 breakdown of PLI administrative expenses for 2017 & 2018**

Cost item	2017 €m	2018 €m
Online facilities and service costs	7.3	8.3
Employee expenses	8.4	9.0
Accommodation costs	1.7	1.7
Other overheads	13.0	15.5 (described as other expenses in 2018 accounts)
Amortisation of intangibles	22.8	26.4
Depreciation on plant and equipment	2.5	4.1
Total administrative expenses	55.7	65.1

Source. PLI financial accounts

The main item in the financial expenses total of €31.0m for 2017 was the €18.8m paid in interest expenses on loans due to related parties, which increased to €20.6m in 2018.

#### 4.6 PRIZES RATIO IN DIFFERENT PRODUCTS

The prizes to sales ratio is not the same for all products. While the legislation establishes a minimum overall 50% of sales being allocated to prizes, PLI, with the agreement of the Lottery Regulator, can operate different pay-out ratios across their product offering. Based on data in Indecon 2018, the prizes share of sales was estimated for three products. The details are reported in Table 4.11. Scratch cards have the highest prizes ratio of the three products, 67.0% compared to EuroMillions which is 49.9%. Lotto is 51.9%. Other things being equal, a higher proportion of scratch cards in total sales will increase the prizes share for a given sales total, which is being reflected in the ongoing overall growth of the prize's ratio associated with the National Lottery. An increase in the prizes share reduces gross gaming revenue and therefore reduces the level of Good Causes Funding.

**Table 4.11 Prizes as share of sales in different lottery products 2017**

	Sales €m	Prizes €m	Prizes as % of sales
Scratch cards	231.3	155.0	67.0
Lotto	228.9	118.9	51.9
EuroMillions	173.9	86.8	49.9
Total sales	800.2	452.0	56.5

Source. Product sales from Table 2.2 of Indecon 2018, prizes are from Figure 3.5 (shares applied to 2017 prizes total).

While full details are not available for the Irish National Lottery, the UK National Audit Office report on the UK Lottery from December 2017 confirms the different prizes ratios for different products shows that prizes ratios and returns for good causes also vary across the UK lottery games. As of February 2017, the approximate returns for good causes per £1 spent by customers were:

- Draw based games purchased online: 34p;
- Draw based games purchased in a shop: 28p;
- Interactive instant win games: 14p (range from 10p to 21p);
- Scratch card games: 10p (range from 5p to 16p).

The report notes that the UK lottery ... “offers a higher proportion of proceeds as prizes for instants, to encourage consumers to participate, resulting in lower returns for good causes from instants. In 2016-17, the prize fund accounted for approximately 68% of gross sales for instants, compared with 49% for draw games”.

In summary, in the UK, instant games have a lower good cause impact than draw games and in person retail purchases generate a lower good cause impact than online purchasing.

#### 4.7 UNCLAIMED PRIZES

There is limited transparency on unclaimed prizes. A recent freedom of information request resulted in The Times Ireland publishing the information that between the start of the licence in November 2014 and 2018, unclaimed prizes amounted to €71.2m, which would be an average of about €17.4m per year. Discussion at the Joint Committee on Finance, Public Expenditure and Reform in April 2018 suggested that unclaimed prizes were 2% of sales but the published information indicates higher than expected amounts being generated by this licensing condition. The available details on unclaimed prizes are shown in Table 4.12.

The FOI data show that from 30 November 2014 and through all of 2015, the unclaimed prizes were €19.6m. We have assumed an even monthly spread of this and allocated €18.1m to 2015. The totals in the other years were €16.4m in 2016, €16.2m in 2017 and €19.0m in 2018. The share of total sales accounted for in unclaimed prizes ranges from 2.7% in 2015 to 2.0% in 2017. The latest 2018 figure was 2.4%. As a share of sales, excluding online sales, the share ranges from 2.8% to 2.2%, with the latest 2018 figure being 2.6%.

**Table 4.12 Unclaimed prizes 2015 to 2018**

	2015	2016	2017	2018	2015-2018
Unclaimed prizes €m	18.1	16.4	16.2	19.0	69.7
% of total sales	2.7	2.2	2.0	2.4	2.3 on average
% of retail sales (excluding online sales)	2.8	2.3	2.2	2.6	2.5 on average

Source. Unclaimed prizes FOI Times Ireland and author derivations

We recognise that the unclaimed prizes provision is part of the licence and its inclusion in the licence was probably a material factor in determining both the desire to acquire the licence and the price that was paid. It is nonetheless valid to relate the provision to alternative provisions such as the UK one where unclaimed prizes after 180 days go to Good Causes Funding.

We present two scenarios for the future value of unclaimed prizes. Scenario A assumes the continuation of the average pattern of the 2015 to 2018 period. Scenario B assumes online sales increase and retail sales decline to an average annual €670m. The scenario A average annual unclaimed prizes total was €17.4m between Jan 2015 and December 2018. Retail (excluding online sales) sales were €743.2m in 2018. Assuming on scenario B, a successful online development over the rest of the licence period and an average annual €670m in retail sales with a conservative 2.2% of sales being unclaimed prizes, the annual average unclaimed total

would be €14.74m or €234.6 (€235.84m less one month of final year) over the remaining 16 years of the licence. Combined with the €71.2m to date, there would be a total of €305.8m in unclaimed prizes over the licence. Clearly, a higher % share of sales in unclaimed prizes and a less successful online strategy would significantly increase the above estimate of total unclaimed prizes.

#### **4.8 ECONOMIC ENVIRONMENT 2014 TO 2018**

There was substantial growth in National Lottery sales of 17.1% between 2014 and 2018. This was facilitated by price increases and a vigorous expansion of retail outlets. It also occurred in a favourable economic and business environment. The number of adults (aged 15 years and over) increased by 5.5% in the same period. Employment increased by 14.4% between Q2 2014 and Q2 2018. Average annual earnings increased by 8.0% and the unemployment rate declined.

#### **4.9 COMPARISON WITH UK LOTTERY**

A brief summary of UK Lottery performance is shown below for 2018/19.

The UK Lottery pays a tax or duty of 12% of sales to the UK Government. There is no such tax in Ireland. The online share of sales is 25.4%. Prizes are 57.3% of sales which is higher than in Ireland, possibly reflecting the product mix driven by increased online penetration. Good Causes Funding is 23% of sales before duty is removed. It is 26.1% of sales after lottery duty is excluded but all prizes unclaimed after 180 days are ring fenced for Good Causes Funding.

Duty plus Good Causes Funding is 35% of sales, which is greater than the equivalent Good Causes Funding share in Ireland of 28%.

# 5.

## THE OVERALL BETTING AND GAMBLING MARKET INCLUDING THE ROLE OF LOTTERY BETTING

Comprehensive statistics on the national gambling market are not available but there are sufficient data points available to identify the broad role and market share of both the National Lottery and dedicated lottery betting Remote Bookmaker license holders. There is also sufficient data to identify the existing large share of the National Lottery enterprise in overall gambling. We first examine the absolute and relative prevalence of gambling in Ireland and then consider estimates of the size of the Irish gambling market.

The 2019 Prevalence of Gambling report (Department of Health), which refers to 2014/15, gives a good overview of gambling prevalence in Ireland. This is a survey and is subject to a degree of error when disaggregated data classifications are used. A summary of the findings are shown in Table 5.1 below. For purposes of the data analysis, “prevalence” refers to the proportion of the population who have gambled in a particular time period. Two time periods are used, the past year and the past month or more frequently. The data refers to 2014/15 and there are likely to have been changes in the interim period since the survey, with a reasonable expectation that internet gambling, particularly via smartphones, would have increased. However, the 2014/15 data is the latest available in this data series.

**Table 5.1 Prevalence of gambling in Ireland 2014/15**

Gambling type	% of population aged 15 and over; past year	% of population aged 15 and over; past month or more frequently
All gambling	64.5	41.4
Bought lottery ticket or scratch card in person	56.7	35.4
Played lottery games online	3.0	1.5
Gambled in a bookmaker’s shop	15.3	6.9
Gambled online or by telephone	4.3	2.4
Placed a bet at a horse or dog racing meeting	12.7	1.7
Played games at a casino	2.8	0.4
Played a gaming/slot machine	4.3	0.4
Played a card game for money with friends/family	7.8	2.2
Played bingo in person	4.3	1.5
Other	0.5	0.2

Source. Table 1.1 of Gambling Prevalence report



The dominance of lottery-themed gambling is apparent. 64.5% of the adult population (defined as 15 years and over) engaged in some gambling in the past year while 41.4% did so in the past month or more frequently. 56.7% of the adult population bought a lottery ticket or scratch card in person in the past year, while 35.4% did so in the past month or more frequently. The next most prevalent form of gambling is gambling in a bookmaker's shop with 15.3% (past year) and 6.9% (past month or more frequently). This is substantially behind the lottery prevalence. In third place (in order of the past year indicator) is betting at a horse or dog racing meeting with 12.7% (past year) and 1.7% (past month or more frequently).

Playing lottery games online was a relatively low 3.0% (past year) and 1.5% past month.

In terms of past month prevalence, the rankings are:

1. All gambling 41.4%
2. Lottery ticket or scratch card in person 35.4%
3. Bookmaker's shop 6.9%
4. Gambled online or by telephone 2.4%
5. Card game with friends/family 2.2%
6. Bet at horse/dog meeting 1.7%
7. Lottery games online 1.5%
8. Played bingo in person 1.5%
9. All three others each below 1%

If 41.4% of adults had some betting activity in the past month and 35.4% of adults bought a lottery ticket or scratch card in person, it broadly indicates that 85.5% of adults who had some gambling activity in the past month bought lottery tickets or scratch cards in person. It is uncertain that these lottery tickets and scratch cards were exclusively National Lottery products, however it is reasonable to assume that the vast majority of them were. Most club or local lotteries are online operations but there are many paper ticket-based raffles. It also coincides with estimates that around 40% of adults play the National Lottery. This is a very large degree of reported penetration by the National Lottery of the gambling market. This feature matters for the long-term sustainability of lottery sales, gross gaming revenue and Good Causes Funding because the more pronounced the lottery play behaviour among the current adult population, the more difficult it is to increase or even sustain it in the future, especially with the online performance issues that the National Lottery is having. However, it should be noted that in the long-term population will increase, which provides a basis for organic lottery growth providing there is the maintenance of their share of gamblers and gambling related spending levels across all adult demographics.

The age profile of gambling prevalence is shown in Table 5.2. This is also of significance for the longer-term sustainability of lottery sales related to future demographic structure and change.

**Table 5.2 Prevalence of monthly (or more frequently) gambling in Ireland by age 2014/15**

<b>Gambling type/ age group (years)</b>	<b>All 15 and over</b>	<b>15-17</b>	<b>18-24</b>	<b>25-34</b>	<b>35-44</b>	<b>45-54</b>	<b>55-64</b>	<b>65 and over</b>
All gambling %	41.4	7.9	27.9	41.9	44.7	46.4	49.4	45.0
Bought lottery ticket or scratch card in person	35.4	4.6	16.3	34.4	39.7	42.8	44.0	41.0
Played lottery games online	1.5	0.0	1.5	2.3	1.8	1.3	1.5	0.6
Gambled in a bookmaker's shop	6.9	3.6	11.0	9.9	7.0	5.6	5.1	3.6
Gambled online or by telephone	2.4	0.9	4.8	5.7	1.9	1.0	0.8	0.1
Placed a bet at a horse or dog racing meeting	1.7	1.5	2.4	2.5	1.1	1.3	1.8	1.4
Played games at a casino	0.4	0.3	1.6	0.8	0.1	0.1	0	0
Played a gaming/slot machine	0.4	0.3	1.4	0.8	0.1	0.1	0.1	0.2
Played a card game for money with friends/family	2.2	2.4	3.6	1.7	1.4	2.2	2.1	2.5
Played bingo in person	1.5	0.9	0.4	1.1	1.2	1.1	2.8	2.9
Other	0.2	0	0.3	0	0.3	0.2	0.4	0.2

Source. Table 3 of Gambling Prevalence report

A notable feature of the age profile of gambling is that the activity of buying a lottery ticket or scratch card in person increases with age, except for a slight decline in the 65 and over age group. The data refers to gambling activity in the past month or more frequently, with 4.6% of those in the 15-17 age group having bought a scratch card or played the lottery in that period. The equivalent figure for the 18-24 age group was 16.3%. This rose greatly to 34.4% for the 25-34 age group, 39.7% for the 35-44 age group, 42.8% for the 45-54 age group and 44.0% for the 55-64 age group. It dropped a little to 41.0% for the 65 and over age group.

The question arises of how lottery activity may change as a particular population cohort ages. For example, will the current (2014/15 data) propensity for lottery participation of the 25-34 age group (34.4% of total) remain the same as it ages into older age groups or will it increase to the higher levels of the current older age groups. Put in another way, the current propensity of the 55-64 age group to play the lottery in person is 44.0%. Was this propensity also 44% when the current 55-64 age group was in the 35-44 age group 20 years earlier or would it have been lower?

The impact on lottery performance of future demographic structures and changes will be different based on whether people change their lottery gambling behaviour as they move into

the older age groups or if they retain the same behaviour as when in younger age groups.

Another notable feature in the context of this project is the very low proportion of each age group which has played lottery games online, albeit this was back when the National Lottery's online sales represented less than 3% of their overall sales activity. Only 1.55% of the total adult population played lottery games online in the past month. The highest proportion, 2.3%, was in the 25-34 age group. The three oldest age groups were 1.3%, 1.5% and 0.6% respectively. More generally gambling online or by telephone was 2.4% in the past month or more frequently which ranged from 5.7% in the 25-34 age group to 0.1% in the 65 and over age group.

The dominant role in gambling prevalence played by lottery tickets and scratch cards is apparent across the different age groups as shown in Table 5.3. The indicator refers to the proportion of those with gambling activity who bought a lottery ticket or scratch card in person. 45% of people in the 65 and over age group had some gambling activity in the past month and 41% of this age group had lottery activity, which is 91.1% of the 65 and over age group who gambled.

The overall proportion as mentioned above was 85.5%. The lowest proportions were in the two youngest age groups, 58.2% and 58.4%. All the other age groups are above 80% ranging from 82.1% (25-34 age group) to 92.2% (45-54 age group).

**Table 5.3 Proportion of gamblers in an age group who bought lottery tickets or scratch cards in person, past month**

	15-17	18-24	25-34	35-44	45-54	55-64	65 and over	All 15 and over
Any gambling activity %	7.9	27.9	41.9	44.7	46.4	49.4	45.0	41.4
Bought lottery tickets or scratch cards in person %	4.6	16.3	34.4	39.7	42.8	44.0	41.0	35.4
Lottery in person gamblers as % of all gamblers	58.2	58.4	82.1	88.8	92.2	88.5	91.1	85.5

Source. Derived from Gambling Prevalence report

Indecon (2018) referred to some of the contrasting demographic features of the weekly lottery playing population and the national population. A higher proportion of lottery players are male compared to the national population. A higher proportion of weekly lottery players are in the older age groups compared to the national population. The data are presented in Table 5.4.

**Table 5.4 Age profile of weekly National Lottery players compared to national population.**

	Weekly lottery players %	National population Census of Population %
Male	56	49
Female	44	51
<b>Age</b>		
18-24	3	11
25-34	14	18
35-49	35	30
50-64	27	23
65 and over	21	18

Source. Reproduced from Indecon (2018)

35% of weekly lottery players are between 35 years and 49 years compared to 30% of the population. 27% of weekly lottery players are 50 to 64 compared to 23% in the national population. 21% of weekly lottery players are 65 years and over compared to 18% of the national population. Overall, 83% of weekly lottery players are 35 and over compared to 71% of the national population.

Some of the annual reports of the previous lottery license holder mentioned the level of participation and the annual reports of the regulator have also referred to this indicator. The 2013 National Lottery annual report stated that *“The high rate of player participation continued during the year with 62% of all adults playing one or more National Lottery games on a regular basis.”* (page 5). However, the 2014 annual report stated that *“The high rate of player participation continued during the year with 44% of all adults playing one or more National Lottery games on a regular basis”.*(page 6)

It is unlikely that the actual decline in participation was from 62% of all adults to 44%. The 2015 Lottery Regulator’s annual report noted that 1.4 million adults played the National Lottery on a regular basis representing more than 40% of the adult population. The 2016 annual report noted the same performance for 2016... *“1.4 million people played National Lottery games on a regular basis, representing more than 40% of the adult population.”* For 2017 the regulator reported that ... *“more than 1.4 million people played National Lottery games on a regular basis in 2017. This represents more than 40% of adults in Ireland.”* The RTE media report on the 2018 National Lottery performance notes that *“about 1.3 million people played the National Lottery games on a regular basis, representing about 40% of the adult population.”*

Between April 2013 and April 2019, the number of adults (aged 15 and over) increased by 291.8k or 8.1%. Adults aged 20 and over increased by 256.3k or 7.7%.

**Table 5.5 Adult population Estimates (Persons in April) (Thousand) by Sex, Age Group and Year**

	2013	2014	2015	2016	2017	2018	2019
<b>Both sexes</b>							
15 years and over	3,620.8	3,647.9	3,686.1	3,734.1	3,785.5	3,848.3	3,912.6
15 - 19 years	284.4	290.6	296.1	301.2	308.5	316.2	319.9
20 years and over	3336.4	3357.3	3390.0	3432.9	3477.0	3532.1	3592.7

Source. CSO

The media report 2018 figure of 1.3m adults represents 36% of the 20 years and over measure of the April 2019 population and 33% of the 15 and over total.

As already noted there are inadequate gambling statistics for Ireland. The tables on gambling prevalence identified a range of gambling activities. There are no official turnover statistics on several of these activities such as bingo, playing cards with friends/family, slot machines, casino gambling, small and club lotteries and unofficial private/social sports pools on major sports events such as World Cups and European championships. It is possible to estimate the main retail and online bookmaker turnover from the Revenue Commissioners' tax receipts. From 2016 to 2018, a turnover tax of 1% was charged on all bookmaker turnover. The tax receipts data are published by the Revenue Commissioners. Details of market estimates are presented in Table 5.6. The published tax receipts are assumed to be 1% of turnover for the two main categories.

**Table 5.6 Estimated size of gambling sector in Ireland €m**

	2016	2017	2018	% change 2016 to 2018
Traditional bookie betting	2,812.6	2,895.7	2,886.7	2.6
Online betting	2,074.9	2,142.1	2,168.7	4.5
National Lottery	750.2	800.2	805	7.3
Total of above three	5,637.7	5,838.0	5,860.4	4.0
National Lottery share of total	13.3	13.7	13.7	na

Source. Based on revenue tax receipts and lottery statistics

Between 2016 and 2018, overall licensed bookmaker shop betting (including betting on lottery number products) increased by 2.6%. Total online betting increased by 4.5% but the National Lottery turnover increased by 7.3%. The National Lottery performed well compared to the other major gambling mediums in the recent two years.

The estimates in Table 5.6 indicate a market of €5.86 billion. As noted above, many forms of betting are not included in this estimate. Betting commissions accounted for €1.78m in tax receipts in 2018. On the basis that the gross margin tax yield was intended to be broadly equivalent to the 1% turnover tax, this would indicate a turnover equivalent of about €178m. To avoid overestimation, we could assume €150m in turnover equivalent. Local online lotteries could number circa 500 individual games at minimum and possibly much higher. On the assumption of an average annual €100k turnover per local lottery game, this would be equivalent to about €50m in sales. There are, of course, very many gambling operations at club and local level which are not online based, including raffles. On the assumption that other forms of gambling aggregates to €50m in sales, we would have an overall gambling market of €6.160 billion.

This indicates that the National Lottery accounts for 13.1% of the total Irish betting market. While this is a large component of the total market, it shows that 87% of gambling is not on National Lottery products. The National Lottery began in 1987 and in the intervening period of 32 years, it has not succeeded in significantly eliminating the many other forms of gambling including local lotteries. As such, a strong degree of competition is nothing new or an overly negative factor on the overall performance of the National Lottery or its' ability to generate significant Good Causes Funding.

In the three years of 2016, 2017 and 2018, the National Lottery has improved its relative position compared to the narrow measure of the gambling market in Table 5.6. In 2016, it was 13.3% of the total and this rose to 13.7% in each of 2017 and 2018. On a longer term basis,

National Lottery sales as a percent of traditional bookmaker turnover was 26.1% in 2011, 27.1% in 2012, 27.0% in 2013, 26.3% in 2014, 24.2% in 2015, 26.7% in 2016, 27.6% in 2017 and 27.9% in 2018. The National Lottery performances in 2018 and 2017 are the best of the 2011 to 2018 period. It would not appear that the National Lottery has seen any significant displacement of stakes caused by either the long term presence of lottery numbers betting in the retail bookmakers or the newer competition provided by specialist lottery betting operators in the Remote Bookmaker license category.

The proportion of lottery related stakes in total sales via retail bookmaker and remote bookmaker categories is uncertain. Various uncorroborated figures have been suggested in the returned policy related debate but without supporting evidence of accuracy. One suggestion attributed to PLI within recent media coverage is that lottery numbers betting in licensed bookmakers amounts to about €400m turnover annually. This appears to be based on 10% of retail betting turnover and 5% of remote betting but again the basis for this assertion is unclear. It is beyond the scope of this report to undertake an estimation of the actual bookmaker lottery numbers betting turnover. There is no published source for these speculative estimates and the bookmaker industry disputes them. Obviously, lower assumed shares would result in lower amounts but these would also be arbitrary. It seems to have been assumed in the policy debate, that these displaced revenues, whatever their value, would transfer entirely to National Lottery products. However, this is most unlikely and is discussed in section 6.

The European Lotto Betting Association (eLBA) have previously indicated in media statements that there are only 6 licensed specialist online lottery betting operators in Ireland and not the 15 operators which has been suggested in the debate around the proposed prohibition of lottery betting. Based on 2017 figures provided by the three leading eLBA members licensed and active in Ireland (Lottoland, myLotto24 and lottogo.com), the total draw-based betting turnover for this group was only €1.4 million. Including the rest of the 6 licensed operators, it is assumed that total lottery betting turnover would rise to about €2.5m.

The 2018 situation does not indicate any significant increase in these turnover figures; in fact the opposite is the case. One of the three companies has announced its withdrawal from the Irish market, a second had a turnover decline of more than 10% and the third had an increase in turnover of about 4%. The 2017 figures show that this niche market segment accounts for only 0.45% of the €558.8m million draw based sales turnover of the National Lottery in 2017. The leading three companies' turnover of €1.4m accounted for only 0.25% of the National Lottery draw based sales in 2017. Of course, this figure may grow over time but based on these figures, the 2018 trend and the fact that these operators have already been licensed and active in Ireland for over three years, it is difficult to see that their prohibition from offering lottery betting would have any significant positive effect on National Lottery sales and the overall Good Causes Funding.

One can appreciate that any commercial operator, particularly one in a quasi-monopoly position, would like to remove existing or potential competitors. This would reinforce an already very strong market position and reduce the pressure to compete and to innovate. As with other gambling activity, including the lottery numbers betting in retail bookmaker shops, there is no basis for expecting a 100% transfer of prohibited stakes back to National Lottery products. In any event, even a 100% transfer would be relatively insignificant as shown by the above figures.

# 6.

## ASSESSMENT OF FACTORS DETERMINING THE AMOUNT OF GOOD CAUSES FUNDING GENERATED BY THE NATIONAL LOTTERY AND THE LONG-TERM SUSTAINABILITY OF GOOD CAUSES FUNDING

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### 6.1 INTRODUCTION

The level of Good Causes Funding over the long term will be influenced by several factors. The licence and legislation provisions are of significance including the licence provision on unclaimed prizes. Future sales performance will be influenced by a range of factors including population and demographic change, economic environment, gambling activity, lottery playing participation rates, income levels, price, competition (including the number and commercial activities of new market entrants in the lottery betting and other new gambling spheres), regulatory conditions, strategy of licence operator and the emergence and adoption of new technology. The share of prizes in sales directly affects good causes funding. The assessment is based on the empirical analysis of the previous sections.

In summary, the future performance of Good Causes Funding depends on sales and prizes. Sales are determined by the number of people playing the lottery and the average spend per player. Prize ratios are determined by commercial and strategic considerations. All of this must be consistent with the regulatory conditions.

There is no guarantee that the National Lottery will continually grow. The decline in sales from €840.1m to €685.2m between 2008 and 2013, that was mainly due to a weak economic environment, is evidence of this. Equally, the growth from the 1987 sales of €130.0m in its first year to €538.1m in 2001 is evidence that substantial growth can occur in the right macro-economic conditions. It is important to note that the National Lottery is not unique in being affected by this and in fact, may be less susceptible to the variance caused by economic factors than other gambling mediums based on its brand, customer perception and value proposition.

### 6.2 LICENCE PROVISION ON GOOD CAUSES FUNDING

The Good Causes Funding which is financed by the National Lottery is firstly determined by the terms of the licence and the relevant legislation. It is not likely that those terms will be changed over the lifetime of the licence. The licence states that Good Causes Funding must be 65% of gross gaming revenue (see section 2 of this report). Gross gaming revenue is sales minus prizes. Consequently, the sales and prizes performances are determinants of Good Causes Funding. This provision links Good Cause Funding to operating costs and profits and supports funding sustainability.

### 6.3 PRIZES AS A SHARE OF SALES

As shown in section 4 of this report, the current and recent share of prizes in National Lottery sales is substantially above the legislative minimum (although still lower than the UK equivalent). There are commercial factors determining the prizes share but it is not possible to determine on the available evidence whether the prizes share is at a specific commercially minimum necessary level, e.g. to support sales or to maintain competitiveness. However, it is clear from the data that if the prizes ratio of 2018 (56.5%) was at the legislative minimum instead (50.0%), Good Causes Funding would benefit from an additional €34 million in 2018. Each 1 percentage point reduction from the 2018 share would generate an annual additional €5.2m for good causes. Apart from the overall requirement that the total prizes share should be at least 50% of total

sales, the mix of games has an effect on prizes share and Good Causes Funding. Scratch cards (67%) have a larger prize to sales share than the lotto game (51.9%). A reduction from the current share of prizes in sales would increase Good Causes Funding. Consideration of the relative and absolute share of Good Cause Funding should arguably take account of the upfront payment of €405m, which annualised without taking account of time preference, is just over €20m per year. However, this sum is repaid to PLI as the licence holder through the amortisation mechanism over the period of the licence, along with other commercial payments. Of course, the substantial role of unclaimed prizes which are returned to PLI as part of the license conditions should also be factored into assessment of the upfront payment.

#### 6.4 LICENCE PROVISION ON UNCLAIMED PRIZES

The licence’s provision on unclaimed prizes has a negative effect on Good Causes Funding relative to what the condition might have been. The current licence does not require the transfer of any unclaimed prizes to Good Causes Funding, as is the case in the UK. Instead, they can be used for various top-ups of prizes, marketing and promotion purposes, within the oversight of the Lottery Regulator. The sums involved are substantial. Annual unclaimed prizes have been reported in the media to be as high as an average €18m per year. The National Lottery argues that this additional marketing resource boosts sales and therefore increases Good Cause Funding. However, the extent to which the unclaimed prizes allows the licence holder to offset their own marketing budget, or substantially reinforce an already strong marketing effort, is unclear.

In any event, excluding possible indirect effects, the licence provision on unclaimed prizes compared to a requirement to use it for Good Causes Funding reduces that funding by a substantial amount, by almost €72m in terms of the license period to date and possibly in excess of €300m over the course of the full 20 year license term, even allowing for a better online performance and an associated drop in unclaimed prize amounts. Consequently, the higher the proportion of sales that go through the offline retail channel, the higher will be the value of unclaimed prizes being returned to PLI, in addition to the very substantial free publicity and brand awareness generated by the media publicising efforts to track down lost ticket holders. Also, any price increases, particularly that boost the prize award ratios and/or reward retail purchasing behaviour, will also increase sales and deliver an indirect benefit to the license holder through the unclaimed prizes mechanism.

#### 6.5 POPULATION AND DEMOGRAPHIC CHANGE

On the assumption of an unchanged rate of lottery playing among the adult population and an unchanged prize share, a growing population will have a positive effect on lottery sales and Good Cause Funding. Ireland’s population is expected to increase substantially over the period of the licence, and this will potentially have a positive effect on lottery sales and Good Cause Funding. Population projections are available from the CSO up to 2051. The closest year to the end of the licence period for which projections are available is 2036. There are different projections based on alternative assumptions for fertility and migration. The figures presented below refer to the M2F2 projection which is moderate fertility and migration levels.

**Table 6.1 Projected population to 2036 (M2F2)**

	<b>Total population million</b>	<b>Adult population (15 years and over) million</b>
2016	4.7396	3.7341
2026	5.2065	4.2689
2036	5.5718	4.7187
% change 2016 to 2036	17.6	26.4

Source. CSO Population and labour force projections 2016 to 2051



Between 2016 and 2036, the population is expected to increase by 17.6%. However, numbers in the 0-14 years age group will decline, which results in the adult population (aged 15 and over) increasing by 26.4% or 984.6k people. This is a substantial increase in the broad base of potential customers of the National Lottery and other gambling operators. The 2018 adult population was 3.8482 million. This gives an increase between 2018 and 2036 of 22.6% or 870.5k adults. Of course, as seen in section 5, only a proportion of adults play the lottery and based on demographic trends around retail behaviour and online migration, this proportion is likely to decrease unless the National Lottery starts to address its competitive issues in the online channel. However, on the assumption, which is challenged below, that all else (such as participation rates) remains unchanged over the period of the licence, the basic growth in the population of adults facilitates a potential 22.6% increase in the various lottery financial aggregates including good cause funding starting from 2018.

## 6.6 ECONOMIC ENVIRONMENT AND INCOME LEVELS

It is very difficult to forecast economic performance over the long term especially the phases of the business cycle. A No Deal Brexit will have significant short-term negative effects, which will likely knock on in a reduction in sales of lottery products. Over the medium and longer terms, economic growth will resume. The settled-down growth rate will be lower than otherwise with a No Deal Brexit, but annual growth will still be positive. The expectation is that excluding the short-term substantial negative of Brexit and ongoing cyclical effects, the Irish economy will perform well in the long term in terms of growth, employment and average incomes. Excluding the Brexit effect, long term economic performance will be supportive of lottery sales.

## 6.7 GAMBLING ACTIVITY AND LOTTERY PLAYING PARTICIPATION RATES

National Lottery sales could increase through increased participation in gambling and in lottery playing. The prospects for this are weak based on the data reviewed in section 5. Lottery and scratch card retail purchasing already has a very large incidence. 41.4% of adults reported some betting activity in the past month according to the Gambling Prevalence report and 35.4% of adults reported buying a lottery ticket or scratch card in person. This possibly indicates that a very high proportion of 85.5% of those who gamble do so with the National Lottery. It would be difficult to increase this 85.5% figure. Equally, it is uncertain that the 45% gambling participation rate will increase. The lottery participation rate is substantially ahead of other betting activities. The next highest was 6.9% for adults who gambled in a bookies shop in person.

The 2014 annual report stated that “*The high rate of player participation continued during the year with 44% of all adults playing one or more National Lottery games on a regular basis*” (page 6). The 2015 National Lottery Regulator’s annual report noted that 1.4 million adults played the National Lottery on a regular basis representing more than 40% of the adult population. The 2016 annual report noted the same performance for 2016... “*1.4 million people played National Lottery games on a regular basis, representing more than 40% of the adult population.*” For 2017, the Regulator reported that ... “*more than 1.4 million people played National Lottery games on a regular basis in 2017. This represents more than 40% of adults in Ireland.*” The RTE media report on the 2018 National Lottery performance notes that “*about 1.3 million people played the National Lottery games on a regular basis, representing about 40% of the adult population.*” However, 1.3 million adults are equivalent to 36% of the 20 years and over measure of the April 2019 population and 33% of the 15 and over total. Whatever the detail of the reported numbers, the broad indication is of a declining participation rate.

## 6.8 PRICE

Clearly price is a factor in generating turnover. On the assumption that demand for lottery products is price inelastic (percentage change in price is greater than the resulting percentage decrease in volume demanded), a price increase will lead to a turnover increase. There have

already been two price increases since the start of the new licence. On that basis, one could presume that over the next few years there will be requests for additional price increases. In the immediate term, there is unlikely to be a further price increase.

## 6.9 COMPETITION (INCLUDING ONLINE BETTING LICENSEES)

Since its launch in 1987, the National Lottery has been exposed to substantial and increased competition. Despite the focus on Good Causes Funding and “playing” the game, the National Lottery is a gambling exercise. There are many alternative forms of gambling and there are many substitutes for gambling on the lottery. This has always been the case. In more recent years, the range and types of gambling products have increased. Clearly many people buy lottery tickets who do not engage in any other gambling. For example, 35.4% of people bought a lottery product in person while the total figure for all other gambling activities was 17.2%. It is useful to differentiate between the lottery number type betting products offered by the bookmaker sector and the full draw betting opportunities offered online by specialist lottery betting Remote Bookmaker licensed operations.

The Irish Bookmakers Association (IBA) has argued that their lottery number type product is clearly differentiated from the National Lottery, as people can bet from 5 cent and upwards on single numbers, right up to 5 numbers (but not the full draw result), and has been in place for over 20 years without being a significant impediment to the National Lottery performance or a major threat to the funding for good causes. As discussed earlier in this report, there are uncertainties about the scale of this activity. As noted in section 5, those arguing for a ban have referred to around €400m in turnover, which results in an assumed amount of €110m being lost to Good Causes Funding if this figure was fully diverted back to National Lottery turnover. Whatever about the turnover figure assumed, the assertion around displacement is unrealistic.

Given the gambling prevalence figures, it is likely that many, if not most, of the people who gamble on the lottery numbers in retail bookmakers also buy or have bought National Lottery products. It is also the case that some of the bookmaker lottery number gamblers would not wish to play the lottery or buy scratch cards due to the different experience and odds relating to the different products. We have already seen that 85.5% of people who gamble in any way buy lottery tickets or scratch cards in person. This excludes the small proportion which plays the lottery online. It is nonetheless possible that some of the proposed prohibited activity would transfer as additional sales turnover for the National Lottery. However, the evidence would suggest it would be a very small proportion. Whatever the uncertainties about the exact proportion, it is reasonably certain that it is much less than a full transfer of displaced stakes to the National Lottery. However, as noted, quantified information on this behaviour and size of market segment are very limited and more exact data is needed for analysis before making decisions regarding possible legislative changes.

On the negative side, the removal of this marginal turnover, particularly from small independent retail bookmakers, would clearly reduce their already challenged commercial viability position, likely contributing to additional closures with loss of employment and associated taxes. Larger bookmaker chains may reconsider the viability of smaller shops if lottery numbers related turnover is lost. This prohibition would be in addition to the recent doubling of bookmaker turnover tax, the effects of which have yet to play out over a full calendar year.

The figures involved in the online lottery betting sector are tiny relative to the National Lottery operation and it is difficult to see how the sector has any significant negative impact on National Lottery and its Good Causes Funding. It is possible that in the future, the online lottery betting sector will have grown to such a large scale that it then constitutes a threat to the National Lottery but that remains to be seen. On the recent performance, that is to be considered unlikely. The turnover figures provided by the leading eLBA licensed operators for Ireland (including myLotto24, who recently announced their decision not to renew their Irish license due to changes in their commercial strategy) show that this is most definitely not the case at present. As noted in section 5, the size of the sector is surprisingly small, with total turnover of about €2.5m in 2017.

On the assumption that even 50% of displaced turnover would move to the National Lottery in a prohibition scenario, there would be an increase of only 0.15% or about €350k in Good Causes Funding generated annually. This is a very small sum compared to the possible impact on Good Causes Funding of positive changes in other areas such as overall sales, numbers of adults playing, prizes share, unclaimed prizes or the strategy of the National Lottery itself. On the negative side, the impact of reduced competition in the online channel is unlikely to see PLI prioritise the performance of its online channel any more than currently, arguably worsening the long term damage that this under development may cause as player behaviour and demographics rapidly evolve.

There is also the concern that the National Lottery could target other sources of competition in gambling spend in the future, particularly those much more linked to alternative sources of Good Causes Funding, such as local sports club and community lotteries. One must recognise the value of the National Lottery brand, which a private operator in PLI has paid a substantial up-front sum to acquire for the 20-year license period but the Regulator has powers to protect the brand if she/he so decrees.

## 6.10 STRATEGY OF LICENCE OPERATOR AND TECHNOLOGY.

The PLI strategy over the past few years has included a very active development of the retail agent network, continued development of its relatively small online share of turnover and price increases. Its online share at the end of 2018 (7.7%) remains significantly below the 15% share of sales that was envisaged when the licence began and is well below the 25% online share of the UK lottery sales as it stands today. One can see the short term strategic sense in that commercial strategy from the operator's perspective, if not from the state's view. The management of the "new" lottery license holder was much the same as the previous state operator. The chief executive remained the same and the staff of the old National Lottery moved over to the new operator. Furthermore, the former operator is a shareholder in the new operation. The management team had extensive experience and success in the development and operation of a primarily retail networks. An Post, a shareholder, had access to an extensive post office network.

The unclaimed prizes provision was probably also of direct relevance in the early strategy of the new license holder. Unclaimed prizes occur almost exclusively in the retail network as opposed to the online side of the business. Increasing the size of the retail network increased the retail turnover and undoubtedly increased the value of unclaimed prizes, particularly in a scenario where the proportion of prize winning chances increased. The unclaimed prizes, as per the provisions of the licence, could be used for additional marketing and promotion, which in turn would drive turnover and increase the strength of the brand.

In the author's opinion, a continuation of this strategy will not secure continuing growth in sales and Good Causes Funding in the long term. The operator probably recognises this. There will have to be a greater reliance on the online channel for sales growth. There are likely to be limits to continued expansion of the retail agent network, especially at the rate of the past few years. While there are many retailers which are not yet lottery agents, there are likely to be policy-related and commercial constraints to further agent expansion. The current number is very large.

The general expectation is that retail will face continued pressure on footfall and that increasing amounts of business will shift to online. However, as noted above, the population will increase and a lower rate of retail sales allied with a larger population could increase footfall. However, the broad expectation is that more business will migrate to the online channel.

A significant shift towards online sales will reduce the level of unclaimed prizes. Consequently, for the operator that has become accustomed to the benefits of this licensing condition, there will have to be a difficult trade-off between maintaining specific levels of retail sales and the associated bonus of unclaimed prizes and actively developing the online sales element.

## 6.11 FINANCIAL PERFORMANCE OF PLI

The financial performance of the company operating the National Lottery has been identified. The National Lottery operates with a substantial loss after allowance for repayment of the initial licence fee and the payment of substantial interest payments to related parties. Ideally, the company would break even or post a profit after all costs are deducted. If the reported losses are reflective of a lower than expected return to the licence holder, it may have a negative impact on the ability to develop the National Lottery sales potential and therefore hit Good Causes Funding. However, it may also be the case that the financial strategy of amortisation, substantial interest payments and payment for services to shareholders along with the reported overall loss meets the operator's expectations of returns from operating the licence.

## 6.12 REGULATORY AND POLICY CONDITIONS

This factor may have a negative effect on lottery growth and Good Causes financing. Despite the soft terminology surrounding the National Lottery such as "fun", "playing", and "good causes", it is and always was a gambling activity. There is growing awareness of "problem gambling" and the need for health policy and regulatory approaches to engage with this issue. Participating in the National Lottery involves reasonably large average expenditures.

The sales of €805m in 2018 related to about 1.3m persons. This is an average of €619 per person per year. Increasing sales revenue to generate additional Good Causes Funding directly involves trying to persuade more people to gamble with this product or persuading existing players to spend increased amounts. As public policy becomes more aware of gambling issues, it may operate a less benign policy framework for National Lottery promotion with, for example, controls on the type and number of retail outlets, types of promotion, advertising or sponsorship.

At present, policy is substantially about increasing lottery revenues and therefore Good Causes Funding. Policymakers are currently proposing prohibitions on some types of gambling to facilitate lottery gambling on the basis that Good Causes Funding should be supported but Good Causes Funding still requires people to buy lottery tickets, in effect to gamble as if lottery-based gambling is not gambling. It is actually a gambling activity which returns one of the lowest percentages of the wager to players.

The prizes payback in the National Lottery is 56.5% but in retail bookies, the prizes payback or winnings payback is about 90% and in online bookies it may be as high as 92%. The difference, of course, is that part of the lottery players' stakes are given to good causes. The point being raised here in the context of long term sustainability of Good Causes funding is that the regulatory and policy approach may be less supportive in the future, especially if the National Lottery were to fall under the remit of an overall Gambling Industry Regulator's office. The National Lottery gets favourable tax treatment compared to bookies, which pay 2% on turnover, and betting exchanges and unlike the UK (12% of sales in the UK) does not pay a lottery duty or tax.

## 6.13 SUMMARY OF FACTORS IMPACTING GOOD CAUSES FUNDING LONG TERM SUSTAINABILITY

The summary of factors which affect the National Lottery and associated good causes funding is shown below.

Factor	Comment
Licence provision on good cause funding	Positive effect relative to possible alternative provisions as it links funding to operating costs and profits through gross gaming revenue
Prizes as a share of sales	Negative direct effect because the higher it is, the lower gross gaming revenues
Licence provision on unclaimed prizes	Negative relative to alternative possible provisions as per the UK but positive in that it promotes sales. Unlikely to change as a licence provision but scale would reduce with decline in retail sales due to increased online penetration
Population and demographic change	Positive in that adult population will increase substantially over the licence period
Economic environment and income levels	Positive (except for short term Brexit issues) due to good long-term prospects
Gambling activity and lottery playing participation rates	Negative as lottery participation rate is already high and indications are participation rate is declining
Price	Positive in long term as there will be price increases but not in short term
Competition (including specialist online lottery betting license holders)	Positive with specialist online lottery betting as it encourages efficiency and innovation, with low market share showing low risk of National Lottery sales displacement. Retail bookmakers are likely to be a more significant competitor but have operated alongside the National Lottery for 25 years.
Strategy of licence operator and technology	Negative if continues same as past few years because current/recent strategy not suitable for long term
Financial performance of PLI	Negative, if the declared losses, after allowing for amortisation and significant interest payments to related parties, are indicative of a lower than expected commercial return from the licence and which inhibit the financial ability of the licence holder to develop the online and sales performance of the National Lottery
Regulatory and policy conditions	Currently favourable but risk that the supportiveness around of lottery brand may change as health-related problem gambling issues continue to emerge in future

# 7.

## OVERALL ASSESSMENT AND CONCLUSION

### 7.1 OBJECTIVE

The objective of this report is to analyse Good Causes Funding associated with the National Lottery and the factors impacting the long-term sustainability of this funding for the term of the current National Lottery license. The commissioning of this report by the European Lotto Betting Association (eLBA) has been taken against the background context of raised concerns by political stakeholders around the long-term sustainability of Good Causes Funding.

### 7.2 DATA LIMITATIONS

It is recognised that the National Lottery operates in a competitive market for gambling products and naturally does not want to make sensitive information available to competitors. It is also recognised that the Lottery Regulator is bound by confidentiality requirements in terms of the information she makes available. However, within those constraints, there should be an increased effort to make additional information available as a matter of routine. It is notable that the National Lottery operator was willing to make substantial material available for publication in the Indecon 2018 report, which it commissioned, relative to the limited regular information provided on an ongoing basis by the operator and the regulator.

There is a need for additional and more frequent statistics on the overall gambling market and gambling behaviour. The 2019 Gambling Prevalence report is very welcome and useful but is relatively dated. Ideally similar information and statistics would be available on an annual basis. The Lottery Regulator is constrained in the provision of broader statistics as she is regulator for only the one operator. Ideally the proposed reform of the gambling and betting regulatory regime would correct this situation and see all operators regulated by one overall gambling regulatory function.

It is notable that the debate on the issue of banning betting on lottery related products includes very little objective independent data. Ideally, significant legislative decisions would be evidence based to the greatest degree possible.

The report refers to specific data issues such as slight differences between Indecon 2018 and the operator/PLI on commission and retail agent numbers and the lack of any material on what constitutes “Base Marketing and “Incremental Marketing” in the context of the unclaimed prizes provision.

### 7.3 LICENCE PROVISIONS FOR GOOD CAUSES FUNDING

Good Causes Funding must be 65% of gross gaming revenue which is sales minus prizes;

$$\text{Good Causes Funding} = 0.65(\text{Sales} - \text{Prizes})$$

The other 35% of gross gaming revenue, which we describe as “remainder of gross gaming revenue, covers retailers’ commission, operating and promotional costs, financial costs, profits and return to shareholders. This means that Good Causes Funding is not in direct competition with profits, which is a desirable feature of the National Lottery licence.

For example, if profits increase because operating costs are reduced, then there is an internal redistribution of the remainder of gross gaming revenue but the requirement of 65% of gross gaming revenue is unchanged. If sales increase through a price rise with the same prizes share

to increase profits, the total gross gaming revenue rises and the 65% for Good Causes Funding will be a larger absolute total. The Good Causes Funding is 65% of the difference between sales and prizes. Therefore, sales and prizes share performances are the direct determinants of Good Causes Funding. There are, however, several factors which influence sales and influence prizes.

#### 7.4 SUMMARY OF NATIONAL LOTTERY PERFORMANCE

The current operator has operated the licence from the end of 2014. 2015 was its first year of operation. It paid €405m for the right to operate the licence for 20 years. This upfront payment was available for Good Causes type funding by the Government. Consequently, it is reasonable to add €20.35m (on a non-discounted basis) to the annual Good Causes Funding generated by the National Lottery performance in that year in assessing the good cause contribution.

The summary of National Lottery performance is presented below:

- Sales peaked in 2008 at €840.1m.
- Sales were €687.7M in 2014 and increased by 17.1% To €805m in 2018, however, the 2018 performance was a slow down on the previous years with a sales increase of only 0.6%.
- Prizes as a % of sales increased from 52.2% In 2000 to 56.6% In 2014 and was 56.3% In 2018.
- Good Causes Funding decreased from 32.1% In 2006 to 28.4% In 2018.
- Online sales were 0.8% Of total sales in 2011, 2.5% In 2014 and 7.7% In 2018.
- Between 2014 and 2018 online sales increased by 253.1% Or €44.3m, albeit from a very small base, and retail agent sales increased by 10.9% Or €73.0m.
- The retail network expanded greatly between 2014 and 2018 from 3,700 agents to 5,842 agents, an increase of 57.9% While retail network sales increased by only 10.9%
- Between 2014 and 2018, there were two price increases in the National Lottery draw based games, Irish Lotto and Euromillions Plus.
- There is a very high participation rate by those who gamble in lottery games and it is very far ahead of other gambling activities. 41.4% Of the adult population gambled in the past month (refers to 2014/15) and 35.4% Of adults bought a lottery ticket or scratch card in person.
- 85.5% Of all adults who had some gambling activity bought lottery tickets or scratch cards in person with participation rates of over 90% for 45-54 and 65 and over age groups.
- The National Lottery accounts for an estimated 13% of the total gambling market in Ireland.
- Unclaimed prizes associated with national lottery draws are estimated to amount at €71.2M from the commencement of the licence to 2018; in addition, the ownership of €16m in unclaimed prizes from the previous licence is in dispute between the Government and PLL.

#### 7.5 PROPOSAL TO BAN PRODUCTS WHICH ALLOW BETTING ON THE OUTCOME OF THE NATIONAL LOTTERY DRAWS

The possible banning of lottery betting in Ireland has been proposed as part of amendments to the Gaming & Lotteries Amendment Bill currently at Report Stage in the Dail. Two amendments proposed at Oireachtas Select Justice Committee level in July were subsequently withdrawn following strong Government arguments against such restriction of betting licensees but these are expected to be reintroduced as the Bill progresses. Restrictions to the availability of different forms of lottery betting have been implemented in other countries such as the UK and Australia. However, it could be argued that the much more established consumer behaviour

around lottery numbers betting in the retail betting channel in Ireland suggests that co-existence has not been a materially negative factor in the growth of the National Lottery since it launched in 1986. Any move to restrict lottery betting in Ireland is likely to focus on the motivation to protect the interests of Good Causes Funding and would likely focus on two potential forms. The prohibition could be targeted at and confined to those companies such as the members of eLBA who offer online betting on full draws and match the prize structures of the underlying lotteries offered by the National Lottery in Ireland. However, given the evidence that these represent a very small part of the total lottery related market with a total turnover less than €2.5m, it is fair to question whether this would have any significant impact on National Lottery sales and associated Good Causes Funding, which would appear significantly more vulnerable to other factors as identified in this report. The clear evidence is that the online lottery betting operator's role in reducing National Lottery sales is negligible. The sector as a whole accounts for less than 0.5% of the National Lottery's overall €558.8m draw-based sales and 4.8% of the Lottery's €52.1m in online sales in 2017.

Between 2014 and 2018, the period that this competition arrived in the Irish market, the online National Lottery sales increased by €44.3m. It may be the case that these operators could grow more substantially in the future, creating a more legitimate concern around the competition they pose to the National Lottery but that is clearly not the case at present. Indeed, the current situation has seen the competition have an adverse effect on some of these specialist online lottery betting operators, with at least one major eLBA brand in myLotto24 announcing that they are withdrawing from the Irish market for commercial reasons and one of the other leading operators having seen a decline in year-on-year turnover in 2018. The prohibition of online lottery betting would have a minimal effect on Good Causes Funding. It would also represent a missed opportunity to ensure that Good Causes Funding was properly protected against other more significant factors influencing the level of Good Causes Funding.

The absence of any lottery related gambling in the market, outside the offering of the National Lottery itself, would also reduce competition, negatively affecting innovation, competitiveness and urgency around the National Lottery's efforts to grow, particularly in the critical online channel.

The second possible target for legislative change is a restriction on the more limited lottery numbers betting product offered by the traditional bookmaking chains in their retail betting shops and online.

The turnover of the licensed bookmaker sector is substantial and a small percentage of its market is a significant sum. However, information on the scale of this activity is limited and the sources of data cited by PLI in their lobbying efforts on this issue have not been publicly identified. In any event, whatever the actual level of turnover, only a small proportion of the banned activity and sales could be expected transfer to the National Lottery. A ban on this type of activity would have a significant negative effect on number of retail bookmaker shops, online operations and employment. The reduced bookmaker activity would also reduce the tax take from the sector, which also supports the public financing of Horse Racing & Greyhound Racing, as well as other areas.

Another concern around prohibition activity is the contagion effect that this could have on other legitimate forms of gambling which are in "competition" with the National Lottery. Arguably, in terms of product mechanics and behaviours, local lotteries represent the more obvious and material threat to the National Lottery and yet these also play a hugely significant role in the funding of the 12,000+ sports clubs and other community organisations that are so important for the country's social fabric.



## 7.6 DETERMINANTS OF GOOD CAUSE FUNDING IN THE LONG TERM

It is reasonable to argue that lottery betting products in their various forms do divert some sales from the National Lottery and therefore do reduce Good Causes Funding at some level. However, it must also be acknowledged that the National Lottery is competing with all forms of gambling for share of spend in this sector which accounts for about €6 billion turnover and that there is uncertainty on the displacement and substitution of different types of gambling activity. Furthermore, it must also be recognised that the dedicated lottery betting operators represented by eLBA that PLI and some legislators have identified as a primary target for prohibition hold a very small niche position in the market compared to the National Lottery itself and other forms of gambling.

The potential impact of the lottery numbers betting activity in retail bookmakers on National Lottery performance may be more significant but it must also be recognised that this relationship is unlikely to have materially changed over the last 25 years that these products have been available. In addition, any targeting of the retail bookmakers product offering will result in the loss of employment and further small business closures in a sector that is already dealing with a doubling of the turnover-based betting tax and rising business costs such as sports picture rights and insurance.

In any event, there are much bigger issues to be dealt with in terms of the ongoing sustainability of the Good Causes Funding. While the National Lottery licence provisions will likely remain unchanged and unclaimed prizes will continue to be returned to PLI to be used for various marketing activities instead of being allocated to Good Causes Funding, there are other business performance indicators that the PLI as the license holder need to continue to be made directly accountable for to ensure that it is delivering the best reasonable outcome for Good Causes Funding.

The determinants of gross gaming revenue are sales and prizes. A lower prize share of sales would be a significant boost to Good Causes Funding. This would require a strategy which continued to encourage responsible participation and sales but with the prospect of a lower prizes return, including increasing the proportion of low prize share products, at the expense of high prize share products. The level of sales is determined by the number of participants and the average expenditure per participant. Increasing the participation rate and/or average expenditure per participant will be difficult given the already high level of participation and the evidence of recent year decline. Increasing average spend per person may be difficult due to changes in public sentiment around problem gambling and the already significantly more visible brand presence of the National Lottery through its extensive retail expansion. The current strategy of significantly increasing the physical retail network is not sustainable over the long term. There should be an increased focus on online sales, even if that means that the license holder benefits less from unclaimed prizes which are primarily a feature of the retail sales channel.

The summary of factors affecting the long-term sustainability of Good Causes Funding is presented in Table 6.13 of the previous section.

## 7.7 IMPACT ON GOOD CAUSES FUNDING IN ILLUSTRATIVE FUTURE SCENARIOS

National Lottery sales and Good Causes Funding have increased since 2014 (Table 7.1) but it is informative to examine the annual increases. Over the full period of 2014 to 2018, Good Causes Funding increased by €33.9m (17.4%) or an average of €8.5m per year. However, the most recent performance in 2018 was an increase of only €2.2m. National Lottery sales followed the same pattern of full period growth of 17.1% but with a 2018 increase of only 0.6%. The prizes ratio stayed almost the same for each year. This recent performance is a concern for the long-term sustainability of Good Causes Funding.

**Table 7.1 2014 to 2018 sales, prizes and Good Causes Funding €m**

	Sales	Prizes %	Good Causes Funding
2014	687.7	56.6	194.6
2015	670.4	56.8	188.0
2016	750.2	56.3	213.0
2017	800.2	56.5	226.3
2018	805.0	56.3	228.5

Source. As noted in previous tables

As shown elsewhere in this report, there was a very substantial increase in the retail agent infrastructure which would have contributed to sales and footfall in 2016 and 2017 when there were annual sales increases of €25m (2016) and €13.3m (2017). In addition there were price increases. The sales performance would have been weaker if there were no price increases. This was also a period of good economic performance, high employment increases and growth in the adult population.

We have also seen that higher sales growth occurred in the scratch/instant card product types than with draw games which have a better impact on good cause funding through a lower prizes share.

It is unlikely that equivalent expansions of the retail network as occurred up to 2018 can continue. However, while substantial expansion of online sales would be a desirable sales strategy, there remains the relationship between unclaimed prizes and the value of retail sales which is a disincentive to maximising online sales.

Participation in the National Lottery has been declining over the past few years and this may have been reversed slightly with the retail agent expansion, but it is likely that decline will continue in the future on current approaches. This could imply that good cause funding will decrease.

Despite this somewhat negative picture for the future based on current operator strategy, there are positive aspects also. The adult population will increase which provides a substantial potential growth option, providing participation can be maintained and improved. Substantial online opportunities exist as the economy and consumers transact more and more business online. The potential is illustrated below for different scenarios. The main determinants of sales are number of players and spending per head. A concerted effort is needed to maintain and increase the number of players or participants. Good Causes Funding is also affected by the ratio of prizes to sales but in the following, this is assumed to be constant.

**Scenario 1. The participation rate is maintained at 2018 levels and good causes funding grows in line with the growth in the adult population of about 20%.** Good Causes annual funding is €274.2m at the end of the period of the licence. This represents about an extra €2.9m on average each year.

**Scenario 2. The participation rate is increased by 15% (from e.g. 35% to 40.3%) over the life of the licence through appropriate strategies including intensive online impact.** Good Causes annual funding is €315.3m at the end of the period of the licence. This represents about an extra €5.4m on average each year.

## 7.8 OVERALL CONCLUSION

The debate around the proposed ban of lottery betting is not sufficiently evidence based and it also has a very narrow focus which excludes discussion of other more significant factors which are influencing Good Causes Funding. The eLBA members and other licensed dedicated lottery betting operators represent a tiny share of the market and a ban on their products would have a negligible impact on Good Causes Funding.

It would also open the way for additional bans on the lotteries operated by hundreds of sports clubs throughout the country which generate vital funding which aligns with Good Causes Funding. The National Lottery is also in competition with many other forms of gambling which pose a threat to the lottery's share of the market. A ban on lottery numbers betting products in retail bookmakers would likely have a larger impact than the targeting of online lottery betting operators but would come at the cost of shop closures, loss of jobs and loss of tax revenue.

Prohibition or the restriction of lottery betting would reduce competition and would reduce pressure on the National Lottery to drive its own innovation, product development and business development while competing to maintain its position in an open, effectively regulated gambling market.

There are several other more important factors which would support the sustainability of Good Causes Funding such as reduced prizes shares, mix of products, reversal of downward trend in participation, taking advantage of the future growth in the adult population and implementing a strong online sales strategy. Growth in the numbers playing the National Lottery is likely to be the most important factor in sustaining and growing Good Causes Funding.

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