HOUSE OF LORDS

Select Committee on the Social and Economic Impact of the Gambling Industry

Corrected oral evidence: Social and Economic Impact of the Gambling Industry

Tuesday 28 January 2020

4.30 pm

Watch the meeting

Members present: Lord Grade of Yarmouth (Chair); Lord Butler of Brockwell; Lord Foster of Bath; Lord Mancroft; Lord Parkinson of Whitley Bay; Lord Smith of Hindhead; The Lord Bishop of St Albans; Baroness Thornhill; Lord Watts.

Evidence Session No. 12 Heard in Public Questions 118 - 126

Witnesses

I: Nigel Railton, Chief Executive, Camelot, Matt Ridsdale, Executive Director, Camelot; Clara Govier, Managing Director, People's Postcode Lottery; Malcolm Fleming, Head of Public Affairs, People's Postcode Lottery.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Nigel Railton, Matt Ridsdale, Clara Govier and Malcolm Fleming.

Q118 **The Chair:** Welcome and thank you for attending. It is probably only a parliamentary occasion like this that gets you guys as competitors sitting next to each other in such close proximity. A list of the interests of Members relevant to this inquiry has been sent to you and is available. The session is open to the public. It is being broadcast on BBC Parliament and is accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and will be put on the parliamentary website. A few days after this session you will be sent a copy of the transcript to check it for accuracy. It would be helpful if you could advise us of any corrections as quickly as possible thereafter. If after this evidence session you wish to clarify or amplify any points made during your evidence, or have any additional points to make, you are welcome to submit supplementary evidence to us in writing. Starting with Mr Railton, for the record, would you be kind enough to introduce yourselves?

Nigel Railton: I am Nigel Railton, chief executive of Camelot UK.

Matt Ridsdale: I am Matt Ridsdale, executive director of Camelot.

Clara Govier: I am Clara Govier, managing director of People's Postcode Lottery.

Malcolm Fleming: I am Malcolm Fleming, head of public affairs at People's Postcode Lottery.

The Chair: Thank you very much indeed. For the record, and this is not a trick question, could you establish who owns each of your organisations so that we know who owns what here?

Nigel Railton: Camelot UK has been owned by Ontario Teachers' Pension Plan since 2010. Ontario Teachers' Pension Plan is the biggest single pension provider in Canada, with a pension fund of about $190 billion which it invests all over the world.

Clara Govier: People's Postcode Lottery is part of the Novamedia Foundation, so it is a foundation that is not owned by any shareholders and is working as a social enterprise.

Lord Smith of Hindhead: Sorry, who owns it?

Clara Govier: Novamedia Foundation so it does not have shareholders; it is a social enterprise.

Q119 **The Chair:** We will share the questions out and I will start, if I may. People's Postcode Lottery's evidence, and Camelot's, emphasises that lotteries are "low-risk" forms of gambling. Do you believe that the benefits of lotteries outweigh any risk? What are the benefits, particularly for individuals and wider society, rather than charities?

Clara Govier: May I explain a little about People's Postcode Lottery and why we exist? First, we are here to raise money for good causes rather than profits for shareholders. In terms of benefits to society, the funds generated support 64 promoting societies, which benefit and reach out to communities across Great Britain. You will have funds that go to community causes, for example £500 to help a project in a local village hall, right through to some of the national charities working with children with cancer for instance, so a whole range. There are certainly benefits to society from the funding driven through playing the lottery.

Last year £135 million was raised, so considerable amounts of funding are released. We feel this is complementary to the National Lottery and adds more to the pie. In terms of social benefits, a lot of that is focused on the charitable funds raised through this mechanism.

Nigel Railton: The National Lottery has now been in operation for 25 years. I think most people would recognise that it has been a tremendous success story. Since launch the National Lottery has raised £40 billion for good causes. That is 565,000 grants, 200 per postcode right across the UK, from the very small to the very big. On average, 70% of grants are for £10,000 or less.

The National Lottery has also played a key role for the Treasury. Some £17 billion has been raised in 25 years for the Treasury, and as importantly, about £6.5 billion for retailers. We play a really pivotal role in keeping our independent retailers open. We have 44,000 retailers. We rely on them and they rely on us. We continue to pay about £300 million a year in commission. The National Lottery has touched the length and breadth of the UK and we think transformed the UK over the last 25 years.

The Chair: Could I ask you each in turn a question, and anybody can go first? From the evidence and the stuff one reads, you are clearly trying to distance lottery game-playing from what one might call mainstream gambling and problem gambling. How do you justify that and which of the products, because you all have different products, are more addictive than others? How do you justify the claim that yours is "soft" gambling rather than "hard" gambling?

Clara Govier: The Gambling Commission's evidence points to the fact that lotteries are low risk and, added to that, People's Postcode Lottery is a subscription-based lottery. The triggers relating to problem gambling relate often to instant gratification and a number of different opportunities, if you like, whereas in our model we do not offer instant scratchcards online or offline. It is purely lottery-based.

We have also imposed self-government in relation to social responsibility, so our players can buy only a maximum of six subscriptions. That means there is a total potential loss of £60 per month. In reality, 90% of our players play with just one ticket, equating to 30 p a day. You can see there is a whole level of control there. We also have a team trained in recognising any problem-gambling indicators so they can pick those up with our players.

The Chair: Do you have any experience of that? You make a good case for saying why you are not a habit-forming addictive process, but have you had any experience of problem gambling? If you have systems in place, are you anticipating that you might have a problem?

Malcolm Fleming: We have a number of staff in the organisation who work on problem gambling and other vulnerabilities of our players or potential players, for example players who might have early onset dementia and that sort of vulnerability. We track those players who we think may be vulnerable and touch base with them to ensure we feel they are happy to continue to play and we are happy that they continue to play. Indeed, if we think they are not, we will cancel their account.

For example, people in their social media posts might mention they need the money, they need the win. That would be a trigger for us to have a conversation with them: what is that about, are there financial issues? If there is a player who phones up to speak to our agents and it is clear they are having problems understanding the game, or perhaps memory problems, again that is a trigger that we would work with. Some of the charities we support, such as the Alzheimer's Society and Dementia Adventure, have given training to our staff on these issues to help our staff recognise some of the triggers. We are very careful to try to ensure—

The Chair: Is it a very small part of your operation? How would you describe it?

Clara Govier: All our staff are trained on induction to recognise problem gambling within that.

The Chair: I accept that, but how big a problem is it? What is your experience? Is it half a per cent of your customers or .0 something per cent?

Malcolm Fleming: We currently have roughly 3.4 million players and we are tracking about 830 players, so you can see it is quite a small number of the overall total.

The Chair: That is very helpful.

The Lord Bishop of St Albans: How many subscriptions have been cancelled?

Clara Govier: Off the back of that figure?

The Lord Bishop of St Albans: You said you would cancel people's subscriptions. Does that happen?

Malcolm Fleming: It does happen. Between players who have chosen to cancel because of the discussion or whose account we have cancelled, I think it is roughly 400 in total.

The Lord Bishop of St Albans: In a year or overall?

Malcolm Fleming: Overall.

The Lord Bishop of St Albans: Over how long?

Malcolm Fleming: Over the time we have been looking at this issue, over the last several number of years, that is in total really.

Lord Mancroft: Four hundred over how many years?

Malcolm Fleming: In total since we have been tracking this, since 2005.

Lord Mancroft: So, 400 in 14 years.

Malcolm Fleming: Approximately, yes.

Lord Smith of Hindhead: May I come back on another point about your social enterprise? Forgive me because you mentioned it and I should know what that means. It sounds good, "We have no shareholders and we are doing all this and it is for a great cause and we are raising money and aren't we wonderful?" but I have looked it up—correct me if I am wrong and please forgive me if I am—and People's Postcode Lottery is owned by Novamedia. Novamedia owns six charity lotteries. You are not like a stand-alone organisation. You are owned and controlled by another organisation.

Clara Govier: Novamedia is the foundation above that and it owns the People's Postcode Lottery format.

Lord Smith of Hindhead: When the Chairman asked who owns you and you said whatever you said, who owns you is Novamedia.

Clara Govier: Yes.

Lord Smith of Hindhead: We have the answer to the question now. Novamedia owns you and six other charity lotteries that operate across the EU; is that right?

Clara Govier: Yes, indeed, and above Novamedia itself is the foundation.

Lord Smith of Hindhead: That in itself is a foundation, but Novamedia takes some of the money you make because, of the money you take each year, 28% of it goes on management costs, which was about £102 million last year, and some of that goes up to Novamedia.

Clara Govier: Some 4% in licence fees goes back to Novamedia and that is in relation to the Postcode Lottery format rights for using that model, which, as you know, is highly successful. That 4% was benchmarked according to the usual arm's-length negotiations relating to the regulations. Off the back of that, that is why we pay that 4%. To give you an indication in relation to that, in 2018, we achieved £365 million in sales and we paid the licence fee of £14.6 million. That 4% is set aside to invest in lotteries. From 2005 onwards until the Postcode Lottery format was at break-even point Novamedia used that investment to bankroll that set-up fee—the seed funding if you like. About £44 million of that we have paid back through licence fee, and £60 million was what Novamedia invested in the set-up of that lottery. You can see we have received more from Novamedia than we have paid in licence fees to date.

Lord Mancroft: Who owns Novamedia?

Clara Govier: Novamedia is a foundation right at the very top so that foundation has an independent board.

Lord Mancroft: Is it a UK foundation?

Clara Govier: It is a Netherlands-based foundation.

Lord Mancroft: So it is a not-for-profit company.

Clara Govier: Yes.

Lord Smith of Hindhead: Although everyone is paid. There are a lot of management costs in here, of £120 million. We understand what Camelot is as a company. It has been going a long time. I just want to understand because when a society lottery comes along and says, "We do this wonderful thing and we are making lots of money for good causes", which is great, it is nice to drill down to find out that this percentage is provided for prizes, this percentage for good causes and this percentage for the management costs, and a lot of people are making quite a lot of money.

Clara Govier: We are very clear in what we give back and what we put in prizes. Twenty per cent is the statutory return you would normally make under law in charity lotteries. We contribute 32% right now; 40% to prizes and 28% in operational and marketing costs. You will find that 4% sits within that, as do the costs of marketing. To operate a successful lottery, we market. We do not have the benefit, as Camelot does, of retail units—44,000 points of sale. We operate as an online and by-phone subscription lottery.

Lord Smith of Hindhead: I am going to give them just the same question as I am giving you at some point later on in this session. Nobody will get a soft ride. I did not understand your answer to the very important question put by the Lord Chairman about who owns you, and now we have a better understanding of how you operate and who owns you, which was not clear.

Clara Govier: Apologies if it was not clear and I hope you have that now.

Lord Smith of Hindhead: With the greatest of respect, your original answer was not clear.

The Chair: For the record, nobody is taking out of the Novamedia Foundation, or out of your operation underneath it, a dividend disguised as an overhead, as a salary?

Clara Govier: No, they are not.

The Chair: I was sure that was the case but it is good to have that on the record.

Nigel Railton: I would agree with the opening statement that lotteries are low harm. That is based on the Government's own statistics, both in terms of gambling and harm prevalence. Lotteries are at about 1% which is a lot lower than anything else. Also, GamCare has a telephone service that deals with people with problems where problem gamblers contact them. GamCare gets about 28,000 calls a year and about 2% of those calls mention anything to do with lottery. It is predominantly scratchcards because they are a higher risk than our draw-based games, but it is still only at 2%. Of those callers, most problem gamblers play about seven to eight different products. Our position on this, based on the evidence, is that lottery games are not the cause of harm, but given our scale we recognise that we have a responsibility to deal with problem gamblers where they touch our products. I would say that the generally accepted number of problem gamblers in the UK is about 420,000. Given our scale, we know that about 390,000 of them play the National Lottery and we do everything we can to try to intervene to help them where we can, aware of the fact that we are not the cause of the problem but we are using our scale to help. Do you want to add to that at all?

Matt Ridsdale: The original question was about how we justify the fact that there is a distinction and I would say the lottery model is fundamentally different. The lottery model is designed to be lots of people playing relatively small amounts rather than a smaller cohort of people spending large sums of money. Some 38 million people played the National Lottery last year and they spent on average £6.50 a week. I think that Camelot's commitment over 25 years to deliver on that promise of lots of people playing a little is borne out by the fact that we operate for the UK the sixth-largest lottery in the world but we are 63rd in terms of average spend of players. We feel we have the right to say that we are distinctly different because the founding model and the principle of lotteries are fundamentally different.

The Chair: How do you spot problem gambling?

Matt Ridsdale: We do it in two different ways. We now have a pretty large player base, which has a digital relationship with us through an account. That allows us to have a much clearer view of the behaviours going on. In terms of our online player base, first, they have to have an Experian check to open that account. We do not have faceless customers; we know who they are. That ensures that we have people who are over the age of 16. We have very few players online between 16 and 17 because they tend not to have credit histories through the Experian checks. We are able to monitor behaviours online that have been identified by teams of behavioural scientists—we have a big team working on this—that are indicators of problem play or an unhealthy relationship with gambling. As an example, we have limits on how much you can load up in your wallet. People who play across midnight deadlines, so someone who keeps loading their wallet at two minutes past midnight, is an indicator that someone has an unhealthy relationship with play. We can then intervene and we have a new programme we are working on right now with GamCare, one of the charities involved, training our contact centre team so they can call players who are showing signs of harm. There is an escalating range of interventions. Initially, it is pointing people to information, which deals with the stigma, so people are aware where they can get help, through to, in the future—this is a new programme being rolled out at the moment—our being able to actually close accounts.

The Chair: When you come to the individual retailer level, the little shop which relies on lottery sales for paying the rent and paying the wages and keeping the small business going, it is in their interest to sell as many scratchcards as they can, is it not? There is an inherent conflict there, so if somebody comes in who they would probably know from the locality is not that—

Matt Ridsdale: Our retailers are really committed to supporting the National Lottery and its values, and one such programme where we have a long history of data is underage play. We have a mystery shopper programme called Operation Child. We take people who are actually over the age of 16 but look very young, and we send them into shops to try to buy lottery tickets. If they are not asked for ID, that retailer fails that check. We have been running that programme since 1998, and it has been so successful that trading standards has come in to ask us how we do it. A few years ago we were at an 88% compliance rate and we have got that to over 90%. Arguably you could say they just want to sell the scratchcard to the person in front of them, but retailers are really committed to doing things in the right way because the National Lottery is a very valuable source of income to them.

The Chair: Is the retailer able to judge that somebody is spending too much money on scratchcards and becoming a bit addicted?

Matt Ridsdale: I think it is difficult and we have a programme that we have introduced relatively recently. We have been tackling it online. We also have a programme where we have gone out to train 44,000 retailers. Our team goes into shops to talk to them about signs of problem play. We have been giving them leaflets and information about it and they can push a button on the terminal which will print out information they can give to the customer. We have again tested that to see the pass rates. It is a new programme but our first pass rate was 85%. We know that we need to do better over the coming years.

Lord Foster of Bath: So I am clear, within your licence, are you required to carry out affordability checks?

Matt Ridsdale: Not that I am aware of.

Lord Foster of Bath: Is People’s Postcode Lottery required to carry them out?

Clara Govier: No.

Lord Watts: You said the average lottery play is £6 a week.

Matt Ridsdale: £6.50 a week.

Lord Watts: Do you have the figures for scratchcards?

Matt Ridsdale: £4.50 a week.

Lord Watts: That is the average.

Matt Ridsdale: For scratchcard players.

Lord Watts: How do you work that out?

Matt Ridsdale: There are two ways. First, we do research into it. We use independent research companies to ask players how much they are spending. This is a figure of claimed spend and we are told by the research companies that often they claim to spend more than they actually do, but we verify it by taking average sales and dividing it by the number of players that we know we have. That is the estimate we have from the latest research.

Lord Watts: So you could end up with someone buying one ticket and someone having a lot more and you would not catch that.

Matt Ridsdale: Yes

Lord Watts: Potentially people are spending a lot more on scratchcards individually because you are using average figures.

Matt Ridsdale: This is an average figure.

The Lord Bishop of St Albans: Do we have any way of knowing if people are using multiple products? With your own lottery tickets you can be clear, but presumably people could be buying all sorts of other things as well. Is there any evidence or any way that we can ever get a handle on that?

Matt Ridsdale: I think that is where you get into the definitions of problem play. The behaviours that suggest an unhealthy relationship with gambling include people buying lots of products, people chasing losses and wallet loading. That is happening and the Gambling Commission do that research.

The Lord Bishop of St Albans: I know they do some. I am a bit slow on some of this stuff, but I think you have accounts and you talked about the 400 people whose subscriptions you have cancelled over the last quite long period. Are you able to stop people buying them, because a lot of people buy them with cash; is that right?

Matt Ridsdale: In shops you can buy them with cash. You can take a pound out of your wallet and buy one.

The Lord Bishop of St Albans: Is there ever a time when you have identified someone suffering from gambling-related harm and you have been able to not only refer them on to help but been able to stop them, or are you not able to do that?

Matt Ridsdale: I think it is very difficult in a real-time environment and, absolutely, we acknowledge that. Part of the problem of course is we do not know what people are doing in other organisations. Nigel talked about how we try to use our scale and, if you like, our relationship with players to do good. We launched a campaign last year called Dream Big Play Small where we tried to get people searching this term online and we delivered a significant uplift in the number of times people were going to this URL. It is on our website and talks all about how to recognise behaviours that you have that others do not, or an unusual or harmful relationship with gambling, and how to seek help. We can do it after the event. It is very difficult to deliver real-time interventions in retail.

Lord Watts: I am still puzzled by the figures you are using. For someone who pays cash, how do you introduce them into the equation of saying the average spend is £6.50? What records can you use that would tell you that the average is £6.50?

Nigel Railton: As Matt said, we do a lot of research. We continually research our players for all sorts of things—excessive play, how they react to our games. We know from claimed spend how much people are spending. We do this on really large samples. That is one measure. The other measure that Matt mentioned is we know our total sales on a weekly and daily basis from our systems and we know the participation levels. The function of all that gets us to these average figures.

I would also say that I travel around the UK a lot and spend a lot of time with retailers. I go to a lot of good causes. I spend a lot of time with winners and a lot of time with retailers. The narrative is that scratchcards cause excessive play. I have not seen that and the evidence does not support it. I was in Bootle recently at a small independent shop, where the old lady who ran it looked a bit like my nan, and that was a cornerstone of the community in Bootle. I was there for quite a while and people coming in and out of the store were not excessively buying scratchcards at all. They were buying all our products. I think that is the norm. Where we have extremes where people are playing excessively, we try to deal with those through training our retailers and giving them the tools to deal with it.

We also have a data analytics team which is quite large, and behavioural psychologists, and we look at these triggers and signs for where retailers might be seeming to be selling too much. We want the National Lottery to be the safest place to play. That is our ambition. It has always been in our DNA as a business. As Matt said, we have had Operation Child looking for underage players since 1998. We have an amazing track record on this, but there is more to do, and we take it incredibly seriously.

Q120 **Baroness Thornhill:** That runs into my question. Following on from what you have just said, the Government have undertaken a consultation to raise the age to 18 from 16 on some or all of your products. What was your response to that?

Nigel Railton: To be honest with you, we are reasonably relaxed about it. For 25 years the age has been 16 so it is probably a good time to look at it. We do not have that many people playing at 16 or 17 online, as Matt said, because of Experian checks. Not many people have a credit history at 16 or 17. Our position is that it is ultimately a matter for Government and if Government want to raise the age to 18, we will support that.

Clara Govier: Certainly, we would consider positively the move to 18. However, that would be under a level of requirement that at the moment lotteries are plus-16 and they have a level of distinction. If we move down a route where there is not proportionality linked to that risk, as draw-based and instant wins are very different in their risk level, that is when we would need reassurances that lotteries were going to be so treated on the risk scale.

Lord Butler of Brockwell: Have you ever had to de-license a retailer?

Matt Ridsdale: We have taken terminals out, yes.

Lord Butler of Brockwell: On what grounds have you done that?

Matt Ridsdale: Failing the check. We have a three strikes rule. I was talking about the pass rates. We have over a 90% pass rate for the first time we go in. If by the third time you have not learned your lesson, we take the terminal away. Fortunately, because the training is really good and because retailers are committed to it, we do not have to take many away. It is about one, perhaps two, a year, and last year I think it was one.

Nigel Railton: Yes, one a year, and it does not matter if you are an independent or Tesco, we are going to take it out. Also, we have taken terminals away from retailers when they do not pay, as you can imagine, because whether retailers pay us or not, we still have an obligation to pay the good causes and the prizes, so Camelot suffers a loss. If they continually do that, we take the terminals out.

The Chair: I think Lord Mancroft has a supplementary.

Lord Mancroft: Could I get some idea of the proportion? It used to be said—I do not know whether it is still true—that 90% of people in the country play the National Lottery. It is probably still about that number.

Nigel Railton: About 38 million adults play.

Lord Mancroft: How many people play People's Postcode Lottery?

Clara Govier: Just over 3.4 million.

Lord Mancroft: You have had about 400 people whose accounts you have closed in 15 years. How many problem gamblers are you coming across a year out of these 38 million?

Nigel Railton: Of the 420,000 problem gamblers in the UK, based on the Gambling Commission's own statistic, we think about 390,000 play the National Lottery, because they play everything. We identified that the best way to try to help with this problem is online. We found about 50,000 play online out of the 38 million. We try to intervene where we can with the tools that Matt has described.

Q121 **Lord Butler of Brockwell:** I want to ask some questions about society lotteries, if I may. I gather that in 2018 the Government announced that they were going to do a consultation on the reform of society lotteries. In 2019 they announced their proposal to increase some of the limits. The Gambling Commission has also announced the consultation on reform of society lotteries. What underlies all this, why is all this reform going on?

Malcolm Fleming: The process dates back to 2013, so it has been a long process from when the Government first said they would look into this issue. There was a call for evidence and there was also an inquiry by the Culture, Media and Sport Select Committee in the Commons that looked at this issue. Among the recommendations was one that the Government should look at raising the limits on charity lotteries. Currently there are sales and prize limits for society lotteries. DCMS asked the Gambling Commission to go away and look into that and come back to them with evidence on it.

Lord Butler of Brockwell: So it has asked the Gambling Commission to look at the idea of raising the limits.

Malcolm Fleming: At that point it did yes, in response to the Select Committee report, which was published in March 2015. The Gambling Commission was asked to go and look at the whole area of society lotteries and it gave three separate reports to DCMS on this issue looking at lots of different aspects of it, whether it would impact the National Lottery. It went through them one by one. It did some economic studies as well to help them look at that report. On the back of that DCMS Ministers went on from that to do a public consultation on their proposals. Last year it came up with the recommendations and then only last week it laid a statutory instrument in Parliament to take forward those recommendations into law.

Lord Butler of Brockwell: I am surprised there needed to be so much consultation.

Malcolm Fleming: So are we.

Lord Butler of Brockwell: To increase the individual per draw sales from £4 million to £5 million, increase the individual per draw prize limit from £400,000 to £500,000, increase the annual sales limit from £10 million to £50 million—of course that is a big one—but apart from that, these are almost the sorts of things you would expect from the result of inflation over passing years.

Malcolm Fleming: It is an issue that has been given a lot of scrutiny by Parliament and Government, which we were happy to go through with, but it is an issue. The problem we face because of the current limits is one that has been continuing for a number of years, and of course the longer consultation goes on, the more benefits of changing it, as we would see it, are delayed, so we are pleased that the Government are now moving to put the changes into law.

Lord Butler of Brockwell: They seem to be making pretty heavy weather of it. Are there any other aspects of society lotteries which people are considering reforms of? Are any other reforms of the regulations necessary, in your view?

Malcolm Fleming: The Government are, as you said, going to increase the annual sales limit for a charity lottery to £50 million. We would like it to go eventually to £100 million. Indeed, when the Government announced the reforms, they said they would have an ambition to go there and look at it in the future. Once the change that has been put in this year has bedded down, perhaps they will have evidence about what the change has done. We would still like to see that happen in the fullness of time.

Lord Butler of Brockwell: Apart from the limits, are you content with the way in which society lotteries are regulated?

Malcolm Fleming: By and large we are content.

Lord Mancroft: Could you just remind me because I cannot remember and I ought to know the answer to this: how many increases of the limits for society lotteries have been there been in the last 30 years?

Malcolm Fleming: For the annual sales limits?

Lord Mancroft: Any of the limits.

Malcolm Fleming: It was increased in 2007 when the Gambling Act 2005 came into operation. The per-draw limit was changed again in 2009 by statutory instrument.

Lord Mancroft: It is two changes since 1996 really.

Malcolm Fleming: Yes.

Lord Mancroft: It is not a lot, is it?

Malcolm Fleming: No.

Q122 **Lord Foster of Bath:** We have heard a lot about the regulatory regime, and the changes to it, that People's Postcode Lottery operates under. The advertising I get from People's Postcode Lottery makes it appear—as much as you can—that you are doing exactly the same thing as the National Lottery. What do you think about the fact you are operating under different regulatory regimes? You have already said what changes you would like to see in the regime as far as you are concerned. Should they be the same or different, given that you are advertising to look as if you are the same?

Nigel Railton: I think it fair to say that we have different views on this. The National Lottery was created as an efficient model to generate money for good causes. I think that model has been eroded over time. I will give you a few examples of that. As Camelot and the National Lottery, we have no problem with society lotteries. We have always operated in perfect harmony. However, I think there is a big distinction between a true society lottery, which is a small charity or hospice, and industrial-scale lotteries such as People's Postcode Lottery. Some 3.4 million players is an industrial-level national lottery in anything but name. That has been gradually eroding the National Lottery and that has certainly accelerated over the last five years.

Our position is there needs to be an expenses cap on industrial-scale society lotteries pretending to be national lotteries. We think there needs to be proper transparency around the regulation, but certainly that expenses cap needs to be introduced. The reason for that is that between us we are in a marketing arms race. Between 2010 and 2019 People's Postcode Lottery has grown significantly, with sales going from 22 million to 365 million. Its marketing spend has increased by 556%.[1] At the same time, we are now spending three times the amount we were on marketing for half the share of voice. Share of voice is basically a precursor to market share.

I became chief executive two years ago and I remember that in 2010 the National Lottery had an 85% share of voice. If you turned the TV or radio on, saw a poster, had a flyer, it was the National Lottery. We are now at 38%[2]. We are not even the biggest share of voice in the national lottery market. To deal with that we have had to spend £70 million of National Lottery good cause money to compete for share of voice to keep ourselves relevant because of this marketing arms race. That is possible only because the People's Postcode Lottery spend nearly 30% on expenses.

The Chair: What is the solution?

Nigel Railton: The solution is an expenses cap of between 5% and 10%. The expenses cap was removed in the 2005 Gambling Act. Unless this is dealt with, there will be a continual marketing arms race, and we will be

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[1] See supplementary written evidence: Nielsen AdDynamix analysis shows that the People's Postcode Lottery spent £41.4m on advertising in 2018 versus £6.3m in 2010 – representing a 556.5 percentage increase

[2] Note by witness: Two years ago when Nigel Railton became Chief Executive of Camelot, National Lottery advertising Share of Voice was around 38% - this is the period of time being referred to.

spending more and more of National Lottery good cause money competing on marketing while these guys spend 30% of their revenues on marketing to compete with us.[3]

The Chair: We will give you a chance to respond to that. As a matter of historical record, my recollection is that before Camelot even won the licence, the National Lottery was created as a monopoly.

Nigel Railton: Yes.

The Chair: And was taxed and dealt with accordingly by the fiscal regime that still governs Camelot. Is that correct?

Nigel Railton: That is correct.

The Chair: Please respond or put your own thoughts to us.

Clara Govier: First, if I could respond on some of those points, particularly on the marketing arms race, and some of that misinformation, too. We exist to maximise the returns to good causes. We are an effective market operation. In 2018 we spent £43 million on marketing, representing about 11% of our total sales. The figure of a 556% increase is not correct and certainly I would like that changed for the record.

Are we guilty of doing our job well? Perhaps we are, but we exist to raise funds for good causes. There are 20 individual draws allocated to each of those charities that benefit and we are returning 32% of those funds. A cap on marketing, particularly if you look at the Gambling Commission evidence—and it supports this—would have a detrimental impact on charity lotteries. If we take the National Lottery which is an absolute national asset and part of the fabric of our society, it is 21 times the size of People's Postcode Lottery and 10 times the size of society lotteries. You can see in that context there is room for us all to grow and increase the amount going to good causes together.

The Chair: As a Committee we have two different figures on the advertising spend. I think it is a matter of public record and therefore we ought to be able to reconcile your two positions.

Nigel Railton: I am talking back to 2010 until 2018-19, an increase of 556%.

The Chair: You get your figures from where, Mr Railton?

Nigel Railton: The Neilsen data.

Lord Foster of Bath: I know that colleagues want to ask questions about taxation, which is part of the regime, and there will be further questions no doubt about the advertising spend. So that we can confirm the figures, my understanding is that for the National Lottery

[3] Note by witness: Correction – as explained in answer to the question before, "spend 30% of revenue on expenses including marketing to compete with us."

operating/marketing costs and so on are about 5%, whereas for PPL they are about 28%. Can you confirm those figures?

Clara Govier: May I clarify on the 28%, that covers not only the marketing but the operations of the lottery, so it is not the true picture that 28% is spent on marketing.

Lord Foster of Bath: So the equivalent figure to 28% is 5% from the National Lottery. Finally, I deliberately asked whether within that regulatory framework either of you had any requirement—you talk about what you actually do—in terms of affordability checks. Given that the Gambling Commission in developing now the licence conditions is focusing very heavily on the issue of affordability, is that going to impinge on you or not? Do you understand whether you are going to be required to do more in terms of affordability or not?

Nigel Railton: Affordability is a complex issue and I do not think it is one the gambling companies have cracked yet. We are looking at it as part of our excessive play programme. The question is probably quite different for lotteries from the gambling companies. Our raison d'etre is to get lots of people spending a little rather than a few people spending a lot. Notwithstanding that, we are looking at it.

Lord Foster of Bath: Sorry, but you yourself have accepted that many of the people who play the National Lottery, particularly online games, are engaging in a large number of other gambling activities, so we have to look at it as a whole.

Nigel Railton: That is why we signed up for GamStop. GamStop is a programme that has been introduced by the Gambling Commission. We volunteered to sign up for it. We are introducing that in April. That means if somebody signs up for a gambling site and wants to block themselves, we get blocked as well. Even though we are not the cause of harm, we accept our responsibility to play our part.

The Chair: I am still anxious and, perhaps not in this forum but in writing afterwards, I would like to reconcile the figures like for like. You each may be comparing apples and pears—I do not really know—but it would be very helpful to understand.

Nigel Railton: We are happy to provide our data, Lord Grade[4].

The Chair: It would be very helpful if you could write to us restating what you have said and the source of the data.

Clara Govier: Absolutely.

Lord Watts: May we ask that we separate the advertising and operating costs for both sides and then we will get a fairer picture?

Lord Mancroft: May we ask you to include capital costs in that?

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[4] See supplementary written evidence

Clara Govier: It is also important to note that we do not have retail outlets as the National Lottery do with 44,000 of those in shops as well, so it is not a like-for-like comparison in that respect. Also, it is important that we look at the results in terms of competition for the National Lottery. Last year was the second best year ever over the last five years they have had.

The Chair: The second best year for what?

Clara Govier: Ever in sales for the National Lottery. Equally, the last five years was the best in the whole of its history. The two can co-exist and we can raise money.

The Chair: That probably does not account for inflation.

Nigel Railton: May I respond to that? The National Lottery has been successful over the last two years but there is a "however". We had the best ever sales at the half year. We did not have the best ever good causes figures at the half year. Why? Because we are investing vast amounts of money in the marketing arms race to try to compete for the sales. We are pulling all the right levers. We were talking about our 44,000 retailers and they are very reliant on us and we are keeping 20,000 retailers open. The more that People's Postcode Lottery cannibalise our sales and cause us to spend more and more National Lottery good cause funds in a marketing arms race, the more good causes will suffer. This has already happened in Holland. The national lottery in Holland was displaced by the people's postcode lottery on the same trajectory. Where small changes are made, eventually the national lottery gets displaced.

Malcolm Fleming: First, in terms of the Netherlands, if the intention of lotteries is to raise funds for good causes, its regulations and law are clearly doing something well because record money for good causes has been raised in the Netherlands. The system there is working well for that outcome, which is surely what the whole set-up is about. Also, I would refer the Committee to the work of the House of Commons Public Accounts Committee which in March of 2018 did an inquiry on the future of the National Lottery, looked at the issues being raised here and found the key problems regarding the reduction in funds to good causes from the National Lottery were not society lotteries but were the move from draw sales to scratchcards— the fact that there is less of a connection between players and good causes than there has been in the past, and also that there have been contradictory changes in its games. The suggestion that the problems Camelot has experienced is because of society lotteries, from our point of view, does not hold up.

The Chair: We have got the point where there is some competitive tension here. I will ask Lord Watts to ask his question.

Q123 **Lord Watts:** I think I know the answer to this one. The National Lottery pays 12% lottery duty on its turnover which is not paid by other lotteries. Do you think the National Lottery should pay this duty? If not, what taxes should the National Lottery pay?

Nigel Railton: Is it a question for me, Lord Watts?

Lord Watts: Both of you, really.

Nigel Railton: The National Lottery has paid lottery duty since it was formed 25 years ago. When the National Lottery was created, different gambling companies were on different forms of taxation, so the racing levy was different from bingo and all sorts. What has happened over time is that the National Lottery is in splendid isolation as the only part of the gaming or gambling industry on a sales-related tax. Some 12% of every sale goes to the Treasury, and that makes us very uncompetitive, because everybody else in the industry is on gross profits tax—in other words, sales less prizes. It makes us uncompetitive and very unresponsive. When we hear figures about how much the National Lottery has given to good causes, and it has reduced over time because our prizes have to increase, the main function is tax. I have been trying for many years to move the National Lottery from lottery duty to something much more sensible, which is gross profits tax. If we do so we believe that good causes will benefit to the tune of about £1 billion to perhaps £3 billion over time and our retailers will benefit through increased commission. Unfortunately, I have failed spectacularly now five times since 2003, most recently two weeks ago, but I firmly believe that gross profits tax is the right taxation for the National Lottery because it is right for everybody else.

Clara Govier: Taxation is an interesting one for the National Lottery and we would be supportive of its removal if there is more returned to good causes, if they are looking at how that is addressed. From our perspective we also pay tax in relation to our operations. There is corporation tax and unrecoverable VAT within that 28%. The promoting societies themselves in 2018 paid £17 million in unrecoverable tax, for instance.

The Chair: Are you not a charity?

Clara Govier: We are not, no. We are an external lottery manager, so we operate lotteries on behalf of charities. It is also about having a level playing field. Again, we have talked about taxation, but if the same rules were applied to society lotteries where there is not a cap on prizes, on draw revenue and on total income of the lottery, there is perhaps a different argument to be had, but there has always been a principle that charity fundraising is not taxed. This is a charity fundraising mechanism returning the proceeds to good causes. If you tax society lotteries, in essence, you are taking that money from the charities.

Q124 **The Lord Bishop of St Albans:** Could People's Postcode Lottery unpack the suggestion that any levy, whether voluntary or mandatory, used to pay for research, education and treatment, should be based on causation rather than a gross gambling yield? What are your views? How would a smart levy work in practice?

Malcolm Fleming: We think any levy should be risk-based, evidence-based and proportionate. Carolyn Harris MP, chair of the All-Party Parliamentary Group on Gambling-Related Harm, has talked about a polluter-pays levy or a smart levy. We agree with that approach. We have talked today about lotteries being acknowledged as a relatively low-risk type of gambling compared to some others in the market, and we are concerned that charity lotteries, and the National Lottery, and indeed the charities we are trying to support, could end up subsidising bad practice by gambling companies unless that polluter-pays, smart-levy approach is taken.

To answer the second part of your question, Lord Bishop, about what that could look like in practice, we would be very happy to engage with the Gambling Commission and DCMS to discuss that. One suggestion as to how you could look at it would be to look at a report that PricewaterhouseCoopers did in 2017 on gambling research. It looked at various triggers of problem gambling. Some of them have already been mentioned today, including frequency of gambling, the amount gambled in a short period, the time of gambling, whether it is day or night, the length of gambling over one particular period, the number of hours, re-staking large wins almost immediately. There are a number of triggers acknowledged as problem-gambling triggers which could be matched against gambling products. That is just one suggestion in terms of how you could consider it.

Lord Mancroft: Chairman, I think we have pretty much answered the next question.

The Chair: It is a question on advertising, so I think we have covered that. Lord Smith.

Q125 **Lord Smith of Hindhead:** May I ask you specifically about online scratchcards, which when you play them play like many other casino games? They will come up with options to choose a higher or a lower score on your Monopoly game or, when you have won a prize, to click A, B or C or 1, 2 or 3 in the hope you will get £25, £15 or £5. There is interaction with these online scratchcard games which appeals to people who like gambling. It ticks all the gambler's boxes of, "I should have picked this box", or, "I am cleverer than the game because I picked that box last time so if I pick that box this time", and it takes a while to realise it does not matter which box you tick, which button you press, what you do with this interactive game, the game is a scratchcard, and it is either going to pay you nothing, which it mostly does, or it is going to pay you back your £5, your £10 or your £25. It is never going to do any more than that.

It seems to me that in some of your games in this particular field of activity you are starting to creep into gambling, as opposed to just a lottery. If you are going to do that, I think the consequences have to be that the rest of the gambling legislation has to follow along with it. I say that because when you are playing the National Lottery online scratchcards in particular, which have these features in them which are indistinguishable from other online gambling games, you do not have the strapline When the Fun Stops, Stop. You have the strapline Amazing Starts Here, which you seem to have dropped recently and now it is Dream Big Play Small. I would be very interested to know your views.

Nigel Railton: There are a number of questions within the question so perhaps I will try to unpack it a little. Amazing Starts Here is a strapline we continue to use because we think the National Lottery does amazing things. We have talked about the success of the National Lottery over time.

Lord Smith of Hindhead: Let us be clear: the Amazing Starts Here strapline is to make people think if they win X number of million or £1 million the "amazing" is going to be for them.

Nigel Railton: It is not just that. It is about the duality of the National Lottery of winning prizes and the good causes. We have moved away from—

Lord Smith of Hindhead: I have never read that line in that way.

Nigel Railton: Pardon me?

Lord Smith of Hindhead: I personally have never read your marketing line "Amazing Starts Here" like that. That is my personal view.

Nigel Railton: Of course. The beauty of democracy is that people have personal views, but we have run brand advertising in places such as Haircuts4Homeless, where it is talking about a guy called Stewart who has 27 different haircutting areas for homeless people—that is his passion—funded by the National Lottery, and amazing started there. Amazing Starts Here relates to him.

Getting back to instant-win games online, ours do not play out in the same way as gambling products. May I talk about the way our games are designed and the way our games play out, to draw some distinctions? First, our games go through Gamgard which is a game design protocol we have had in place since 2008. When we design the games, if they show any triggers for excessive play or attracting problem gamblers, we do not launch them or we refine them so those triggers disappear. We have worked with industry experts for years and years to refine this. The only games that get to market are ones that are not going to attract problem gamblers. The games themselves may appear similar to other gambling products out there, but they play out differently. Not that I gamble, by the way, but if you go to a casino or bookmaker they play out really quickly and encourage you to keep going. Our games do not. They are time-lapsed. A lot of our instant-win games have quite long play-out times.

Q126 **Lord Smith of Hindhead:** I completely accept that, and I understand how gambling works. My point is that if you play a scratchcard, you buy it and you rub it off and you either win or you lose. If you go online and play a scratchcard, there are features within the game which give the player options to choose six numbers out of seven question marks to get to the end of the game and there are three boxes and you have to pick one as the bonus game. The gambler likes to choose the middle one, or the one on the left or the one on the right. We know from all the evidence we have had that gamblers sometimes like to think they are cleverer than the people they are playing against, and that is part of the addiction. My point is that specifically your online scratchcard is creeping away from a standard lottery ticket or scratchcard and moving into an area that is in some respects indistinguishable from other online games.

Nigel Railton: Another difference between gambling games and our games are pre-determined outcomes as opposed to being skill-based. There is no skill base. I would also say that we have been selling instant-win games in the UK since 2003. We created this market in 2003 and we have been selling these without any evidence of harm for the best part of 17 years. The National Lottery is a portfolio of games.

Lord Smith of Hindhead: The evidence of harm, even if it is 2%, is from GamCare, which is a very good operator. It says that 2% of its problems come from scratchcards. We have also had evidence from some people who have developed real gambling difficulties that the gateway into their gambling problem was scratchcards. You cannot sit there and say you have never had any problems with gambling because earlier in the evidence you said it was 2%.

Nigel Railton: That is 2% of the people—

Lord Smith of Hindhead: Some people play the National Lottery and develop and have a gambling issue.

Nigel Railton: There is not the evidence to support them. Some 2% of people who phone GamCare, on average, play seven other things. It is a difference between causation and people playing it. People are already playing other gambling products, betting products and casino products.

Lord Smith of Hindhead: That is not what the GamCare statistic says. It says that 2% of their callers have a problem with scratchcards.

Nigel Railton: They mentioned scratchcards among seven other products. I can write to you with the evidence from GamCare.

Lord Smith of Hindhead: In other words, what you are saying to this Committee is that the National Lottery has no responsibility at all and is not responsible in any of its games, ever, for anybody in the UK developing a gambling problem.

Nigel Railton: I am saying that there is no evidence to support that the National Lottery is the cause of harm. I am saying that, because of our scale, we have a responsibility to deal with problems, even if they are not caused by the National Lottery. That is why we invest so heavily in our retail training and online controls.

Lord Smith of Hindhead: If some your games, such as your scratchcard online game, as it encroaches into player interaction which becomes indistinguishable from other gambling games, are getting into that area of gambling, should the other aspects of the Gambling Act not apply equally to the National Lottery, as they do to the gambling industry?

Nigel Railton: It is complex. Our approach is that, from a digital perspective, we want to be the safest place to play. We have controls in place to monitor every single player and look for evidence of excessive play or problem play. Matt talked about some of the triggers we are looking for. We do not look at people against the average of the gambling sector; we look at people against the average lottery player. We identify people as red players and there are not many of them. Where we do, we intervene and we will send them messages, and eventually we will call them. These are very few people in the population of people who play instant-win games. We have around 600,000 people playing per week. We have the controls in place. We want the National Lottery to be the safest place to play. It starts with our game design and goes right through the DNA of our business.

The Chair: May I ask a regulatory question to both of you? In the dim and distant past, some 100 years ago, I was chairman of Camelot, which I should have declared at the beginning, but it was so long ago that I had almost forgotten. Do the products and the mechanics of the games you put into the market still have to be approved by the regulator?

Nigel Railton: Yes.

The Chair: Is that true for the People’s Postcode Lottery?

Clara Govier: We only have a single lottery product.

The Chair: Is that approved formally?

Clara Govier: We are licensed to operate it, yes.

The Chair: The difference between the lottery sector and the gaming sector, not children’s games but the bookmaking fraternity, is that everything you put out to the public has to be pre-approved by the regulator—the mechanics of the game, how it works, et cetera?

Nigel Railton: Yes.

The Chair: Is that a tough process or does it go through on the nod?

Nigel Railton: We have a very strict licence and we would expect that because we have a monopoly, or we did have a monopoly on the National Lottery in the UK. We have about 490 licence conditions we have to comply with every single day. For us to get a game to market we have to go through a lot of hurdles and be regulated—quite rightly—to show that any game we are launching will not attract problem gamblers or underage gamblers.

The Chair: Is that one of the conditions?

Nigel Railton: Yes.

The Chair: That is one of the criteria the Gambling Commission will expect you to uphold.

Nigel Railton: Yes, and we have to evidence the fact that we have considered it and proved it is not going to before the games get to market.

Lord Watts: Can I be clear about your response to Lord Smith? Is it your view, and I am just trying to clarify the position, that the scratchcard side of your business is no more addictive than the lottery?

Nigel Railton: Typical lottery products are in general low harm. There is no evidence to suggest they are the cause of the harm. Based on GamCare's own statistics, 2% of calls mention scratchcards among seven other products and about 1% mention draw-based schemes. There is a slight difference but it is really marginal and small. That does not mean we do not take it seriously. Scratchcards are an important part of our portfolio, so are instant-win games. This draw-based game portfolio raises so much money for good causes and keeps our retail estate open. As I say, there is no evidence to suggest the scratchcards are the cause of problem playing. I have certainly not seen it. Matt, do you want to add to that?

Matt Ridsdale: What we are talking about is the difference between incidence and causation. One point, going back to an earlier point about the difference between lottery and the wider gambling market, is the enormous number of people who play the games healthily. There is an incidence of 1%, but you still have tens of millions of people playing the game in a healthy, fun way, and it is raising lots of money for good causes and having a positive social impact.

The Chair: We have had a long exchange with Camelot. We are closing now, so I wondered if there was anything you wanted to come back on. Do not feel obliged.

Clara Govier: It is difficult for us to comment on instant wins because we do not operate them.

The Chair: That is understood. On behalf of the Committee, may I thank all four of you for your candour and articulacy?