

19 Exchequer receipts from National Lottery ticket sales

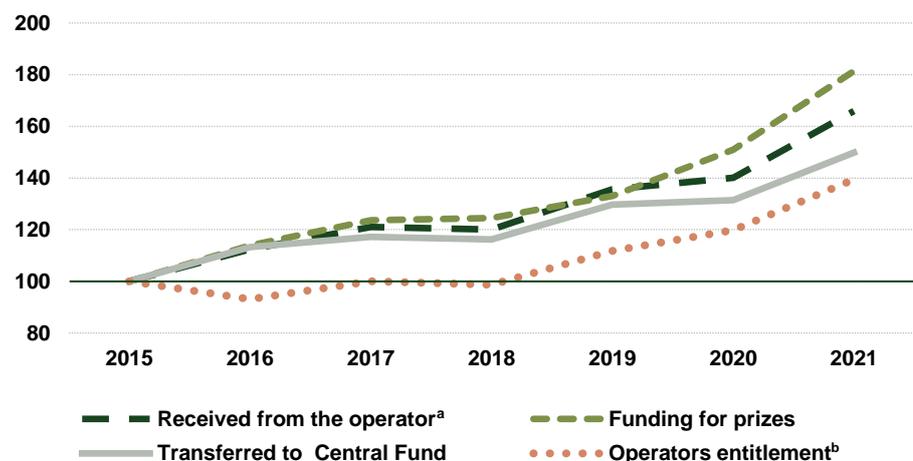
19.1 The National Lottery Act 2013 (the Act) established the Office of the Regulator of the National Lottery (the Regulator), and sets out the legislative provisions for the operation of the National Lottery and the National Lottery Fund account.¹ In 2014, a 20 year licence to operate the National Lottery was awarded to Premier Lotteries Ireland Limited (the operator).² The operator's activities are overseen by the Regulator.

19.2 A key function of the Regulator is to ensure that Exchequer revenues from the National Lottery are maximised by reference to the terms contained in the licence, and that they are transferred to the Exchequer in a timely way.³ Such receipts are used to fund or to part fund 'good causes' i.e. expenditure by various government departments on projects across Ireland in the areas of health, sports, arts, Irish language, children and youth, heritage, the natural environment and such other objectives (if any) as the Government may determine from time to time.⁴

19.3 As shown in Figure 19.1, over the period 2015 to 2021

- the amount received from the operator into the Fund increased by 66% (to just over €682 million in 2021)
- funding for prizes paid to the operator increased by 81% (to almost €287 million in 2021)
- transfers from the Fund to the Central Fund increased by 50% (to almost €290 million in 2021)
- the operator's entitlement increased by 39% (to just over €103 million in 2021).

Figure 19.1 Index of National Lottery Fund key measures 2015 to 2021 (2015 = 100)^a



Source: National Lottery Fund financial statements, 2015 to 2021

- Notes:
- a The amounts received from the operator comprise ticket sales less retailers' remuneration and prizes paid by the retailers. Amounts received from the operator were just over €682 million in 2021. Total sales on an accrual basis for the year ended 31 December 2021, recognised in the financial statements of the operator were around €1.1 billion in 2021.
 - b Excludes amounts forfeited in favour of the operator in respect of expired unclaimed prizes for the promotion of the National Lottery and/or the Lottery games (see paragraph 19.22).

1 The National Lottery Act 2013 repealed the National Lottery Act 1986.

2 The operator paid a total of €405 million for the licence to operate the National Lottery until 2034.

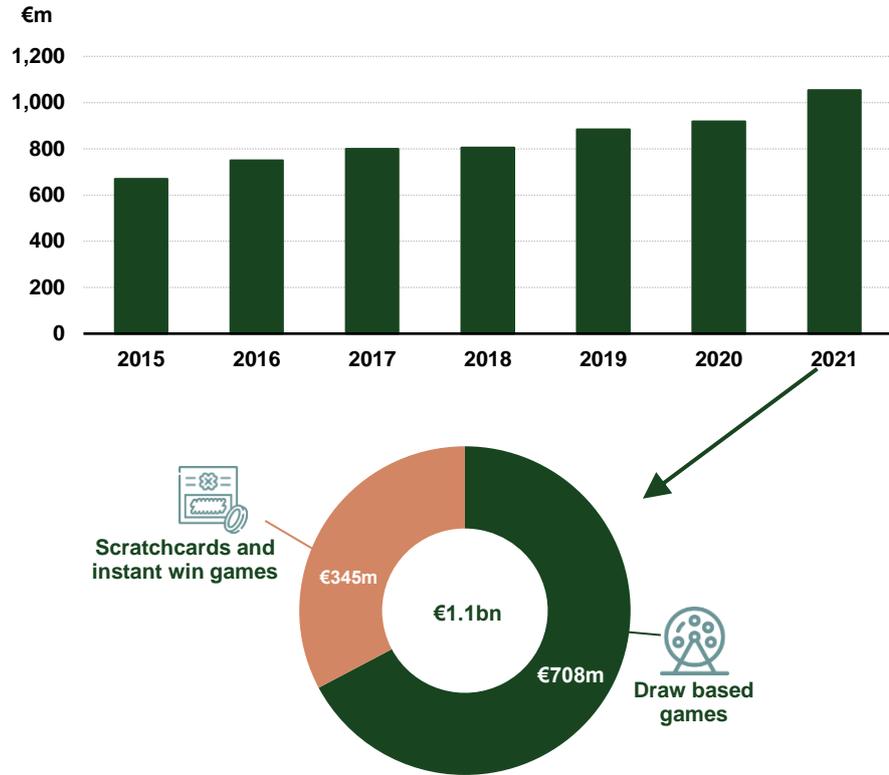
3 Section 44(3)(c) of the Act provides that payments allocated for the purposes set out in Section 41 shall be made by the Regulator from the Fund to the Central Fund at intervals determined by the Minister, subject to any provisions in the licence.

4 National Lottery funding is paid into the Central Fund and is allocated to Government Departments through the annual estimates process.

- 19.4** The licence provides that the operator shall be paid any moneys from ticket sales (and moneys becoming unclaimed prizes) after payment and reservation of funds for prizes, good causes and the Regulator's levy. The operator is also required to maintain three separate bank accounts as follows
- collections account — used to receive all amounts from retailers (less retailers commissions and prizes paid locally) and online sales which are required to be transferred to the National Lottery Fund on a weekly basis
 - prizes account — used to receive from the National Lottery Fund the amounts required for the payment of prizes not already paid by retailers
 - general account — the operator's own operating account where the operator's entitlement is paid after all other amounts have been dealt with.
- 19.5** The Regulator manages and control's the National Lottery Fund and accounts for the transactions of the Fund on a cash receipts basis. The Fund account is maintained by the Regulator at the Central Bank of Ireland. As at 31 December 2021, the balance of the account was €22 million. An overview of the National Lottery flow of funds is presented in Figure 19.2.
- 19.6** In accordance with the Act, the Regulator prepares annual accounts of the National Lottery Fund.¹ The accounts detail the amounts paid into the Fund during the year under review and an analysis of the balance held at year end.
- 19.7** A principle of financial reporting is that the notes to the accounts disclose information not presented elsewhere in the financial statements but that is relevant to their understanding. The accounts of the Fund do not provide information that enables users of the accounts to see that key provisions of the licence are being complied with, in particular the appropriateness of the amounts transferred to the Exchequer.
- 19.8** This examination was undertaken to review
- movement in the share of the lottery sales proceeds transferred to the Exchequer
 - whether the proceeds are being transferred to the Central Fund in a timely manner
 - how unclaimed prize money is used.

¹ Section 44(4) of the Act provides that the accounts of the Fund shall be submitted annually to the Comptroller and Auditor General for audit and the Regulator shall cause a copy of an abstract of the accounts so audited together with a copy of the report of the Comptroller and Auditor General thereon to be laid before each House of the Oireachtas.

Figure 19.3 National Lottery sales, 2015 to 2021

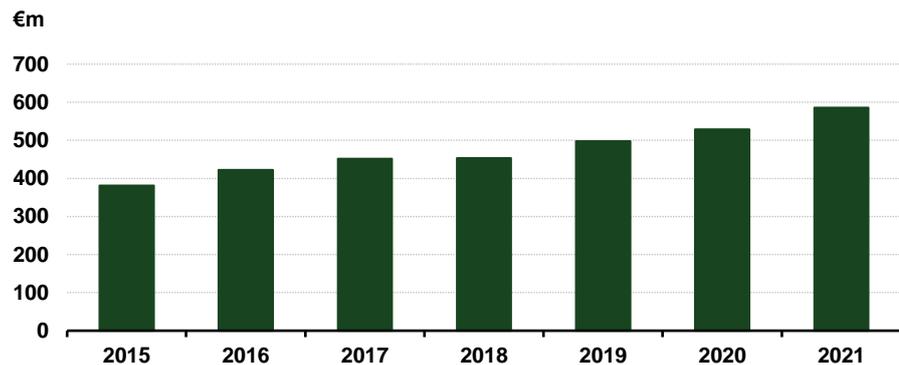


Source: Premier Lotteries Ireland Holdings DAC consolidated financial statements 2015 to 2021

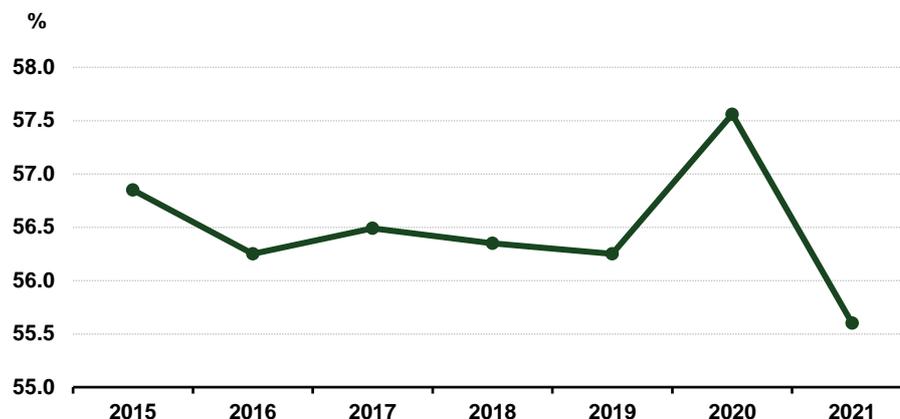
National Lottery prizes

- 19.11** The total value of National Lottery prizes won in 2021, inclusive of small prizes paid locally, was almost €586 million (see Figure 19.4). This represented 55.6% of ticket sales value.
- 19.12** Section 40(2) of the National Lottery Act 2013 provides that “... the total value of the prizes distributed by the National Lottery in any financial year of the operator shall be equal to or not less than 50% of the total moneys received by the operator in that year in respect of the sale of national lottery tickets in that year or such a greater percentage as may be specified in the licence.” The licence does not specify a greater percentage.

Figure 19.4 Prizes won 2015 to 2021



Source: Premier Lotteries Ireland Holdings DAC consolidated financial statements 2015 to 2021

Figure 19.5 Prizes as a proportion of sales 2015 – 2021

Source: Premier Lotteries Ireland Holdings DAC consolidated financial statements 2015 to 2021

- 19.13** The proportion of ticket sales allocated for prizes (total prize pay-out percentage) across all games per year is determined by the mix of sales across products. As can be seen in Figure 19.5, when total prizes won are compared to total National Lottery sales, the overall prize pay-out percentage remained above 50% ranging between 55.6% and 57.6% over the period 2015 to 2021.

Prize fund account

- 19.14** The operator holds and manages a prize fund account for the receipt and payment of prize moneys. The amount paid into the prize fund account by the Regulator each week is calculated on the basis of the prizes that would be expected to be won for the ticket sales of each game in the relevant week using the prize pay-out percentage approved for each National Lottery game. The transfer is based on expected (rather than actual) winnings for a number of reasons.
- As National Lottery games are not all 'pari-mutuel' games (the latter involving both minimum jackpots and fixed prizes), the actual prizes won will usually vary from the prizes expected to be won.¹
 - The amounts won on scratch cards sold in any week are not known for security reasons to ensure that winning tickets cannot be identified prior to being scratched. It is also not known what prize winning scratch card tickets have been sold, only those where the prizes have been claimed.
 - In a particular week, the amount of actual prizes won in draw based games or paid out in a particular week may exceed the total sales for the week.
- 19.15** The amounts paid into the prize fund account in any given week will therefore not be aligned with the liability for actual prizes won in National Lottery games. However, the prize fund has always been sufficient to meet the demands for payment of prizes to date.
- 19.16** In 2021, an amendment was made to the licence due to a perceived widening gap between the funding of the prize fund account (to pay the expected prizes) and the actual prizes won.

¹ Pari-mutuel is a system of betting in which the winners divide in proportion to their wagers, the total amount minus a percentage for the operators, taxes etc.

- 19.17** The Regulator proposed a licence amendment that resulted in the introduction of an annual reconciliation exercise to ensure that the prize fund account was correctly funded to pay the actual prizes won.
- The first reconciliation exercise carried out in 2021 covered the period from commencement of operations under the licence on 30 November 2014 to 31 December 2020. This identified a shortfall of €8.8 million in the prize fund that had built up since 2014.
 - In March 2022, the reconciliation was performed for the year ended December 2021. On this occasion, the review identified overfunding of the prize fund by €9.6 million in respect of 2021.
- 19.18** Depending on the outcome of the reconciliation exercise, funds are transferred between the prize fund account and the National Lottery Fund.

Unclaimed prizes

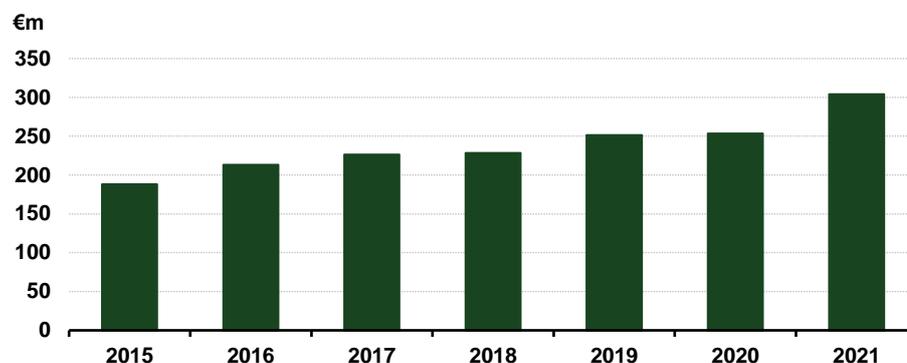
- 19.19** Winning tickets that remain unclaimed after a specified period are classified as expired unclaimed prizes and the proceeds are forfeited in favour of the operator in accordance with the licence. However, the licence requires that amounts forfeited in favour of the operator in this way be used solely for the promotion of the National Lottery and within 365 days from the date on which they were forfeited.
- 19.20** The use of expired unclaimed prize money for Lottery promotion purposes must include additional funding of special draws and additional or top-up prizes and may include incremental marketing and advertising.¹ The licence does not specify the proportion of funding to be allocated between the categories of spending.
- 19.21** The Regulator reviews the operator's compliance with the licence through a review of the operator's base marketing budget, incremental marketing expenditure and the operator's account of the expired unclaimed prizes.
- 19.22** Reports from the operator to the Regulator show that since 2015, just over €124 million in respect of expired unclaimed prizes has been forfeited in favour of the operator — an average of around €17.7 million per year. By the end of 2021, almost €122 million has been used for the promotion of the National Lottery/and or the Lottery games. Of this, 98% (or €120 million) has been spent on incremental marketing with the remaining 2% (under €2 million) spent on top-up prizes.

¹ Incremental marketing costs are defined as all marketing expenditure of the operator other than base marketing. Base marketing costs being marketing expenditure that is fundamental to the promotion and operation of the National Lottery in the ordinary course, as determined by the operator in consultation with the Regulator on an annual basis in advance, and funded by the operator.

Contribution to the Exchequer

19.23 As can be seen in Figure 19.6, contributions due to the Exchequer have increased year on year since 2015. For 2021, the contribution due to the Exchequer was €304 million.

Figure 19.6 Contributions due to the Exchequer 2015 to 2021



Source: Premier Lotteries Ireland Holdings DAC consolidated financial statements 2015 to 2021

19.24 The annual contribution due to the Exchequer out of National Lottery sales is calculated in accordance with the relevant provisions of the Act and the licence. In particular, the licence provides that 65% of the **gross gaming revenue (GGR)** is allocated to good causes. The Exchequer contribution is calculated on an annual basis using the following formula.

$$(\text{Total sales} - \text{prizes} = \text{gross gaming revenue}) * 65\% = \text{Exchequer contribution}$$

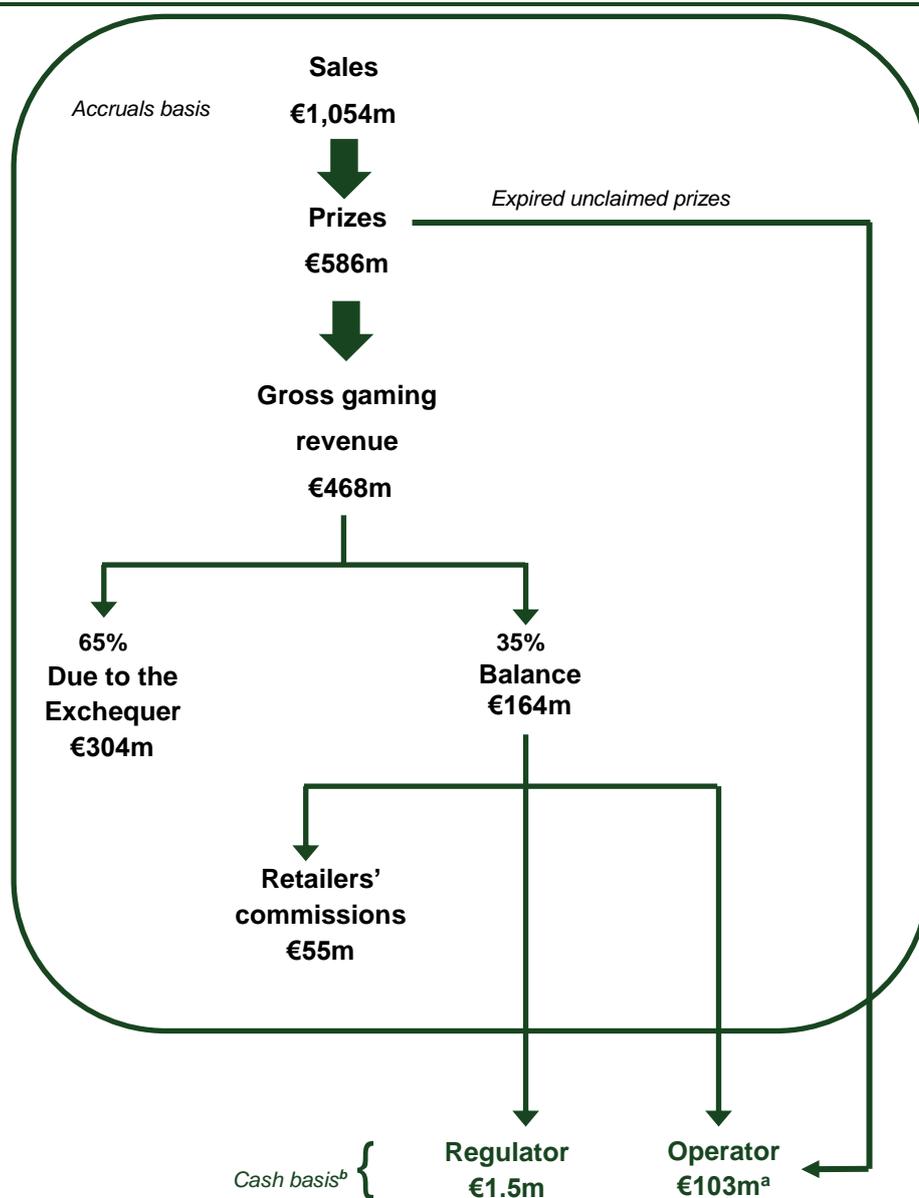
19.25 The remaining 35% of GGR is available to pay retailers' commissions and the Regulator levy, with the balance allocated to the operator. This is available to cover the operator's running cost (see Figure 19.7). Any surplus or residue is available as a return on the operator's investment.

19.26 In any year, changes in amounts allocated to prizes, in a game's design, in a particular sales mix or in the actual prizes won, impact the GGR which in turn has a pro-rata impact on the amounts available to the Exchequer and to the operator.

19.27 Figure 19.8 shows the distribution of National Lottery sales for 2021, with the amounts for sales, prizes, gross gaming revenue, amounts due to the Exchequer and retailers' commissions taken from the accounts of the operator, which is prepared on the accruals basis. The remaining figures are taken from the National Lottery Fund account which is prepared on a cash basis.

19.28 The Exchequer contributions as a proportion of sales have varied between 27.6% and 28.8% over the period 2015 to 2021 (see Figure 19.8).

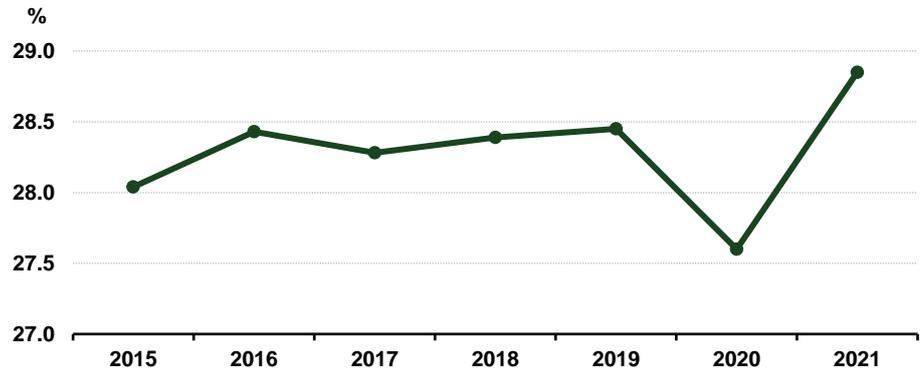
Figure 19.7 Distribution of National Lottery sales proceeds, 2021



Source: National Lottery Fund financial statements 2021 and Premier Lotteries Ireland Holdings DAC consolidated financial statements 2021

- Notes:
- a Excludes amounts forfeited in favour to the operator in respect of expired unclaimed prizes for the promotion of the National Lottery and/or the Lottery games (see paragraph 19.22).
 - b The amounts do not balance due to the different bases of accounting.

Figure 19.8 Exchequer contribution as a proportion of sales 2015 – 2021



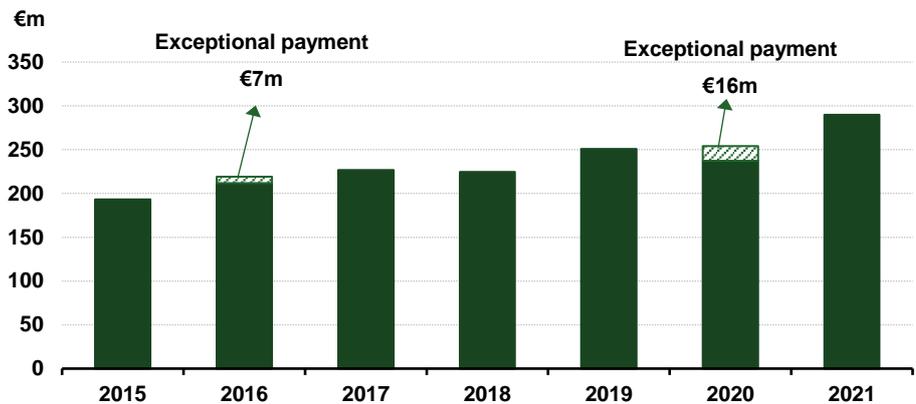
Source: Premier Lotteries Ireland Holdings DAC consolidated financial statements 2015 to 2021

Transfers to the Central Fund

19.29 The process for the disbursement of funds from the National Lottery Fund to the Exchequer is set out in the Act and the Minister for Public Expenditure and Reform determines the timing of the transfers. In 2015, the Minister determined that funds would be transferred from the National Lottery Fund to the Exchequer every two months with the Department of Public Expenditure and Reform notified of each transfer.

19.30 Almost €290 million was transferred to the Exchequer in 2021 (see Figure 19.9).¹ The figure for 2016 included an amount of €7 million previously retained in the Fund to meet transition costs, that was ultimately not required. Included in the total for 2020 is an exceptional payment of €16 million. This amount was in relation to expired unclaimed prizes that had accumulated during the operation of the National Lottery by An Post National Lottery Company (APNLC) and that had remained in the National Lottery Fund as of 30 November 2014 when Premier Lotteries Ireland commenced operation of the National Lottery.

Figure 19.9 Transfers to the central fund, 2015 to 2021



¹ This is the amount actually transferred in 2021. The operator's financial statements (which are prepared on an accruals basis) report that the amount due to the Exchequer for 2021 was €304 million (65% of GGR).

Source: National Lottery Fund financial statements 2015 to 2021

Conclusions and recommendations

19.31 Contributions from the National Lottery due to the Exchequer have increased by almost 62% from around €188 million in 2015 to around €304 million in 2021.

19.32 The annual contribution due to the Exchequer is calculated by reference to the Act and the licence with 65% of gross gaming revenue (total sales less prizes won) being allocated via the Exchequer. Therefore, amounts due to the Exchequer in any year will be affected proportionately by any changes in amounts allocated to prizes, in the design of games, in the product sales mix or in the actual prizes won. For example, as can be seen below, there is an inverse relationship between prizes won as a proportion of sales and the Exchequer contribution as a proportion of sales — when one rate increases the other rate falls

As a proportion of sales	2019	2020	2021
Prizes won	56.3%	57.6%	55.6%
Exchequer contribution	28.5%	27.6%	28.9%

19.33 Transfers from the National Lottery Fund to the Exchequer are carried out every two months with the Department of Public Expenditure and Reform notified of each transfer. In 2021, almost €290 million was transferred to the Exchequer. The balance remaining in the National Lottery Fund at the year-end was €22 million.

19.34 Between 2015 and 2021, in accordance with the licence, €124 million of expired unclaimed prizes have been forfeited in favour of the operator. The licence provides that this must be used for the promotion of the National Lottery and/or the Lottery games, specifying that this must include the funding of special draws and additional top-up prizes. The licence provides that forfeited prize money may also be used for incremental marketing and advertising of the National Lottery, but does not specify how the money is to be apportioned.

19.35 By the end of 2021, almost €122 million in forfeited prize money had been used for the promotion of the National Lottery. Of this, 98% has been spent on incremental marketing, with just 2% used to top-up prizes.

19.36 An important principle of financial reporting is that the notes to the accounts include additional information not presented elsewhere in the financial statements but is relevant to their understanding. The National Lottery Fund accounts, as currently presented, do not include sufficient information to demonstrate that certain provisions of the licence are being complied with, in particular around the amounts allocated to the Exchequer annually.

Recommendation 19.1

The Regulator should consider including such additional information that would allow users of the accounts to see that the key provisions of the licence are being complied with. This could, for example, include disclosure of the allocation to the Exchequer as a proportion of National Lottery sales; and the total amounts forfeited annually in favour of the operator in respect of expired unclaimed prizes.

Regulator of the National Lottery response

Partially agreed.

It is not the purpose of the National Lottery Fund accounts to provide information to enable users to see that terms of the licence are being complied with. The Regulator's annual report already provides information on how National Lottery sales were allocated to good causes, the checks in place to ensure compliance (and any incidence of non-compliance) and why the amounts transferred in a financial year differ from the amount earned for good causes in the same period.

However, it is accepted that transparency and understanding could be improved.

The Regulator's statement of strategy for 2022 to 2024 includes a key strategy to provide more accessible information to the public on how the National Lottery is regulated and returns for good causes are calculated and transferred to the Exchequer. Its aim is to provide greater transparency and understanding of the National Lottery and work has begun on implementing it.

In this context, the Regulator is happy to consider what additional information would assist users of the accounts to have greater transparency and understanding of the National Lottery Fund, and the related provisions of the licence, and where this information might be best provided and signposted.

