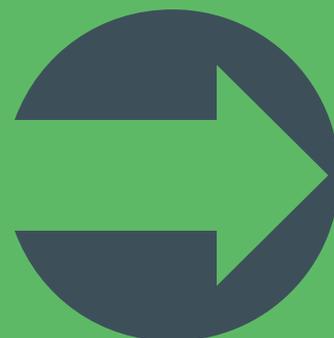




National Lottery
Commission

Safeguarding the National Lottery for the nation

Annual Report and Accounts
2009/2010



National Lottery Commission Annual Report and Accounts 2009/2010

Report presented to Parliament pursuant to Section 14 (1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998 and the National Lottery Act 2006).

Accounts presented to Parliament pursuant to Schedule 2A, Section 11 (1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998 and the National Lottery Act 2006).

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Vision

A National Lottery that delivers increased funds for good causes and enjoyment for the nation.

Mission statement

We secure public trust and enthusiasm for the National Lottery through the exercising of our statutory duties:

- To ensure that the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety;
- To ensure that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
- Subject to the first two duties, to do our best to secure that the proceeds of the National Lottery are as great as possible.

Our values

The National Lottery Commission has five core values:

Integrity

We will be fair, honest and open in all our dealings, decisions and actions.

Accountability

We will each take ownership of our responsibilities, embracing challenges with professionalism to achieve the Commission's goals.

Communication

We will share relevant information in a timely and concise manner with each other and our stakeholders, enabling and encouraging effective two-way communication.

Team work

We will work together to achieve the Commission's goals, encouraging each other to develop and make the organisation an enjoyable and rewarding place to work in achieving the Commission's goals.

Excellence

We will deliver to the highest standards, identifying and taking opportunities to continuously improve and develop.

Chair's foreword



The National Lottery marked its 15th anniversary this year. This was a good opportunity to reflect on the contribution this remarkable institution has made to the United Kingdom. Since its launch, it has generated £24 billion for Lottery funded projects and individuals. And it is the millions of people who spend a little each week whom we can thank for making this happen.

Lottery players tell us in no uncertain terms that the Lottery must operate with the very highest levels of integrity. It must be run fairly and in the best interests of all. People want a Lottery which is safe and well-regulated – a Lottery they can trust.

It is important to remember that the success of the National Lottery cannot be taken for granted. It needs professional expertise and effective regulation to keep it healthy and delivering funds for Lottery projects. 2009/2010 was a very successful year for generating returns to good causes but also one which brought some significant challenges for the Lottery which could affect the way it is both operated and regulated.

On the operational side, the Ontario Teachers' Pension Plan (OTPP) was announced as the preferred buyer of Camelot from its existing shareholders. We will make sure they are fit and proper to run the National Lottery and that the success and strong reputation of the National Lottery will continue to be safeguarded under their ownership. We will also complete our evaluation of Camelot's latest plans to offer mobile phone top-ups and other commercial services through Lottery terminals and will make our decision in Summer 2010. We may need to consider the implications of introducing a new taxation system for the Lottery in the form of gross profits tax and will work closely with HM Treasury and the Department for Culture, Media and Sport to evaluate this.

But it is not just these developments we must plan for. The Lottery exists in a dynamic and constantly changing environment. It is important that these, or any other changes – whether they are plans for new Lottery games, detailed technical issues or other external developments – are robustly assessed in the best interests of the nation and the longer term viability and security of the National Lottery.

There may also be changes in terms of our own regulatory structure. The Department for Culture Media and Sport is developing a business case to assess whether a merger of the National Lottery Commission and the Gambling Commission will be a more efficient and effective structure.

We believe it is imperative that the existing regulatory functions which have served the Lottery well should continue, in any new structure, to minimise the risk of damaging this national success story and to maintain the high levels of trust which are so critical to the funds generated by the National Lottery.

And finally, I would like to thank my fellow Commissioners, including Mark Harris together with his expert team who have worked hard to maintain the propriety and integrity of the National Lottery.

A handwritten signature in black ink that reads "Anne Wright". The signature is written in a cursive, flowing style.

Dr Anne Wright CBE

Chair of the National Lottery Commission

Chief Executive's report



This has been a remarkable year for the National Lottery. We are pleased to report that £1.6 billion has been raised for good causes. A summary of our year's work is outlined below.

More money for good causes

The licence competition was instrumental in securing the best possible deal for good causes. One outcome was that the proportion of the proceeds that go to good causes increased significantly. We structured the third licence so that the operator has an even greater incentive to generate sales across the portfolio which means good causes benefit even more.

I am pleased to report that Camelot's sales strategy has seen Lottery sales reach £5.5 billion and £1.6 billion has been generated for good causes. This is a 14 percent increase on last year's £1.4 billion. Of the £1.6 billion, £90 million is the direct benefit generated by the new licence structure.

The distributors of Lottery money are already reporting the benefits. In March 2010, the Heritage Lottery Fund announced¹ that Heritage projects across the UK would benefit from a £25 million increase in the 2010 budget for new awards as a result of increased Lottery funding.

"The licence competition was instrumental in securing the best possible deal for good causes."

¹ Heritage Lottery Fund announces £25m increase, March 2010
<http://www.hlf.org.uk/news/Pages/Annualbudget.aspx>

Lottery sales**£5.5 billion****Good causes****£1.6 billion**

This is a 14 percent increase on last year's £1.4 billion.

Lottery developments

There have been significant developments in the Lottery arena this year which have required detailed and expert consideration by the Commission on behalf of the public. These developments have included:

Shareholder sale

Camelot's five shareholders announced in 2009 that they were seeking to sell their shares. The Commission is required to approve the transfer before the sale can be completed. During 2009/2010 we provided extensive documentation and clarification for the shareholders' advisers so potential buyers understood what regulatory consent would entail. Detailed project planning was undertaken to enable the full assessment process to proceed smoothly in 2010/2011.

In March 2010, immediately following Camelot's announcement that Ontario Teachers' Pension Plan (OTPP) was the preferred buyer, we began the assessment process. We will assess OTPP, its connected companies and individuals to ensure it is fit and proper to run the Lottery. We will also consider its financial viability and any proposed consents, approvals or amendments to the licence to ensure there is nothing which could harm the security and continued operation of the Lottery or the delivery of all Camelot's licence commitments. We expect to complete this work by Summer 2010.

Camelot Global Services Limited

Camelot's sister company Camelot Global Services Limited (CGS Ltd) began working with the California State Lottery in September 2009. We considered this proposal in light of the UK Lottery and secured assurance that it will not affect the operation or resourcing of the UK National Lottery. We will continue to monitor any similar activities to ensure that they do not affect the performance of the UK National Lottery.

Application for commercial services

In December 2009, we received an application from Camelot to offer commercial services such as mobile phone top-ups, electronic bill payments and other similar services through National Lottery terminals. We began the process to assess whether the proposal is likely to be lawful and whether it is in the best interests of the National Lottery. We opened a consultation² in February 2010 asking interested parties to identify any European or competition law considerations which the Commission should take into account when reaching its decision. This is one element of our wider decision process. The full assessment³ will consider matters such as the impact on the core Lottery business, the propriety and reputation of the Lottery and the likely returns to good causes. We expect to make a decision on the application in Summer 2010.

² http://www.natlotcomm.gov.uk/CLIENT/news_item.ASP?NewsId=80

³ National Lottery commercial services. Summary of the approach taken by the National Lottery Commission
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/Com%20services%20additional%20info.pdf>

Right-touch regulation

As well as responding to external developments, we have continued to scrutinise our own regulatory approach during 2009/2010. Our Regulating with Excellence (REx) programme⁴ sets out to deliver a different approach to Lottery regulation. We are refocusing our regulatory scrutiny to focus on those areas of highest risk – such as the long term health of the National Lottery and the high levels of social responsibility which are essential to public trust. Key areas this year included the development of a revised enforcement policy and greater visibility of our own decision-making. We encouraged Camelot to identify areas where we could further reduce regulatory burdens. This will require a shift in culture on both sides but encouraging process has been made this year.

REx is about focusing our regulatory work on the biggest risks to the National Lottery. We want to deliver the best outcomes for the National Lottery and ensure that our regulation continues to be proportionate and correctly targeted. While this programme of work unfolds, we will continue to work closely with the Government to understand the developing regulatory agenda and lessons learned from other sectors.

Driving costs down

During the year, we have sought to reduce our operating costs without jeopardising the integrity of the Lottery or protection of the public. This is challenging because our workload is primarily driven by the plans and activities of the licensee. Our annual operating costs (which exclude depreciation and third licence competition costs) were £4.4 million in comparison to £4.6 million the previous year – a 4.3 percent reduction. We have reviewed our management structures and financial systems to ensure both value for money and that we remain a cost-effective non-departmental public body (NDPB).

“...our priority as always, will be to continue to safeguard the National Lottery on behalf of the nation.”

I would like to thank Commission staff for their contribution over the year. Effective regulation is only as strong as the people behind it. My small team use technical skill and expertise to maintain the highest levels of trust and integrity in the operation of the National Lottery. The coming year will be uncertain as we await the decisions regarding our future structure but, our priority as always, will be to continue to safeguard the National Lottery on behalf of the nation.



Mark Harris
Chief Executive

⁴ The Principles of Regulating with Excellence, January 2009
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/Regulating%20with%20Excellence%20-%20Principles%20Comms%20Master%20v%20final.pdf>

Review of the year 2009/2010

The National Lottery is a multi-billion pound business which is run by a commercial operator on behalf of the Government to benefit the nation. The National Lottery Commission oversees this operation to ensure it is being run in the best interests of Lottery players and good causes.

During 2009/2010 the National Lottery Commission:

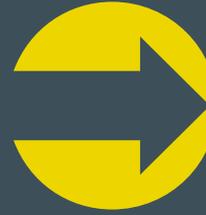
- Validated the payment of £1.6 billion to the Department for Culture, Media and Sport to share amongst the UK's good causes;
- Confirmed that over £87 million has been raised for the London 2012 Olympic and Paralympic Games taking the total to over £500 million;
- Secured an extra £90 million for good causes through the terms we established in the new licence;
- Carried out 250 spot checks at retailers to check that Camelot are complying with their retail requirements; and
- Verified that players won over £2.8 billion in prize money up from £2.6 billion in 2008/2009.

Major events of the year

APRIL 2009

KEEPING THE LOTTERY SAFE

We introduce new rules to prevent Lottery Scratchcards featuring harder gambling themes like roulette or casino images.



The financial year 2009/2010 was the first full year of the National Lottery operating under the new ten year licence which began on 1 February 2009.

With the licence competition and transition to the new licence complete, the Commission's focus this year was:

- to regulate with excellence, securing the optimum performance from the operator and so delivering the best possible outcome for the National Lottery;
- to protect the Nation's interest in the benefits that the National Lottery provides by working with relevant stakeholders and enhancing our wider understanding of the environment in which the National Lottery operates; and
- to maintain the capability and resources to deliver our objectives by continuously developing reviewing and updating our skills and resources.

Trust, integrity and propriety

Maintaining public trust

The National Lottery has to operate with the highest levels of integrity and propriety. The National Lottery Commission performs a vital role in upholding public trust and carries out significant work to ensure that the National Lottery is being run properly and in accordance with the licence conditions we set. The Commission's work this year is summarised below:

Funds monitoring

The Commission has a specialist, technical compliance function which scrutinises areas of potential risk to check that the operator is meeting its licence requirements.

Each week, there are some 40 million Lottery sales and prize transactions. The Commission monitors and checks the complex flow of funds on a weekly basis to verify that Camelot's systems are accurate and that players and good causes are being paid the correct amount of money.

This year, we verified that over £5.5 billion was generated through Lottery sales and of this £1.6 billion was correctly transferred to the Lottery good cause funding accounts⁵. The Commission conducted a weekly audit to ensure that the average of £61 million won each week in prize money was correctly calculated and held securely for players.

Safeguarding players' money

Another important part of our trust work is to ensure that safeguards are in place to protect players and their money. The Commission requires Camelot to pay money into a series of separate trust accounts which, at any given time, have sufficient money to reimburse players with their stake or prize money if something happened to go wrong. These are called the players trust accounts and we monitor these to verify that they contain appropriate levels of funds.

Improving customer service

The Commission's consumer protection team exists to provide player support. In addition, if a player is dissatisfied with Camelot's response, they can escalate their complaint to us and we investigate on their behalf.

This year we received 417 complaints from players. This is a 49 percent increase in comparison to the 280 we received in 2008/2009. There have been several changes to Lottery games this year, along with disputed prize claims and queries about playing the Lottery from overseas.

⁵ The proportion of National Lottery income that goes to good causes is transferred to the National Lottery Distribution Fund (NLDF) or the Olympic Distribution Fund (OLDF).

MAY 2009



NATIONAL LOTTERY SUPPORT FOR 2012

We give the go-ahead for the Lottery crossed fingers brand to feature on the hot air balloon to promote the National Lottery's contribution to the 2012 Olympic and Paralympic Games.

MAY 2009



EVIDENCE-BASED REGULATION

We announce our fourth major study into underage Lottery play to check that underage sales prevention strategies are working.

The Commission has improved its service to players this year. We conducted a programme of customer satisfaction surveys and reviewed our customer responses to ensure they are written in plain, clear English. We also revised our customer response standards to offer faster responses. Full details of our performance against these targets are listed in Appendix D on page 28.

The Commission commenced a review of Camelot's complaint handling procedure and player information to compare the National Lottery against best consumer practice. We requested that Camelot publish clear, written complaints handling procedure for players on the National Lottery website. This will be introduced in 2010/2011.

Testing the retail network

With over 60 percent of Lottery tickets purchased through retailers, the network must be managed and operated with the highest levels of integrity. This year, we conducted a sample of spot checks to make sure that players have the information they need to understand the games at the point-of-sale. We undertook 250 retail visits to verify whether Camelot's retailers were providing this information. During these visits, we checked that up-to-date game rules, procedures and how-to-play information is available in store. We are assessing these findings and will report back to Camelot in 2010/2011.

Preventing retail fraud

This year, the Commission has been working with Camelot looking at the experiences of overseas operators, particularly those in Canada where research highlighted a disproportionate number of retailer wins, with evidence of retailers retaining and claiming players' winning tickets. The purpose of this work was to assess the risk of such issues occurring in the UK.

In response to the Canadian developments, Camelot has undertaken a review of its own security processes and procedures in this area and we will keep this matter under review in 2010/2011.

Preventing underage sales

The retail network is responsible for enforcing the law and preventing the sale of Lottery tickets to children under the age of 16. To comply with our licence, Camelot has to make sure that there is a clear and effective strategy in place to prevent children buying tickets at retailers. Part of this strategy is called Operation Child. It is a mystery shopping exercise where people who look underage try to buy Lottery products in retail stores.

As a further safeguard, we commission independent research to further test for trends in underage play which may indicate problem areas. This is an area we will continue to keep under review.

Regulating with excellence

The Commission continued to investigate ways to improve its regulatory model throughout 2009/2010 in line with best practice and to reflect the experience of the current operator. This year, we have made further progress with our Regulating with Excellence (REx) programme published in 2009.



JULY 2009

**UNDERAGE PLAY
AT RECORD LOW**

Research confirms the number of children illegally buying Lotto tickets fell to the lowest levels in over a decade.



SEPTEMBER 2009

BETTER REGULATION

The Commission's enforcement policy is made available to the public for the first time as we open it up for expert scrutiny.

The aim of REx was to implement, where appropriate, outcome-based regulation informed by risk assessment. The measure of its overall success will be that Camelot is further enabled to work in a way that minimises regulatory burdens, while at the same time ensuring the Commission has robust performance measures, and enforcement powers where necessary, to deliver assurance that Camelot is doing all it can to fulfil its responsibilities under its licence.

Key developments this year included:

- **Less vetting** – this year we reassessed our approach to vetting Camelot employees so that in future, only those in positions of highest risk will be vetted. This will reduce the burden on the operator and will be implemented in 2010/2011.
- **Improved risk assessment** – we have developed new risk assessment tools to assess all aspects of Lottery operation and regulation. This will help to identify lower risk areas where we can continue to reduce regulatory requirements on Camelot.
- **Earned autonomy** – we encouraged Camelot this year to identify areas where it considers regulatory requirements could be lessened – it is important that Camelot is proactively involved in this work to reduce regulatory burdens in areas which have proved lower risk. This work will continue in 2010/2011.
- **Improved performance** – through REx we have improved the ways we monitor Camelot's performance. This means the Commission can provide evidence-based challenge to ensure that Camelot is operating the business for the highest benefit to good causes. This year we have introduced new assessment tools to focus on longer term developments and threats to Lottery sales.

- **Greater transparency** – we have audited ourselves against best practice in Freedom of Information, public accountability and government guidelines. New measures have been introduced to provide greater visibility of our work including our governance arrangements, Freedom of Information requests and regulatory decisions.
- **Best practice** – this year we met with the Better Regulation Executive to discuss our Regulation with Excellence Programme and Government thinking on regulation. We have also sought advice from leading experts in this field including Professor Richard Macrory, Professor David Miers, Cardiff Law School and Professor Julia Black of the London School of Economics. We also considered the learning points and the regulatory response to the banking crisis detailed in the Turner Review.

Evidence-based regulation

The Commission ensures that its decisions and regulatory approach are based on a strong evidence base. One example is how we have studied longer term trends around underage play and the National Lottery. This year, we published our fourth major piece of research on this subject. This independent study, British Survey of Children, the National Lottery and Gambling 2008/2009⁶ was conducted by Ipsos MORI and the Centre for the Study of Gambling at the University of Salford. It is the only British underage gambling research of its kind and enabled us to verify the effectiveness of Camelot's child protection measures.

⁶ British Survey of Children, the National Lottery and Gambling 2008-09 Ipsos Mori, July 2009
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/Children%20and%20gambling%20FINAL%20VERSION%20140709.pdf>



SEPTEMBER 2009

**CELEBRATING
LOTTERY PROJECTS**

170,000 people voted in the National Lottery Awards for their favourite Lottery projects and 2.4 million tuned in to watch the live BBC show.



OCTOBER 2009

LOTTERY ON A HIGH

Commission confirms the National Lottery was on track to raise an extra £90 million in Lottery funding this year.

The survey of nearly 9,000 children aged between 12 and 15 in England and Wales showed that the number of 12–15 year olds illegally buying National Lottery products has dropped to the lowest levels in over a decade. Just two percent of children said they had played with their own money in the past seven days on Lotto – down from five percent in 2006. Four percent claim to have bought Scratchcards – down from six percent in 2006 and nine percent in 2000. One percent said they had tried other Lottery games compared to six percent in 2006.

Online restrictions preventing children from accessing interactive Lottery games also proved to be successful. Of the 96 percent of children who had been on the Internet in the past week, 27 percent had made purchases of some kind but just 0.3 percent of these claim to have spent money on National Lottery games.

Keeping the Lottery safe and fun to play

The Lottery licence provides the framework to ensure that the Lottery is run with the highest levels of social responsibility. Camelot is required to implement a strategy to minimise underage and excessive play.

This year, Camelot adopted a new tool for assessing the potential risks to vulnerable players from new Lottery games. This tool, GAM-GaRD was developed in the UK by Dr Richard Wood, Dr Mark Griffiths and Dr Jonathan Parke, with input from an international advisory team. GAM-GaRD identifies how risky a proposed (or established) game is likely to be for vulnerable players. We considered GAM-GaRD reports as part of our assessments of new Lottery games.

CASE STUDY 1**Annual programme of compliance testing**

The Commission has an expert compliance team which carries out programmes of testing and audit work to ensure the Lottery is operating in accordance with the licence. Just some of the work carried out during 2009/2010 included:

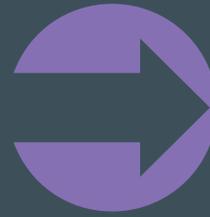
- attending 12 prize winner's presentations to check that a winner's experience is as we expect it to be and that important issues such as the right to anonymity are handled properly;
- observing 37 live draw shows to make sure draws are run securely and in accordance with procedures;
- carrying out 49 secure warehouse checks to make sure Scratchcards are being handled and disposed of securely; and
- checking 250 retailers in store to test game information is available at the point-of-sale for players.



NOVEMBER 2009

CELEBRATING 15 YEARS OF SUCCESS

The National Lottery celebrates its 15th anniversary on 14 November having raised £24 billion for good causes since launch.



NOVEMBER 2009

NEW EUROMILLIONS RAFFLE LAUNCHED

We approved Camelot's plans for a new EuroMillions game which creates a UK millionaire every week.

In assessing new games, we aim to be as clear as possible about which games we will or will not licence. In April, we published new rules for the use of gaming and betting themes on National Lottery Scratchcards⁷ following a consultation with key stakeholders. The position will be reviewed again in 2011.

Enforcing the licence

The National Lottery licence means that the Lottery runs in the best interests of players and the good causes. It is vital that there is an effective process in place so we can take action if things do go wrong. It is also important that Lottery players and the public have visibility of these safeguards and that there is public information available on where the operator has not met its obligations.

Enforcement is one of the areas the Commission has reviewed this year under its Regulating with Excellence (REx) programme. In September 2009, we launched a public consultation⁸ on our enforcement approach. This was the first time we have made this policy public and we sought views from regulatory experts and other interested parties. The aim was to provide greater clarity and understanding about when and why Lottery enforcement action will be taken and to incorporate best regulatory practice into our work.

Our approach was commended by leading regulatory experts including Professor Richard Macrory and University College London (UCL). The consultation is available on the Commission's website and our finalised policy together with the consultation responses is due to be published in the first quarter of 2010/2011.

Investigations

The Lottery is a complex business which needs a degree of regulatory oversight to ensure the business is run in compliance with the terms of its licence.

This year we investigated over 50 incidents ranging from technical and software issues to the publication of winning Lottery numbers. We recorded four breaches of the Lottery operating licence. None of these breaches resulted in financial penalty and Camelot has resolved the issues in question. Detailed descriptions of these breaches can be found in Appendix C.

Other matters which were not found to be in breach of the licence were reviewed by the Head of Enforcement and Camelot's Responsible Business Controller. They considered any developing trends in incident reports and disseminated learning points from these incidents.

A dynamic environment

The National Lottery is a multi-billion pound business which sells Lottery products in a fast-moving consumer retail and online environment and requires focused regulatory oversight.

Innovation and portfolio refreshment is also important to maintain Lottery players' interest so that the Lottery continues raising income for good causes.

It is important that changes to the Lottery are independently assessed in the best interests of the Lottery and good causes. 2009/2010 has seen some significant developments in the Lottery environment which the Commission has been assessing and a summary of this work is set out on the next page.

⁷ Consultation on the use of gaming and betting themes on National Lottery Scratchcard games, April 2009
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/Soft%20Gaming%20Themes%20Response%20Doc%20vfin%20with%20cover.pdf>

⁸ Consultation on the National Lottery Commission's Enforcement Policy, September 2009
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/~2871735.pdf>



DECEMBER 2009

THIRD LICENCE: MORE MONEY FOR GOOD CAUSES

Our latest report showed that the National Lottery generated over £1 billion for good causes in the first nine months of 2009/2010.



DECEMBER 2009

ASSESSING CAMELOT'S PLANS

We begin the detailed regulatory assessment of Camelot's plans to offer mobile phone top-ups and bill payments via National Lottery terminals.

Shareholder sale

In 2009, Camelot's five shareholders confirmed they were seeking to sell their entire shareholding in the National Lottery.

While the Commission has no role in the sale process itself, or the terms of the sale, the shareholding cannot be transferred until we have given our written consent. The Commission has to be satisfied that any new shareholder is a fit and proper person to run the National Lottery and to ensure that any changes will not adversely affect Camelot's ability to run the Lottery and meet its commitments throughout the licence period.

Throughout 2009/2010, the Commission provided detailed advice to the shareholders' advisers to ensure there was sufficient understanding of what regulatory consent would entail. We announced in March 2010, following Camelot's announcement of the approved buyer, the Ontario Teachers' Pension Plan (OTPP), that we would commence our assessment of the terms of the purchase of shares in Camelot Group plc by the Ontario Teachers' Pension Plan.

The Commission will need to satisfy itself as to the fitness and propriety of OTPP and the companies and people involved before it can give consent. In addition, there are controls in the licence to safeguard the nation's interest in the secure and continued operation of the National Lottery by Camelot Group plc. The Commission will consider any consents, approvals or amendments to the licence which are proposed by the Ontario Teachers' Pension Plan as necessary to complete the purchase.

These will include consideration of the:

- economic position of the purchaser;
- impact on financial soundness of Camelot Group plc;
- changes to the corporate structure of Camelot Group plc;
- operation of the National Lottery (including any material changes to business plans, contracts, Lottery operations; and arrangements for managing any potential conflicts of interest); and
- any necessary approvals from third party vetting organisations.

We are expecting to announce the outcome of this assessment early in Summer 2010.

Camelot Global Services Limited

Camelot Group plc is expanding its international activity through its sister company Camelot Global Services Limited (CGS Ltd). Camelot itself is a single purpose vehicle – which means that without the Commission's prior approval it cannot undertake any activity other than the running of the National Lottery. However, there is no such restriction on any of its sister companies. We were informed in June 2009 that Camelot's Board had been investigating opportunities in the international market and that Camelot Global Services was to provide consultancy services and expertise to help sales growth for the California State Lottery.

While Camelot Global Services sits outside our regulatory structure, the Commission has to be satisfied, on behalf of the public, that the work in California would not have an adverse impact on the UK Lottery. We sought to understand whether there would be significant demands on any key staff from Camelot Group plc and secured guarantees that there would be no adverse impact on the operation of the National Lottery. We will continue to monitor the position.



JANUARY 2010

OPENING UP REGULATION

We publish our new openness policy to make Lottery regulation more accessible to players and the public.



FEBRUARY 2010

INVITING VIEWS

We consult interested parties to identify areas of EU or competition law we should consider in assessing Camelot's plans for commercial services using Lottery terminals.

Commercial services

The Commission received an application from Camelot in 2009 to offer commercial services such as mobile phone top-ups, electronic bill payments and other similar services through National Lottery terminals.

This activity is classed as ancillary activity and so requires the Commission's specific consent. As a first stage in assessing this proposal the Commission began a consultation with certain interested parties in February 2010. The purpose of this consultation was to identify any aspects of competition or EU law to which we should have regard in assessing the proposal. The consultation closed on 26 April 2010 and the Commission began the full assessment of Camelot's proposals. This will look at the impact on the existing Lottery services and players, brand and reputation and the likely returns for good causes. We are expecting to complete this assessment by Summer 2010.

Player channels

The Commission constantly monitors how Lottery sales channels are developing. The National Lottery now has over one million players with online accounts. This year, we considered the sale of Lottery tickets through online accounts where players were located overseas.

The rules stated that it was player's responsibility to check whether it was lawful to play in the country they were in. However, some players were playing from countries where it was not lawful to do so and so were not eligible to claim a prize. We had detailed discussions with Camelot and in Autumn 2009 requested that they develop a solution to address this issue. In the interim, Camelot was asked to take additional steps to make the overseas rules more transparent for players.

Camelot has introduced warning notices to discourage players from entering draws for which they are not eligible to claim a prize. We will continue to consider this issue in 2010/2011.

Licensing and approving new games

One of the benefits from the licence competition was that, as part of the competitive process, Camelot took a fresh look at its entire games portfolio. They plan to refresh existing games and introduce new elements that will keep the National Lottery exciting so that people enjoy playing and contributing to good causes.

However, no changes or new games can be introduced without the Commission's consent and we examine game proposals from Camelot on a case-by-case basis.

In 2009/2010 we received two major proposals from Camelot regarding the EuroMillions draw and changes to Thunderball. The case studies on pages 17 and 19 explain in more detail how we considered these changes. The Commission had to be certain that these plans would not encourage excessive or underage play and that they support the core Lottery brand and reputation as well as generating a fair return for good causes.

Some of the other proposals we considered this year and discussions we have had with the operator are currently commercially confidential. We will report on any applications or regulatory decisions in 2010/2011 or when the proposals are launched.



MARCH 2010

NEW LOTTERY OWNERSHIP

Ontario Teachers' Pension Plan (OTPP) confirmed as the preferred buyer for Camelot's shares.



MARCH 2010

FIT-AND-PROPER TESTING

We start the assessment of OTPP to make sure they are fit and proper and that the commitments we secured during the licence competition will be safeguarded.

Returns to good causes

The Commission has a statutory duty to maximise returns to good causes provided the propriety and protection of players and the Lottery is maintained. This section summarises how we do this:

The benefits of competition

The Commission awarded a new licence to Camelot which started in February 2009 and in April 2009 we published a detailed report⁹ of the competition process to award the licence. The report assessed the overall benefits of the competition for Lottery players and the good causes.

The first year of operation under the new licence structure generated an extra £90 million for good causes specifically as a result of the changes we made to the licence structure. This meant that the costs of the licence competition have been recovered in full from just the first two months of 2009/2010. (The final cost of the four year competition project was £15.9 million). This means that for every £1 invested by the National Lottery Commission in the competition, an additional £6 has already been generated for National Lottery good causes.

Returns to good causes 2009/2010

We measure Camelot's performance by looking at the primary contribution to the National Lottery and Olympic Lottery Distribution funds (NLDF and OLDF). The primary contribution excludes unclaimed prizes and other adjustments and so represents the best measure of Camelot's performance and so, the benefits for good causes. This grew from £1.3 billion last year to £1.5 billion, an increase of 15 percent.

CASE STUDY 2

Thunderball

Following player research, Camelot identified the desire for a bigger Thunderball jackpot and a greater opportunity to win smaller prizes. To try and improve the game without increasing the price of an entry, Camelot proposed changing the way in which the game is played so that players will choose their 5 main numbers from between 1 and 39 (rather than from 1 and 34 as before). By doing this, Camelot was able to double the top prize and add an additional prize tier of £3 for matching only the Thunderball. This change would mean that while it would be harder to win all of the previous prize tiers players would have a new chance to win a £3 prize.

In our assessment, the Commission considered the likely impacts of the changes on players. This included ensuring that the arrangements that will limit or 'cap' prizes in exceptional circumstances (where prizes far exceed proceeds for a draw) continue to be fair. In this context 'fair' is considered to mean striking the right balance between paying the prizes players expect to win and ensuring that the National Lottery remains viable in the long-term. The Commission considered evidence on both these issues before agreeing to increase the total amount that can be paid out per draw before prizes will be capped.

Although the top prize amount and the overall chance of winning a prize in the Thunderball game increased, the odds of winning at each of the previous prize tiers was reduced and the prize percentage payout for the game decreased. While Camelot's research indicated players looked favourably on the proposals, in light of this, when agreeing to the changes the Commission told Camelot that they must be carefully communicated to players to avoid the possibility of them being misled.

⁹ Creating a Lottery for the future: An overview of the Third Licence Competition, April 2009
<http://www.natlotcomm.gov.uk/UploadDocs/Contents/Documents/History%20Document-Final-Web.pdf>

**MARCH 2010****NO BIAS IN EUROMILLIONS DRAWS**

Expert analysis from Salford University confirms that there is no evidence of bias in EuroMillions draws.

**SPRING 2010****CHECKING THE RETAIL NETWORK**

Compliance experts visited 250 retailers to check players have access to the information they need.

Adding in all other contributions including unclaimed prizes, the National Lottery raised a total of £1.6 billion for good causes during 2009/2010. This represents an increase of £0.2 billion (14 percent) on last year.

London 2012 Olympic and Paralympic Games

The National Lottery will contribute just under £2.2 billion towards the London 2012 Olympic and Paralympic Games. £750 million of this will be raised through the sale of designated Lottery games. This includes Dream Number, some Scratchcards and all Interactive Instant Win Games (IIWGs). The Lottery made good progress towards its £750 million target raising £87 million this year. The Commission published quarterly reports on its website to show how much has been raised since 2005.

Providing expert challenge

Camelot is the sole operator of the National Lottery. It does not have a direct commercial competitor. It is, therefore, important that the regulator has the expertise to assess its overall performance and to provide informed and evidence-based challenge if its performance appears to be poor. We need to be satisfied, on behalf of the public, that Camelot is doing everything possible to generate the maximum return for good causes.

The Insight Team at the Commission provides this evidence-based challenge of the operator's performance and the way it is running the business.

The Commission developed a new set of tools to assess Camelot's overall performance. We check Camelot's overall financial health, consider whether returns are being maximised and then assess Camelot's impact on the long-term value of the National Lottery. We gather evidence to determine that we:

- have a stable operator;
- understand developing trends and long-term performance; and
- can assess the high level indicators driving the long-term health and value of the National Lottery and so take action as appropriate.

Overall, we consider that Camelot has performed well over the past year and we welcome the increase in sales.

Efficient and effective**An efficient regulator**

The Commission is funded by the income for good causes and we are determined to keep our operating costs down to a minimum without jeopardising the work that is required to maintain trust in the operation of the Lottery.

In line with other public bodies this year, we have been identifying where we can make cost savings whilst recognising that our workload and costs are driven by Camelot's Lottery plans. We have undertaken a detailed line-by-line review of our cost base to identify areas where savings can be made. We will continue to focus on reducing costs in 2010/2011 whilst protecting the essential regulatory functions we carry out and responding to Camelot's need for licencing approvals.

The total operating costs shown in the accounts were £4.8 million. Removing the impact of depreciation charges and costs relating to the transition to the third licence, our costs for the year were £4.4 million, £200k lower than the previous year. The cost of running the Commission equates to under 0.3 percent of the £1.6 billion raised for the good causes over the year.



SPRING 2010

CHAIR'S REAPPOINTMENT CONFIRMED

The Department for Culture, Media and Sport confirm the reappointment of Dr Anne Wright CBE as Chair and Robert Foster as a Commissioner for a four year term.



END OF THE YEAR

LOTTERY SUCCESS

We confirm that Lottery players have raised a staggering £1.6 billion for good causes during 2009/2010.

Developing our internal capabilities

Whilst continuing to reduce our costs is important, it is vital that we retain professional and expert staff. We continued to invest in our staff through a professional development programme. We were reassessed for liP (Investor in People) status in 2009/2010 and were reaccredited in May 2009 for a further three years. This is an important part of our commitment to invest in specialist staff to provide expert Lottery regulation.

We conducted a review of our vision, mission and values so they remain fit-for-purpose. We also reviewed and updated our performance management processes and corporate governance arrangements so they continued to be in line with best practice. These reviews are part of our ongoing commitment to continuous improvement as an organisation.

Working in partnership

The Commission is part of the wider Lottery group which includes Camelot, the distributing bodies, the Department for Culture, Media and Sport and the National Lottery Promotions Unit (NLPU). We worked closely with these bodies throughout the year to promote the benefits the Lottery brings to the nation. This year we marked the 15th Anniversary of the National Lottery and we contributed to the joint report on Lottery benefits in that time.

CASE STUDY 3

Approving EuroMillions

The Commission received a proposal from Camelot in July 2009 for a UK only amendment to the EuroMillions game.

This involved increasing the price of an entry from £1.50 to £2 and adding a prize tier of a single guaranteed £1 million prize. Each entry would be given a unique raffle number for the new prize tier. Following the main draw, one of the raffle numbers purchased would be selected as the winner by an automated draw machine (ADM).

The odds of winning the £1 million prize would be dependent upon the number of players playing and would therefore vary from draw to draw.

Prize percentage payout for EuroMillions would remain unchanged at 50 percent, with 25p of the additional 50p going to fund the new prize tier. Any monies over and above those required to fund the £1 million prize would be placed into a new UK only reserve fund. This could be used to help cover the guaranteed £1 million prize.

Camelot also proposed that where sufficient money is in the UK-only reserve fund, it would be used to fund UK-only promotional events.

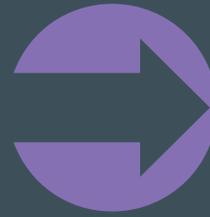
All proposals are considered against the Commission's statutory duties. In this case particular attention was given to:

- licensing arrangements, in terms of whether the mechanic could be implemented by varying the existing EuroMillions game licence;
- ensuring security and integrity of proposed technology;
- whether there would be sufficient sales to fund the additional prize tier;
- whether arrangements were required to cap prizes in the event sales were not sufficient to pay them; and
- the risks associated with increasing the price of a significant game in the National Lottery portfolio (for example, harm to the reputation of the National Lottery and/or reduction in returns to the good causes through a reduction in numbers of tickets sold).

After a detailed assessment the Commission was satisfied that Camelot would address these areas to an appropriate level and granted consent for the change to the licence.

**END OF THE YEAR****PRIZES, PRIZES, PRIZES**

Players have won an incredible £2.8 billion in prizes in the past year – and every penny of this has been checked by our compliance team.

**END OF THE YEAR****BIG BONUS FOR GOOD CAUSES**

Our new licence structure was responsible for generating an extra £90 million for good causes this year.

Another important part of our work involves the use of the National Lottery brand. The Commission owns the crossed fingers logo and intellectual property for the National Lottery. Our copyright ownership is recorded on all National Lottery Scratchcard games and on television advertising. We work closely with the National Lottery Promotions Unit and the Lottery distributors to enable them to use the Lottery brand to promote the projects which benefit from Lottery funding. This year, for example we have granted use of the logo on vintage camper vans, a London 2012 Olympic and Paralympic Games hot air balloon and sports clothing for Olympic athletes.

The Commission was represented on the National Lottery Promotions Unit Management Board and regular contact has been maintained with the Olympic Delivery Authority and Lottery distribution bodies.

External Lottery developments

As the independent regulator it is also our responsibility to speak up for the Lottery and represent the interests of the National Lottery on a number of policy fronts. The main areas we have focused on this year have included:

Working with the Gambling Commission

The Commission continues to work closely with the Gambling Commission on the areas which are of mutual interest.

This has included:

- **Lottery style games**

Following a request from the Department of Culture, Media and Sport, we worked with the Gambling Commission to assess the probability that lottery style games offered by other companies could be mistaken for National Lottery games and potentially affect returns to good causes.

We concluded that only a small number of products have been identified that appear to be misleading. Joint action to identify and act on such products would be taken and we will continue to monitor the market going forward. The report concluded that a major issue did not exist around lottery style games.

- **Research**

The Commission is represented on the research panel for the Responsible Gambling Strategy Board.

Other policy areas

- **Welsh Language scheme**

Under the Welsh Language Act the Commission is working towards the adoption of a Welsh Language scheme. This year, we have been working with the Welsh Language Board to develop an appropriate scheme and will putting the scheme out to consultation in the first quarter of 2010/2011.

- **Committee of Advertising Practice (CAP) and the Broadcast Committee of Advertising Practice (BCAP)**

The Commission responded to CAP and BCAP on proposed revisions to the Codes on broadcast and non broadcast advertising, sales promotion and direct marketing. A copy of our response is available on our website¹⁰.

Other stakeholders

The Commission contributes to the International and European debate around the lottery industry through the World Lottery Association and the Gaming Regulators European Forum (GREF). We used this forum to share best practice with other European regulators and to develop our understanding of latest developments in European lottery and gambling regulation and how they could have an impact upon the UK market.

Priorities for 2010/2011: – protecting players and safeguarding the National Lottery

Scambusting

In December 2009, the Commission worked with the Office of Fair Trading (OFT) Scambusters team and Camelot to participate in the Scambusters awareness campaign. We have also updated the information on the National Lottery and Commission websites and improved the information we send to members of the public.

The number of complaints about Lottery scams has continued to decrease with 260 complaints received this year in comparison to 380 in 2008/2009. Increased publicity and awareness of the existence of such schemes may have contributed to this result. While the Commission does not have any statutory powers to prosecute or take action against such fraud, we provided as much information and advice as possible to players through our website and via our consumer protection team.

Sharing expertise overseas

The National Lottery in the UK is widely regarded as an effective model of a well-regulated entity which delivers national benefits. The Commission regularly shares advice and experience about regulating the Lottery with other international governments. We hosted visits from the Heilongjiang State Lottery, Gaming Board of Tanzania and the Nigeria State Lottery at our offices during 2009/2010 to explain the UK model and share our regulatory approach.

Priorities going forward

After delivering a rigorous competition, securing greater returns for good causes and establishing a new Lottery infrastructure, we will continue to focus on maintaining the secure operation of the National Lottery and highest levels of public trust.

Our corporate objectives for 2010/2011 will be to:

- regulate with excellence and deliver the best possible outcome for the National Lottery;
- protect the nation's interest in the benefits the National Lottery provides; and
- maintain our capability and resources to deliver our objectives.

The uncertain economic climate will provide a challenge for the National Lottery but we are well placed to make sure Lottery regulation continues to be strong and effective, allowing us to protect the integrity of the National Lottery, safeguard the public interest and to secure the best possible returns to good causes.

Other priorities for 2010/2011 will be to:

- continue to refocus our regulation to target risk and reduce unnecessary burden on the operator;
- complete the fit and proper assessment of the Ontario Teachers' Pension Plan and announce the decision about the transfer of ownership of Camelot Group plc;
- rule on Camelot's application for commercial services to be offered through Lottery terminals;
- work with the DCMS and HM Treasury to assess the impact of a potential change in Lottery taxation to a gross profits tax system;
- provide expert advice on the regulation of the National Lottery and the implications for the Lottery should the merger with the Gambling Commission proceed;
- consider game applications from the operator and assess all new proposals in the best interests of the Lottery; and
- work closely with all relevant parties to maintain a safe and effective regulatory system for the National Lottery.

Commissioners' biographies



Dr Anne Wright CBE was appointed as Chair of the Commission in October 2005. She is a member of the Commission's Remuneration Committee and the Regulating with Excellence Reference Group. She is also Chair of the School Teachers Pay Review Body. Her former non-executive roles include the Board of English Partnerships and the Armed Forces Pay Review Body. Her former executive posts include Chief Executive of the Ufi/learnirect and Vice-Chancellor of the University of Sunderland. Among her voluntary roles is Chair of Trustees for Youth Music Theatre UK.



Mark Harris was appointed as the National Lottery Commission's Chief Executive in April 1999 and a Commissioner in 2007. Under his executive lead, the Commission has worked with the operator (Camelot) to introduce a wider games portfolio, develop innovative new playing channels, and ensure the National Lottery is leading the way in preventing underage and excessive play. Mark acted as Senior Responsible Owner (SRO) and a member of the Project Board throughout the licence competition and transition. He holds a law degree and is a qualified public sector accountant. He previously worked in public sector audit, and on strategic development within the NHS and the Audit Commission. He is a graduate of the Cabinet Office's Top Management Programme and was a trustee of the Responsibility in Gambling Trust. He has become a trustee of the Responsible Gambling Fund and was Chair of the Alumni Council of the Ashridge Business School.



Mary Chapman was appointed as a National Lottery Commissioner in January 2008. She is the Chair of the Remuneration Committee and is a member of the Commission's Regulating with Excellence Reference Group. She is a non-executive director of the Royal Mint, a council member of the Girls' Day School Trust, the largest educational charity in the UK, and a council member of Brunel University. Mary's professional expertise is in marketing, HR and general management. She was, until May 2008, Chief Executive of the Chartered Management Institute, leading the organisation to raise the standards and qualifications of its membership and to achieve its Royal Charter. Previously, she was the founding Chief Executive of Investors in People UK. Her earlier career within the L'OREAL UK Group companies included posts as Marketing Director, Director of Personnel Operations and Managing Director of Helena Rubinstein. Mary was appointed as Non-Executive Chairman of the Institute of Customer Service in June 2009.



Robert Foster was appointed as a National Lottery Commissioner in April 2005 and was Chairman of the Project Board which was responsible for overseeing the licence competition and transition. He was, until September 2004, Chief Executive of the Competition Commission. He has also held a number of senior posts in Whitehall including responsibility for the Department for Business, Innovation and Skills' innovation expenditure and science policy in the Cabinet Office. He is a Chartered Engineer and previously was an engineering manager in the telecommunications industry. He holds a number of non-executive director appointments including the Jersey Competition Regulatory Authority and Vice-Chair of King's College Hospital NHS Foundation Trust. He is also a member of the Advisory Council of Oxford Capital Partners.



James Froomberg was appointed as a National Lottery Commissioner in January 2008. He sits on the Commission's Audit and Remuneration committees. He is a leisure and property industry director with more than 20 years' experience in the private, public and consultancy sectors, and the Chair of Young Enterprise London. He has been a member of the Government's Casino Advisory Panel and was the Commercial Director of British Waterways, where he led the development of a number of commercial businesses and public/private partnerships and was responsible for a £600 million property portfolio. James was previously the Director of Corporate Development at Wembley plc, responsible for developing and implementing a new strategy for the group and its gaming businesses. Before that, he was a KPMG Partner, leading its UK leisure, tourism, property and PFI consultancy business.

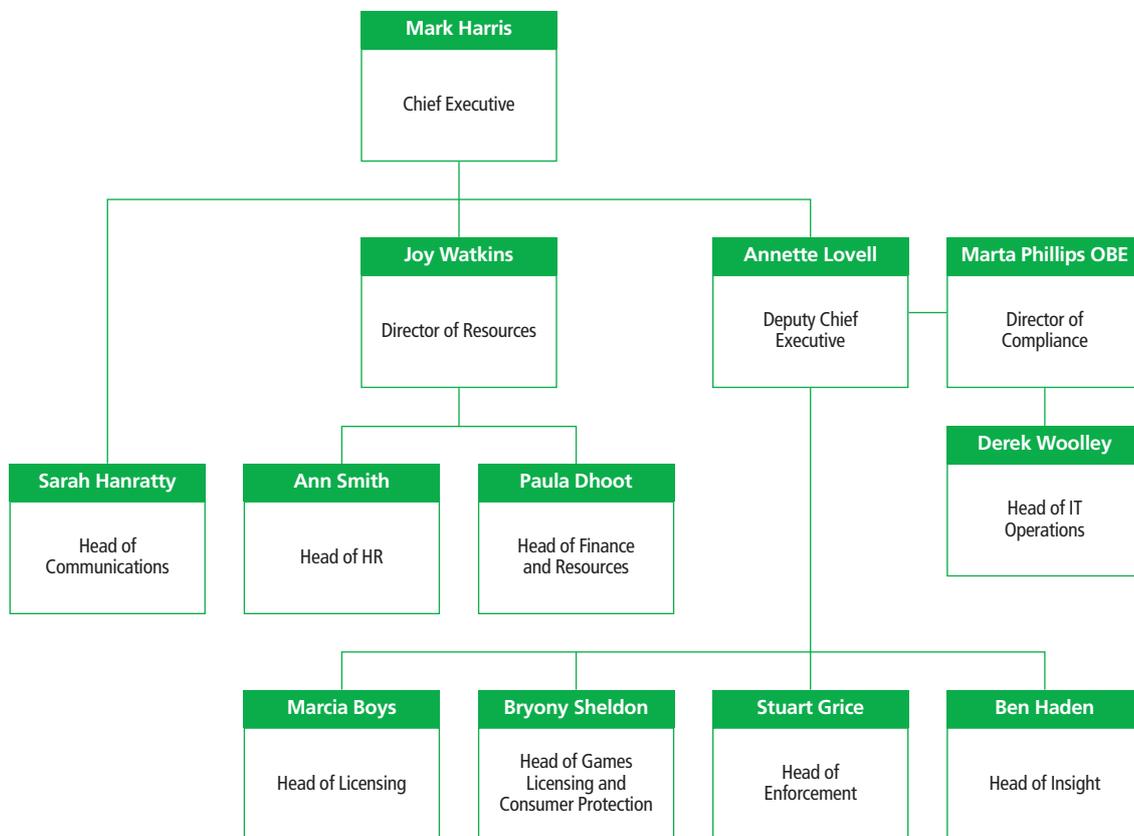
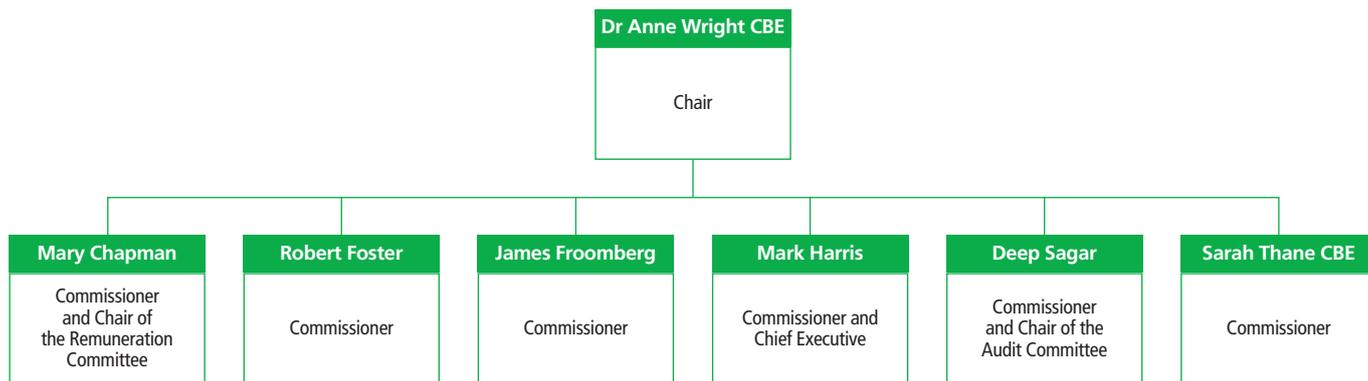


Deep Sagar became a Commissioner of the National Lottery Commission in September 2007. He is the Chair of the Commission's Audit Committee and was also a member of the Project Board. He is a management consultant who has extensive experience of governance and management across various sectors. From 2001 to 2004 he was Client Director at Ashridge Business School. This followed senior management roles internationally with multinationals including Unilever Bestfoods and Coca-Cola for more than 15 years. He was also a member of the Casino Advisory Panel. Among the appointments he holds currently are Chair of LEASE and of Turnstone Support Limited.



Sarah Thane CBE was appointed as a National Lottery Commissioner in September 2005. She is the Chair of the Commission's Regulating with Excellence Reference Group and sits on the Audit Committee. She is a member of the Board of Governors of Teachers TV. As an independent consultant on broadcasting regulation, she has advised, among others, the BBC Trust on regulatory and compliance matters. Prior to joining the Commission, Sarah was Advisor, Content and Standards at Ofcom, the UK's communications regulator, and Director of Programmes and Advertising at the ITC. Sarah is a magistrate in West Suffolk. She is a Fellow and former Chair of the Royal Television Society. In 2010, Sarah was awarded an Honorary Doctoral Degree from the Birmingham City University in recognition of her outstanding achievements in the field of broadcasting.

Organisational structure (as at 31 March 2010)



Appendix B – Section 5 Licence variations made between 1 April 2009 and 31 March 2010

Variations to the second Section 5 Licence		
Condition	Effect of the variation	Date effective
Schedule 13 Part 2	The form of Lottery IP Sub Licence contained in Schedule 13 Part 2 was substituted for a revised version.	11 May 2009
Schedule 11 clause 1.3	The date for submission by Camelot of a statement regarding lost and stolen scratchcards was amended.	16 May 2009
Condition 7.51	The provision was amended to reflect the requirement for Camelot to voice-record all calls to players as well as all calls from players.	29 July 2009
Schedule 1	Following the cessation of the option to play the National Lottery via interactive television, the definitions of 'Interactive Platform' and 'Interactive Systems' were amended by deleting references to interactive television.	2 October 2009
Schedule 10 – Part 1 clause 1.4(a) (iv) – Part 1 clause 1.4(b) (iii) – Part 3 clause 1.1(g)	This follows on from the amendment of Schedule 1 above. References to interactive television and/or iDTV were deleted.	2 October 2009
Schedule 2 Part 3	The date for delivery of the Syndicate Manager Tool, Communities and Systems Play for Lotto has been amended to 31 December 2011.	23 October 2009
Schedule 4 Part 1	The variation clarifies that Camelot does not need to seek Commission approval of any changes to the BBC agreement if the changes are consistent with the Third Licence, do not affect the Commission's rights and do not concern the level of fees payable by the BBC under the agreement.	28 October 2009
Condition 7.13	The Directions issued by the Secretary of State to the Commission prohibited the Commission from issuing a licence that allowed for more than one Draw to take place in any period of an hour. This was reflected in Condition 7.13. DCMS recently amended the directions to provide that no more than 2 Draws can be held in any period of 2 hours. The change was made to enable the Commission to licence the Millionaire Raffle game. We amended Condition 7.13 to reflect the revised Directions.	5 November 2009
Schedule 4 Part 1 and Schedule 5	Camelot informed the Commission that its Top Up TV Anytime and Freeview Broadcast Activity, consented to as ancillary activities under the Third Licence, would terminate with effect from 31 January 2010. References to these activities were therefore deleted from Schedule 4 Part 1 and Schedule 5 of the Licence.	4 February 2010

Appendix C – Licence breaches

Section 5 Licence			
Condition	Background	Description/regulatory action	Outcome
Condition 7.42 of the Third Licence to operate the National Lottery requires that any material designed to encourage or enable someone to play a National Lottery game must be accurate and does not mislead.	Dream Number is a National Lottery game with prizes ranging from £2 to £500,000.	<p>Dream Number tickets Between 1 February and 28 March 2009 some Dream Number tickets featured Dream Numbers which were not consistent with those entered into the draw. The situation arose only in specific circumstances, that is when players requested a Lucky Dip selection for Dream Number only and the National Lottery gaming system executed a retry before completing the process of printing the ticket. Camelot became aware of the problem following a complaint from a player.</p> <p>The inconsistencies were due to a software error which had occurred when the new gaming system was implemented on 1 February 2009. The software error had no connection to that which resulted in earlier problems with Dream Number during 2008/09.</p> <p>In 75 cases players received tickets which incorrectly indicated they were entitled to prizes of between £2 and £500. In total eight of these tickets have been presented to Camelot.</p> <p>In 53 cases players would not have known that they were entitled to a prize as the number printed on their ticket was inaccurate. None of these 53 tickets (which would have received prizes of between £2 and £100) have been presented for prize payment and Camelot is unable to trace the holders of the tickets.</p> <p>The Commission concluded that there had been a contravention of Condition 7.42. A licence breach was recorded on 10 November 2009.</p>	The Commission is satisfied that the problems were caused by a software error which arose in the new gaming system. Camelot's implemented a software fix in March 2009 and no further problems have been reported to the Commission.
Condition 7.43(a) and (b) of the Third Licence to operate the National Lottery requires that players are able to find out whether they have won a prize and that prizes are paid to those people who have claimed them.	Camelot introduced a new gaming system on 1 February 2009. In preparation for this a series of data transfers were undertaken during a period when both the old and new systems were running simultaneously. The transfer of historic data was to allow for a period of testing and monitoring prior to switching to the new system, and for the subsequent operation of the new system from 1 February 2009. The data included information needed for prize validation purposes.	<p>Daily Play tickets A prize of a free Daily Play Lucky Dip ticket is awarded to those players who fail to match one of the Daily Play numbers drawn (Match 0). As a result of a data conversion error, some Daily Play Match 0 prizes were not recognised, these were for tickets purchased at retail before 1 February 2009 but validated after that date. In the case of 32 tickets the gaming system recognised only one Daily Play Match 0 prize when more than one of these prizes could be attributed to a ticket. In total 37 free Daily Play prizes were not provided when the tickets were validated.</p> <p>The Commission has considered Camelot's explanation that the error was unique, arose during the significant and complex data conversion necessary to enter the Third Licence and was rectified effectively within 6 days. However, the Commission has concluded that because some players may have been unable to find out if they had won Daily Play Match 0 prizes and some players did not receive the prizes they had claimed, the circumstances amount to a breach of Condition 7.43 (a) and (b). The licence breach was recorded on 6 November 2009.</p>	Camelot implemented a software fix on 8 February 2009 and this resolved the issue. It has not been possible for Camelot to identify those individuals who did not receive the correct number of free Daily Play tickets for multiple Match 0 winning lines.

Section 5 Licence			
Condition	Background	Description/regulatory action	Outcome
Condition 5.12B(h) of the Third Licence to operate the National Lottery requires that approved procedures must be complied with.	<p>As operator of the National Lottery, Camelot is required to put in place arrangements to ensure the security of funds for players who have entered National Lottery games and prizes for the winners of those games as well as security for the funds which are due to be paid to the good causes. These arrangements take the form of the Players' Trust which is overseen by an independent Trustee.</p> <p>Camelot is also required to put in place arrangements such that (for example if Camelot became insolvent) the trustee or any receiver appointed by the Trustee would be able to properly discharge their duties (for example by repaying funds to players or paying prize winners). These arrangements are known as the Prize Payment Security System (PPSS).</p> <p>The specification and functionality of PPSS is set out in a document which is approved by the Commission and must be complied with by Camelot.</p>	<p>Prize Payment Security System (PPSS) In March 2009 Camelot made changes to the National Lottery gaming system, however it failed to make compatible changes to PPSS. As a consequence for the period 4 March 2009 to 12 May 2009 PPSS would not have been able to perform as expected. Had circumstances arisen which would have required the operation of PPSS, for example if Camelot had become insolvent during the period, the Trustee's ability to perform its functions would have been compromised, with potentially serious consequences.</p> <p>The Commission has considered the circumstances which led to this failure. It has noted that Camelot accepts that the PPSS arrangements are an important measure required by the Commission to protect players' interests and regrets that the error occurred. Camelot also explained that the failure was due to an error by a third party carrying out the system changes.</p> <p>The Commission has concluded that there was a breach of Condition 5.12B (h). The licence breach was recorded on 23 November 2009.</p>	The problem with PPSS was fixed in May 2009.
The Conditions that cover the information in the Player Guide are 7.21(a) and 7.42 of the Third Licence to operate the National Lottery.	<p>To ensure players have accurate and up-to-date information about National Lottery games, the National Lottery Commission requires Camelot to adopt, maintain and comply with a Player Guide, which is approved by the Commission. Camelot must ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate, does not mislead players and is compatible with game rules and procedures.</p> <p>A Player Guide explaining how to play National Lottery games, the prize structures and general game information is provided as a free leaflet at retailers. Similar material is provided on the National Lottery website for interactive players.</p>	<p>Player Guide Player Guides produced by Camelot for the third licence contained inaccuracies and were not in line with the versions approved by the Commission. Issue number 14 Version contained the following errors against the approved versions:</p> <ul style="list-style-type: none"> • the lowest prize category in the EuroMillions game was 'Match... 2 main numbers.' The correct approved position is 'Match... 2 main numbers + 1 Lucky Star'; • the approximate odds of winning the Lotto jackpot was incorrectly stated as '(1 in) 3,983,816.' The correct and approved statement is '(1 in) 13,983,816'; • the approximate odds of matching the first five digits on Dream Number was incorrectly stated as '(1 in) '111, 1.' The correct and approved statement is (1 in) '111,112'; • a header 'Best Shot' was included in the Thunderball section of the guide which had the potential to mislead players into believing that the Thunderball game offers the best odds of winning a National Lottery game; and • a statement was included in the Thunderball section of the guide which had the potential to mislead players into believing that they could win a prize of a new sports car as opposed to a financial prize. <p>Version 1 of the Guide was removed by Camelot from retail outlets in mid February 2009. A subsequent version of the Player Guide, issue number 14 Version 2 had not corrected the last two inaccuracies, although these had been brought to the attention of Camelot.</p> <p>The Commission considered Camelot's explanation for the errors, which included staff workloads and time constraints during the transition to the Third Licence, but considered the mistakes occurred due to a failure in quality control. In light of this the Commission has concluded that there were two breaches of the Licence. The Licence breaches were recorded on 16 July 2009.</p>	Camelot has since reviewed this case and improved its quality control arrangements for the issuing of player documents.

Appendix D – Camelot performance standards

Description of standard	Standard	Achieved
Retailer management		
Retailer selection requests answered within 10 days	95%	100%
Resolution of issues raised in retailer correspondence within 10 days	95%	100%
Player service		
Response to correspondence by National Lottery Line (NLL) within 5 working days	95%	97.57%
Resolution of general complaints by players within 10 working days	95%	99.97%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	100%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	100%
Calls answered by NLL VRS at all other times	97%	100%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	89.60%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	98.41%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	93.92%
Failure to select an option on VRS	< 8%	4.46%
Abandoned calls to NLL call centre	< 5%	0.34%
Prize payment (P1 report)		
Normal claims		
Prize claims made in person (including interactive) where the claim is paid by cheque within 1 hour	92.5%	92.75%
Prize claims made in person (including interactive) where the claim is settled through CHAPS within 1 hour	92.5%	99.63%
Prize claims made by post within 5 working days	95%	98.5%
Claims requiring investigation		
Resolution of claims in respect of damaged tickets within 20 working days	95%	98.73%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	87.89%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	89.35%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	82.98%
Scratchcards		
Resolution of claims in respect of damaged tickets within 20 working days	95%	88.01%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	98.92%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	91.53%
Resolution of any other claims for both draw-based and Scratchcard games within 20 working days	75%	98.96%
Subscriptions		
Written correspondence answered within 5 working days	95%	99.00%
Resolution of player complaints within 10 working days	95%	92.13%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	83.04%
Abandoned calls to the Subscriptions Department	< 5%	2.67%
Interactive customer contact		
Voice contact with customer call centre (calls answered within 20 seconds of the end of the recorded message)	80%	80.82%
Abandoned calls to the customer call centre	< 5%	2.46%
Customer contact via email answered within 8 hours of receipt	80%	90.55%
Mail server performance (emails bounced by the email server due to system unavailability)	< 1%	0%
Response to letters within 5 working days	95%	97.34%
Resolution of enquiries on first attempt	80%	98.68%
Complaints resolved within 10 working days	95%	97.45%

Appendix E – NLC performance standards

Correspondence			Standard	Achieved		
Acknowledgement to all correspondence within 5 working days			98%	98.8%		
Substantive response to simple complaints and enquiries within 10 working days			95%	99.8%		
Response to correspondence requiring investigation within 20 working days			95%	94.9%		
Equal opportunities analysis 2009/2010						
Position	Applicants selected for interview			Successful candidate		
	Total	Ethnic minority	Female	Gender	Ethnic origin	
Head of Compliance*	4	1	1	N/A	N/A	
Public Affairs Manager	10	0	4	M	White	
Research Manager	6	4	5	M	White	
Interim Director of Compliance	3	0	1	M	White	
Total	23	5	11			
Other					Standard	Achieved
Cumulative sickness absence: (Civil Service average 8.7 days per year)			7	5.74		
Return to work interviews completed within five working days			95%	80%		
Staff turnover rate			Not applicable	13%		

* Decision taken not to appoint any candidate to this role.

Payment performance 1 April 2009 to 31 March 2010 (includes all payments)				
Total no of invoices	Paid within 30 days	as %	Paid within 40 days	as %
937	861	92%	894	95%

Management commentary

Background

The National Lottery Commission (the Commission) is established as an executive non-departmental public body (NDPB) and is governed by the National Lottery etc. Act 1993 (as amended), inter alia, by the National Lottery Act 1998 and the National Lottery Act 2006.

Functions, duties and powers

The National Lottery etc. Act 1993 (as amended), gives the Commission the following:

(a) Functions

- by licence to authorise a person to run the National Lottery (Section 5); and
- by licence to authorise a person to promote lotteries as part of the National Lottery (Section 6).

(b) Summary of duties

- that the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety;
- that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
- subject to the above two duties, the Commission will do its best to secure that the net proceeds of the National Lottery are as great as possible.

(c) Powers

- to vary any condition granted under Section 5 or 6 with the licensee's consent where required;
- to seek an injunction against the Section 5 or 6 licensee if it has, or is likely to, contravene a condition of its licence;
- to revoke a licence granted under Section 5 or 6 if the Commission is satisfied that the licensee no longer is, or never was, a fit and proper body to run the National Lottery or promote lotteries as part of the National Lottery; and
- to impose a financial penalty on the licensee if the Commission is satisfied that the licensee has contravened a condition of its licence under Section 5 or 6.

Commission membership

There are seven Commissioners including the Chief Executive. All Commissioners are appointed by the Secretary of State for Culture, Olympics, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

In accordance with amendments in the National Lottery Act 2006, the current Chair of the Commission was appointed by the Secretary of State to serve as Chair for a four-year term.

The 2006 Act also permitted the Secretary of State to appoint additional Commissioners, over and above a minimum membership of five Commissioners.

Chief Executive

The Chief Executive, who is also a Commissioner, is appointed on an open-ended contract. Should the contract be terminated, this would be done in line with the procedures set out in the Civil Service Management Code.

Register of Interests

The Commission maintains a Register of Interests to record any declaration of financial and other interests of Commissioners, their close family members and senior staff of the Commission, that may conflict with their management responsibilities. The Register of Interests is open for inspection at the Commission's offices upon request and is available on the Commission's website. During 2009/2010 no directorships or other significant interests were held by Commissioners or Directors which may have conflicted with their management responsibilities.

Management commentary

Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Olympics, Media and Sport with the consent of HM Treasury in accordance with the National Lottery etc. Act 1993 (as amended). Net operating costs for the year amounted to £4.8 million (£5.6 million in 2008/2009). The reduction in operating costs between the years is as a result of a reduced amortisation charge this year for intangible assets. In addition, costs relating to the completion of the transition to the third licence, which came into effect on 1 February 2009, have reduced significantly this year.

The statement of financial position at 31 March 2010 shows net assets of £123k (31 March 2009, £917k net assets). This reflects the revaluation of the asset and anticipated liabilities falling due in future years in respect of the use of the London 2012 Olympic and Paralympic Games intellectual property rights (Olympic IP) for the operation and promotion of Olympic Lotteries. Accounting standards require these assets and liabilities to be recognised at the statement of financial position date. The liabilities will be met in full by future grant-in-aid from the Commission's sponsoring department, the Department for Culture, Media and Sport (DCMS). However, under the accounting convention applying to Parliamentary control over income and expenditure, such funding may not be recognised in advance.

If the impact of the Olympic IP were not reflected in the accounts, the balance sheet at 31 March 2010 would show net liabilities of £15k.

The net liabilities include £255k of pension liabilities relating to a former Director General of the Office of the Lottery (OFLOT), which represents a long-term liability to the Commission, and which will not be required to be met in full in the short term.

Management commentary

Review of activities

The review of the Commission's activities during the period is included within the main annual report narrative, on pages 9 to 29.

The Commission recorded four licence breaches during 2009/2010 (three in 2008/2009), none of which resulted in a financial penalty being incurred by Camelot. Full details about Camelot's licence breaches in 2009/2010 can be viewed on the Commission's website: www.natlotcomm.gov.uk and in Appendix C on page 26.

Pension liabilities

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. Bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ, by payment of contributions calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole. For new entrants from 1 October 2002 the pension options include a money purchase stakeholder scheme, and from 30 July 2007 an additional option was introduced called *nuvos*, which is a 'whole career' scheme.

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed from DCMS to the Commission. Full disclosure can be found in the remuneration report and in Note 7.

Equal opportunities

The Commission is committed to a policy of equal opportunities for all job applicants and employees. It does not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation. The Commission ensures that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job-related criteria. It does not tolerate any form of discrimination, harassment or victimisation. All staff are required to co-operate in making this policy work effectively.

The Commission publishes its Single Equality Scheme which shows how the Commission is proactively integrating equal opportunities across all parts of its business activities. This is available on the Commission's website.

Investors in People (IiP)

The Commission has achieved IiP accreditation and was re-accredited in May 2009.

Disability policy

The Commission achieved the Positive About Disability Standard in January 2004.

Staff communication

Staff are kept informed about the work of the Commission and developments that may impact on its aims and objectives by regular briefing sessions and discussions, supplemented by a regular staff newsletter.

Audit Committee and Remuneration Committee

The Commission has an Audit Committee and a Remuneration Committee, each made up of three Commissioners. The Audit Committee meets at least three times a year and the Remuneration Committee meets at least once a year. Further details of the work of the Audit Committee are set out in the Statement on Internal Control and details of the work of the Remuneration Committee are set out in the Remuneration Report. The table below details the members of each Committee during 2009/2010.

	Audit Committee	Remuneration Committee
Chair	Deep Sagar	Mary Chapman
Members	James Froomberg Sarah Thane CBE	James Froomberg Dr Anne Wright CBE

Payment performance

The Commission adheres to the Government's Better Payment Practice Code, which is to settle all valid bills within 30 days of the invoice date, or any other specified terms, inclusive of credit card and cheque payments as applicable. In the financial year to 31 March 2010 the Commission settled 92 percent of invoices within 30 days (95 percent in 2008/2009). No interest was paid during 2009/2010 (£Nil in 2008/2009) under the Late Payment of Commercial Debts (Interest) Act 1998.

Sickness absence

During the year the average number of days lost due to sickness absence was 5.74 compared to the Civil Service average of 8.7 days. (In 2008/2009, the average was 3.12 days compared with the Civil Service average of 9.3 days).

Personal data incidents

In accordance with Cabinet Office guidance regarding the Security Policy Framework (SPF), the Commission has in place various measures to ensure information security applies to all staff and third parties as applicable. In line with the SPF the Commission is currently reviewing its security systems and will introduce further measures as required.

The Commission has suffered no protected personal data incidents during 2009/2010 and has made no reports to the Information Commissioner's Office.

Management commentary

Disclosure of information to auditors

The Comptroller and Auditor General is the external auditor for the Commission's accounts. The external auditor's remuneration in 2009/2010 was set at £21.5k (£22k, 2008/2009). An additional fee of £3.5k was levied for the audit of IFRS preparations.

To the extent of my knowledge, as Accounting Officer for the Commission:

- there is no relevant audit information of which the Commission's auditors are unaware; and
- I have taken all possible steps to make myself aware of any information of relevance to the Commission's auditors and to make them aware of it.

Social, community and environmental issues

The Commission has adopted sustainable development measures, such as reduced paper consumption, plumbed-in water, promoting reduced energy use and recycling of paper, plastics, toners, glass and aluminium cans.



Mark Harris
Chief Executive
1 July 2010

Remuneration report

Remuneration policy

Salary and other terms and conditions for each grade of the Commission's staff are set:

- to reflect the need to recruit, maintain and motivate suitably qualified people to exercise their different responsibilities;
- to reward people equitably for their contribution to the fulfillment of the organisation's objectives; and
- in line with Government policy and guidance on public sector pay.

The Chief Executive's remuneration is determined by the Remuneration Committee and is set out in a contract that is subject to DCMS approval.

Remuneration Committee

The Commission has a Remuneration Committee that is made up of three Commissioners and that meets at least once a year. The Committee has full Terms of Reference that are reviewed annually.

The Committee's main functions are:

1. To approve the Commission's pay policy and recommend to the full Commission for adoption.
2. To determine the Chief Executive's remuneration.
3. To determine the annual pay award for staff.
4. To agree job descriptions and remuneration of director level posts.
5. To moderate Directors' bonuses and advise accordingly.
6. To receive a report relating to the dismissal of staff.
7. To consider overall establishment and significant changes to the organisational structure and to make recommendations to the full Commission accordingly.
8. To discuss issues relating to Commissioners' terms and conditions and agree recommendations for DCMS to consider.

In 2009/2010 the Committee met four times and its members were:

- Mary Chapman (Chair);
- Dr Anne Wright (CBE); and
- James Froomberg.

The Committee discussed and considered a range of issues at its meetings including; guidance issued on performance related pay; the Commission's performance related pay arrangements; and the annual pay award for the year.

Chief Executive's remuneration

The Chief Executive's appointment and contract is approved by DCMS. The contract provides for a bonus of up to 20 percent of salary, subject to performance. Up to 5 percent of the bonus can be consolidated as a pay increase. Otherwise, the bonus is non-pensionable and non-consolidated. The bonus and any consolidated pay increase are set by the Remuneration Committee.

Any bonus for the Chief Executive has yet to be confirmed and will be shown in the accounts for 2010/2011.

Remuneration report

Directors' remuneration

Appointments of the Commissions' Directors are made on merit and on the basis of fair and open competition. Unless otherwise stated, the Directors covered in this report hold appointments that are open-ended until they reach the normal retiring age of 65. Early termination of contracts, other than for misconduct, would result in individuals receiving compensation as set out in the Civil Service Compensation Scheme. The period of notice for termination is three months.

Directors' bonuses are based on performance throughout the year and an assessment of the extent to which objectives that are set at the start of the year have been met or exceeded. The assessment is made following a performance appraisal undertaken by the Chief Executive where performance and evidence of achievement of objectives is discussed. Directors' bonuses are moderated by the Remuneration Committee.

Bonus amounts for Directors are set at 3 percent of salary for meeting objectives and 5 percent of salary if objectives are exceeded. For the Deputy Chief Executive bonus amounts are set at 5 percent of salary for meeting objectives and 10 percent of salary if objectives are exceeded.

Commissioners' remuneration

All Commissioners are remunerated on a daily rate apart from the Chair of the Commission who is paid an annual salary. For part of the year, Robert Foster was also paid an annual salary in his capacity as Chair of the Project Board. The Secretary of State for Culture, Olympics, Media and Sport sets the basis for Commissioners' remuneration in line with Government guidance. The Chief Executive is paid as an employee.

Remuneration for 2009/2010

The tables below set out the total remuneration for the year for all Commissioners and senior staff of the Commission. The figures in the tables are audited as part of the audit of the annual accounts. Salary includes basic salary and any other allowances to the extent they are subject to UK taxation. Bonuses are shown separately. Comparative figures for the previous year are shown in brackets.

Commissioners' remuneration 2009/2010

Name and designation	Salary £	Pension contributions £	Bonus payments £	Benefits in kind £	Total remuneration £'000
Dr Anne Wright CBE (Chair) (Note i)	60,384 (59,998)	n/a	n/a	59 (0)	60,443 (59,998)
Mary Chapman (Commissioner)	7,068 (7,242)	n/a	n/a	59 (0)	7,127 (7,242)
Robert Foster (Commissioner) (Note ii)	22,311 (34,608)	n/a	n/a	59 (236)	22,370 (34,844)
James Froomberg (Commissioner) (Note iii)	6,237 (7,688)	n/a	n/a	59 (114)	6,296 (7,782)
Deep Sagar (Commissioner) (Note iv)	5,930 (10,082)	n/a	n/a	245 (729)	6,175 (10,811)
Sarah Thane CBE (Commissioner)	7,790 (10,082)	n/a	n/a	458 (1,310)	8,248 (11,392)

Notes

- i) Dr Anne Wright CBE was paid an additional £129 in respect of fees owed for 2008/2009
- ii) Robert Foster was the Chair of the New Licence Project Board until 30 September 2009
- iii) James Froomberg was paid an additional amount of £2,130 in respect of fees owed for 2008/2009
- iv) Deep Sagar was paid an additional amount of £994 in respect of fees owed for 2008/2009

Chief Executive and Directors' remuneration 2009/2010

Name and designation	Salary £	Pension contributions £	Bonus payments £	Benefits in kind £	Total remuneration £'000
Mark Harris (Chief Executive and Commissioner) (Note v)	113,899 (112,052)	27,677 (28,406)	0 (5,615)	65 (0)	113,964 (117,667)
Annette Lovell (Deputy Chief Executive)	83,934 (83,185)	20,396 (21,212)	4,213 (4,379)	65 (0)	88,212 (87,564)
Joy Watkins (Director) (Note vi)	67,806 (43,254)	14,782 (9,917)	0 (2,327)	65 (0)	67,871 (45,581)
Marta Phillips OBE (Director)	74,890 (73,605)	18,198 (18,769)	2,190 (3,595)	103 (0)	77,183 (77,200)
Simon D'Arcy (Director) (Note vii)	685 (n/a)	n/a	n/a	n/a	685 (n/a)
Colin Perry (Director) (Note viii)	11,905 (71,462)	2,595 (18,223)	274 (3,595)	0 (0)	12,179 (75,057)

Notes

- v) Mark Harris was appointed as a Commissioner on 1 October 2007 but does not receive additional remuneration in this capacity. In 2008/2009 the Remuneration Committee determined a total bonus payment of 9 percent. The Chief Executive waived part of this bonus and accepted only a non-consolidated payment of 5 percent and a salary increase of 1.5 percent.
- vi) Joy Watkins – appointed Director of Resources on 1 September 2008
- vii) Simon D'Arcy – appointed Director of Compliance on 29 March 2010
- viii) Colin Perry – contract ended on 17 May 2009

Benefits in kind

The monetary value of benefits in kind covers any benefits provided and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. A PAYE settlement agreement has been agreed with HMRC to meet the taxable emoluments of Commission staff and Commissioners.

Pensions

The table below shows the accrued pension rights of the Chief Executive and Directors. The information in the table is audited as part of the audit of the annual accounts.

Name and designation	Accrued pension at age 60 at 31/03/10 (£'000)	Accrued lump sum at age 60 at 31/03/10 (£'000)	Real increase in pension at end date (£'000)	Real increase in lump sum at age 60 (£'000)	CETV* at 1 April 2009 (nearest £'000)	CETV* at 31 March 2010 (nearest £'000)	Real increase in CETV during the year (£'000)
Mark Harris (Chief Executive)	35-40	110-115	0-2.5	5-7.5	575	648	33
Annette Lovell (Deputy Chief Executive)	5-10	25-30	0-2.5	2.5-5	125	152	18
Marta Phillips OBE (Director)	20-25	25-30	0-2.5	0-2.5	393	468	46
Colin Perry (Director)	20-25	60-65	0-2.5	0-2.5	335	341	3
Joy Watkins (Director)	5-10	20-25	0-2.5	2.5-5	80	107	21

* CETV = cash equivalent transfer value

Remuneration report

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 percent of pensionable earnings for classic and 3.5 percent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 percent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 percent and 12.5 percent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 percent of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.8 percent of pensionable salary to cover the cost of centrally-provided, risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Mark Harris
Chief Executive
1 July 2010

Accounts 2009/2010

Commission information

Commissioners

Dr Anne Wright CBE

Chair from 16 October 2005, and was re-appointed as Chair on 16 October 2006 for a term of four years. Re-appointed for a further term of four years with effect from 16 October 2010.

Mary Chapman

Appointed on 14 January 2008 for a term of four years.

Robert Foster

Appointed on 1 April 2005 for a term of five years and Chairman of the Project Board. Re-appointed on 1 April 2010 for a further term of four years.

James Froomberg

Appointed on 14 January 2008 for a term of four years.

Deep Sagar

Appointed on 1 September 2007 for a term of four years.

Sarah Thane CBE

Appointed on 17 September 2005 for a term of four years and re-appointed 17 September 2009 for a further term of 4 years.

Mark Harris

Chief Executive and appointed as Commissioner from 1 October 2007.

Registered address

101 Wigmore Street
London W1U 1QU

External Auditors¹¹

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Internal Auditors

BDO LLP
Emerald House
East Street
Epsom
Surrey KT17 1HS

Bankers

The Government Banking Service
HM Revenue & Customs
1st Floor, West Wing
Somerset House
Strand
London WC2R 1LB

HSBC Bank
431 Oxford Street
London W1C 2DA

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

¹¹ The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc Act 1993 (as amended). Note 6 to the accounts discloses the cost of audit services provided by the Comptroller and Auditor General.

Statement of the Commission's and Chief Executive's responsibilities for the Financial Statements

Under Schedule 2A Section 11(1) and (2) of the National Lottery etc. Act 1993 (as amended), inter alia, by the National Lottery Acts 1998 and 2006, the Commission is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Secretary of State for Culture, Olympics, Media and Sport. The accounts are prepared on an accruals basis and must show a true and fair view of the Commission's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commission is required to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Commission will continue in operation.

The Accounting Officer for DCMS has designated the Chief Executive of the Commission as the Accounting Officer of the Commission. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in *Managing Public Money*.



Mark Harris
Chief Executive
1 July 2010

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives whilst safeguarding the public funds and Commission's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

I operate within the terms of the Management Statement and Financial Memorandum agreed with the Department for Culture, Media and Sport (DCMS), the Commission's sponsor Department.

The purpose of the system on internal control

The Commission's system on internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Commission for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Commission is a public body, accountable to Parliament, operating in a governance framework set and monitored by HM Treasury and DCMS.

Leadership is given to the risk management process by the work of the Audit Committee which meets at least three times per year.

On an operational level, managers are trained and equipped in a way appropriate to their duties and authority to identify risks which may impact on the aims and objectives of the Commission.

Statement on Internal Control

The risk and control framework

The Commission's risk management framework has continued to develop over the year and has included a complete revision of the strategic risk register.

The following processes have been followed to review and improve the effectiveness of the system of internal control:

1. Audit Committee

The Audit Committee is responsible for reviewing, at each of its meetings, the risks identified and recorded in the strategic risk register, and any additional action planned to further mitigate risk where the net risk remains higher than the appropriate risk appetite for that particular activity or objective. In addition, the Committee is informed of any new risks and changes to the assessment of existing risks at the operational level, where either the gross or net risk are classified as high.

During the year the Audit Committee reviewed the Commission's:

- risk register and concluded that the risks were appropriate and being managed effectively within the Commission;
- assurance framework to support its consideration of risks;
- Audit Committee's effectiveness against best practice; and
- anti-fraud policies and processes in the light of best practice.

The Chair of the Audit Committee updates the Commissioners on the work of the Committee after each Audit Committee meeting.

In 2009/2010 the Audit Committee met three times and its members were:

- Deep Sagar (Chair);
- James Froomberg; and
- Sarah Thane CBE.

2. Risk registers

Having identified risks by a process of self assessment, managers are required to evaluate the effects of these risks and to suggest a means for mitigating those effects. Guidance is provided by the management team, led by the accounting officer which takes collective decisions on the reporting of their findings by means of the organisation's risk register.

During the year a review of the strategic risk register resulted in revised and refreshed risks clearly linked to strategic objectives.

As part of a review of the risk management framework, we are updating operational level risk registers to ensure that all strategic and operational key risks are identified.

The risk management process was subject to specific review by internal audit during the year and was found to be operating efficiently.

3. Risk and control framework

The risk and control framework implemented by the Commission comprises the following key elements:

- the Commissioners and Audit Committee – oversee the arrangements in place for the risk management function which operates within the Commission;
- Directors – own and manage risk. They review the strategic risk register on a monthly basis to ensure context, actions, risk ownership and processes are co-ordinated and fit for purpose;
- the Commission's governance framework – the framework sets out how the Commissioners manage its affairs and which matters are delegated to the Chief Executive; and
- an internal audit programme – this focuses on the requirement to provide assurance that the risks faced by the Commission are properly managed and controlled. Where control weaknesses are identified, these are drawn to the attention of senior managers who are responsible for determining and implementing an appropriate response.

The risk management process will continue to identify and review risks as they arise.

Statement on Internal Control

Significant internal control issues

The Commission has not been required to address any significant control issues during the year. No fundamental control weaknesses have been identified by our internal auditors.

During the year, the Commission has suffered no loss of data or information and no reports needed to be made to the Information Commissioner's Office.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Commissioners and the Audit Committee and a plan to address any weakness and ensure continuous improvement of the system is in place.

The Commissioners and I have a corporate responsibility for ensuring that the aims and objectives of the Commission are fulfilled, and I have responsibility for promoting the efficient and effective use of staff and other resources. To this end, and in pursuit of wider corporate responsibilities, the Commissioners play a major role in the risk management and internal control processes.

The Commissioners are informed by the Audit Committee which has met three times during the year and reviewed assurances on the Commission's system of corporate governance, risk management and internal control.

Clear responsibility for managing risk lies with the Commissioners, Directors and staff of the Commission.

The processes applied by the Commission to review the effectiveness of internal control are as follows:

- the Commission arranges for a programme of work, approved by the Audit Committee, to be undertaken by Internal Audit. The Commission has appointed BDO as independent internal auditors. The work of the internal auditors is in accordance with standards defined in the Government Internal Audit Manual;
- the work of the internal auditors is informed by an analysis of the risk to which the Commission is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Commission's Audit Committee and approved by me;
- all Audit Committee members have access to reports on work undertaken by Internal Audit. The reports include the auditors' opinion on the adequacy and effectiveness of the Commission's systems of internal control together with recommendations for improvement. Recommendations have been accepted by management and have been implemented or progressed in accordance with agreed timetables; and
- the Audit Committee monitors the implementation by management of recommendations made by the internal auditors to improve the system of internal control. Following completion of the planned work for 2009/2010 the Head of Internal Audit issued an independent and objective opinion on the adequacy and effectiveness of the Commission system of internal control which stated that:

"It is our opinion that, and on the assumption that Internal Audit recommendations are implemented, the National Lottery Commission has a sound framework of control in the areas reviewed which we are satisfied should provide assurance regarding the effective and efficient achievement of the National Lottery Commission's objectives."



Mark Harris
Chief Executive
1 July 2010

National Lottery Commission

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Scottish Parliament

I certify that I have audited the financial statements of the National Lottery Commission for the year ended 31 March 2010 under the National Lottery etc. Act 1993 (as amended). These comprise the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Commission, Chief Executive and auditor

As explained more fully in the Statement of the Commission and Chief Executive's Responsibilities, the Commission and Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Lottery Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Lottery Commission; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of National Lottery Commission's affairs as at 31 March 2010 and of its net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Directions issued thereunder by the Secretary of State for Culture, Olympics, Media and Sport.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the National Lottery etc. Act 1993 (as amended); and
- the information given in the management commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have audited the financial statements which are prepared on a going concern basis. The financial statements note that announcements have been made that indicate that the National Lottery Commission may be merged with the Gambling Commission in the future. Notwithstanding this announcement I am content that the basis of preparation remains appropriate and that the evidence available to me at the date of this report does not indicate that there is a material uncertainty which may cast doubt upon the National Lottery Commission's ability to continue as a going concern.

Amyas C E Morse
Comptroller and Auditor General
6 July 2010

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

Operating Cost Statement for the year ended 31 March 2010

	Note	2009/2010 £'000	Restated 2008/2009 £'000
Expenditure			
Staff costs	6	(2,223)	(2,545)
Administrative expenses	8	(1,555)	(1,705)
Other operating costs	9	(1,019)	(1,351)
Sundry receipts	5	1	1
Notional cost of capital	1	3	11
Operating costs after notional costs		(4,793)	(5,589)
Other finance costs	7(c)	(12)	(11)
Operating costs after other finance costs		(4,805)	(5,600)
Reversal of notional cost of capital		(3)	(11)
Net operating cost for financial year		(4,808)	(5,611)

All activities were continuing in the year.
Notes on pages 54 to 67 form part of these accounts.

Statement of Changes in Taxpayers' Equity for year ended 31 March 2010

	Note	2009/2010 Reserves £'000
Restated balance as at 1 April 2009	2	917
Net operating cost		(4,808)
Grant-in-aid received towards resource expenditure		4,025
Grant-in-aid received towards purchase of property, plant & equipment		36
Actuarial gain (loss) arising on pension scheme		(47)
Transfers		0
At 31 March 2010		123

	Note	Restated 2008/2009 Reserves £'000
Restated balance as at 1 April 2008	2	172
Net operating cost		(5,611)
Grant-in-aid received towards resource expenditure		6,280
Grant-in-aid received towards purchase of property, plant & equipment		62
Actuarial gain (loss) arising on pension scheme		14
Transfers		0
At 31 March 2009		917

The notes on pages 54 to 67 form part of these accounts.

Statement of Financial Position as at 31 March 2010

	Note	2009/2010 £'000	Restated 2008/2009 £'000	Restated 2007/2008 £'000
Non current assets:				
Property, plant & equipment	12	111	140	150
Intangible assets	11	630	944	1,009
		741	1,084	1,159
Current assets:				
Trade & other receivables	13	214	183	229
Cash and cash equivalents	14	396	922	929
		610	1,105	1,158
Total assets:		1,351	2,189	2,317
Current liabilities:				
Trade and other payables	15 (i)	(481)	(383)	(1,520)
Total current liabilities		(481)	(383)	(1,520)
Total assets less current liabilities		870	1,806	797
Non-current liabilities:				
Pension liability	7(b)	(255)	(208)	(222)
Other payables	15(ii)	(492)	(680)	(403)
Total non-current liabilities		(747)	(888)	(625)
Assets less liabilities		123	917	172
Represented by:				
Reserves		123	917	172
Total reserves		123	917	172



Mark Harris
Chief Executive
1 July 2010

The notes on pages 54 to 67 form part of these accounts.

Statement of Cash Flow for the year ended 31 March 2010

	Note	2009/2010 £'000	2008/2009 £'000
Cash flows from operating activities:			
Other receipts*		151	123
Payments to suppliers		(2,374)	(3,886)
Payments to and on behalf of staff		(2,312)	(2,515)
Pension payments		(16)	(12)
Net cash outflow from operating activities	16	(4,551)	(6,290)
Cash flows from financing activities:			
Funds drawn down from the DCMS (grant-in-aid)		4,061	6,342
Cash flows from investing activities:			
Payments to acquire property, plant & equipment and intangible assets		(36)	(59)
Increase/(decrease) in cash and cash equivalents		(526)	(7)
Change in funds resulting from cash flow:			
Cash balances carried forward at 31 March 2009		396	922
Less cash balances brought forward at 1 April 2008		(922)	(929)
Increase/(decrease) in cash and cash equivalents		(526)	(7)

The notes on pages 54 to 67 form part of these accounts.

* Other receipts includes licence fees where the National Lottery Commission acts as an agent to collect and surrender the fees accordingly to DCMS and includes amounts recovered in respect of season ticket loans.

Notes to the financial statements for the year ended 31 March 2010

1. Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a Direction given by the Secretary of State for Culture, Olympics, Media and Sport, with the approval of the HM Treasury, in accordance with Schedule 2A section 11(2) of the National Lottery etc. Act 1993 (as amended). The financial statements are prepared in accordance with the Government Financial Reporting Manual (FRM) and the Companies Act requirements, the disclosure and accounting requirements contained in HM Treasury's Fees and Charges Guide, and the accounting and disclosure requirements given in Managing Public Money, insofar as these are appropriate to the Commission and are in force for the financial year for which the statements are prepared. The accounting policies contained in the FRM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The financial statements are prepared under the modified historical cost convention by the inclusion of property, plant & equipment and intangible assets at their fair value to the business.

Grants receivable

Grant-in-aid, used to finance activities and expenditure which supports the statutory and other objectives of the Commission, is treated as financing, and is credited to Reserves because it is regarded as a contribution from a controlling party.

Grant-in-aid received for 2009/2010 was £4,061,000. (£6,280,000 in 2008/2009).

Tangible non current assets

Expenditure on property, plant and equipment are capitalised for each item which costs more than £2k. In addition, all items of computer equipment forming part of the Commission's computer network are also capitalised. With respect to the Commission's non-property assets, these are of low value and have relatively short lives. Therefore, as a proxy of fair value the Commission considers it appropriate that they are depreciated at historic cost value.

Intangible non current assets

Expenditure on intangible assets is capitalised for each item which costs more than £2k. Intangible non-current assets are held at fair value.

Olympic intellectual property asset

Olympic IP is the London 2012 Olympic and Paralympic Games intellectual property right for the operation and promotion of Olympic Lotteries. The National Lottery Commission controls usage of the intellectual property by the lottery operator under the framework agreement with the London Organising Committee for the Olympic Games. Fair value of the asset is derived from the Framework Agreement that prescribes maximum cost payable for unlimited use of the IP on Branded Lotteries, the formula for discerning the fees payable for the use of intellectual property rights, up to maximum cost, and the expected usage of the IP over the remaining life of the agreement.

An inventory of all assets is maintained.

National Lottery intellectual property asset

The Commission owns the core intellectual property (IP) rights for the National Lottery, including the crossed fingers logo, and safeguards them on behalf of the nation. We grant the National Lottery operator the rights to use this IP at nil cost in order to run and promote the National Lottery.

Costs of developing the National Lottery IP are borne by the operator and are not separately identified within the licensing arrangements. In the absence of cost information or an ascertainable market value, the National Lottery Commission does not have a reliable measure of the value of the National Lottery IP and consequently under IAS 38 the assets cannot be recognised in the Statement of Financial Position.

Depreciation and amortisation

Depreciation is provided on all capitalised property, plant and equipment at rates calculated to write off cost or valuation (less residual value) of each asset evenly over its expected useful life as follows:

Computer equipment	3-4 years
Fitting out costs*	3-4 years
Furniture	3-5 years
Telephone equipment	5 years

The useful economic life and residual value of individual assets are assessed on an annual basis to ensure accuracy of valuation.

*The Commission's property lease expires in 2012, and accordingly the Commission has ensured that all fitting out costs are depreciated on a straight-line basis over the remaining term of the lease.

Amortisation is provided on all capitalised intangible assets at rates calculated to write off each asset evenly over its expected useful life as follows (except for Olympic IP which is amortised in line with usage):

Software licences	3-4 years
London 2012 Olympic and Paralympic Games intellectual property	until 2013

Cost of capital

A charge, reflecting the cost of capital utilised by the Commission, is included in the Operating Cost Statement. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

- property, plant and equipment and intangible assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
 - additions at cost;
 - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal);
 - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure);
 - depreciation of property, plant and equipment and amortisation of intangible assets; and
- donated assets, and cash balances with the Government Banking Service, where the charge is nil.

Notes to the financial statements for the year ended 31 March 2010

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Pension policy

A liability relating to the retirement benefit of a former Director General of OFLOT was inherited by the Commission on its creation. This benefit is provided for under a scheme which is fully analogous to the PCSPS. The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS, which are described in Note 7.

Licence fees

Under Section 7(5) of the National Lottery etc. Act 1993, the Commission was required to collect fees from the licensee for the grant of licences under Sections 5 and 6 of that Act. The amount of such fees was proscribed by order of the Secretary of State. Under Section 7(6) of the 1993 Act, fees collected were offset by corresponding payments made to the Consolidated Fund.

In January 2010, a revised fee regime was introduced under The National Lottery Act 2006 (Commencement No. 5) Order 2010. Fees of £130,400 have been collected against this and paid over to the Department for Culture, Media and Sport accordingly in the year. The fees collected are not reflected in the Operating Cost Statement as the National Lottery Commission acts as an agent in the transaction.

Disclosure requirement

In accordance with IAS 1 disclosure requirements, there are no identified impacts of future standards.

Going concern

The financial statements have been prepared on a going concern basis. Announcements have been made that indicate that the National Lottery Commission may be merged with the Gambling Commission in some form over the coming years. The scope and timetable for this has yet to be decided. We currently anticipate that the National Lottery Commission will continue to operate, at least, for the next 12 months.

Accounting estimates

The valuation of the Olympic IP asset and corresponding liability are based on an estimate of the future usage of Olympic IP on National Lottery games, and consequently the value derived by and the cost to the National Lottery Commission. Future usage is estimated by assuming that average usage to date, as assessed at each balance sheet date, is the best indicator of future usage. However, whilst the NLC can restrict actual usage of the IP by the operator, there is an inherent uncertainty of the level of future usage as this is dependent on the level of sales of Olympic lotteries.

2. First time adoption of IFRS

Equity:

	2008/2009 Reserves £'000
Taxpayers' equity at 31 March 2009 under UK GAAP	939
Adjustments for:	
Holiday accrual ¹	(22)
Taxpayers' equity at 1 April 2009 under IFRS	917

	2007/2008 Total £'000
Taxpayers' equity at 31 March 2008 under UK GAAP	203
Adjustments for:	
Holiday accrual ¹	(31)
Taxpayers' equity at 1 April 2008 under IFRS	172

Operating cost²:

	Total £'000
Operating cost statement for 2008/2009 under UK GAAP	(5,620)
Adjustments for:	
Holiday accrual (net effect) ¹	9
Operating cost statement for 2008/2009 under IFRS	(5,611)

There was a zero impact with regards to the statement of cash flow as a result of the transition from UK GAAP to IFRS.

¹IAS 19 requires accruals for absences earned but not yet taken.

²The Operating Cost Statement for 2007/2008 revealed a similar impact as at 1 April 2008.

Notes to the financial statements for the year ended 31 March 2010

3. Prior period adjustment: Valuation of the London 2012 Olympic and Paralympic Games intellectual property asset

The valuation of the London 2012 Olympic and Paralympic Games intellectual property asset and associated liability has been revised this year following a reconsideration of the assumption underpinning the resulting estimate of future usage of the IP. Previous estimates valued the asset based on the maximum cost payable under the agreement. However, historic usage of the IP, and anticipated future usage indicate that the value of the asset was overstated.

Consequently, a prior period adjustment has been made in accordance with IAS 8.

For 2008/2009 the restated Net Operating Cost for the year has decreased by £234k from £5,845k to £5,611k and in the Statement of Financial Position the net assets have increased by £822k to £917k.

Furthermore, for 2007/2008 the restated Net Operating Cost for the year has decreased by £588k from £8,302k to £7,714k and in the Statement of Financial Position net liabilities have become net assets of £172k, an increase in net assets of £588k.

4. Financial instruments

As the cash requirements of the Commission are met through grant-in-aid provided by DCMS, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Commission's expected purchase and usage requirements and the Commission is therefore exposed to little credit, liquidity or market risk.

Credit risks

Cash balances, which are drawn down from the DCMS to pay administration and other operating costs, are held in an account with the Government Banking Service sponsored by HM Revenue and Customs. The Commission's maximum exposure to credit risk with respect to trade receivables is £0k. (2008/2009 £0k).

Liquidity risks

In 2009/2010, £4.1 million (100 percent) of the Commission's income derived from grant-in-aid from DCMS (2008/2009 £6.3 million, 100 percent). The Commission is satisfied that there are sufficient liquid resources, both in the form of cash of £396k and the draw down of funds available in the financial year 2010/2011, to cover all current contracted commitments as well as the Commission's activities planned for 2010/2011. The Commission is also satisfied that it is not exposed to significant liquidity risks.

Market risk

The Commission is not exposed to any significant market risk, that is, foreign exchange, interest rate or other price risks.

5. Other operating income

	2009/2010 £'000	2008/2009 £'000
Sundry receipts	1	1
	1	1

6. Staff costs

	2009/2010				2008/2009
	Total £'000	Permanent staff £'000	Others £'000	Commissioners £'000	Total £'000
Salaries	1,756	1,645	1	110	1,992
Employer's NIC	154	143	0	11	180
Pension costs	313	313	0	0	363
Temporary staff costs	0	0	0	0	10
	2,223	2,101	1	121	2,545

The average number of full-time equivalent (FTE) employees during the year analysed by function is shown in the table below:

	2009/2010			2008/2009
	Total FTE	Permanent staff FTE	Others FTE	Total FTE
Chief Executive/Directors	4.1	4.1	-	5.3
Chief Executive's Office	3.4	3.4	-	2.2
Resources	7.8	7.8	-	7.7
Compliance	8.8	8.8	-	9.1
Licensing	11.2	11.2	-	8.9
Communications	3.4	3.4	-	8.0
New Licence	-	-	-	2.1
	38.9	38.9	-	43.3

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the remuneration report on pages 35 to 39. Staff costs relating to the new licence project have been analysed separately in Note 10.

Notes to the financial statements for the year ended 31 March 2010

7. Pension disclosures

The PCSPS is an unfunded multi-employer defined benefit scheme and the Commission is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2008. Further details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009/2010, employers' contributions of £313k were payable to the PCSPS (2008/2009 £363k) at one of four rates in the range 16.7 percent – 24.3 percent of pensionable pay, based on salary bands (the rates in 2008/2009 were between 17.1 percent and 25.5 percent). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/2008, the salary bands were revised and the rates remained the same. The contribution rates are set to meet the cost of the benefits accruing during 2009/2010 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0 (£351 in 2008/2009) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 percent to 12.5 percent of pensionable pay. Employers also match employee contributions up to 3 percent of pensionable pay. In addition, employer contributions of £0 (£43 in 2008/2009), 0.8 percent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due or prepaid to the partnership pension providers at the balance sheet date. There is no additional accrued pension liabilities payable by the PCSPS arrangements to individuals who retired early on health grounds during the year.

Detailed schedules relating to the pension entitlements of the Directors are contained in the remuneration report on pages 35 to 39.

IAS 19 disclosure

On its creation, the Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by analogy to the PCSPS (for details see www.civilservice-pensions.gov.uk) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2009/2010, pension payments of £13k were made (2008/2009 £12k). Under IAS 19, the Commission is required to show the present value of the liability on its balance sheet.

For the IAS 19 disclosure, a valuation has been provided by the Government Actuary's Department, which has assessed the liabilities of the scheme as at 31 March 2010 and at 31 March 2009. Scheme liabilities and the expected rate of return are:

Main assumptions

A. Percentages

	At 31 March 2010 % per annum	At 31 March 2009 % per annum	At 31 March 2008 % per annum	At 31 March 2007 % per annum	At 31 March 2006 % per annum	At 31 March 2005 % per annum
Rate of increase in salaries	4.3	4.3	4.3	4.3	4.0	4.0
Rate of increase in pension payment	2.8	2.8	2.8	2.8	2.5	2.5
Discount rate	4.6	6.0	5.3	4.6	5.4	6.1
Inflation assumption	2.8	2.8	2.8	2.8	2.5	2.5

B. Present value of scheme liabilities

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 31 March 2008 £'000	At 31 March 2007 £'000	At 31 March 2006 £'000	At 31 March 2005 £'000
Present value of scheme liabilities attributable to the Commission	255	208	222	224	192	176
Total value of liabilities	255	208	222	224	192	176
Net pension liability attributable to the Commission	(255)	(208)	(222)	(224)	(192)	(176)

C. Amounts included as other finance costs

	31 March 2010 £'000	31 March 2009 £'000	31 March 2008 £'000
Interest cost on pension scheme liabilities	12	11	10
Net finance (charge)	12	11	10

D. Analysis of amount included in the Statement of Changes in Taxpayers' Equity

	31 March 2010 £'00	31 March 2009 £'000	31 March 2008 £'000
Actuarial gains/(losses) arising on pension scheme liabilities	(5)	(5)	(2)
Decrease/(increase) in liabilities underlying the present value of the scheme liabilities	(43)	18	2
Total actuarial gain/(loss) recognised in statement of Total Changes in Taxpayers Equity	(48)	13	0

E. Analysis of the movement in the scheme surplus/(deficit) during the year

	31 March 2010 £'00	31 March 2009 £'000	31 March 2008 £'000
Surplus/(deficit) at 1 April	(208)	(222)	(224)
Increase in liabilities due to change in investment return	0	0	0
Finance costs	(12)	(11)	(10)
Actuarial gains/(losses)	(48)	13	0
Benefits paid	13	12	12
Surplus/(deficit) at 31 March	(255)	(208)	(222)

Notes to the financial statements for the year ended 31 March 2010

F. History of experience gains and losses

	31 March 2010 £'00	31 March 2009 £'00	31 March 2008 £'00	31 March 2007 £'00	31 March 2006 £'00	31 March 2005 £'00
Actuarial gains/ (losses) on liabilities	(5)	(5)	(2)	–	2	5
Present value of liabilities	255	208	222	224	192	176
Percentage of the present value of liabilities	2%	2%	9%	0%	1%	3%

8. Administrative expenses

	2009/2010 £'000	2008/2009 £'000
Legal advice	631	686
Other consultancy costs	546	628
External auditor's remuneration*	25	24
Other administrative costs	352	367
	1,555	1,705

*Statutory audit fee £21.5k, preparation for IFRS adoption £3.5k.

9. Other operating costs

	2009/2010 £'000	2008/2009 £'000
Accommodation costs	716	688
Personnel costs	107	221
Depreciation and amortisation	178	412
Travel and subsistence	18	30
	1,019	1,351

10. New Licence costs

The table below provides an analysis of the expenditure incurred on the New Licence project during the period, and are costs extracted from Notes 6, 8 and 9.

	2009/2010 £'000	2008/2009 £'000
Staff and Project Board costs	34	342
Travel and subsistence	0	1
Consultants	165	129
Legal advice	0	243
	199	715

11. Intangible assets

	Software licences £'000	2009/2010 London 2012 Olympic and Paralympic Games IP £'000	Total £'000
Intangible assets			
Cost as at 1 April 2009	22	1,813	1,835
Revaluation	0	(188)	(188)
Additions	0	0	0
Disposals	0	0	0
At 31 March 2010	22	1,625	1,647
Amortisation			
At 1 April 2009	14	877	891
Charge in year	7	119	126
Disposal	0	0	0
At 31 March 2010	21	996	1,017
Net book value			
At 31 March 2010	1	629	630
At 31 March 2009	8	936	944
2008/2009			
	Software licences £'000	London 2012 Olympic and Paralympic Games IP £'000	Total £'000
Intangible assets			
Cost as at 1 April 2008	114	1,566	1,650
Revaluation	0	277	277
Additions	0	0	0
Disposals	(92)	0	(92)
At 31 March 2009	22	1,813	1,835
Amortisation			
At 1 April 2008	96	545	641
Charge in year	10	332	342
Disposal	(92)	0	(92)
At 31 March 2009	14	887	891
Net book value			
At 31 March 2009	8	936	944
At 31 March 2008	18	991	1,009

Notes to the financial statements for the year ended 31 March 2010

12. Property, plant and equipment

	2009/2010				
	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Property, plant & equipment					
Cost as at 1 April 2009	92	83	199	9	383
Additions	2	6	28	0	36
Disposals	(61)	(3)	(21)	0	(85)
At 31 March 2010	33	86	206	9	334

Depreciation

At 1 April 2009	55	61	123	4	243
Charge in year	10	7	33	2	52
Disposal	(53)	(3)	(16)	0	(72)
At 31 March 2010	12	65	140	6	223

Net book value

At 31 March 2010	21	21	66	3	111
At 31 March 2009	36	23	76	5	140

	2008/2009				
	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Property, plant & equipment					
Cost as at 1 April 2008	193	77	182	9	461
Additions	27	6	29	0	62
Disposals	(131)	0	(12)	0	(143)
At 31 March 2009	89	83	199	9	380

Depreciation

At 1 April 2008	154	53	102	2	311
Charge in year	28	7	33	2	70
Disposal	(129)	0	(12)	0	(141)
At 31 March 2009	53	60	123	4	240

Net book value

At 31 March 2009	36	23	76	5	140
At 31 March 2008	39	24	80	7	150

13. Trade and other receivables

	2009/2010 £'000	2008/2009 £'000	2007/2008 £'000
Trade receivables	0	0	8
Other receivables	48	15	14
Prepayments and accrued income	166	168	207
	214	183	229

All receivables are payable within one year.

Other receivables includes a value of £48k in respect of eighteen staff with balances left on interest-free, annual season ticket loans (2008/2009 £15k for ten staff). This includes the following Director:

	Balance of loan brought forward 1 April 2009 £	New loan £	Balance of loan carried forward 31 March 2010 £
Joy Watkins	1,447	2,457	1,563

14. Cash and cash equivalents

The Government Banking Service (GBS) provides a current account banking service. The following balances are held at 31 March of the relevant years:

	2009/2010 £'000	2008/2009 £'000	2007/2008 £'000
Balances at GBS	345	873	912
Commercial banks and cash in hand	51	49	17
	396	922	929

15. Trade and other payables

Note (i) Amounts falling due within one year

	2009/2010 £'000	2008/2009 £'000	2007/2008 £'000
Trade payables	83	68	1,291
Other payables	31	36	12
Tax liability	8	5	0
Other taxation and social security	50	61	0
Accruals	309	213	217
	481	383	1,520

Note (ii) Amounts falling due in more than one year

	2009/2010	2008/2009 £'000	2007/2008 £'000
Other payables (LOCOG – London 2012 Olympic and Paralympic Games IP)	492	680	403
	492	680	403

For an explanation of the value of long-term payables in 2009/2010 see the management commentary on page 31.

Notes to the financial statements for the year ended 31 March 2010

16. Notes to the cash flow statement

Reconciliation of net operating cost to net outflow from operating activities

	2009/2010 £'000	2008/2009 £'000
Net operating costs	(4,808)	(5,611)
Depreciation and impairment of non-current assets	178	412
Non-cash finance costs	12	11
Decrease/(increase) in receivables	(31)	46
(Decrease)/increase in payables	98	(1,148)
Net cash inflow/(outflow) from operating activities	(4,551)	(6,290)

17. Operating leases

At 31 March 2010, the Commission was committed to making the following payments in respect of operating leases.

	2009/2010		2008/2009	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases due to expire:				
No later than one year	471	26	464	25
Later than one year and no later than five years	275	9	746	26
Later than five years	0	0	0	0
	746	35	1,210	51

The operating leases have been adjusted for change in the rate of VAT.

18. Related-party transactions

The Commission is an executive non-departmental public body sponsored by DCMS.

DCMS is regarded as a related party, and during the year the Commission has had material transactions with the Department.

These transactions consist of the following:

- grant-in-aid received from DCMS during the year of £4,061,000; and
- the surrender to DCMS in the sum of £130,400 in respect of licence fees where the National Lottery Commission acts as an agent to collect and surrender the fees accordingly.

There are no trading companies or trust funds associated with the Commission.

19. Key corporate financial targets

No key corporate financial targets were set by the Secretary of State for the year.

20. Intra-Government balances

As at 31 March 2010 the Commission had no balances outstanding with other Government organisations.

21. Losses and special payments

Losses statement

	£'000
Number of cases:	0
Details of cases over £250,000	Nil

22. Post-balance sheet event

These accounts were authorised for issue on 6 July 2010, which is the date the accounts were certified by the Comptroller and Auditor General.

This document is available in large print.
Email publicaffairs@natlotcomm.gov.uk
Telephone +44 (0)20 7016 3400

National Lottery Commission

101 Wigmore Street
London W1U 1QU

Tel +44 (0)20 7016 3400

Fax +44 (0)20 7016 3401

Email publicaffairs@natlotcomm.gov.uk

www.natlotcomm.gov.uk



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