



National Lottery
Commission

Delivering a new Lottery for the nation

Annual Report and Accounts
2008/2009



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Contents

03	Vision, Mission, Values
04	Chair's foreword
05	Chief Executive's report
07	The year in review
16	Commissioners' biographies
17	Organisational structure
18	Appendices
22	Management commentary
26	Remuneration report
31	Accounts

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.

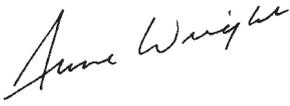
Team work

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



Dr Anne Wright CBE

Chair of the National Lottery Commission



The National Lottery Commission exists to protect the nation's investment in the Lottery and provide a regulatory framework which safeguards players and secures as much money as possible for good causes. This is a regulatory remit like no other and has played a vital part in the continued high levels of public trust in the operation of the Lottery.

The Lottery is a vital part of the fabric of the United Kingdom. It has been with us for 15 years and, in that time, has raised over £23 billion for good causes and funded over 300,000 projects nationwide.

With such a strong history of success, there is the risk that people will begin to take the Lottery for granted, to assume that it will just keep on delivering as it has always done in the past. But this must not be the case.

The Lottery depends on a vital balance of elements for its continued success:

It needs a stable and competent operator. The Commission, in running a rigorous competition process and awarding the third licence to Camelot, has secured this for at least the next ten years. This continued stability will be vital if Camelot is to remain focused on its job of offering innovative and enjoyable games for people to play. With the possibility of a change of shareholders, the Commission has safeguards in place to make sure the shareholdings are passed on to those who are fit and proper and have the financial stability to maintain the secure foundation so vital to the Lottery operation.

The Lottery also needs lots of people to play a little and often to keep generating money for good causes. But, along with the rest of the UK, we are in a prolonged period of recession. We do not yet know how this might affect the Lottery or players but we

will do everything we can to safeguard its interests in these difficult times. We will continue to monitor sales and returns to good causes closely and to challenge Camelot to take action where necessary to keep the momentum of this year continuing.

The third strand needed for success is independent oversight of the Lottery operation. A specialist regulator means there is someone who is entrusted to watch over the Lottery on behalf of the public. The Commission maintains the public interest in the money the Lottery raises for good causes, and safeguards the interests of players. We can challenge the operator to prevent excessive or underage play and make certain that the Lottery continues to be a trusted and respected part of society and keeps generating very high levels of returns for good causes.

This report sets out our achievements in what has been a momentous year, which has seen the commencement of the third licence, to run through to 2019.

Looking ahead, this will be an exciting and challenging chapter in the National Lottery's history. We have created a strong foundation on which to build and we will continue to regulate effectively and appropriately to scrutinise the commercial operation and maintain the high levels of public trust which have been developed over the past 15 years. This continued integrity and independence is vital.

I would like to highlight the hard work and dedication of my fellow Commissioners. In particular, I would like to thank Robert Foster, Chairman of the Project Board, and the Project Office, who were instrumental to the successful delivery of transition. I also commend Mark Harris, Chief Executive and Commissioner who, together with his small team, contribute enormous expertise and value to the trusted and successful regulation of the National Lottery.

Chief Executive's report



Mark Harris
Chief Executive



After a successful competition process, the Commission has focused on ensuring a smooth transition from the second to the third licence, which began on 1 February 2009.

Maintaining integrity through transition

The transition process has involved us working closely with Camelot to ensure it delivered what had been set out in its bid in readiness for the start of the new licence. This included a complete refresh of technology to meet modern standards, an improved incentive structure for retailers and greater contribution to good causes. The first priority was the roll-out of the new infrastructure. This was a major project that involved replacing and installing over 27,500 retail terminals, new satellite dishes and communications networks to accompany the terminals, two new data centres, a new website and new central gaming system software.

As a pre-condition to granting the third licence, the Commission had to satisfy itself that Camelot had discharged its obligations under the Enabling Agreement. The Commission reviewed a range of information provided by Camelot to demonstrate compliance with the provisions of the agreement. In addition, the Commission reviewed and, where appropriate, approved documentation, including all player information and the trust arrangements designed to secure the protection of players' funds.

The technology refresh represents a significant step-change for the National Lottery. As one of the largest lottery technology systems in the world – UK Lottery systems process almost 40 million transactions per week – extensive testing was carried out by Camelot to ensure the new software worked as specified and that the conversion from the old systems to the new systems ran as smoothly as possible. As Lottery systems are run in parallel from two data centres to

provide resilience, this presented significant challenges to Camelot to deliver the transfer successfully whilst minimising disruption to players and retailers. Throughout the process, we undertook a series of transition stage reviews to monitor Camelot's progress and worked closely with Camelot to ensure that the review findings were addressed.

Regulating with Excellence

The National Lottery celebrates its 15th anniversary on 14 November 2009 and the Commission marked its ten-year anniversary on 1 April 2009. We have been reflecting on the strengths of our independent regulatory approach in order to refine and improve our processes going forward. Our *Principles of Regulating with Excellence (REx)* was published in January 2009 and commits us to a programme which will refine our regulatory approach in the third licence period. We will apply sound regulatory principles to enable Camelot to use its commercial expertise more freely, while we develop the means to oversee the nation's investment in the National Lottery even more effectively, to ensure that good causes get the best deal and that the games remain fair and safe.

The measure of the overall success of our REX programme will be that the operator has greater freedom to use its commercial expertise to manage its own business and respond to market opportunities quickly and effectively. At the same time, the Commission will be able to maintain robust assurance that Camelot, as operator, is doing what it should to deliver the best possible Lottery for players and the nation.

Protecting players

Our statutory framework remains unchanged into the third licence period: ensuring the integrity of the Lottery and protecting players remain our core regulatory activities, and as our third statutory

“

The transition process has involved us working closely with Camelot to ensure it delivered what had been set out in its bid in readiness for the start of the new licence.

”

objective we incentivise Camelot to raise as much money as possible for good causes.

Our ongoing monitoring shows that trust in the National Lottery remains high and that participation is still widespread across the UK. Our research also shows that levels of play by under-16s remain low and are not increasing. This is a healthy base from which to continue to improve performance going forward.

Maximising returns to good causes

The licence competition process was fundamental to securing the best deal for good causes. We structured the third licence so that the interests of the commercial operator are aligned as closely as possible to the interests of good causes. This means there is greater incentive under this licence to increase returns for good causes. This has been a challenging process for Camelot which, as a result of the competitive pressure, has had to re-examine every aspect of its business, to cut costs where possible and to deliver a revitalised Lottery offering for players. However, as a result of the competition and new licence structure, if Camelot can maintain the current sales levels of around £5 billion per annum, the third licence is expected to generate an additional £60 million to £100 million each year for good causes.

Another important part of our role is to oversee Camelot's commercial performance in delivering returns to good causes. We were very encouraged to see that returns have increased this year. Total contributions to the National and Olympic Lottery Distribution Funds (NLDF/OLDF) have increased from £1.36 billion to £1.38 billion, a rise of 1.8%.

While the increase this year is encouraging, we cannot take it for granted. The National Lottery has never before encountered a recession and we don't know what the long-term impact will be for players.

We will be monitoring the situation closely and ensuring that the National Lottery is best placed to deal with the economic challenges ahead.

Ensuring value for money

We are strongly committed to keeping our own operating costs down to the minimum necessary without jeopardising the integrity of the Lottery or undermining our protection of the Lottery playing public. Our ongoing operating costs for this year, excluding specific costs for transition, are consistent with previous years at around £4.3–£4.6 million. This reflects our commitment to review continually our management and financial systems to ensure both value for money and that we remain a cost-effective Non-Departmental Public Body (NDPB).

We look forward to refocusing on our core business of regulation in 2009/2010, having delivered a rigorous competition, secured greater potential for returns for good causes and overseen installation of a new and modern Lottery infrastructure. The uncertain economic climate will provide a serious challenge for the National Lottery going forward but we are well placed to make sure the Commission 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.

I would like to thank the Commission's staff for their contribution over the year. Without their commitment and teamwork, our successes over the year would not have been possible.

TRANSITION TIMELINE

The transition process in 2008/2009 required major project management, licensing and compliance work by the Commission to make sure everything was in place for the start of the new Lottery licence on 1 February 2009. Overleaf, are just some of the examples of how we helped keep transition on track:



The year in review

During 2008/2009 the National Lottery Commission has:

.....
Overseen a smooth transition and the successful testing and roll-out of more than 27,500 new Lottery terminals;
.....

.....
Verified that £1.38 billion was paid to the Department for Culture, Media and Sport to share amongst the UK's good causes; and
.....

.....
Overseen the payment of £2.6 billion in prize money and made sure the National Lottery remains fair and safe.
.....

EARLY 2008**KEEPING TRANSITION ON TRACK**

The Commission introduced the Transition Stage Reviews (TSR) system to monitor Camelot's roll-out of transition at key stages throughout the year.

APRIL 2008**TRANSPARENT AND FAIR**

We published a comprehensive review report of the 2009–2019 international Lottery licence competition including best practice and lessons learned.

A new Lottery for the nation**Closure of the licence competition**

The National Lottery licence competition was a major project that was designed, run and evaluated over four years. In April 2008, we published a report, *Creating a Lottery for the future: An overview of the Third Licence Competition*¹, which presented a thorough review of how we successfully ran a demanding competition process. The purpose of the report was to capture how the Commission managed the bidding process and how we used third-party expert advisers to create the best possible incentives to secure the optimum returns for good causes.

This report provided transparency across the whole process and has subsequently ensured that the lessons learned from the process are available in a comprehensive reference document for those running the process in future or for similar Government procurement exercises.

Managing the transition and securing a new infrastructure

With the competition completed, our priority was to make sure that the transition from the 2002/2009 licence to the 2009/2019 licence was completed with minimum disruption to players or the funding for good causes.

Our objectives for the transition were to ensure that:

- Camelot delivered the new infrastructure and technology systems ready for the start of the third licence;
- the Commission was prepared for the start of the third licence and continued to manage business-as-usual under the second licence throughout this busy period; and

- any risks to the time schedule were dealt with effectively and contingency arrangements were in place.

To deliver these objectives we implemented rigorous internal governance arrangements and new project management systems. A Project Board, chaired by Commissioner Robert Foster and supported by a dedicated Project Office, ensured that progress remained on track throughout transition. The Board provided oversight of, and challenge to, Camelot's project management, along with monitoring of the Commission's own preparation for the new licence.

A series of Transition Stage Reviews (TSRs) were carried out by the Commission to monitor Camelot's progress and preparedness for transition. These reviews were led by an independent third party and a TSR leader² appointed by the Commission's Project Board. The results of the TSRs were reported to the Project Board, and recommendation for action made to Camelot where necessary. The Project Board also scrutinised any changes to Camelot's implementation programme and ensured any implications for the Commission's own work programmes were fully addressed.

One of the commitments for the third licence was the implementation of new technology, which included more than 27,500 new terminals for processing tickets, new satellite dishes and communications networks to accompany the terminals, two new data centres to handle all player and sales information, a redesigned website and new software to process the millions of Lottery transactions each week.

The new technology offers a faster, more convenient service for players and retailers and ensures that the

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

2 Dougie Barr, a Campeon Willcocks Associate who has extensive experience of conducting reviews.

MAY 2008

TRIED AND TESTED TECHNOLOGY

We reviewed Camelot's progress against their technology plans and how the new Lottery systems would be tested.

JULY 2008

MEASURING PROGRESS

We monitored Camelot's business preparations and made sure robust programme delivery plans were in place.

infrastructure is modern and fit-for-purpose. This was a major IT project and Camelot was required to implement the new software and infrastructure with minimal disruption to players, retailers and returns to good causes. We ensured Camelot had robust plans in place to keep players and retailers informed throughout the process.

We needed to make certain that Camelot had met the terms of the Enabling Agreement³ before we could formally grant the licence. We reviewed and, where necessary, approved documentation, including all player-facing information and the trust arrangements designed to secure the protection of players' funds. We also granted new licences for each National Lottery game, for which previous licences expired at the end of January 2009.

Once we were satisfied, Mark Harris, on behalf of the Commission, signed the licence which took effect from 1 February 2009.

Regulating with Excellence

Whilst transition has remained a priority for the Commission in the past year, we also maintained our focus on our statutory duties and other strategic objectives:

- to regulate with excellence and protect players;
- to work actively with stakeholders to maintain the reputation of the Lottery and continue shaping an evidence-based regulatory system;
- to monitor the operator's performance;
- to be an efficient and effective regulator; and
- to develop our internal capabilities.

CASE STUDY 1

The National Lottery licence is akin to a contract between the commercial operator and the Commission which monitors the contract on behalf of the public. Some 30,000 hours were invested by Commission staff during the transition project to check that everything necessary was in place and that the third licence could be granted. These are just two examples of the sort of activity that was required:

Intellectual property

The National Lottery 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 Camelot the rights to use this IP to run and to promote the National Lottery. Part of our licensing work during transition was to make sure that any IP created during the second licence was correctly transferred to us to safeguard it under the third licence. This included:

- a transfer of IP for the content on the National Lottery website and interactive television channels;
- a transfer of broadcast-related IP;
- a transfer of IP in the Code for Top Prize Management and the Guide to National Lottery Subscriptions and in the wording on the reverse of playslips, tickets and Scratchcards; and
- a transfer of IP in various Scratchcard designs.

The Players' Trust

We reviewed the Players' Trust arrangements which we require to be in place to protect players' funds. Camelot sought to streamline the structure of the trust accounts. The Commission reviewed the revised arrangements and the trust provisions generally, so that we were satisfied that the revised arrangements would continue to protect players' money effectively.

SEPTEMBER 2008

SIX MONTHS TO GO

We increased the frequency of TSR reviews from bi-monthly to monthly to maintain detailed oversight of the transition process.

OCTOBER 2008

LOTTERY TERMINALS ROLL-OUT

We verified that the roll-out of more than 27,500 new Lottery terminals to retailers was on track and progressing smoothly.

Our regulatory approach

The Commission aspires to excellence in regulation and for some time we have been investigating ways in which our regulatory model could be improved. In response to this, we developed a key piece of work for the year – and beyond – known as the Regulating with Excellence (REx) programme.

The aim of REx is 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.

The developments in the banking sector in recent months underline the importance of effective and appropriate regulation. REx is not about scaling back, or 'light touch' regulation, but focusing our efforts on the biggest risks to our statutory duties. We want to make sure that we deliver the best outcomes for the National Lottery and ensure that our regulation continues to be proportionate and targeted. While this programme of work unfolds, we will continue to work closely with Government to understand the developing regulatory agenda and lessons learned from other sectors.

Our approach was summarised in the *Principles of Regulating with Excellence*⁴ which was published on 30 January 2009. It explains why regulation of the National Lottery differs from most other sectors and sets out objectives for the projects including:

- outcome-based regulation, which will involve the development and publication of regulatory

imperatives and a tool which enables the undertaking of a high-level risk assessment;

- earned autonomy, meaning that we will consider whether certain requirements of the third licence can be relaxed in light of Camelot's experience in running the National Lottery over the past 14 years;
- operator performance, which will see the development of a new range of tools to assess Camelot's performance;
- transparency, which will increase the visibility of the Commission's decision-making process;
- enforcement, which involves a review of sanctions available to us and will formally consult on and publish the Commission's enforcement policy; and
- public engagement, to ensure that we consider the opportunities to involve the public in our regulation, including opportunities for consultation and other public dialogue.

The six work streams will be delivered throughout 2009/2010 and will refine the way we regulate in the third licence period.

For example, in a formal consultation exercise in the summer we will seek stakeholder views on our enforcement policy. The intention is to formalise and clarify our enforcement approach and to increase its transparency. This reflects a continuing need for all regulators to be open in demonstrating how regulatory issues are addressed and decisions made. We will regularly review our performance against this policy and report on this both in future annual reports and on the Commission's website.

As part of our REx earned autonomy/proportionality work stream, we have reviewed our approach to vetting. The aim of the review was to ensure that the type and volume of vetting checks carried out by the

NOVEMBER 2008

INDEPENDENT ASSURANCE

We underwent our final OGC (Office of Government Commerce) *Gateway Review 4 Readiness for Service* – to give us independent assurance that our project management systems were robust.

DECEMBER 2008

TESTING, TESTING

We monitored Camelot's progress with system testing and preparation for the cut-over to the new gaming system.

Commission (on our own staff and on Camelot's staff and key suppliers) are commensurate with our obligation to ensure the fitness and propriety of the National Lottery. We have streamlined our system of vetting to ensure it is targeted at key roles, and, as a result, have eliminated the requirement to vet some of the lower-tier positions. In 2009/2010, we will conduct a review of our approach to vetting third-party organisations and their staff in a similar way.

Player protection

Whilst the National Lottery remains one of the safest forms of gambling in the UK⁵, the Commission's consumer protection team exists to provide player support and to keep an eye on Camelot's customer service responses. To keep improving our service to players, the team has met with representatives from a number of other regulators to discuss complaints-handling procedures and identify areas of best practice. When investigating a complaint from a player, retailer or member of the public, the consumer protection team requests relevant information from Camelot in order to fully understand the issues raised.

Whilst the Commission does not have statutory powers in relation to the prevention or investigation of lottery scams, we do work to promote consumer awareness of them. Over the past year, our work has included updating the information on lottery scams available on our website and working with various internet service providers to shut down scammers' email addresses.

Another important strand of our work is to make sure that players have all the information they need to understand the games at the point-of-sale. This year, we undertook around 300 retail visits to verify whether Camelot's retailers were providing the

CASE STUDY 2

One area of the Commission's day-to-day regulation involves considering proposed changes to existing games. The changes are reviewed in light of our statutory duties to maintain integrity, protect players and to maximise returns to good causes.

This year, we assessed detailed proposals for amendments to the EuroMillions game to consider whether these changes would impact on player experience and to assess whether the changes were in the best interests of good causes.

After detailed consideration by the Commission the following changes were agreed in December 2008:

- **Introduction of a jackpot cap**
Previously the jackpot rolled-down to the next prize tier if it was not won after 12 consecutive draws. This arrangement has been replaced with a jackpot prize cap which initially has been set at €185 million. If this cap is reached, then the jackpot will stay at the value of the cap until won, with any 'unused' jackpot funds flowing down to the next prize tier. Once the jackpot is won, the prize cap will then automatically reset €5 million higher.
- **Introduction of a new promotion mechanic**
Super Minimum Jackpot Guarantee Draws allow (subject to prior approval by the Commission) money from the Reserve Fund to be used to guarantee a minimum jackpot for a particular draw. The jackpot may roll over if not won (subject to the jackpot cap described above being reached).

The Commission also approved the use of money from the EuroMillions Reserve Fund (this fund is made up of a percentage of receipts for the game being held in reserve each week) for two promotional EuroMillions draws during the past year:

- a guaranteed €130 million jackpot event draw (where the jackpot would roll-down if not won) in September 2008; and
- a Super Minimum Jackpot Guaranteed Draw of €100 million (under the new promotion mechanic described above) in March 2009.

⁵ Gamcare Care Services Report 2007 "Although we know that a large proportion of the population plays the National Lottery, we also recognise that for the majority of problem gamblers it is not an activity associated with their problem gambling (the National Lottery was only 0.5% and 0% respectively of the gambling activities disclosed by HelpLine and NetLine callers)." http://www.gamcare.org.uk/data/files/publications/a4_care_services_report_final.pdf

DECEMBER 2008 – JANUARY 2009**READY FOR LAUNCH**

We completed a major review project to confirm that Camelot had met all of the pre-conditions we had set out in the Enabling Agreement prior to granting the third licence.

1 JANUARY 2009**T-31 DAYS**

With one month to go, hundreds of staff hours were needed for compliance checking and reviewing the system testing reports.

relevant player information we require under the licence. During these visits, checks were carried out to ensure that up-to-date game rules, procedures, how-to-play information and other information were available for players.

Working with stakeholders to maintain the reputation of the National Lottery

As the independent regulator it is our responsibility to represent the interests of the National Lottery on a number of policy fronts. This has included, among other things, contributing to the debate on the benefits of the National Lottery moving to a different system of taxation; the issues surrounding changes to the jackpots permitted through society lotteries; the role of the National Lottery in the review of the gambling research, education and treatment of problem gambling; and whether the Commission could potentially be bound by a proposed system of regulatory budgets. Copies of all our responses are available to download from our website⁶.

We have also been working with the Gambling Commission to investigate whether bookmakers offering betting on other lotteries could be mistaken by players for National Lottery games and we will be reporting on our findings to the Department for Culture, Media and Sport in 2009.

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

The Commission also contributed 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 gambling regulation and how they could have an impact upon the UK market.

Evidence-based regulation

Part of our work in monitoring Camelot's performance is to make sure the National Lottery continues to be trusted and that returns to good causes do not come at the cost of exposing players to unacceptable risk of underage or excessive play. To this end, we have a research strategy in place from which to build our evidence base. Our annual trust tracking study compares the National Lottery with other leading brands and shows public trust remains high.

In 2008, we commissioned a further study into the prevalence of Lottery play by under-16 year olds, to aid our understanding of how effective Camelot's strategies and our regulation have been at preventing underage play. Interim studies in 2007 and 2008 show that underage participation continues to decrease and that it is increasingly difficult for children to access Lottery products. However, we are not complacent and it is important to continue this important tracking work. This research – our fifth such report – will report in the summer of 2009. Previous studies are available to download from the research section of our website⁷.

The Commission also facilitated debate this year to better understand gender issues around gambling. A conference⁸ held in June 2008 was attended by representatives from Government, the gambling industry, academics, faith groups, regulators and trade associations. This was a significantly under-researched area and has enabled us to better understand the influence that gender differences

6 Responses to Consultations 2008/09 http://www.natlotcomm.gov.uk/CLIENT/content_subpage.ASP?ContentId=175

7 Underage participation in the National Lottery http://www.natlotcomm.gov.uk/CLIENT/content_subpage.ASP?ContentId=202

8 Women and Gambling Conference 2008 http://www.natlotcomm.gov.uk/CLIENT/content_subpage.ASP?ContentId=374

JANUARY 2009

LEGAL COMPLETION

All the legal finalisation work was required to be ready for the start of the third licence.

JANUARY 2009

LICENCE SIGNED

The third licence is officially signed by Mark Harris and Dianne Thompson of Camelot ready for 1 February.

have upon Lottery play and the appeal of games going forward.

The Commission issued a consultation paper in May 2008⁹ to help it to explore views on the use of gaming and betting themes on Scratchcard games. We set out a proposed approach that we felt would minimise potential harm to players, while providing Camelot with the scope to design and plan their games with a clear understanding of the regulatory framework. The Commission published its response to the consultation in April 2009.

We have also worked closely with the Gambling Commission and Research in Gambling Trust to contribute to research strategy across the wider gambling sectors and to make sure the Lottery is reflected in such studies.

Monitoring the operator's performance

Throughout the year, we continued to maintain a strong emphasis on monitoring Camelot's performance in delivering Lottery games that raise funds for good causes.

We were pleased to see that returns to good causes increased again in comparison to the previous year. We measured this through the primary contributions to the National Lottery and Olympic Lottery Distribution funds (NLDF and OLDF), which exclude unclaimed prizes and other adjustments and so represent the best measure of Camelot's performance. These grew from £1.26 billion to £1.3 billion, an increase of 3.2%. Total contributions to the NLDF and OLDF have increased from £1.36 billion to £1.38 billion, a rise of 1.8%.

The National Lottery remains on track to raise £750 million towards the staging of the London

2012 Olympic and Paralympic Games. Throughout the year more than £126 million in primary contributions was raised from designated games.

Camelot has maintained its sales strategy of the previous year to maximise the opportunity of the internet sales channel and focus its marketing on regular play. The continued growth of Scratchcards and EuroMillions has balanced the National Lottery games portfolio and it is encouraging to note that the gradual expected pattern of decline in Lotto has been less marked than in previous years.

We have sought to understand and constructively challenge Camelot's strategy to grow returns to good causes.

As we enter a new licence period, we look forward to Camelot delivering an innovative Lottery based on that laid out in its bid and suitably adapted for the changing economic and commercial environment in which we now work.

As well as looking to the future, an important part of the year was to provide assurance that Camelot's processes and financial management systems were working correctly. This work was conducted by our compliance team and some of the examples of activity undertaken this year have involved:

- weekly checking that funds for good causes were transferred to the relevant bank accounts on time;
- ensuring that transfers between Camelot's account and the various trust accounts protecting prize money, subscriptions and other player money were correct; and
- verifying that the security arrangements for game draws were carried out in accordance with agreed procedures to maintain the integrity of the draws.

JANUARY 2009

ALL SYSTEMS GO

With everything checked and double checked, and the new licence signed, we gave the green light to cut-over to the new Lottery gaming system.

1 FEBRUARY 2009

GO LIVE

The new terminals and Lottery systems all successfully go live as scheduled on 1 February 2009.

Looking ahead, it will be critical that the Commission continues to scrutinise current performance as well as assessing the long-term outlook for the National Lottery. We will be looking for further growth in returns to good causes and will be assessing and challenging the performance of Camelot to ensure it is fully focused on achieving this. The Commission also considers non-financial indicators (such as consumer penetration) when assessing the performance of Camelot. It is important that returns are not at the cost of player protection and that the National Lottery remains an institution that is trusted and played by the many rather than the few.

An efficient and effective regulator

We are strongly committed to keeping our own operating costs down to the minimum necessary without jeopardising the integrity of the Lottery or undermining our protection of the Lottery playing public while also allowing us to develop as an organisation and continuously improve.

The past four years have seen an increase in our operating costs to allow us to manage the competition for, and oversee the transition to, the third licence, drawing on external expertise as appropriate. However, we have kept our ongoing operating costs, excluding specific costs for the competition and transition, at a relatively consistent level. Our annual operating costs for 2008/2009 were just under £4.6 million. Total costs for the year, excluding depreciation charges, were £5.2 million, which includes £715k expenditure on transition and new licence activity.

During this year of transition, a contracted Project Office was in place to co-ordinate and support the management of the transition process. The Project Office will be decommissioned in 2009/2010.

In accordance with good practice, we carried out competitive tender exercises for the provision of our legal services and our internal audit services with a view to ensuring we continue to receive value for money and a high-quality service. Following the tender exercises, we appointed Herbert Smith as our legal advisors and re-appointed BDO Stoy Hayward to provide internal audit services.

As an organisation we regularly review our management and financial systems to ensure we provide both value for money and that we remain a cost-effective NDPB.

Developing our internal capabilities

We continue to invest in our staff, ensuring that they have the necessary skills and knowledge to regulate the Lottery effectively and efficiently. This year, we looked to enhance the skills of our managers. We developed a People Management handbook to supplement our existing framework and ran a series of in-house training sessions.

Following the successful application of project management techniques during the competition and transition phases of the third licence project, we are implementing these working practices across the Commission. Our aim is to embed the project management disciplines set out in our newly adopted Project Management handbook. This will help us manage our workloads more effectively, co-ordinate our work (such as game licensing) more closely with Camelot's and assist in delivering better regulation.

This year, we also launched a Single Equality Scheme¹⁰, developed in consultation with staff and relevant stakeholder groups. The scheme enables us to demonstrate how we are meeting our legal obligations to promote equality in employment and in the delivery

2009–2019

A LOTTERY FOR THE FUTURE – DELIVERED

The transition from the 2002/2009 licence to the 2009/2019 licence period was completed successfully and on schedule.



MARCH 2009

PROJECT COMPLETION

The Commission wraps up transition and completes project assessments, lessons learned reports and decommissions the Project Office.

of services. The scheme includes a programme of action for the next three years. Early achievements include the publication of a policy on employment of people with disabilities, both potential employees and those who become disabled during employment with us. We also improved our system for gathering equal opportunities data to enable better targeting, for example with regard to under-representation or in anticipating the needs of disabled staff.

Priorities going forward

After delivering a rigorous competition, securing greater returns for good causes and establishing a new Lottery infrastructure, we will focus on implementing our REx programme. Our key priorities for the three-year period 2009–2012 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 serious 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.

CASE STUDY 3

.....
 It is vital that proportionate, independent checks are carried out regularly to see how the Lottery is being delivered on the ground. Part of our work is about getting out and about to check that things are working as they should be. Some of the activities we carried out this year were:

- attending 11 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 36 live draw shows (including Daily Play, Wednesday and Saturday draws) to make sure the draws are run in accordance with procedures;
- inspecting three data centres and one call centre to check security processes are working effectively;
- carrying out 16 secure warehouse checks to make sure Scratchcards are handled securely; and
- visiting 299 retailers to understand players’ experience at the point-of-sale.

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/learn direct 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 is 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.



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 BERR's 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 a Trustee of Young Enterprise London. He has been a member of the Government's Casino Advisory Panel and 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.

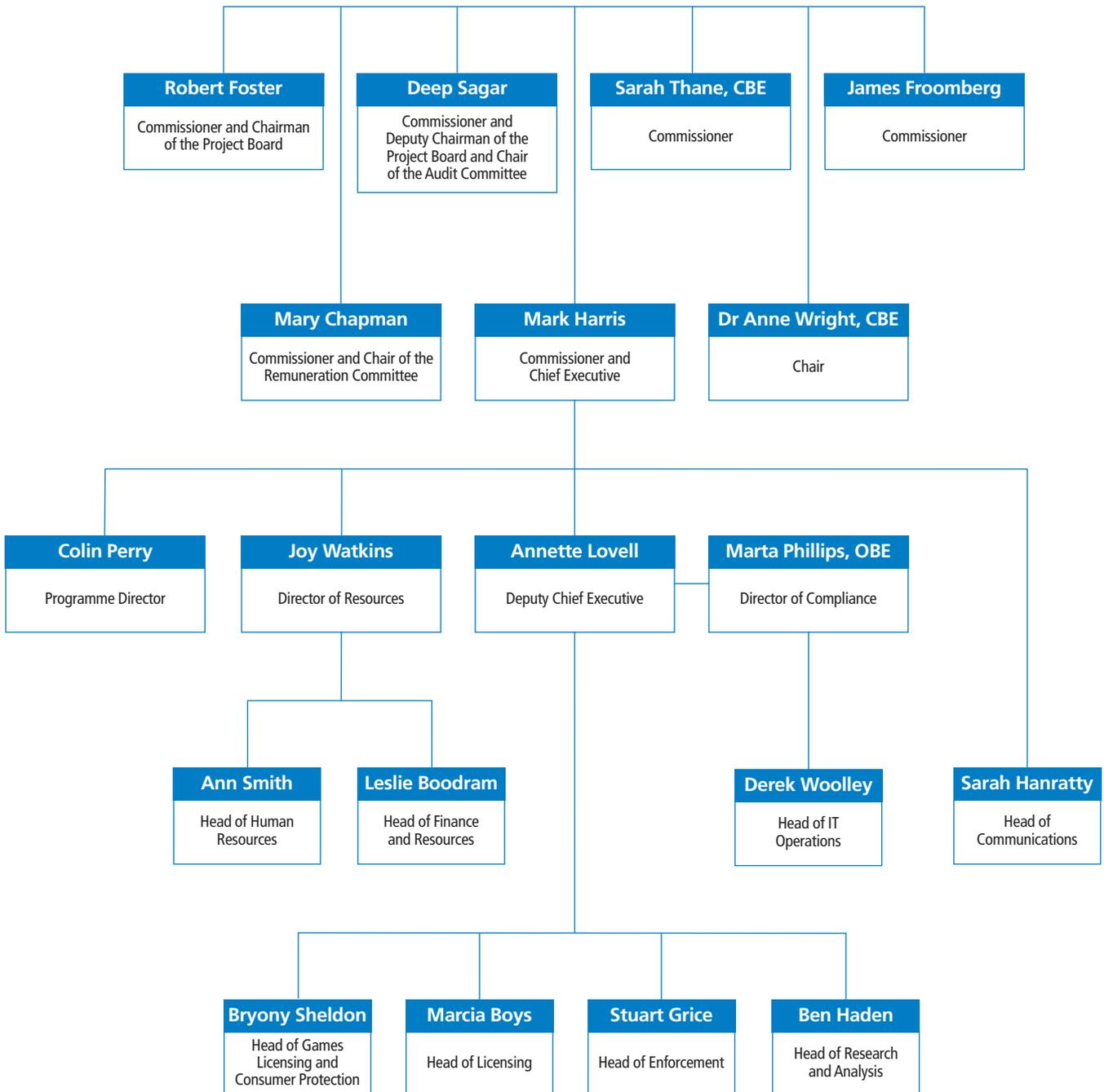


Deep Sagar became a Commissioner of the National Lottery Commission in September 2007. He is the Chair of the Commission's Audit Committee and was also a member of the Project Board. He is a management consultant who has extensive experience of governance and management across various sectors. From 2001 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.

Organisational structure (as at 31 March 2009)



Appendix A – Camelot sales performance

Sales (£ millions)	2008/2009	2007/2008
Lotto	2,698.3	2,752.4
Thunderball	296.5	309.0
Scratchcards (including Interactive Instant Win Games (IIWGs))	1,221.1	1,109.5
Hotpicks	211.2	210.1
Daily Play	50.0	50.3
EuroMillions	618.3	475.8
Dream Number	53.7	59.2
Total	5,149.1	4,966.3
Prizes won by players (including unclaimed prizes)	2,627.6	2,516.8
Payments to the National Lottery Distribution Fund and Olympic Lottery Distribution Fund (NLDF/OLDF)		
Primary contribution (Notes 1 and 2)	1,299.3	1,258.7
Unclaimed Prizes	78.2	93.1
Ancillary activity income	0.0	0.3
Interest from Trust accounts	4.9	7.8
Other miscellaneous payments	0.2	0.2
Total	1,382.6	1,360.1
Other payments		
Lottery Duty	617.9	596.0
Retailers' commission (Note 3)	247.7	243.5
Retention by licensees (Notes 3 and 4)	356.6	351.0

Note 1

Amount payable on sales figures less adjustments for new media sales adjustment (NMSA) and the National Lottery Promotions Unit (NLPU).

Note 2

Primary contribution has been calculated up to the last payment date for draws up to 28 March 2009.

Note 3

From Camelot's financial statements

Note 4

Terminal and data communication costs	120.7
Gross profit	235.9

Appendix B – Section 5 Licence variations made between 1 April 2008 and 31 March 2009

Variations to the second Section 5 Licence		
Condition	Effect of the variation	Date effective
9 (6)(b)	Camelot is required to ensure that information is available on its website. As a result of the variation, Camelot was only required to make the procedures for Interactive Instant Win Games available on the website while the games remained on sale.	6 May 2008
Schedule 1: revision of the definition of "Prize Payments", and the insertion of definitions of "Breakage" and "Additional Prize Funding".	To confirm that Breakage should be included in the figure for Prize Payments when calculating the weekly payment to the NLDF and the OLDF.	30 January 2009

Variations to the third Section 5 Licence		
Condition	Effect of the variation	Date effective
Schedule 8: revision of the definition of "Prize Payments", and the insertion of definitions of "Breakage" and "Additional Prize Funding".	To confirm that Breakage should be included in the figure for Prize Payments when calculating the weekly payment to the NLDF and the OLDF.	4 February 2009
8.1	Condition varied to properly reflect the sums payable by Camelot to the Post Office in respect of retailer prize payment commission.	9 March 2009

Appendix C – Licence breaches

Section 5 Licence			
Condition/schedule	Licence provision	Description/regulatory action	Outcome
Condition 9 (31) of the second licence to operate the National Lottery granted under Section 5 of the National Lottery etc. Act 1993 (as amended).	<p>As operator of the National Lottery, Camelot is required to 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 the relevant game rules and procedures.</p> <p>7 Times Lucky is an Interactive Instant Win Game, available to registered players on the National Lottery website.</p>	<p>7 Times Lucky During May 2008, software errors in the newly launched 7 Times Lucky Interactive Instant Win Game resulted in incorrect information being displayed to seven players. As a result, these players were led to believe that they had won prizes which were significantly higher than the actual outcome of the game. The prize amount displayed at the end of each game was the correct outcome. All players received the prizes to which they were entitled under the rules of the game.</p> <p>The Commission considered the information it obtained from Camelot and concluded that there had been a contravention of the licence. A licence breach was recorded on 24 March 2009.</p>	The Commission is satisfied that all players received the prizes to which they were entitled under the rules of the game. Camelot has corrected the fault that caused the animation error and, where feasible, introduced additional checks so that should similar circumstances arise again, players would see an error message.
Condition 9 (31) of the second licence granted under Section 5 of the National Lottery etc. Act 1993 (as amended).	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate and does not mislead players.	<p>Dream Number tickets Discrepancies were identified between Dream Number wagers on the gaming system and entered into draws and the details provided on players' tickets in 185 instances. The discrepancies occurred in a particular set of circumstances, that is when purchasers used Fast Pay cards for Lotto and Dream Number, requested a Lucky Dip selection for Dream Number and the gaming system executed a retry before completing the process of printing the ticket. The discrepancies came to light during August and September 2008, following a player complaint. A software fix was implemented on 5 September 2008. In 144 cases there was no material detriment to players. Eighteen tickets featured Dream Numbers which would have wrongly led players to conclude they were entitled to a prize of £2, £10 or in one case, £100. Of these, 14 tickets (which would have incorrectly suggested winnings of £2 or £10) have not yet been presented for prize payment. In 23 instances, players would not have known that their wager was eligible for a prize as the number printed on their ticket was inaccurate. None of these 23 tickets, covering prizes of between £2 and £100, have been presented for prize payment and there is no way of identifying the holders of the tickets.</p> <p>The Commission has investigated the circumstances which led to the incident arising. Having considered these the Commission concluded that there had been a contravention of the licence requirement. A licence breach was recorded on 23 March 2009.</p>	The Commission is satisfied that the problems were caused by a software error (which initially occurred only in rare circumstances) and that Camelot's investigation and response was effective.
Condition 9 (31) of the second licence to operate the National Lottery granted under Section 5 of the National Lottery etc. Act 1993 (as amended).	<p>As operator of the National Lottery, Camelot is required to 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 the relevant game rules and procedures.</p> <p>Paper Scissors Stone is an Interactive Instant Win Game, available to registered players on the National Lottery website.</p>	<p>Paper Scissors Stone During December 2007, Camelot received a complaint from a player who believed that a £5 win on the Papers Scissors Stone game should have been a £10 win. The player revealed a £5 instant win symbol in addition to revealing two £5 prize symbols and believed these should have been matched with the instant win symbol to bring total winnings to £10. The screen statement which led them to believe this was 'match 3 prize amounts to win one of those amounts.' The player received a prize of £5 for revealing the Instant Win symbol only, in accordance with the game's prize payout structure. On receipt of the complaint the game was disabled and steps were taken to correct the information before the game was re-enabled.</p> <p>The Commission considered the information it obtained from Camelot and concluded that there had been a contravention of the licence. A licence breach was recorded on 24 March 2009.</p>	The correct information is now provided to players.

Appendix D – Camelot performance standards

Description of standard	Standard	Achieved
Retailer management		
Retailer selection requests answered within 10 days	95%	94.02%
Resolution of issues raised in retailer correspondence within 10 days	95%	99.31%
Player service		
Response to correspondence by National Lottery Line (NLL) within 5 working days	95%	99.00%
Resolution of general complaints by players within 10 working days	95%	99.63%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	99.99%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	100%
Calls answered by NLL VRS at all other times	97%	93.96%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	85.76%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	99.16%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	90.84%
Failure to select an option on VRS	< 8%	4.75%
Abandoned calls to NLL call centre	< 5%	1.67%
Prize payment (P1 report)		
Normal claims		
Prize claims made in person (including interactive) within 1 hour	92.5%	99.02%
Prize claims made by post within 5 working days	95%	96.57%
Claims requiring investigation		
Resolution of claims in respect of damaged tickets within 20 working days	95%	100%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	99.78%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	99.60%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	99.71%
Scratchcards		
Resolution of claims in respect of damaged tickets within 20 working days	95%	99.59%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	99.83%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	99.83%
Resolution of any other claims for both draw-based and Scratchcard games within 20 working days	75%	99.80%
Subscriptions		
Written correspondence answered within 5 working days	95%	99.18%
Resolution of player complaints within 10 working days	95%	98.92%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	83.09%
Abandoned calls to the Subscriptions Department	< 5%	1.96%
Interactive customer contact		
Voice contact with customer call centre (calls answered within 20 seconds of the end of the recorded message)	80%	84.92%
Abandoned calls to the customer call centre	< 5%	1.92%
Customer contact via email answered within 8 hours of receipt	80%	71.79%
Mail server performance (emails bounced by the email server due to system unavailability)	< 1%	0%
Response to letters within 5 working days	95%	96.75%
Resolution of enquiries on first attempt	80%	98.82%
Complaints resolved within 10 working days	95%	98.67%

Appendix E – NLC performance standards

Correspondence	Standard	Achieved
Substantive response or acknowledgement to correspondence within 10 working days	95%	99.5%
Substantive response or acknowledgement to simple complaints within 10 working days	95%	100%
Substantive response or acknowledgement to emails within 10 working days	95%	99.7%
Response to complaints which require investigation within 20 working days	95%	80%

Equal opportunities analysis 2007/2008					
Position	Applicants selected for interview			Successful candidate	
	Total	Ethnic minority	Female	Gender	Ethnic origin
Communications Officer	8	5	6	F	White
Head of Chief Executive's Office	8	1	4	M	White
Secretariat Manager	5	1	4	F	Black
Director of Resources	4	0	2	F	White
Compliance Auditor	4	2	2	F	Black
Total	29	9	18		

Other	Standard	Achieved
Cumulative sickness absence: (Civil Service average 9.3 days per year)	7	3.12
Staff turnover rate	Not applicable	14%
Return to work interviews completed within five working days	95%	94%

Payment performance 1 April 2008 to 31 March 2009 (includes all payments)				
Total no of invoices	Paid within 30 days	as %	Paid within 40 days	as %
1216	1158	95%	1180	97%
	95% paid within 30 days of invoice date			
	97% paid within 40 days of invoice date			

Management commentary

Background

The National Lottery Commission (the Commission) is established as an executive Non-Departmental Public Body 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 of whom are appointed by the Secretary of State for Culture, 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, and 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. During 2008/2009 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, 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 £5.9 million (£8.3 million in 2007/2008). The reduction in operating costs between the years was a result of the completion of the successful transition to the third licence which came into effect on 1 February 2009.

The balance sheet at 31 March 2009 shows net assets of £117k (31 March 2008, £385k net liabilities). This reflects the inclusion of 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 liabilities to be provided for at the balance sheet date. These 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 2009 would show net assets of £1.7 million.

The net liabilities include £208k 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.

Review of activities

The review of the Commission's activities during the period is included within the main annual report narrative, on pages 8 to 15.

The Commission recorded three licence breaches during 2008/2009 (Ten in 2007/2008), none of which resulted in a financial penalty being incurred by Camelot. Full details about Camelot's licence breaches in 2008/2009 can be viewed on the Commission's website www.natlotcomm.gov.uk

Management commentary

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 the DCMS to the Commission. Full disclosure can be found in the remuneration report and in Note 5.

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.

In addition, the Commission also launched a Single Equality Scheme in 2008/2009 that shows how the Commission is proactively integrating equal opportunities across all parts of its business activities.

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

The Commission has an Audit Committee comprising three Commissioners meeting at least three times a year. During 2008/2009 the Committee comprised Deep Sagar (Chair), Sarah Thane CBE and James Froomberg.

The Audit Committee promotes the highest standards of propriety in the use of the Commission's funds and oversees proper accountability for the use of those funds. In undertaking this role the Audit Committee considers, adopts and polices the Commission's anti-fraud policy.

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 2009 the Commission settled 95% of invoices within 30 days (97% in 2007/2008). No interest was paid during 2008/2009 (£Nil in 2007/2008) under the Late Payment of Commercial Debts (Interest) Act 1998.

Data incidents

In accordance with Cabinet Office guidance regarding the Security Policy Framework¹¹ (SPF), the Commission has in place various robust and specific 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 be introducing further measures as required.

The Commission has suffered no protected personal data incidents during 2008/2009, and has made no reports to the Information Commissioner's Office.

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 2008/2009 was set at £22.0k (£21.5k, 2007/2008). An additional fee of £1.5k was levied for IFRS preparation.

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 tin cans.



Mark Harris
Chief Executive
6 July 2009

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;
- reward people equitably for their contribution to the fulfilment of the organisation's objectives; and
- in accordance with the Government's inflation target.

The Chief Executive's remuneration is set in accordance with the principles set out above. The remuneration of the Chief Executive is subject to approval from the DCMS.

Remuneration Committee

The Commission has a Remuneration Committee comprising three Commissioners that meet at least once a year. During 2008/2009 the Committee comprised Mary Chapman (Chair), Dr Anne Wright CBE and James Froomberg.

Chief Executive and Directors' contracts

Appointments of the Commission's Directors are made on merit and on the basis of fair and open competition.

Unless otherwise stated below, the Directors covered by this report hold appointments that are open-ended until they reach the normal retiring age of 65. The exception is Colin Perry, who was appointed on 14 February 2005 on a three-year secondment from the DCMS to work on the new licence project. This secondment was extended until May 2009.

Early termination, 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.

The remuneration paid to the Chief Executive, Directors and Commissioners during the year is audited as part of the audit of the annual accounts and is shown below. Note, comparative figures for the previous year for the Chief Executive's, Directors' and Commissioners' salaries are shown in brackets in the table opposite.

'Salary' includes basic salary and any other allowance to the extent that it is subject to UK taxation. Bonuses have been disclosed separately.

Directors' bonuses are based on the outcomes of their annual appraisals. With the exception of the Deputy Chief Executive, bonus amounts are set at 3% of salary if they have met all of their objectives in the year, or at 5% if those objectives have been exceeded. Bonus amounts for the Deputy Chief Executive were amended with effect from 1 February 2009, following an independent assessment of market rates for other similar roles. The amounts are now set at 5% for meeting objectives and 10% for exceeding objectives. Directors' bonuses are moderated by the Remuneration Committee.

Name and designation	Salary £	Pension contributions £	Bonus £	Benefits in kind* £	Total remuneration £'000
Mark Harris (Chief Executive and Commissioner) (Note i)	112,052 (106,717)	28,406 (27,070)	5,615 (16,008)	0	117,667 (122,725)
Annette Lovell (Deputy Chief Executive)	83,185 (81,292)	21,212 (20,729)	4,379 (3,507)	0	87,564 (84,799)
Marta Phillips OBE (Director)	73,605 (71,809)	18,769 (18,311)	3,595 (2,105)	0	77,200 (73,914)
Catherine Forrester (Director) (Note ii)	42,748 (69,718)	10,901 (17,778)	1,259 (2,105)	0	44,007 (71,823)
Clare McCullough (Director) (Note iii)	23,528 (69,718)	6,000 (17,778)	719 (2,105)	0	24,247 (71,823)
Joy Watkins (Director) (Note iv)	43,254 (n/a)	9,917 (n/a)	2,327 (n/a)	0	45,581 (n/a)
Colin Perry (Director)	71,462 (69,718)	18,223 (17,778)	3,595 (3,507)	0	75,057 (73,225)
Dr Anne Wright CBE (Chair)	59,998 (58,500)	n/a	n/a	0 (17)	59,998 (58,517)
Robert Foster (Commissioner) (Note v)	34,608 (33,600)	n/a	n/a	236 (199)	34,844 (33,799)
Sarah Thane CBE (Commissioner) (Note vi)	10,082 (12,787)	n/a	n/a	1,310 (1,734)	11,392 (14,521)
Deep Sagar (Commissioner) (Note vii)	10,082 (6,738)	n/a	n/a	729 (551)	10,811 (7,289)
Mary Chapman (Commissioner) (Note viii)	7,242 (1,650)	n/a	n/a	0 (0)	7,242 (1,650)
James Froomberg (Commissioner) (Note ix)	7,668 (963)	n/a	n/a	114 (0)	7,782 (963)

* Total benefit in kind subject to Her Majesty's Revenue and Customs' confirmation.

Notes

- i) Mark Harris was appointed as a Commissioner on 1 October 2007 but does not receive additional remuneration in this capacity.
- ii) Catherine Forrester – resigned from the Commission on 31 October 2008.
- iii) Clare McCullough – resigned from the Commission on 31 July 2008.
- iv) Joy Watkins – appointed Director of Resources on 1 September 2008.
- v) Robert Foster is also the Chair of the New Licence Project Board.
- vi) Sarah Thane CBE was paid an additional amount of £2,200 in respect of fees owed for 2007/2008.
- vii) Deep Sagar was appointed on 1 September 2007. An additional amount of £1,100 was paid in respect of fees owed for 2007/2008.
- viii) Mary Chapman was appointed on 14 January 2008. An additional amount of £1,650 was paid in respect of fees owed for 2007/2008.
- ix) James Froomberg was appointed on 14 January 2008. An additional amount of £963 was paid in respect of fees owed for 2007/2008.

Chief Executive's bonus

The Chief Executive's bonus can be up to 20% of his annual salary, subject to performance. The bonus is non-pensionable and non-consolidated, although up to 5% may be consolidated (as a pay increase). The bonus, and any consolidated pay increase, is set by the Commission's Remuneration Committee, who review the Chief Executive's performance against the objectives set at the start of the year.

The Remuneration Committee and Commission considered the Chief Executive's performance in the past year which included the successful delivery of transition to the third licence. Having regard also to the economic climate and to available guidance, including current HM Treasury affordability guidance, the Remuneration Committee and Commission determined a total bonus payment of 9%. The Chief Executive has waived part of this bonus and accepted only a non-consolidated payment of 5%, and a salary increase of 1.5%.

Remuneration report

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. The Commission is currently in discussion with HMRC regarding taxable emoluments and its intention to establish a PAYE Settlement Agreement to meet the taxable emoluments of Commission staff and Commissioners.

The accrued pension rights of the Chief Executive and Directors are shown below. This information is subject to audit as part of the audit of the annual accounts.

Name and designation	Accrued pension at age 60 at 31/03/09 (£'000)	Accrued lump sum at age 60 at 31/03/09 (£'000)	Real increase in pension at end date (£'000)	Real increase in lump sum at age 60 (£'000)	Cash equivalent transfer value at 1 April 2008 (nearest £'000)	Cash equivalent transfer value at 31 March 2009 (nearest £'000)	Real increase in CETV during the year (£'000)
Mark Harris (Chief Executive)	35-40	105-110	0-2.5	2.5-5	520	575	21
Annette Lovell (Deputy Chief Executive)	5-10	20-25	0-2.5	2.5-5	105	125	12
Marta Phillips OBE (Director)	15-20	25-30	0-2.5	(0-2.5)	317	351	2
Catherine Forrester (Director) <i>resigned</i> 31 October 2008	5-10	0	0-2.5	0	79	87	0
Clare McCullough (Director) <i>resigned</i> 31 July 2008	15-20	45-50	0-2.5	0-2.5	241	248	2
Colin Perry (Director)	20-25	60-65	0-2.5	0-2.5	308	335	5
Joy Watkins (Director) <i>appointed</i> 1 September 2008	5-10	15-20	0-2.5	2.5-5	60	80	15

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% of pensionable earnings for classic and 3.5% 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 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% 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 a 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% and 12.5% (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% of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.8% 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
6 July 2009



Accounts 2008/2009

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

Robert Foster

Appointed on 1 April 2005 for a term of five years and Chairman of the Project Board

Sarah Thane CBE

Appointed on 17 September 2005 for a term of four years

Deep Sagar

Appointed on 1 September 2007 for a term of four years

Mary Chapman

Appointed on 14 January 2008 for a term of four years

James Froomberg

Appointed on 14 January 2008 for a term of four years

Mark Harris

Chief Executive Officer and appointed as Commissioner from 1 October 2007

Registered address

101 Wigmore Street
London W1U 1QU

External Auditors¹²

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

Internal Auditors

BDO Stoy Hayward
Emerald House
East Street
Epsom
Surrey KT17 1HS

Bankers

The Office of HM Paymaster General
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

HSBC Bank
431 Oxford Street
London W1C 2DA

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

¹² 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(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, 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 the 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
6 July 2009

Statement of 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 while 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* and ensuring compliance with the requirements of the Commission's Management Statement and Financial Memorandum.

The purpose of the system of internal control

The system of 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 for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk and the risk and control framework

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

- Leadership is given to the risk management process by the work of the Audit Committee. The 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/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.

Statement of Internal Control

- 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. Having identified risks by this 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 Senior Management Team, who take collective decisions on the reporting of their findings by means of the organisation's risk register.
- Operational-level risk registers were prepared by managers within each Directorate during the year. The Commission's Management Group (consisting of the Chief Executive, Directors and Heads of Division) met and discussed the content of the registers. As part of the review process, the Management Group ensured that risks identified across the organisation were treated consistently and Group members were appraised of any new risks that managers had added to the operational level registers.
- The strategic-level risk register was also reviewed by the Management Group to ensure that it continued to reflect the risks to the effective performance of the Commission's statutory functions and the successful delivery of the Corporate Plan objectives, and continued to reflect the Commission's tolerance to risk in its various business activities.
- The Commission is reviewing its approach to information risk in accordance with the Security Policy Framework issued by the Cabinet Office in December 2008. Further details are given in the management commentary (see Data incidents on page 25).

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 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 weakness and ensure continuous improvement of the system is in place.

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

- The Commission arranges for a programme of work to be undertaken by Internal Audit. 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 receive copies of reports 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.
- The Audit Committee monitors the implementation by management of recommendations made by the internal auditors to improve the system of internal control.



Mark Harris
Chief Executive
6 July 2009

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 2009 under the National Lottery etc. Act 1993 (as amended). These comprise the operating cost statement, the balance sheet, the cash flow statement and statement of recognised gains and losses 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

The Commission and Chief Executive, as Accounting Officer, are responsible for preparing the annual report, which includes the remuneration report, and the financial statements in accordance with the National Lottery etc. Act 1993 (as amended) and Directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commission and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. I report to you whether, in my opinion, the management commentary, included in the annual report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the remuneration report and all other sections of the annual report except the management commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 (as amended) and Directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the National Lottery Commission's affairs as at 31 March 2009 and of its net operating costs, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury; and
- the management commentary, included within the annual report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
8 July 2009

National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS

Operating Cost Statement for the year ended 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
Expenditure			
Staff costs	4	(2,554)	(2,650)
Administrative expenses	6	(1,705)	(3,265)
Other operating costs	7	(1,585)	(2,346)
Sundry receipts	3	1	0
Notional cost of capital	9	36	92
Operating costs after notional costs		(5,807)	(8,169)
Other finance costs	5(c)	(11)	(10)
Operating costs after other finance costs		(5,818)	(8,179)
Reversal of notional cost of capital		(36)	(92)
Net operating cost for financial year	16	(5,854)	(8,271)

All activities were continuing in the year.
Notes on pages 42 to 52 form part of these accounts.

Statement of Recognised Gains and Losses for the year ended 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
Actuarial gain/(loss) arising on pension scheme liabilities		(5)	(2)
Decrease/(increase) in liabilities due to change in investment return		18	2
Total actuarial gain/(loss) recognised in STRGL	5(d)	13	0

The notes on pages 42 to 52 form part of these accounts.

Balance Sheet as at 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
Fixed assets			
Intangible assets	10	2,274	2,851
Tangible assets	11	140	150
		2,414	3,001
Current assets			
Debtors and prepayments	12	183	229
Cash at bank and in hand	13	922	929
		1,105	1,158
Creditors			
Amounts falling due within one year	14 (i)	(361)	(1,489)
Net current assets/(liabilities)		744	(331)
Total assets less current liabilities before pension liability			
		3,158	2,670
Amounts falling due in more than one year	14 (ii)	(2,833)	(2,833)
Pension liability	5(b)	(208)	(222)
Net assets/(liabilities) including pension liability		117	(385)
Represented by			
General Reserve	15	325	(163)
Pension Reserve	15	(208)	(222)
		117	(385)



Mark Harris
Chief Executive
6 July 2009

The notes on pages 42 to 52 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
Operating activities			
Other receipts		123	206
Payments to suppliers		(3,886)	(8,457)
Payments to and on behalf of staff		(2,515)	(2,604)
Net cash flow from operating activities	16	(6,278)	(10,855)
Financing activities			
Funds drawn down from the DCMS (grant-in-aid)		6,342	10,341
Pension payments		(12)	(12)
Capital expenditure			
Payments to acquire tangible and intangible fixed assets		(59)	(45)
Increase/(decrease) in cash		(7)	(570)
Change in funds resulting from cash flow			
Cash balances carried forward at 31 March 2009		922	929
Less cash balances brought forward at 1 April 2008		(929)	(1,499)
Increase/(decrease) in cash		(7)	(570)

The notes on pages 42 to 52 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2009

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, Media and Sport, with the approval of 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 generally accepted accounting practices in the United Kingdom (UK GAAP) 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* and in the Financial Reporting Manual (FRM), insofar as these are appropriate to the Commission and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the depreciated historic costs basis by the inclusion of fixed assets at their value to the business by reference to current costs.

Grants receivable

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

Fixed assets

Expenditure on tangible and intangible fixed assets is capitalised for each item which costs more than £2k. All items of computer equipment forming part of the Commission's computer network are capitalised.

An inventory of all assets is maintained.

Depreciation and amortisation

All categories of assets are held at depreciated historic costs. This is a reasonable proxy for current valuation, as all assets have a short useful economic life. Depreciation is provided on all capitalised tangible fixed assets on a straight-line basis, at rates calculated to write off the cost of each asset evenly over its expected useful life. Depreciation is provided as follows:

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

*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 fixed assets at rates calculated to write off each asset evenly over its expected useful life as follows:

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

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 5.

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.

Section 5 of the National Lottery Act 2006 replaces Sections 7(5) and 7(6) of the 1993 Act with a new Section 7A, which sets out arrangements for payment by the licensee to the Commission of an annual fee, the amount to be prescribed by regulations made by the Secretary of State. Section 5 of the National Lottery Act 2006 has not yet been commenced, but Schedule 3 of the 2006 Act (which repeals Sections 7(5) and 7(6) of the 1993 Act) was commenced in December 2006. Arrangements for commencement of Section 5 of the 2006 Act and introduction of the necessary regulations are being made by the Department for Culture, Media and Sport. The Commission has not collected any licence fees under the new arrangements.

The Commission was informed in January 2009 that Schedule 3 of the 2006 Act (which repeals Sections 7(5) and 7(6) of the 1993 Act) had been commenced and it continued to collect fees under Section 7(5) of the National Lottery etc. Act 1993, and make corresponding payments to the Consolidated Fund, up to that date. Since January 2009, the Commission has ceased collection of fees under Section 7(5) of the National Lottery etc. Act 1993. The Commission understands that the fees collected in the interim period (amounting to £100k) will be offset against fees due under the new regulations, once these come into effect.

2. Financial instruments

FRS 29, *Financial Instruments: Disclosures*, requires the Commission to provide a disclosure of the role which financial instruments have played during the accounting period, in creating or changing the risks faced in discharging its role, and how the Commission has managed those risks.

As the cash requirements of the Commission are primarily met through grant-in-aid received from the DCMS, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. 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 Office of HM Paymaster General, an Executive Agency sponsored by HM Treasury. The Commission's maximum exposure to credit risk with respect to trade debtors is £0k (2007/2008 £8k).

Liquidity risks

In 2008/2009, £6.3 million (100%) of the Commission's income derived from grant-in-aid from the DCMS (2007/2008 £10.3 million, 100%). The Commission is satisfied that there are sufficient liquid resources, both in the form of cash of £922k and the drawdown of funds available in the financial year 2009/2010, to cover all current contracted commitments as well as the Commission's activities planned for 2009/2010. 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.

Notes to the financial statements for the year ended 31 March 2009

3. Other operating income

	2008/2009 £'000	2007/2008 £'000
Sundry receipts	1	0
	1	0

4. Staff costs

	2008/2009				2007/2008
	Total £'000	Permanent staff £'000	Others £'000	Commissioners £'000	Total £'000
Salaries	2,001	1,871	1	129	2,061
Employer's NIC	180	166	0	14	196
Pension costs	363	363	0	0	360
Temporary staff costs	10	0	10	0	33
	2,554	2,400	11	143	2,650

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

	2008/2009			2007/2008
	Total FTE	Permanent staff FTE	Others FTE	Total FTE
Chief Executive/Directors	5.3	5.3		6.0
Chief Executive's Office	2.2	2.2		1.0
Resources	7.7	7.6	0.08	7.8
Compliance	9.1	9.1		8.9
Licensing	8.9	8.9		9.6
Performance and Communications	8.0	7.9	0.08	7.8
New Licence	2.1	2.1		2.5
	43.3	43.1	0.16	43.6

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the remuneration report on pages 26 to 29. Staff costs relating to the new licence project have been analysed separately in Note 8.

5. 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 2008/2009, employers' contributions of £363k were payable to the PCSPS (2007/2008 £360k) at one of four rates in the range 17.1%–25.5% of pensionable pay, based on salary bands (the rates in 2007/2008 were also between 17.1% and 25.5%). 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 2008/2009 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 £351 (£257 in 2007/2008) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £43 (£171 in 2007/2008), 0.8% 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 26 to 29.

FRS17 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 2008/2009, pension payments of £12k were made (2007/2008 £12k). Under FRS17, the Commission is required to show the present value of the liability on its balance sheet.

For the FRS 17 disclosure, a valuation has been provided by the Government Actuary's Department, who have assessed the liabilities of the scheme as at 31 March 2009 and at 31 March 2008. Scheme liabilities and the expected rate of return are:

Main assumptions

A. Percentages

	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	4.0	4.0
Rate of increase in pension payment	2.8	2.8	2.8	2.5	2.5
Discount rate	6.0	5.3	4.6	5.4	6.1
Inflation assumption	2.8	2.8	2.8	2.5	2.5

B. Present value of scheme liabilities

	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	208	222	224	192	176
Total value of liabilities	208	222	224	192	176
Net pension liability attributable to the Commission	(208)	(222)	(224)	(192)	(176)

Notes to the financial statements for the year ended 31 March 2009

C. Amounts included as other finance costs

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

D. Analysis of amount included in the Statement of Recognised Gains and Losses (SRGL)

	31 March 2009 £'000	31 March 2008 £'000
Actuarial losses/(gains) arising on pension scheme liabilities	(5)	2
Decrease/(increase) in liabilities due to change in investment return	18	(2)
Total actuarial gain/(loss) recognised in SRGL	13	0

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

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

F. History of experience gains and losses

	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Actuarial losses/(gains) on liabilities	(5)	0	33	2	5
Present value of liabilities	208	222	224	192	176
Percentage of the present value of liabilities	(2%)	0%	15%	1%	3%

6. Administrative expenses

	2008/2009 £'000	2007/2008 £'000
Legal advice	686	1,555
Other consultancy costs	628	1,060
External auditor's remuneration*	24	22
Other administrative costs	367	628
	1,705	3,265

*Statutory audit fee £22k, preparation for IFRS adoption £1.5k.

7. Other operating costs

	2008/2009 £'000	2007/2008 £'000
Accommodation costs	687	859
Personnel costs	221	208
Depreciation and amortisation	647	1,222
Travel and subsistence	30	57
	1,585	2,346

8. 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 4, 6 and 7.

	2008/2009 £'000	2007/2008 £'000
Staff and Project Board costs	342	524
Travel and subsistence	1	25
Consultants	129	837
Legal advice	243	1,163
Accommodation	0	182
Office costs	0	31
	715	2,762

9. Notional costs

Notional costs of capital have been calculated at 3.5% of the average capital employed during the year in line with HM Treasury guidance. Balances held with the Office of HM Paymaster General are excluded from the cost of capital charge.

Notes to the financial statements for the year ended 31 March 2009

10. Intangible fixed assets

	Software licences £'000	London 2012 Olympic and Paralympic Games IP* £'000	Total £'000
Fixed assets			
Cost as at 1 April 2008	114	3,966	4,080
Additions	0	0	0
Disposals	(92)	0	(92)
At 31 March 2009	22	3,966	3,988
Amortisation			
At 1 April 2008	96	1,133	1,229
Charge in year	10	567	577
Disposal	(92)	0	(92)
At 31 March 2009	14	1,700	1,714
Net book value			
At 31 March 2009	8	2,266	2,274
At 31 March 2008	18	2,833	2,851

*In accordance with FRS 10: *Goodwill and Intangible Assets*, the Commission has adopted a straight-line basis for the depreciation treatment of the London 2012 Olympic and Paralympic Games intellectual property.

11. Tangible fixed assets

	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Fixed assets					
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

12. Debtors

	2008/2009 £'000	2007/2008 £'000
Trade debtors	0	8
Other debtors	15	14
Prepayments and accrued income	168	207
	183	229

All debts are payable within one year.

Other debtors includes a value of £15k in respect of ten staff with balances left on interest-free, annual season ticket loans (2007/2008 £14k for nine staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2008 £	New loan £	Balance of loan carried forward 31 March 2009 £
Annette Lovell	1,657	0	0
Joy Watkins	0	2,480	1,447
Catherine Forrester (<i>resigned 31 October 2008</i>)	0	4,604	0
Clare McCullough (<i>resigned 31 July 2008</i>)	270	3,220	0

13. Cash at bank and in hand

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances are held at 31 March 2009.

	2008/2009 £'000	2007/2008 £'000
Balances at OPG	873	912
Commercial banks and cash in hand	49	17
	922	929

14. Creditors

Note (i) Amounts falling due within one year	2008/2009 £'000	2007/2008 £'000
Trade creditors	68	1,291
Other creditors	36	12
Tax liability	5	0
Other taxation and social security	61	0
Accruals	191	186
	361	1,489
Note (ii) Amounts falling due in more than one year	2008/2009 £'000	2007/2008 £'000
LOCOG (London 2012 Olympic and Paralympic Games IP)	2,833	2,833
	2,833	2,833

For an explanation of the value of long-term creditors in 2008/2009 see the management commentary on page 22.

Notes to the financial statements for the year ended 31 March 2009

15. Movement on reserves

	General Reserve £'000	2008/2009 Pension Reserve £'000	Total £'000
At 1 April 2008	(163)	(222)	(385)
Net operating cost	(5,854)	0	(5,854)
Grant-in-aid received towards resource expenditure	6,280	0	6,280
Grant-in-aid received towards purchase of fixed assets	62	0	62
Actuarial movement	0	14	14
Transfers	0	0	0
At 31 March 2009	325	(208)	117

16. Notes to the cash flow statement

Reconciliation of net operating cost to net outflow from operating activities

	2008/2009 £'000	2007/2008 £'000
Net operating costs	(5,854)	(8,271)
Depreciation and impairment of fixed assets	647	1,222
Non-cash finance costs	11	10
Decrease/(increase) in debtors	46	70
(Decrease)/increase in creditors	(1,128)	(868)
(Decrease)/increase in provision	0	(3,018)
Net cash inflow/(outflow) from operating activities	(6,278)	(10,855)

17. Operating leases

At 31 March 2009 the Commission was committed to making the following payments during the next year in respect of operating leases.

	2008/2009		2007/2008	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	0	0	0	0
Between two and five years	457	25	464	15
After five years	0	0	0	0
	457	25	464	15

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 the DCMS.

The 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 the DCMS during the year – see Note 15.

None of the Commissioners or key staff have had related-party transactions with the DCMS during the year.

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 2009 the Commission had no balances outstanding with other Government organisations.

Notes to the financial statements for the year ended 31 March 2009

21. Losses and special payments

Losses statement

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

22. Contingent liabilities

At the balance sheet date the Commission was involved in discussions with HMRC regarding a liability for taxable emoluments.

23. Post-balance sheet event

These accounts were authorised for issue on 8 July 2009, which is the date the accounts were certified by the Comptroller and Auditor General.

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