

Office of the National Lottery

OFLOT

Director General of the National Lottery

Annual Report 1996/97



THE NATIONAL
LOTTERY

Office of the National Lottery

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Director General of the National Lottery
Annual Report 1996/97

**Presented to Parliament pursuant to Section 14
of the National Lottery etc. Act 1993**

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Peter Davis, Director General of the National Lottery

To the Rt Hon Chris Smith MP
Secretary of State for National Heritage

26 June 1997

Report of the Director General of the National Lottery

Under Section 14 of the National Lottery etc. Act 1993, I am required to make an Annual Report to you on my activities. This report covers the financial year up to 31 March 1997.

It has been an exciting year, with the total raised for the Good Causes passing £3bn – an achievement which I and the team at OFLOT are proud to be associated with.

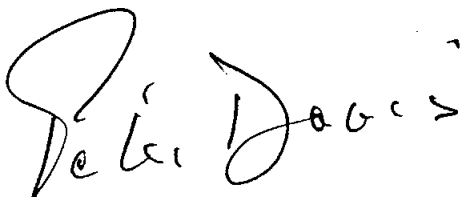
The year also saw the introduction of the midweek draw in February 1997, with the expected media attention and publicity. I insisted on fundamental changes to the original proposal, to protect players' freedom of choice to play on Wednesday or Saturday, or both. So far the results show it to be a successful development for the National Lottery, with total weekly sales from the on-line draw game, during the period of this report, showing increases of about 30 per cent. We shall continue to monitor it closely.

I instigated a new public awareness campaign and new procedures for the protection of under-16s, including the introduction of a national telephone hotline designed to identify errant retailers selling National Lottery tickets to children, new signs in shops, and a programme of co-operation between Camelot and Trading Standards Officers.

Since the end of the 1996/97 year we have secured agreement from Camelot to pay to the Good Causes interest on the so-called prize target shortfall with effect from 31 March 1997. This benefit may exceed £20m over the period of the operating licence.

Finally, I am happy to report that the overall success of the National Lottery means that the Good Causes will do even better than we expected. Based on current projections, over the seven year licence term, the total contribution to the Good Causes is likely to reach 30 per cent of sales.

The future is bright for the National Lottery and its benefits for Britain. As the impact from proceeds from the Good Causes continues to be felt across the country, it is clear that we can all count ourselves as winners.



Peter Davis
Director General

Our Mission

'To ensure that the UK National Lottery is properly run and regulated, and players are protected, whilst maximising the money raised for the Good Causes.'

Our Vision

'To be recognised as the independent Regulator of the National Lottery and to play our part in ensuring that the UK National Lottery becomes the best run lottery in the world, gives fun to the nation, generates substantial and increasing funds for the Good Causes and becomes an important and permanent part of our national life.'



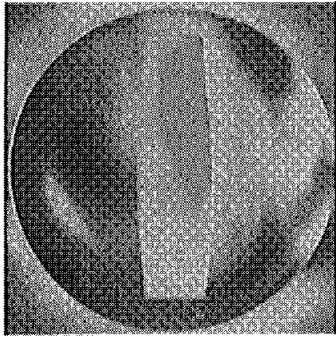
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review of the year

Director General's Objectives

The National Lottery etc. Act 1993 (the Act) sets out the objectives of the Director General. He must:

- ensure the National Lottery is run with all due propriety;
- protect the interests of participants; and
- subject to the above, seek to maximise the funds raised for the Good Causes.

A major feature of the financial framework established in the operating licence is that Camelot's retained share of the sales revenue of the National Lottery actually decreases, and the contribution to the Good Causes increases as turnover rises, both in absolute amount and in percentage terms. The framework has established a high degree of common interest between those involved, including the Good Causes and the licensed operator, which has contributed to the significant success of the National Lottery.

National Lottery Performance

The reporting period 1996/97 represents the second full financial year of sales for the National Lottery, since the launch of the on-line game on 14 November 1994, and the introduction of the instant scratchcard games on 21 March 1995. It also marked the introduction of the midweek draw on 30 January 1997 – first drawn on 5 February.

Total sales for the reporting period amounted to £4.72bn, which generated £2.26bn in prizes for players (adding a further 193 millionaires to the previous 150),

an estimated £1.44bn for the Good Causes (a total of £3.21bn to date since 1994), some £242m for retailers (£568m in total to date) and £567m for the Treasury in duty (£1.33bn cumulatively). Camelot's retention, including operating costs and profit in 1996/97, amounted to some £260m. Further details are given in Appendix A.

The broad distribution of lottery revenue in 1996/97 was as follows:

Prizes to Players	48%
Good Causes	30%
Lottery Duty	12%
Retailers	5%
Camelot Operating Costs and Profit	5%

A comparison of the UK with other state and national lotteries, based upon figures collected by the US lottery research specialists TLF Publications Inc, demonstrates that the UK National Lottery has undeniably become one of the largest and most successful lotteries in the world.

Acceptance of the National Lottery as an established part of national life demonstrates its success and the participation rates achieved are truly remarkable. Over 95 per cent of adults are believed to have played the National Lottery at some point. Approaching 70 per cent of adults play the on-line game regularly and during the year spent on average around £2.50 per player per week.

Over the period of Camelot's seven year operating licence, the average contribution to the Good Causes

was originally expected to be some 28 per cent of sales revenue. It now seems likely that the total contribution to the Good Causes will exceed 30 per cent of turnover over the period of the Licence.

Retail Outlets

During the year the Lottery retail network grew from 20,283 outlets with on-line terminals (OLTs) and 9,424 with instant only game validation terminals (GVTs) to 24,578 OLTs and 10,875 GVTs as at 31 March 1997, bringing the total to 35,453 outlets, which exceeded the commitments in Camelot's operating licence.

An analysis of the Lottery retail outlets at 31 March 1997 shows that some 70 per cent are independently owned and 30 per cent are multiples. Sectors with the greatest number of outlets are confectioners, tobacconists and newsagents, with 31 per cent, grocers with 13 per cent, convenience stores with 11 per cent, and supermarkets with 11 per cent.

The selection process for retailers is a matter for Camelot in which the Director General does not intervene.

On-Line Game

Total sales for the year amounted to £3.847bn, which is an increase of 4.1 per cent or £153m on the previous year. On-line sales after the introduction of the midweek draw in February were 30 per cent higher than the average earlier in the year. Saturday sales fell slightly with the midweek draw but stayed at between £60m and £70m in a normal week, with seasonal influences being slight.

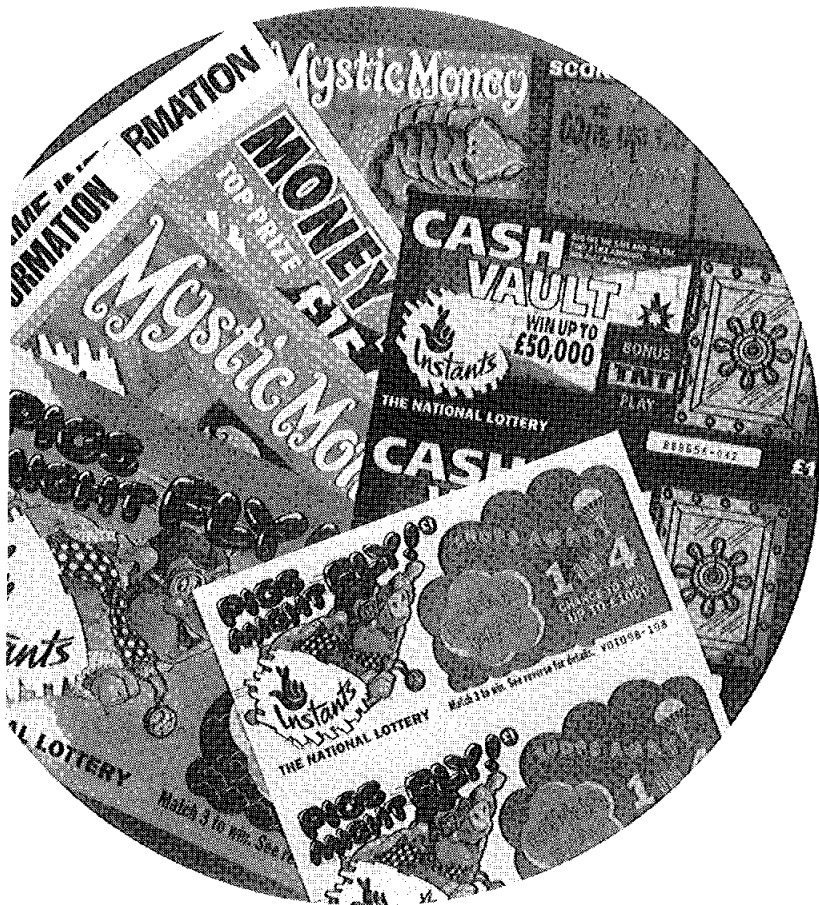
Ten roll-overs occurred throughout the year, compared to 11 for the previous year. The coverage of possible six digit combinations by players' selections has increased further, partly due to use of the Lucky Dip feature, which allows players to choose a random

set of numbers. Lucky Dip has increased in popularity as an alternative means of play, with around 15 per cent of entries using it in a normal week. It is increasingly popular during roll-overs.

Midweek Wednesday Draw

The first midweek draw was held on 5 February. Sales until the end of March show that this has attracted on average some £30m a week. It is too early to predict how weekly sales will become distributed between the Saturday and Wednesday draws, but in March the split amounted to 70 and 30 per cent respectively.





The Director General's announcement of his approval for the midweek draw in October 1996 made clear that OFLOT would continue to monitor the results in the light of concerns about excessive play.

The BBC TV National Lottery Live draw show on Saturday evenings and the Wednesday midweek draw show continue to be an important means of demonstrating the randomness of the draw, as well as providing examples of the work being done by the Good Causes with the money raised by the National Lottery.

Instant Games

Sales of National Lottery scratchcard games amounted to a total for the year of £877m, an average

of £16.5m per week. This represents a reduction on the previous year of 42 per cent which is consistent with international experience where high initial sales progress to lower consistent levels. Currently, some 10 per cent of the UK adult population play these games on a regular basis.

The Director General licensed 16 games during the period, and an average of eight different games have been available at any one time (reflecting different themes, play mechanics, payout rates, top prizes and number of prizes), with a new game being launched on average every six weeks. During the year, payout ratios for standard games increased from 55 to 58 per cent. This is in line with international practice.

The scratchcard market has grown more competitive during the year. The merger of UKCL and Scratch 'n' Win during July 1996 and the subsequent takeover of this company by Littlewoods in January this year illustrates the strength of the competition to the National Lottery. Free scratchcards are continuing to be popular promotional games in all sections of the press.

The Director General is discussing with Camelot proposals for the introduction of new features for scratchcard games to help to reverse the current trend of declining scratchcard sales, including a televised game show, entry to which would be through a new scratchcard game.

Compliance

Since the launch of the National Lottery, OFLOT has been working on behalf of the Director General to ensure that the integrity of the draws is maintained, that Camelot has met its licence commitments, that there is proper control over changes to all Camelot's key systems and that amounts due from Camelot to the National Lottery Distribution Fund for the Good Causes are paid promptly and in full. A report by the National Audit Office during August 1996 concluded that all payments recorded as due to the NLDF had been made punctually and in full.

Protecting Young People

The protection of young people is a very high priority. Sales of National Lottery tickets to under-16s are illegal, and the Director General has placed licence obligations on Camelot to take steps to avoid them.

The latest research carried out for OFLOT in October 1996 indicated that some 6 per cent of under-16s had personally bought a National Lottery ticket within the previous seven days, with a further 9 per cent having bought in conjunction with an adult, usually a parent. Although the overall figure of 15 per cent suggests a falling trend compared with the overall figures for October 1995 and March 1996, which were 22 and 18 per cent respectively, it remains a serious cause for vigilance and concern.

As a result of research into under age play, the Director General announced in December 1996 that he was requiring Camelot to undertake a new public awareness campaign and other measures to reduce under age sales. These included additional notices in retail outlets, a public hotline (**0541 56 16 16**) for reporting instances of under age sales, and a programme of co-operation between Camelot and Trading Standards Officers to combat the problem.

During the past 12 months, two retailers have been prosecuted and convicted, and a further nine have had their National Lottery terminals removed or suspended. The Director General remains determined to take a robust approach to this problem and expects Camelot to continue the campaign with vigour. The work of Trading Standards Officers around the country in conjunction with Camelot is particularly welcome. OFLOT's research to monitor the problem will continue.

Consumer Protection

The Director General has a statutory objective to protect the interests of participants and the protection of consumer interests is always considered carefully when decisions are taken, whether about

licences for new games or about other developments. In addition, the Secretary of State has issued a Direction to the Director General not to license any game as part of the National Lottery which could, in the Director General's opinion, encourage excessive participation.

OFLOT supports a continuing programme of research by leading academics and researchers, and regularly publishes the results. Since the launch of the National Lottery, more than 20,000 people have been questioned for OFLOT by National Opinion Polls on their lottery spending habits. Research indicates that most players, of both the on-line game and scratchcards, buy two or three tickets per week.

Game Development

The Director General and his staff are the custodians of the longer term strategy for the National Lottery, because its future extends well beyond the present licence period. They are pursuing a strategy of long term and responsible growth for the future. The Director General will continue to consider all innovative proposals for game development, from Camelot or potential independent game promoters. He will resist requests to approve games, however successful they might be in the short term, if they run contrary to the longer term strategy and risk loss of public interest and falling contribution to the Good Causes in the longer term.

The National Lottery operates in a competitive market. A number of new products have been launched by competitors, some with a striking resemblance to the National Lottery. Whilst this imitation is a tribute to the success of the National Lottery, some competing products enjoy a regime which allows them real competitive advantage, including lower levels of prizes to the public, the obligation to pay relatively little or nothing to good causes and the ability to operate at expense levels and operating margins which are significantly higher than those in the National Lottery.

Ancillary Activities

During the year Camelot undertook approved commercial activities outside the core activities of running the Lottery through their National Lottery Enterprises (NLE) division, and produced net proceeds of £736,354. The Good Causes benefited to the extent of £368,177 – 50 per cent of the net amount generated.

Ancillary activities included the sale of broadcasting rights to the BBC for the draw shows on Saturday and Wednesday evenings. This three year contract expires in November 1997, and Camelot is currently in discussions about renewal.

Camelot needs the Director General's specific consent to activities being considered by NLE before they can be undertaken. In considering Camelot's proposals, the Director General considers not only the benefit to the Good Causes, but also their compatibility with the image of the National Lottery including the proper use of the logo, the need to avoid appealing to under-16s, and the protection of participants.

Retailer Breach

In October 1996 the Director General announced that Camelot had not met its licence commitment to the number of retail outlets to be operational at the first two quarter ends during 1996 and that he was considering an application to the court for an order to compel compliance. The shortfall in retail outlets was around 750, about 7 per cent of the required figure for instant only GVT outlets. A particularly serious feature of this incident was that the figures reported by Camelot to OFLOT proved unreliable and the licence breach was not discovered until the figures were checked by OFLOT. Had the Director General been empowered to impose financial penalties on Camelot in relation to licence breaches (see below), it is likely that he would have used them on this occasion.

Camelot managed to clear the backlog within a few weeks and the Director General subsequently decided not to pursue legal action. Although Camelot was short of its licence commitment for retail outlets at March, June and September 1996, the position had been restored by the end of December.

The Director General has not agreed to Camelot's requests to reduce the number of retail outlets specified in the Licence.

Enforcement

The National Lottery is currently run by a private sector company, but the Director General does not have the power to impose financial or commercial penalties. The Director General's powers of reference to the courts or, as a last resort, revocation of a licence, are actions which can only be taken in the most serious situations. While persuasion and publicity are helpful in disciplining the operator, the Director General has few other avenues of intermediate action open to him. These issues were raised during the year with the Secretary of State for National Heritage by the Director General and others.

Game Licensing

In addition to the main operating licence held by Camelot to run the National Lottery, under Section 5, the Act provides for each individual game (on-line or instant) to be licensed by the Director General under Section 6.

The Act allows any body corporate to apply to promote a game as part of the National Lottery, but specifies that an independent game promoter (ie other than Camelot) will need an agreement with the operator (Camelot) to promote a game as part of the National Lottery. Financial contributions to the Good Causes and others, however, are governed by the main Section 5 licence, and not by the individual (Section 6) game licences. These financial provisions reflect the terms of Camelot's 1994 bid, and this set high levels of

contributions to the Good Causes and very tight operating margins. They make it difficult, but not impossible, for independent Section 6 licensees to match the current levels of contributions, while earning a return on investment.

The Director General gave evidence to the National Heritage Select Committee in February 1996 on this subject. He shares their view that efforts should be made to encourage independent Section 6 applications. He has recently published a revised guide to potential applicants for Section 6 licences, which explains the process and encourages them to apply. He has indicated his readiness in principle to consider proposals for varying the Section 5 licence's financial provisions in respect of independent applicants, provided that the games concerned are innovative and will provide incremental turnover, without diverting sales from existing National Lottery games. The Director General is in discussion with Camelot and third parties about the possibility of introducing different games as part of the National Lottery.

Interest

The National Audit Office (NAO) and the Committee for Public Accounts (PAC) commented during the year on the treatment of interest on certain sums, and in particular on the so-called 'prize target shortfall'. For each financial year, the Licence sets an overall target percentage of revenue to be paid in prizes which was designed to prevent the operator retaining any benefit if the prizes paid in a year are less than expected. If less than the target percentage is paid in prizes, Camelot pays the shortfall to the Good Causes in July following the year end.

The shortfall has in practice been significant for reasons which could not be foreseen when the Licence was granted. In particular, sales for the on-line game (which pays 45 per cent of revenue in prizes) have far outstripped all 1994 expectations, while those of instants (paying initially 55 per cent) remain comparatively low.

The Director General pressed Camelot on his view, which was supported by the NAO, the PAC and the National Heritage Committee, as well as the Secretary of State for National Heritage, that interest should go to the Good Causes along with the shortfall which amounted to some £128m for 1996/97.

Since the end of the financial year, Camelot has agreed to pay to the Good Causes interest on the shortfall, with effect from 31 March 1997. This benefit may exceed £20m over the period of the operating licence.

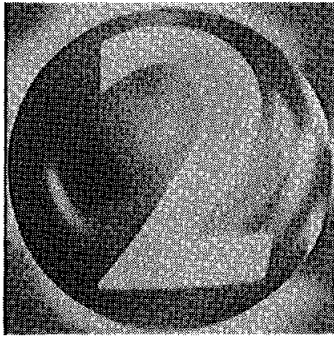
PAC Report on Payments to the National Lottery Distribution Fund

The Committee of Public Accounts published its twentieth report, *Payments to the National Lottery Distribution Fund*, on 17 March 1997. The Government will respond fully to the Committee's recommendations in the usual way, through a Treasury Minute.

The PAC made its recommendations, having taken oral evidence from the Director General on 13 November 1996, on the basis of a report by the Comptroller and Auditor General. The NAO and the PAC concluded that all payments recorded as due to the NLDF had been made punctually and in full.

The Director General told the PAC that improvements to OFLOT systems, as a result of National Audit Office suggestions, were already in place. All critical areas, including draw procedures and controls over computer systems, were checked by OFLOT staff before the launch of the Lottery and regularly since then.

The Director General emphasised, during the hearing before the PAC, his strong commitment to carrying out his statutory duties – ensuring propriety of the Lottery, protecting players, and subject to these, maximising the returns to the Good Causes.



protecting players

Protecting the interests of players is one of the Director General's two primary statutory objectives. These objectives – the other is ensuring that the National Lottery is run with propriety – take precedence even over the objective of maximising income for the Good Causes.

Guarding Against Excessive Play

In the Review of the Year (page 5) reference is made to the Secretary of State's Direction to the Director General not to license games which could in his opinion encourage excessive participation, and to the prominence given to this requirement in OFLOT's day-to-day decisions on licensing and other matters.

Two specific developments gave rise during the year to issues relevant to safeguards against excessive play.

Midweek Draw

Both before and since its introduction, a number of players and others have argued that using the same matrix of 49 numbers, and rolling-over jackpots between Wednesdays and Saturdays, may lead to excessive participation. The suggestion is that players who can ill afford to do so may feel compelled to play 'their' Saturday numbers on Wednesday also.

After careful consideration and discussion with Camelot, the Director General decided not to impose a complete separation between the Wednesday and Saturday games. The factors which influenced this decision included the established levels of participation, Camelot's considered commercial judgement that a wholly separate midweek game

might not be viable, and the Director General's view that few people would feel under pressure to play more than a few cherished numbers twice a week.

The Director General did, however, insist that players should at all times be free to play Wednesdays or Saturdays only, or both, rather than being obliged to buy tickets for the next draw in sequence, on whichever day it fell, which was proposed in Camelot's application. He also reserved in the licence the right to require changes in the game if evidence was forthcoming that players were indeed encouraged to play excessively. A programme of surveys to monitor player attitudes and behaviour towards the midweek draw is in hand and first results are being analysed.

Keno

Camelot told the Director General on several occasions in the course of the year that it wished to introduce Keno to the National Lottery, in due course. Keno, like the present National Lottery on-line game, is based on choosing numbers from a matrix, with prizes for players whose numbers come up in a draw. Unlike the present National Lottery game, however, Keno has features that could give rise to concern over the encouragement of excessive play – in particular, it is usually played in social venues and involves a much greater frequency of draws, and allows players to choose from a selection of odds. There is also uncertainty about Keno's legal status in the UK as a lottery – only games which have such legal status could be run under the auspices of the National Lottery.

The Director General has told Camelot that, while he will treat all licence applications on their merits, he does not regard Keno as an appropriate development for the

National Lottery at this stage both because of his concern about excessive participation and because of the longer term strategic desire for the National Lottery to develop responsibly and well beyond the current licence period.

Patterns of Play

More generally, OFLOT continues to monitor players' spending. During the period covered by this report, a further five surveys were commissioned from NOP and OFLOT commissioned Social and Community Planning Research to investigate attitudes to the draw game and scratchcards.

Further details are at Appendix E. Broadly, the results on the on-line game, which date from before the introduction of the midweek draw, suggest the following:

- Amounts which players spent each week were similar whatever the social group or personal characteristics of the player. The average spend is about £2.50; 40 per cent spend £1; 30 per cent spend £2; and about 1 per cent spend more than £10.
- Participation was highest (75 per cent) among skilled manual workers and those who left full-time education at 15 or 16.
- Participation was lowest (50 per cent) among managers and professionals and those who left full-time education at 19 or over.

Accurate data about scratchcards continues to be difficult to gather – data from surveys understate known sales by about one third. Taking due account of this uncertainty, it does not suggest excessive participation. Most players report expenditure of between £1 and £3, and few players surveyed spend more than £10 per week.

OFLOT continues to maintain contacts with academics, caring agencies and other bodies concerned about

excess. Despite reported worries there is little or no evidence of problem gambling caused by the National Lottery.

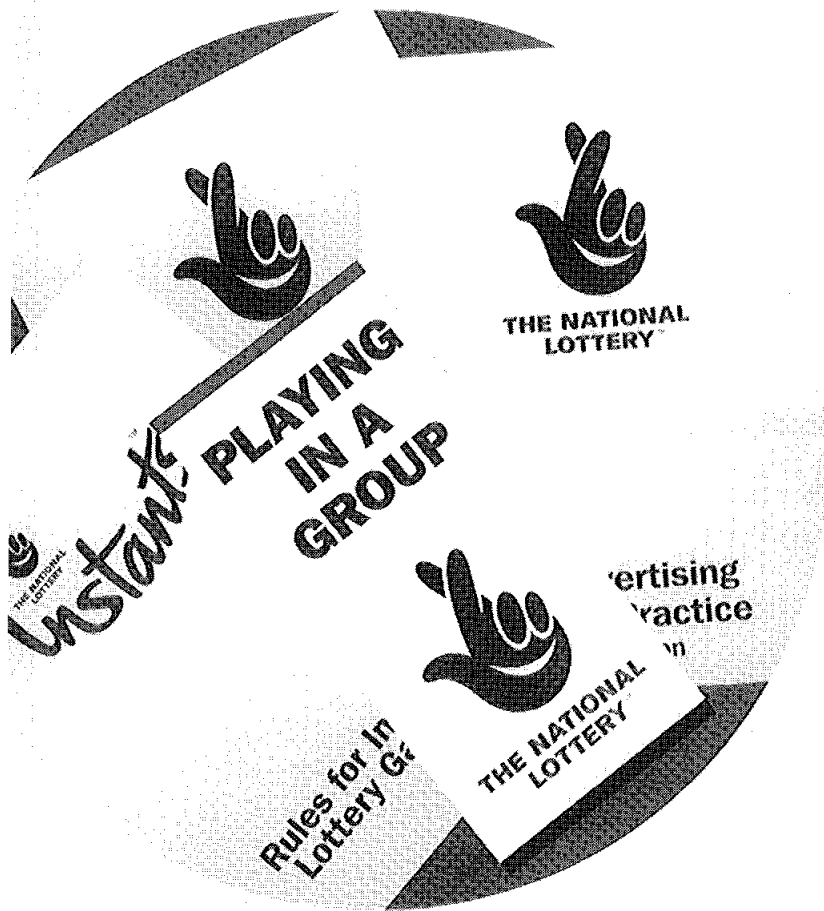
On the information available, the Director General believes that there are no grounds at present for general concern about excessive play, although continuing vigilance is important.

Under Age Sales

The seriousness with which the Director General regards under age play and the measures taken against it during the period of this report were described earlier in the Review of the Year.

In November 1996 the High Court gave its judgement in a case brought by Camelot against the mother of a fifteen year old boy who had bought a winning £50,000 National Lottery scratchcard. The judgement was important as it confirmed that under-16s are not legally entitled to prizes.





The Director General is determined to pursue vigorously the initiatives that OFLOT and Camelot have in hand against under age play and will consider additional action as necessary.

Review of Player Information

Compliance work carried out by OFLOT staff during the course of the year revealed that Camelot had failed to ensure that all retailers display, and make available to take away, leaflets which contain details of the prize structure of each scratchcard game. A full review of player information was undertaken in conjunction with the operator and the Director General has now agreed with Camelot that this information will be included in improved and simplified notices which must be displayed by all retailers. Players who require copies of these leaflets

can obtain them from Camelot. Licences to promote scratchcard games require Camelot to display information in a specific form and the Director General has warned Camelot that compliance with these requirements will be monitored closely.

Unclaimed Prizes

Prizes not claimed by winners go to fund the Good Causes after 180 days. Levels of unclaimed prizes in the on-line game – 6 per cent of match 3, 1 per cent of match 4 and negligible proportions of higher prizes – were similar to the previous year.

Considerable public attention was attracted by a £2.1m jackpot prize which remained unclaimed from a draw in May 1996. After consulting OFLOT, Camelot mounted a major publicity campaign with a view to enabling the winner to claim the prize. Camelot continues to comply with the arrangements agreed with OFLOT that any jackpot or match 5 plus bonus ball prize not claimed within five weeks of the draw will be drawn to the attention of the press and the district in which the ticket was bought will be disclosed.

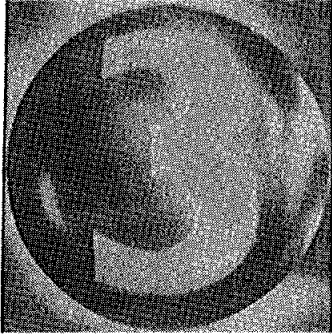
OFLOT continues to monitor the rate at which scratchcard prizes are claimed. There is limited evidence, which OFLOT has drawn to Camelot's attention, that games with more complex play mechanics have a higher percentage of unclaimed prizes than simpler games. If further experience suggests that action is needed in such cases to improve the clarity of play instructions, or to require other changes, OFLOT will take appropriate action.

Complaints and Enquiries Handled by Camelot

In general, calls to Camelot's Lottery Line (0645 100 000) are answered promptly; during the reporting year most of the two million calls were answered within five seconds. Performance during the peak Saturday evening period was a little less robust and

some 13 per cent of callers found all lines engaged. There is also evidence that some people may be put off by the recorded options menu with which callers are greeted; outside the busy post-draw periods, which present specific problems, 13 per cent of callers failed to opt for one of the menu options and had the call terminated. OFLOT has proposed that the system should have a default setting which routes to a receptionist those who fail to specify an option.

The volume of complaints which Camelot has recorded remains low; during the year the company registered 2,050 telephoned and 706 written complaints. The company defines a complaint as 'an expression of dissatisfaction with any aspect of the National Lottery'. These volumes are surprisingly low and OFLOT has some evidence that many expressions of dissatisfaction are not being registered. In particular, Camelot has acknowledged that complaints about the performance of retailers who sell National Lottery tickets have, at least in recent times, been classified as 'Retailer Training Issues'. Also, players' dissatisfaction with the handling of some of the 17,000 prize claims which require special investigation has, as a matter of policy, not been recorded. OFLOT takes the view that these systems require improvement and is requiring Camelot to review and modify them accordingly.



regulating and licensing

Section 6 Licences

Licences under Section 6 of the Act are required for the promotion of all games which form part of the National Lottery. No applications have been received from companies other than Camelot. During 1996/97, 16 Licences were granted to Camelot to promote instant games, and 12 games were launched. The Section 6 licences are public documents, available from OFLOT, priced at £5.

Licence Variations

During the period of the report, 13 variations were made to the Section 5 Licence and 31 variations to the Section 6 Licences. The variations to the Section 6 Licences were mainly minor, and included end date extensions and reductions in the size of several instant games to reflect market conditions.

The introduction of the midweek draw required a variation to the Section 6 Licence for the on-line game.

Licence Breaches

Appendix B lists against relevant conditions of the Section 5 and 6 Licences those instances where OFLOT noted during the year that Camelot was in breach of licence requirements. In some cases there was more than one breach of a condition. Breaches of the Player Code of Practice and of the Logo Guidelines are also listed. The most significant licence breach was the failure to meet retail outlet commitments for March, June and September 1996 and the submission to OFLOT of incorrect information on this matter. Details are given in the Review of the Year. Camelot also

committed a serious breach in failing to pay unclaimed prizes to the NLDF on time on one occasion and OFLOT required interest to be paid to the fund in recompense. The other breaches listed were relatively minor. Apart from the breaches listed, Camelot undertook planning of an activity before it was permitted to do so by a licence variation and consent. In a very few other cases, breaches have not been listed where on subsequent consideration a variation of the relevant licence was agreed to be justified.

Fit and Proper

Under Sections 5 and 6 of the Act, the Director General has to satisfy himself that those who run, manage or benefit from the management of the National Lottery are 'fit and proper' for their role.

OFLOT requires companies and individuals in key positions to provide confidential and detailed declarations about themselves. OFLOT checks relevant information with law enforcement and other organisations in this country and abroad, to assess whether the individual or company is 'fit and proper' for their role in connection with the National Lottery.

Over the period to 31 March 1997 OFLOT made initial vetting enquiries on 524 individuals and 10 companies, drawn from Camelot employees, shareholders and main suppliers. OFLOT has a programme for updating information held and has re-vetted 355 individuals during the year and will re-vet individuals at regular intervals during the term of the Licence.

In the period of this report, the Director General found six individuals not fit and proper. Three were Camelot employees in computer and communications support;

and three were employees of key contractors. They either left or did not take up their positions in relation to the National Lottery, or in one case, were banned from day-to-day involvement in the National Lottery.

Logos

The ownership of National Lottery logos is vested in the Secretary of State, and OFLOT remains vigilant in ensuring that the necessary approvals are obtained for their use and that both Camelot and other parties adhere to the approved Logo Guidelines.

Breaches of the guidelines by Camelot during the year are listed in Appendix B. Camelot took action on OFLOT's behalf on 23 cases to rectify infringements and prevent misuse of the logos by third parties.

Although these infringements are small compared to the extensive use and recognition of the logo, caused by the National Lottery becoming such a major brand in the country, OFLOT will continue to use all legal remedies under copyright and trade mark law, to protect the logos as necessary.

Rafferty Inquiry

The last Annual Report detailed the setting up of an inquiry into the allegations of impropriety made by Mr Richard Branson against Mr Guy Snowden, Chairman and Chief Executive of GTECH, one of the shareholders in Camelot Group plc. Miss Anne Rafferty QC was appointed to conduct the inquiry, and her terms of reference were:

'To enquire into the allegations made by Mr Richard Branson against an officer of GTECH in an interview broadcast on 11 December 1995, to consider the facts surrounding a meeting between Mr Branson and Mr Guy Snowden in September 1993 and to report to the Director General on any bearing those allegations and facts may have on the exercise of his powers under the National Lottery etc. Act 1993.'

Miss Rafferty invited submissions from interested parties. Mr Snowden submitted a statement; Mr Branson did not. Miss Rafferty's report to the Director General in July 1996 concluded: 'I am not able to find as a fact that there was any attempt to bribe Mr Richard Branson on 24 September 1993.'

Proceedings for defamation, involving Mr Branson and Mr Snowden, have been set down for trial.

Camelot Performance Standards

OFLOT listed matters for which Camelot was required to set performance standards, eg lottery terminal availability, complaint resolution times and access to the National Lottery Line, at the end of the 1995/96 financial year. During 1996/97 Camelot established the standards and collected information in relation to its performance. A list of the matters, established standards and performance is attached at Appendix D.

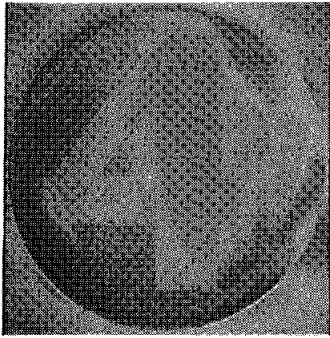
Of the standards established, the following were not achieved during the period:

- Camelot made 110 payment transfers to the Secretary of State during the year. However, one transfer, relating to the unclaimed prizes from instant games 91 and 92, was made late. The transfer was completed three days late and OFLOT required Camelot to make an additional interest payment to the NLDF in respect of the delay. The NLDF was therefore compensated for the late payment.
- Camelot investigated 91 on-line prize claims relating to cancelled tickets. Of these, 57 per cent were addressed within 20 days. This falls well short of the target of 90 per cent within 20 working days. Camelot has introduced new procedures relating to the cancellation of on-line tickets which should help to address this problem.
- 1,990 instant ticket claims were made which required further investigation, because either the ticket or the pack from which it was taken had been

stolen. Eighty per cent of the claims were addressed within 20 working days, which again is below the target of 90 per cent within 20 working days. Camelot has attempted to introduce changes to improve its performance, but owing to the nature of such claims, lengthy investigations can sometimes not be avoided.

Overall Camelot dealt with 93 per cent of the 16,893 prize claims which required further investigation within 20 working days.

This is the first time that this type of additional analysis has been undertaken and the results are mainly encouraging. Most of the standards have been met and in many cases they have been bettered. OFLOT will review Camelot's performance, with a view to introducing further performance measures. In conjunction with Camelot it is hoped that, for existing measures, the standards will be increased to reflect Camelot's achievements.



compliance division

Camelot must comply with the terms of its licences issued by the Director General under Sections 5 and 6 of the Act. Failure to do so could ultimately lead to revocation. Compliance Division undertakes a range of activities designed to ensure that Camelot's obligations are met. The division makes a major contribution to identifying the breaches of licence requirements referred to in Chapter 3.

Parliament and the public expects OFLOT to act to protect the National Lottery against a wide range of eventualities from major conspiracies to routine errors. As with any verification or compliance work a balance has to be struck between the resources and costs devoted to the work undertaken and the degree of assurance required from the work. It will never be possible to give an absolute assurance that no errors, omissions or frauds have occurred unless a complete check of all transactions and entries is made. Although Camelot has the responsibility for the proper conduct of operations, adequate internal control systems and internal and external audit arrangements, we cannot rely entirely on them without undertaking any independent checking or testing. The Director General must exercise his judgement on what is the correct balance between the two poles.

Many of the activities described below have been undertaken regularly since the launch of the Lottery in 1994. The level of detailed checking by OFLOT and the priorities and risk assessment of different operating areas and different controls are continually being adjusted and developed as more practical experience of lottery operations is gained.

Compliance Assignments

Regular work programmes are undertaken in the following areas: draw attendance; draw procedures; instant tickets; internal audit; IT security; mail subscriptions; management information; marketing and advertising; Northampton warehouse; players; prizewinners; purchasing and contractors; regional offices; retail head office and sales; retail visits; security, treasury and funds monitoring; and year-end National Lottery accounting.

In addition, a monthly programme covering certain high-risk areas previously covered in other programmes was introduced in August 1996. It includes the detailed checking of the validity and identity of prizewinners, the issuing of manual cheques, cancelled tickets, certain aspects of instant tickets and the monitoring of the draw by Price Waterhouse and OFLOT Compliance Division.

Quarterly reviews have been carried out on the payment of funds derived from ancillary activities, in support of the monitoring carried out by OFLOT's Head of Business Affairs, and on the security incident database and the receipt of Schedule 10 Declarations in respect of suppliers and employees.

Additional on-going work includes regular attendance at both the Wednesday and the Saturday draw shows, assistance to OFLOT's management group in the provision of information and the carrying out of special projects, evaluation of instant games including game security, reviews of Camelot's systems and procedures and monthly liaison meetings with Camelot's Director of Security and Manager, Internal Audit.

Apart from its regular compliance work programmes the Compliance Division has carried out a total of 87 one-off assignments and 27 special projects. They include the following:

- Review of Camelot's accounting policies over the life of the licence.
- Review of Camelot's accounting system especially income and suspense accounts.
- Adjustments to retailers' accounts.
- A review of Camelot's management information and of reports issued to OFLOT to determine the validity and accuracy of information. This review will continue during 1997/98.
- Policy on purchasing and contractors.
- Investigation into the accuracy of quarterly retail outlet numbers.
- Trends in lost, missing and stolen tickets, to establish, for instance, whether any patterns emerge.
- Extensive involvement in the instant game balancing procedures to maximise revenue for the NLDF.
- Provision of information to other Government departments.
- Reviews of the Lucky Dip facility and cancellation procedures.

Coopers & Lybrand, as independent consultants, completed a review during the year of the regular work programmes and standards used by the Division. This was to ensure that they met the highest industry benchmarks.

Security

Physical access to secure areas within Camelot's Watford HQ, regional offices and the warehouse were reviewed.

Monthly attendance by the Compliance Division staff at both the Wednesday and Saturday on-line draws confirmed that the security and related draw procedures approved by OFLOT were being adhered to.

The measures taken to ensure the security of the draw machines and the ball sets are under constant review by OFLOT's Compliance Draw Officer, including the Emergency Draw procedures, the testing of the draw machines, and the procedures for weighing, measuring and calibrating the balls.

The warehouse procedures regarding unconfirmed deliveries and the return of instant tickets were examined, along with a review of the pack status change facility.

Funds Monitoring

The responsibility of the OFLOT Funds Advisor, a member of the Compliance Division, is to ensure that Camelot complies with the funds movement requirements in the Section 5 and Section 6 Licences, the Security Trust Deed and the Bank Agreement, as well as Camelot's own systems and procedures.

Although the funds monitoring role encompasses all treasury and funds movement issues, the main area of detailed work is that surrounding the transfer of funds from Camelot to the National Lottery Distribution Fund and between Camelot and the Prize Trust Fund.

In addition to routine monitoring the Division has reviewed arrangements for multidraw plays and subscriptions, relating to the transfer of monies to the Players' Trust.

Special attention was given to prize claims made after the initial period following each draw, and the activation and settlement of packs of instant tickets.

The annual prize payment shortfall of £135.3m for the year ended 31 March 1996 was confirmed as correct and paid on time.

Information Technology

The general approach to IT compliance can be summarised under five key headings.

Independent Control System (ICS) balancing.

IT Change Control.

System Function Proving.

IT Security.

IT System Performance.

The objective of ICS balancing is to compare the daily output generated by the main gaming systems operated by Camelot, the GOLS on-line system and the Instants Processing System (IPS), with the output generated by an independent computer system operated by OFLOT, using the same transaction data collected each day from the retailer terminals. The key elements in balancing are to agree total sales and prize winners' payments each day and agree the draw result, number of winners in each category and their prize value.

Changes proposed by Camelot to its IT systems or services are reviewed by the OFLOT Head of IT Operations. Any significant changes are subject to approval and the Director General will require that the functional specifications be produced and the system be tested before implementation. The proposed changes reviewed in 1996/97 amounted to 40 software changes – each involving, on average, 20 enhancements.

New gaming systems or major changes to existing gaming systems may be subject to system function proving. This process is designed to satisfy the Director General that the system conforms to its functional specification and will perform accordingly. The OFLOT Head of IT Operations will review the method of testing, the test scripts and expected test results. The test result and any recommendations made by the independent tester are reviewed. Once satisfied with the results he advises the Director General on whether to approve the system or service for implementation.

A comprehensive set of IT security standards was established by Camelot and agreed with OFLOT to preserve the integrity of the Lottery IT systems and data. The Compliance Division carries out periodic reviews of Camelot's compliance with these security standards.

Camelot reports system availability statistics periodically to OFLOT. Since launch Camelot's performance reporting statistics have been recorded and the method of calculating performance has been reviewed. OFLOT's Head of IT Operations monitors terminal availability for selling, validation and transaction response time and investigates any major IT incidents.

The following developments involving software specifications and enhancements took place during the year after technical review by the Compliance Division, and in appropriate cases, independent testing:

- Camelot's internet site proposal was reviewed before going live in September 1996.
- Software specifications and related IT documentation were introduced for the midweek draw.
- Technical scripts from consultants Deloitte & Touche, for testing software and other changes, were reviewed in November 1996.

- The random number generator was proved and tested as part of the introduction of Lucky Dip.
- A software specification review was completed on the proposed TV Instant Game Show, which is currently under consideration by the Director General.
- Work was undertaken on the XGUARD encryption security system.
- A new on-line ticket cancellation facility was installed in November 1996 in order to make fraudulent cancellation of a ticket by a retailer at the point of sale even more difficult.

The enhanced cancellation facility requires the player to mark the ticket as a cancellation and the retailer to reprocess the ticket through the lottery terminal before refunding the wager to the player. The testing of the new cancellation facility was observed and reviewed by OFLOT technical staff and approved before installation and live running. It has proved to have been successful in reducing the overall number of cancellations in the period between its introduction and the launch of the midweek draw when statistics were distorted by the new style playslip and a period of player adjustment to the increased draw options.

Problems in balancing the Camelot gaming systems and the Independent Control System managed by OFLOT for the draw held on 16 November 1996, as a result of failures in the network, were investigated by OFLOT. Camelot was required to change the procedures for transaction balancing. This work underlined the importance of the role of the independent adjudicator (Price Waterhouse) both at the data centre and also at the draw centre.

An upgrade of Impromptu enquiry software was provided by Camelot to OFLOT. This increased the availability of sales history of on-line ticket and related statistics.

OFLOT's control system software was upgraded to deal with increased retailer volumes. Retail outlets exceeded 30,000 in number during the year.

OFLOT is contributing to specifications for prize payment security software, linked to the Players' Trust, which provide improved protection for players in the event of revocation of the operating licence.

Coopers & Lybrand were engaged as consultants in March 1997 to determine the need for a specialist computer audit function within the Compliance Division and to identify any further areas of work within the IT field.

Draw Machine and Computer Failures

November 1996

There was a nine minute loss of normal transaction recording on Saturday 16 November shortly before the draw break. The task of retrieving the lost transactions was complicated and prevented the normal recovery procedures from being followed. Estimated prizepool and Jackpot figures were broadcast in the normal way. Unconfirmed results were not announced on Saturday evening, because integrity of the data could not be assured at that stage. Prizes were calculated and paid on Sunday in the usual way, once the integrity of the data was confirmed.

On Saturday, 30 November 1996 a faulty microswitch caused the draw machine to malfunction and delayed the televised Saturday draw. The difficulty was quickly corrected and the draw was broadcast live an hour later.

January 1997

The game rules provide for players to be able to buy 'multidraw' entries for up to eight weeks in advance. To simplify the introduction of Wednesday draws, this arrangement was changed so that for some weeks in the New Year advance entries were not sold for draws

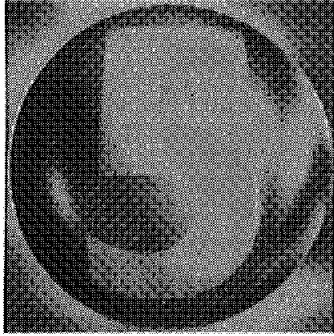
later than 5 February, the date of the first midweek draw. A software error nevertheless allowed a small number of players to buy in advance 'multidraw' tickets including draws later than 5 February. The practical result was that these players were entered in some draws for which they had not meant to buy tickets, and were not entered in some draws for which they had intended to buy tickets.

To protect the interests of those players and to avoid confusion about the validity of tickets, the Director General varied the licence to allow Camelot to provide additional entries, at the company's expense, to ensure that all of the players concerned were entered in all the draws for which they had intended to buy tickets.

February 1997

A failure on Saturday 8 February of the on-line gaming system to balance with OFLOT's Independent Control System led to a delay in the payment of prizes until the Monday following the draw. OFLOT required the problem to be identified and resolved to its satisfaction before prizes were paid out. The main cause of the imbalance was found to be a data error affecting the Independent Control System, because information about subscription purchases had been loaded onto the system with an incorrect date. Camelot has reviewed and tightened procedures to prevent a recurrence.

In the case of all these incidents, the contingency plans agreed with the operator contained the impact of the failure and operations were able to continue after a relatively short delay without any serious impact on public confidence in the National Lottery.



informing the public

The National Lottery is played by approaching 70 per cent of the adult population, whose interests OFLOT protects. It is therefore vitally important to have clear channels of communication between the Regulator's office and the nation's players.

OFLOT maintains a public affairs unit to handle correspondence from Members of Parliament who are often asked Lottery related questions by their constituents. A Consumer Affairs Division also deals directly with players.

Parliament

Between April 1996 and March 1997 the Director General answered 161 letters from MPs and Peers. The single most popular topic was the introduction of the midweek draw. The Director General aims to reply to letters within 10 working days – and this was achieved in almost 90 per cent of cases.

The Director General's position as a statutory office holder does not allow him to address Parliament directly. Whenever MPs raise Parliamentary Questions about operational matters relating to the National Lottery, he endeavours to provide them with a personal reply, addressing the issues within his sphere of responsibility. These answers are deposited in the House of Commons library and made available to the Parliamentary press. The Director General has also appeared as a witness before the National Heritage Committee and the Committee of Public Accounts.

Public Enquiries

During the reporting period, OFLOT's Consumer Affairs Division responded to 498 complaints and 204 enquiries, 95 per cent of them within 10 working days. This service provides a good barometer of opinion about the National Lottery and the efficiency of the operation.

Students

We continue to provide an information pack detailing the history of the Lottery and other material helpful in the production of dissertations. The growing library of consumer research is made publicly available.

Media

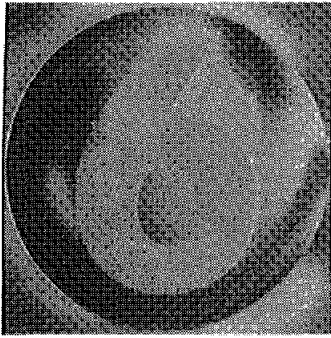
Most sectors of the media show a strong interest in the National Lottery. The Saturday draw and the midweek draw continue to provide acres of copy.

OFLOT's press notices and published material are distributed widely, and are accessible on the internet via the Government's World Wide Web pages.

The fact that many newspapers have dedicated Lottery correspondents suggests that the media's focus on the Lottery is likely to continue.

Regions

The Director General has embarked on a programme of regional visits which will take him to all of Camelot's regional offices during the next 12 months. He will also take the opportunity to meet retailers and players.



administration

The Administration Division aims to ensure the proper stewardship of the resources available to the Department. The Division supports policy and operational functions by providing specialist services and resources. It is responsible for the management of personnel, financial and accommodation matters, training services, security and information systems.

Personnel, Development and Training

OFLOT continues to provide support for a number of staff who are pursuing vocational or other relevant education courses leading to professional qualifications. Overall OFLOT provides an average of eight days training and development to each member of staff (1995/96 = six days). OFLOT will continue to offer support in this area and is committed to working towards accreditation as Investors in People.

Staff Matters

At 31 March 1997 OFLOT had 31.5 staff in post. This is an increase of three over last year.

This has been made necessary by the level of innovation and speed of development of the National Lottery, including the introduction of the midweek draw, as well as OFLOT's increasing research and compliance activities. The Director General wishes to express his sincere thanks to all the staff of OFLOT for their hard work and support during an active year.

The Director General has completed a review of the organisation of the Department and a new management structure was introduced at the end of April 1997, reflecting the practical experience gained

in the regulation of the National Lottery during the previous two years. This new structure brings together responsibility for the licensing and compliance functions under a new Director of Operations, who will play a key role in OFLOT's day-to-day activities.

The current organisation chart for OFLOT is at Appendix F.

In January 1997, Diana Kahn completed a term of secondment to OFLOT of over two years as Deputy Director General and returned to the Department of the Environment. John Stoker, formerly Regional Director for the Government Office for Merseyside, was appointed as Deputy Director General with effect from 13 January 1997.

Finance

OFLOT is funded through the Supply Estimate procedure, with funds voted by Parliament. However, a sum equal to the net provision required is paid from the operator's licence fees and from the National Lottery Distribution Fund to the Consolidated Fund as extra receipts, and OFLOT therefore imposes no net cost on Government funds.

Like other Government Departments, OFLOT accounts for its funds through an Appropriation Account, which is audited by the Comptroller and Auditor General.

The table at Appendix H shows the voted provision for 1996/97 together with actual expenditure recorded in the accounts (subject to audit), together with the monies recovered from licence fees levied on Camelot and from the NLDF. Figures for 1995/96 are included for comparison.

OFLOT monitors its performance in paying suppliers and, in line with Government policy, publishes the result. In the year ended 31 March 1997, OFLOT paid 98.7 per cent of its bills within agreed credit periods (1995/96 89 per cent) against the Government's target for this year of 95 per cent.



appendix a

The National Lottery: financial performance

	Year to 31 March 1997 £m	Since launch £m
Sales		
On-line	3,847	8,697
Instants	877	2,434
	-----	-----
	4,723	11,131
	-----	-----
Prizes won by players*	2,256	5,304
Payments to the National Lottery Distribution Fund		
ticket sales payment	1,259	2,971
unclaimed prizes	48	83
ancillary activity income	..	1
prize target shortfall**	135	153
interest from trust accounts	2	5
	-----	-----
	1,444	3,212
Lottery duty	567	1,336
Retailers' commission	242	568

* Includes unclaimed prizes paid to the NLDF, but excludes the prize shortfall.

** This figure represents the 1995/96 shortfall of prizes paid, compared with the target prize total for that year. It was paid to the NLDF in July 1996.

.. Denotes that the figure rounds down to zero, ie less than £0.5m. Figures may not add to totals due to rounding.



appendix b

licence breaches and other infringements for 1996/97

Section 5 Licence

<i>Condition breached</i>	<i>Explanation of breach</i>
2(3)	Failure to ensure the required number of terminals were available at quarters ending 31 March, 30 June and 30 September 1996. The initial information supplied for March and June was incorrect. OFLOT is checking the September figures and the operation of relevant procedures.
4(2)	Commencement of an ancillary activity before completion of documentation specified in a previous consent letter.
4(4)	Failure to obtain consent for an ancillary activity before allowing a charity to use the National Lottery Line facilities.
6(2) & 22(3)	Failure to ensure all contracts contained obligations required under Licence.
7B(7)(c)	Use of Camelot logo in conjunction with that of the National Lottery logo, in a job advertisement, without the Director General's consent.
8	Information not available to players at all retailers concerning (variously) on-line and instant game rules, details of how to participate in each lottery, the proportion of proceeds of each lottery to be paid as prizes and the odds of winning the various prizes, and the amount paid to the Secretary of State for the 1994/95 financial year.
14(1)	Failure to complete implementation of adequate inventory controls for security of all equipment used in connection of the National Lottery.
15(4)(b)	Failure in one instance to restrict access to secure areas to those people on register of those allowed to enter such areas.
15(4)(c)	Failure to maintain a log of all dates and times of people entering or leaving secure areas.
17(4)	Use without approval of an updated version of a functional specification for which approval should have been obtained.
20(1)	Late issue of some management reports required by the Director General.
21(4)	Failure to establish, within one month, standards of performance for matters determined by the Director General.
24(2)	Failure to provide declarations for certain people promoted to key positions, a company supplying goods to Camelot and an employee in the prize payout team.
26(1)	Late response to requests for information concerning a failure on the ICS system and concerning retailer numbers, in relation to Condition 2.
Schedule 2 para 8(c)	Failure to make payments to the NLDF on 24 September 1996 in respect of unclaimed prizes for instant games 91 & 92.
Schedule 8 para 1	Failure to supply information on management accounts in a format specified by the Director General.



appendix b

Section 6 Licences

<i>Condition breached</i>	<i>Explanation of breach</i>
1(5)	Payment of prizes in instant game 91 and instant game 92 after the 180 day prize claim period (Rule I).
II	Failure to ensure the required documentation relating to the operation of the Draw Show was up to date.

Player Code of Practice

Failure on the part of some retailers to make the following available to players: prize claim forms, comment cards, details of the most recent numbers and previous weeks' draws.

Failure to ensure that information was made available at retailers by 1 July 1996 concerning the amount paid to the Secretary of State for the year 1995/96.

National Lottery Logo Guidelines – Infringements

Use of incorrect keyline and encroachment into area of isolation on *It Could be Yule* poster.

Use in *Jackpot* magazine: wrong colours, badging of logo and encroachment into area of isolation.

Instants Logo Guidelines – Infringements

Use of restricted instant logo beyond dimensions allowed on point of sale (posters) for *Cash Vault* and *Double Your Money*, on point of sale (balloon) for *Pigs Might Fly* and on advertising (buses and bus stop posters) for instants brand.

Use of incorrect colour on posters for *12 Days Of Christmas*.

Use of keyline logo on A-Frame poster for *Money Tree*.



appendix c 1996/97 – licence variations

Section 5 Licence

Schedule 1 (Paragraphs 8, 9c, 12(4), 13(c)) and Schedule 2 (Paragraph 10) Varied to reflect the change in the forecasting of turnover and the consequential effect on the NLDF and to introduce an interest provision if the forecast result is underestimated.	Sent – 29 April 96	Agreed – 31 May 96
Condition 7B(7)(b)(ii) Varied to clarify condition in relation to Instants logo.	Sent – 29 May 96	Agreed – 23 August 96
Condition 8(2)(a) Varied to bring terminology of Licence into alignment with other documentation.	Sent – 29 May 96	Agreed – 23 August 96
Condition 8(4), 8(8) Varied to clarify only specified information needs to be supplied, rather than information relating to all licences.	Sent – 29 May 96	Agreed – 23 August 96
Condition 15(3) Varied to introduce a requirement on the Licensee to inform the Director General of any changes to the list of secure areas within 14 days of the end of the month in which the change took place.	Sent – 29 May 96	Agreed – 23 August 96
Condition 24(2), 24(4), 24(6), Schedule 10 Varied to allow the removal of Schedule 10 declarations from the Licence.	Sent – 29 May 96	Agreed – 23 August 96
Schedule 8 Varied to introduce a time scale for the provision of the auditors report as referred to in Schedule 8.	Sent – 29 May 96	Agreed – 23 August 96
Condition 30 Varied to allow Camelot to undertake activities other than the promotion of the National Lottery, subject to the Director General's consent.	Sent – 20 August 96	Agreed – 23 August 96
Condition 25(10) New condition introduced to increase the amount to be held in the reserve trust account, to cover the introduction of the midweek draw.	Sent – 23 October 96	Agreed – 23 October 96
Condition 10(4) Varied to allow the licensee to give free entries to those people who bought multi-draw tickets for six to eight consecutive draws on 4 January 1997.	Sent – 30 January 97	Agreed – 31 January 97
Condition 6(1) Varied to allow the Director General to waive the requirement for approval of specified contractors.	Sent – 20 January 97	Agreed – 7 February 97
Condition 9 Varied to require the licensee to ensure retailers display an approved sign stating that sales to under-16's are unlawful and giving a contact number for the public to call if they believe a retailer is selling to under-16's.	Sent – 20 January 97	Agreed – 7 February 97
Condition 22(3) Varied to allow the Director General to waive contractual requirements for specified contractors.	Sent – 20 January 97	Agreed – 7 February 97



appendix c

Section 6 Licences

Game 13 -- Schedule 1, Schedule 4 and Appendix Varied to reflect change in game name.	Sent -- 10 May 96	Agreed -- 15 May 96
'Sports Challenge' (Game 5) -- Paragraph 2 Varied to extend the game licence by six months.	Sent -- 23 May 96	Agreed -- 24 May 96
'Scratch Of The Day' (Game 15) -- Appendix Varied to reduce the game size.	Sent -- 23 May 96	Agreed -- 31 May 96
'UK Treasures' (Game 6) -- Paragraph 2 Varied to extend the game licence by four months.	Sent -- 31 May 96	Agreed -- 31 May 96
'Aces High' (Game 7, 97) -- Paragraph 2 Varied to extend game licence by nine months.	Sent -- 13 June 96	Agreed -- 18 June 96
'Noughts & Crosses' (Game 8) -- Paragraph 2 Varied to extend the game licence by 10 months.	Sent -- 20 June 96	Agreed -- 21 June 96
'Double Your Money' (Game 14) -- Paragraph 2 Varied to extend the game licence by eight months.	Sent -- 20 June 96	Agreed -- 21 June 96
'Cash Vault' (Game 16) -- Paragraph 2 Varied to extend the game licence by eight months.	Sent -- 20 June 96	Agreed -- 21 June 96
'Christmas Cracker' (Game 10) -- Paragraph 2 Varied to extend the game licence by five months.	Sent -- 1 July 96	Agreed -- 2 July 96
'Christmas Bonus' (Game 11) -- Paragraph 2 Varied to extend the game licence by five months.	Sent -- 1 July 96	Agreed -- 2 July 96
'Instants -- Yellow' (Game 93) -- Paragraph 2 Varied to extend the game licence by five months.	Sent -- 1 July 96	Agreed -- 2 July 96
'Instants -- Orange' (Game 95) -- Appendix Varied to reduce game size and increase prize payout percentage.	Sent -- 2 August 96	Agreed -- 8 August 96
'Money Tree' (Game 17) -- Appendix Varied to correct prize structure submitted by Camelot.	Sent -- 8 August 96	Agreed -- 20 August 96
'Instants -- Yellow' (Game 93) -- Paragraph 2 Varied to extend the game licence by a further three months.	Sent -- 22 August 96	Agreed -- 28 August 96
'Summer '96 Sports Game' (Game 13) -- Paragraph 2 Varied to extend the game licence by a further three months.	Sent -- 17 September 96	Agreed -- 20 September 96
'12 Days Of Christmas' (Game 18) -- Appendix Varied to increase the tolerance level for individual prize tiers.	Sent -- 27 September 96	Agreed -- 14 October 96
ON-LINE GAME LICENCE -- Condition 1, 9, 13, Schedule 5 and Schedule 6 Varied to reflect changes needed for the introduction of the midweek draw.	Sent -- 23 October 96	Agreed -- 23 October 96



appendix c

Section 6 Licences *continued*

ON-LINE GAME LICENCE -- Condition 6 and 8 Varied to reflect changes needed to amend the superdraw process.	Sent -- 23 October 96	Agreed -- 23 October 96
'Instants -- Orange' (Game 95) -- Paragraph 2 Varied to extend the licence by seven months and reduce the game size.	Sent -- 6 November 96	Agreed -- 6 November 96
'Instants -- Turquoise' (Game 94) -- Paragraph 2 Varied to extend the game licence by six months.	Sent -- 28 October 96	Agreed -- 7 November 96
'Mystic Money' (Game 20) -- Paragraph 2 Varied to reduce the game size from 81 to 60m tickets.	Sent -- 26 November 96	Agreed -- 27 November 96
'Sick As A Parrot' (Game 23) -- Appendix Varied to reduce game size from 80.16 to 29.84m tickets.	Sent -- 18 December 96	Agreed -- 28 December 96
'Instants -- Yellow' (Game 93) -- Paragraph 2 Varied to extend the licence by one month.	Sent -- 19 December 96	Agreed -- 14 January 97
'Aces High' (Game 7/97) -- Paragraph 2 Varied to extend the licence by three months.	Sent -- 10 January 97	Agreed -- 14 January 97
'Noughts & Crosses' (Game 8) -- Paragraph 2 Varied to extend the licence by three months.	Sent -- 10 January 97	Agreed -- 14 January 97
'£75,000 Instants' (Game 25) -- Appendix Varied to reduce the game size from 120 to 72m tickets.	Sent -- 13 January 97	Agreed -- 15 January 97
'Fast Cash' (Game 26) -- Appendix Varied to increase game size from 40.8 to 60m tickets.	Sent -- 4 February 97	Agreed -- 5 February 97
'Funny Money' (Game 27) -- Appendix Varied to increase game size from 40.8 to 60m tickets.	Sent -- 4 February 97	Agreed -- 5 February 97
'UK Treasures II' (Game 12) -- Paragraph 2 Varied to extend the licence until 1 August 1997 (approximately four months)	Sent -- 11 March 97	Agreed -- 13 March 97
'Scratch Of The Day' (Game 15) -- Paragraph 2 Varied to extend the licence until 1 August 1997 (approximately three and a half months)	Sent -- 11 March 97	Agreed -- 13 March 97
'Fortune 4' (Game 24) -- Technical Appendix Varied to clarify one of the printing instructions.	Sent -- 24 March 97	Agreed -- 24 March 97



appendix d Camelot performance standards

Matter	Standards	Achievement*
Responses to Compliance reports issued by the Director General	Written responses to be received by OFLOT within one month	100%
Payment transfers to NLDF	No late payments	99.1%*
Terminals available to sell tickets	99.5% sales availability	99.8%
Terminals available to validate tickets	99% validation availability	99.8%
Prize claims made in person	80% of payments to be made within one hour	94.0%
Prize claims by post	80% of payments to be made within five days	95.0%
On-Line investigations – claims relating to:		
Cancelled tickets	90% of claims to be resolved within 20 days	57.0%*
Damaged tickets	90% of claims to be resolved within 20 days	94.9%
Previously validated tickets	90% of claims to be resolved within 20 days	93.5%
Missing exchange ticket when a win is claimed on a multi-draw ticket	90% of claims to be resolved within 20 days	97.6%
Instant investigations – claims relating to:		
Damaged tickets	90% of claims to be resolved within 20 days	95.7%
Stolen tickets/packs	90% of claims to be resolved within 20 days	80.4%*
Previously validated tickets	90% of claims to be resolved within 20 days	96.3%
Any other claims investigations	90% of claims to be resolved within 20 days	93.7%
Response to correspondence by National Lottery Line (NLL)	95% responded to within five working days of receipt	99.8%
General complaints by Players	85% to be resolved within 10 working days	100%
Access to NLL Voice Response System (VRS) all day Monday – Friday & Sunday & Saturday (00:00-20:00, 23:00-00:00)	97% of all callers will get through to the Voice Response System (VRS)	98.0%
Access to NLL Voice Response System Saturday (20:00 – 23:00)	68% of all callers will get through to the Voice Response System (VRS)	85.7%
Access to NLL representative Monday – Friday (09:00 – 17:30), Saturday (09:00 – 20:00) & Sunday (09:00 – 15:00)	90% of calls to National Lottery Line representatives will be answered within five seconds	93.1%
Access to NLL representative Saturday (20:00 – 00:00)	80% of calls to National Lottery Line representatives will be answered within five seconds	88.5%
Initial response to retailer selection request	95% within two working weeks	98.8%**
Response to retailer correspondence	95% within two working weeks	97.4%**

* Further information given in Chapter 3 ** Information does not relate to entire year



appendix e

OFLOT publications at 31 March 1997

Licences

Price

Section 5 Licence

Licence to run the National Lottery under Section 5 of the National Lottery etc. Act 1993 £25.00

Section 6 Licences

Instants

Game name	Licence granted	Game launched	Cost
Instants (Blue)	17/03/95	21/03/95	£5.00
Instant Cash	24/04/95	25/04/95	£5.00
Winning 7s	17/05/95	18/05/95	£5.00
Cash Dreams	25/05/95	08/06/95	£5.00
Instants (Red)	05/05/95	28/06/95	£5.00
Sports Challenge	25/05/95	19/07/95	£5.00
Instants (Green)	02/06/95	10/08/95	£5.00
UK Treasures	02/06/95	17/08/95	£5.00
Aces High	20/06/95	06/09/95	£5.00
Christmas Cracker	04/07/95	17/10/95	£5.00
Christmas Bonus	06/07/95	13/11/95	£5.00
Noughts and Crosses	23/06/95	08/01/96	£5.00
Instants (Yellow)	04/07/95	22/02/96	£5.00
Cash Vault	06/09/95	19/04/96	£5.00
Double Your Money	06/09/95	11/05/96	£5.00
Instants (Turquoise)	05/02/96	22/05/96	£5.00
UK Treasures (II)	22/03/96	14/06/96	£5.00
Summer '96 Sports Game	03/05/96	05/07/96	£5.00
Pigs Might Fly!	28/03/96	22/07/96	£5.00
Scratch Of The Day	16/04/96	02/10/96	£5.00
Pigs Might Fly!	24/08/96	04/10/96	£5.00
12 Days Of Christmas	08/08/96	24/10/96	£5.00
Money Tree	01/08/96	15/11/96	£5.00
Instants (Orange)	16/04/96	10/01/97	£5.00
Mystic Money	08/11/96	28/01/97	£5.00

On-Line

The National Lottery On-Line Game 08/11/94 14/11/94 £5.00

Annual Reports (available from HMSO publications)

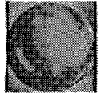
Director General of the National Lottery Annual Report 1993/94	£5.90
Director General of the National Lottery Annual Report 1994/95	£8.25
Director General of the National Lottery Annual Report 1995/96	£21.70
Director General of the National Lottery Annual Report 1996/97	£15.90



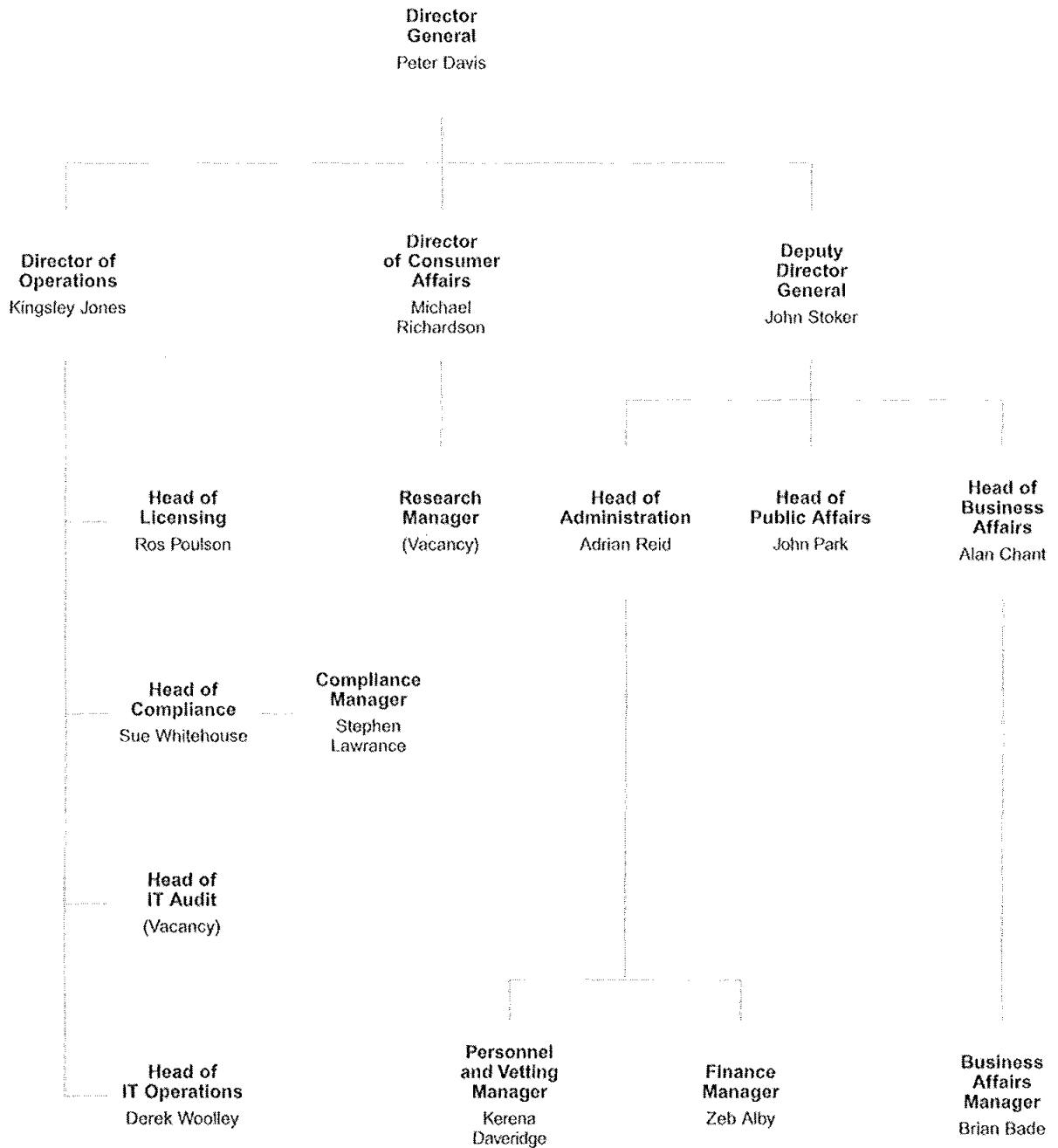
appendix e

Other Publications

Invitation to apply	Free
Procedure for an application for a licence to promote a lottery or lotteries under Section 6 of the National Lottery etc. Act 1993	Free
A guide to the National Lottery	Free
Anonymity Review	Free
Rafferty Report	Free
OFLOT social research programme commissioned 31/1/95 – 31/1/96	Free
OFLOT social research programme commissioned 01/02/96 – 01/06/96	Free
OFLOT social research programme commissioned 01/06/96 – 01/03/97	Free
Under age participation in the National Lottery	Free
Sue Fisher (University of Plymouth) and John Balding (University of Exeter)	



appendix f OFLOT organisation at 28 April 1997





appendix g **recruitment to OFLOT 1996/97**

In accordance with the Civil Service Commissioners' Recruitment Code, the following summarises the recruitment activity in OFLOT during 1996/97:

It is the Department's policy to ensure fair and open competition and selection on merit in all its recruitment exercises for appointments of more than 12 months duration. Internal arrangements seek to ensure that this policy is translated effectively into practice and, moreover, that all selection exercises are conducted in a manner consistent with our equal opportunities policy.

During 1996/97, 11 new staff were appointed, five of these were recruited externally whilst the remainder were recruited from other government departments through inter-departmental trawls. OFLOT made use of the exceptions to the rules on fair and open competition as set out in Part III of the Code for two of the external recruits who were selected for short term appointments of less than 12 months for which the rules of open competition do not apply.



appendix h statement of outturn 1996/97 (unaudited)

Office of the National Lottery

1996-97, Class X, Vote 3

Office of the National Lottery

Summary of outturn, and the Account of the sum expended, in the year ended 31 March 1997, compared with the sum granted, for expenditure by the Office of the National Lottery on capital and administrative costs.

Summary of outturn

Section	Estimated			Actual		
	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
A	2,500	0	2,500	1,898	0	1,898

The surplus of £242,855.77 shown on the Account of Class XI, Vote 3 for the year ended 31 March 1996 has been surrendered.

Note:

The sums shown above for 1996/97 are provisional and subject to final audit by the National Audit Office.



appendix h

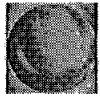
Office of the National Lottery

1996-97, Class X, Vote 3

Account

Service	Grant		Expenditure		1996/97 Expenditure Compared with Grant	
	1996/97	1995/96	1996/97	1995/96	Less than Granted	More than Granted
	£000	£000	£000	£000	£000	£000
A1 Running Costs (net of VAT refunds)	2,396	2,440	1,875	2,061	521	—
A2 Capital Expenditure	104	60	23	205	81	—
GROSS TOTAL	2,500	2,500	1,898	2,266	*602	—

* Actual surplus to be surrendered 1996/97: **£602,041.48**



appendix h

Office of the National Lottery

1996-97, Class X, Vote 3

Receipts

<i>Receipts payable to Consolidated Fund</i>	<i>Estimated</i>	<i>Realised</i>	<i>Realised</i>
	<i>£000</i>	<i>£000</i>	<i>1995/96</i>
			<i>£000</i>
(i) Receipts of classes authorised to be used as Appropriations in Aid	0	0	145
(ii) Receipts of other classes	2,500	1,807	2,192
Gross Total	2,500	1,807	2,337
Appropriated in Aid		0	100
Net Total		1,807	2,237
Actual sum payable separately to Consolidated Fund		£1,806,917.66	

<i>Details of Receipts</i>	<i>Estimated</i>	<i>Realised</i>	<i>Realised</i>
	<i>£000</i>	<i>£000</i>	<i>1994/95</i>
			<i>£000</i>
(i) Receipts of classes authorised to be used as Appropriations in Aid			
Subhead AZ			
VAT refunds in respect of contracted out services	0	0	145
(ii) Receipts of other classes			
Receipts from the operator for licence fees payable under Administration of the National Lottery etc. Act 1993	280	340	260
Receipts from the National Lottery Distribution Fund to cover the administration costs of OFLOT	2,220	1,439	1,928
Miscellaneous receipts	--	28	4
TOTAL	2,500	1,807	2,192

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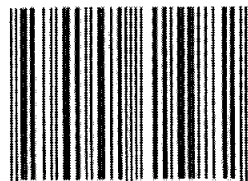
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