

OFFICE OF THE NATIONAL

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**DIRECTOR GENERAL**

**OF THE**

**NATIONAL LOTTERY**

**Annual Report 1994/95**



**THE NATIONAL  
LOTTERY™**



# Director General of the National Lottery

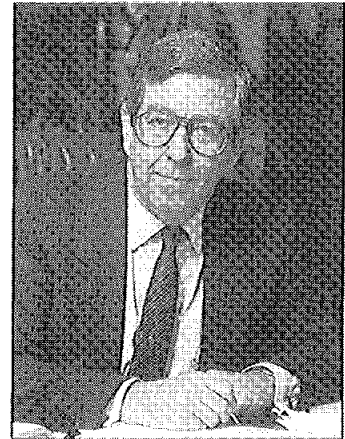
## Annual Report 1994/95

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

*Ordered by The House of Commons to be printed  
16 October 1995*



To the Rt. Hon. Virginia Bottomley JP MP  
Secretary of State for National Heritage



**Peter Davis**

*Report of the Director General of the National Lottery*

I am required by Section 14 of the National Lottery etc. Act 1993 (the Act) to make an Annual Report to you on my activities. This is my second report. Since my first Annual Report was published in November 1994 (HC 672), the National Lottery has become an established part of our national life.

Under the terms of the Act I am required to grant an operating Licence, under Section 5, and then to license, under Section 6, each lottery promoted as part of the National Lottery. The seven year Section 5 Licence was granted to Camelot Group plc (Camelot) on 29 July 1994 and the first Section 6 Licence, for promoting the On-Line game, was granted on 8 November 1994. The National Lottery Game was launched by the Prime Minister at the Tower of London on Monday 14 November 1994. The Section 6 Licence for the first scratchcard game was granted on 17 March 1995 and it was launched as the *Instants* game on 21 March 1995.

One of the reasons for my selection of Camelot was its preparedness for, and commitment to, a November 1994 launch date for the National Lottery. I am pleased to say that Camelot was able to meet this date and almost all of the other targets that were committed in its application for the operating licence. Just under six months elapsed between my announcement of Camelot as the preferred applicant from the eight applications, received in response to the Invitation to Apply, and the launch. This was a remarkable achievement, and all concerned at Camelot, and its suppliers, should be congratulated. I am glad that

I and my staff and advisers were able to play our part by reviewing Camelot's systems and procedures, as the operating licence required, and granting the necessary approvals in time to achieve the launch.

In the first four and a half months of operation to 31 March 1995, National Lottery ticket sales exceeded £1 billion. This generated over £300 million for the Good Causes which benefit from the National Lottery.

This Report describes the steps that I, and my staff in the Office of the National Lottery (OFLOT), have taken to ensure that Camelot operates within the terms of the Licences I have granted and what I have done to follow your Directions to me under the Act.

A handwritten signature in black ink that reads "Peter A Davis". The signature is written in a cursive style with a large, looped initial 'P' and a distinct 'A'.

*Peter A Davis*  
Director General  
16 October 1995

## **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.”





# Annual Report 1994/95

## Contents

1. Review of the Year
2. Regulating the Lottery
3. Ensuring Compliance
4. Protecting Players
5. Informing the Public
6. Administration
7. Conclusion

## Appendices

- A OFLOT Organisation at 31 March 1995
- B Licence Variations
- C Directions to the Director General of the National Lottery
- D Licence Breaches
- E On-Line Game Prize Values
- F Publications
- G Appropriation Account



# 1. Review of the Year

1.1 The year started with my completion of the evaluation of the eight applications for the Licence to operate the National Lottery, to be granted under Section 5 of the Act, and the announcement of my choice of Camelot as the operator of the National Lottery on 25 May 1994.

1.2 The achievement of my staff and my team of professional advisers in enabling me to complete the evaluation of eight high quality applications (twice the number expected) for the Section 5 Licence, within the timetable which I set several months earlier, was considerable and I am most grateful to them. It was particularly pleasing that the results of the evaluation process were kept confidential until my formal announcement of the result. The rigorous discipline and documentation of the evaluation process have attracted favourable comment subsequently, including that contained in a report by the National Audit Office in July 1995.

1.3 The next step was to incorporate the commitments made by Camelot in its application into the Section 5 operating Licence. The main commitments were:

- the number of retail outlets at launch, and their distribution through each local authority area;
- the growth in the number of retail outlets over time;
- the launch date for the National Lottery;
- the percentage of revenue to be paid in prizes in each year of the Licence — a separate percentage in each year but averaging approximately 50% over the period of the Licence;

and most important of all,

- the percentage of revenue payable to the National Lottery Distribution Fund (NLDF) for the Good Causes specified in the Act at each level of revenue in each year. At constant revenue, the percentages are generally higher in later years, and higher for higher tranches of revenue in each year, so that each extra pound of sales revenue generates a larger percentage for the Good Causes.

1.4 One of the features of the financial framework established by the Section 5 Licence is the identity of interests between the licensed operator and the Good Causes. By basing the licence commitments on percentages of turnover at different tranches, I have ensured that both benefit from the success of the National Lottery. The share of turnover payable to the NLDF, however, is estimated to be over five times that of Camelot, which has to pay all the operating costs out of its share. Over the period of the Section 5 Licence the estimated proportions attributable to the various parties are as follows:

	%
Prizes	50
Good Causes	28
Lottery Duty	12
Retailer Commission	5
Camelot Retention	5
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1.5 The Section 5 operating Licence was signed on 29 July 1994. At the formal signing ceremony, the launch date of 14 November 1994 and the new National Lottery Logo were revealed. The Logo is a Registered Trade Mark in the name of the Secretary of State for National Heritage, but controlled by the Director General. This ensures that the Logo is protected and will be available to any operator of the National Lottery in the future. Camelot has the right to use and authorise the use of the Logo for Lottery operational purposes, including ancillary activities during the Section 5 Licence, while the Director General retains the right to it in other respects, and the Secretary of State may authorise its use by those bodies distributing funds for the Good Causes. The Section 5 Licence requires Camelot to inform the Director General of all infringements of the copyright and trade mark licences and to take action as required by the Director General in respect of them. The Logo has proved irresistible to many plagiarists — a mark of its success — and I am still in discussion with Camelot about the extent of policing of relatively minor breaches that I should require. My key aim will be to ensure that the image of the Lottery, as expressed through the Logo, is protected and that the National Lottery's exclusive right to use the Logo in the future is assured.

1.6 Between 29 July 1994 and 31 March 1995, I have made minor variations to the Section 5 Licence to correct anomalies and, in a few cases, minor defects, which have emerged from practical experience in the course of the year. These amendments are set out at *Appendix B*. A thorough review of the Section 5 Licence will be undertaken in 1995/96.

### **Preparations for the Launch of the National Lottery**

1.7 Preparations for the launch of the National Lottery proceeded along the following main tracks.

#### ***Prize Payment Security***

1.8 The Invitation to Apply had required applicants to provide security for prize winners. Camelot had promised to achieve this through a prize trust with independent trustees — already identified as Law Debenture Trust Corporation plc. With my legal advisers I began a process of intense tripartite negotiation with Camelot and Law Debenture to ensure that the detailed trust documents, which required

my approval under Condition 25 of the Licence, adequately protected the prize winners. I had to be sure that money due to National Lottery prize winners was safe under a wide variety of unlikely but possible scenarios, including the possibility of Camelot going into administration or receivership. I am satisfied that the prize trust, into which the money due to players as prizes is paid each week, satisfactorily achieves this aim. The final trust documentation was signed on 12 November 1994.

### ***System Function Proving***

1.9 Camelot's On-Line lottery systems and procedures had to be formally approved by me under Condition 17 of the Licence. The task was a complex one. First, I and my staff discussed the functional specifications of these systems and procedures with Camelot in order to agree them. At all times our objective was to be satisfied that systems and procedures had been designed which ensured that the right sums were collected and paid to the NLDF, that prizes were paid correctly and that National Lottery retailers gave a good service to players. Then started a process of thorough testing of the systems and procedures against the agreed specifications, by an independent tester, also approved by me. Deloitte & Touche, who are experienced in world-wide lottery systems, undertook the testing, following which I was able to approve the implementation of the systems. I gave that approval on 11 November 1994.

### ***Section 6 Licence for the National Lottery Game***

1.10 Before the National Lottery could be launched, the National Lottery Game, which is the On-Line lotto game drawn every Saturday, required a licence. Licences under Section 6 of the Act are granted to the promoters of individual lotteries. Camelot submitted its formal application to promote the National Lottery Game in October 1994 and I and my staff had extensive discussions with Camelot's staff, particularly about the rules of the Game, which would constitute Camelot's contract with players, and were, for players, therefore, possibly the single most important document which I had to approve before launch. My aim was to ensure that the Rules and Procedures amounted to a fair and clear contract, that it should protect players' interests, while at the same time protecting the Lottery against fraud. I am satisfied that I achieved a fair contract. I am less satisfied about its clarity. I believe that the Rules and Procedures could be written more plainly so that they can be more easily understood by the average player and I shall be discussing this with Camelot in the future.

1.11 The Section 6 Licence to promote the On-Line National Lottery Game was granted to Camelot on 8 November 1994.

### ***Player and Advertising Codes***

1.12 The Section 5 Licence required me to approve Camelot's Codes of Practice for Players and for Advertising. In the first, my aim was to

ensure that players could expect a good deal from the operator, and this is described more fully in Chapter 4. In the second, I wished to ensure that the advertising of the National Lottery, in the broadest sense, conformed to accepted notions of good taste, with particular emphasis on the need not to encourage those under 16, who are prohibited from playing the National Lottery.

### *Camelot's Preparations*

1.13 Meanwhile, Camelot was preparing for what is thought to have been the largest consumer product launch in the UK. It is for Camelot to describe its achievement in being ready for the launch within six months of knowing that they had been successful in their application for a licence. I and my staff had regular reports from Camelot on progress (as required by Condition 16 of the Section 5 Licence) and regular meetings with its senior management, to assure me that Camelot was on course to deliver what it had promised, and that the Government's and the Good Causes' expectations were capable of being realised.

### *Launch*

1.14 The first National Lottery draw to be held in the United Kingdom for 168 years took place on Saturday 19 November 1994. The weekly On-Line National Lottery Game attracted £50 million in sales in its first week and nearly 10,000 retailers were on-line — well in excess of Camelot's licence requirements. The launch was widely acclaimed as a success. Camelot did not, however, quite succeed in distributing Lottery retailers throughout the UK. Thirteen local authorities did not have an outlet on 14 November, although, by the first draw on 19 November, the number of authorities without a terminal was down to two. The Licence obligation to have one outlet in each local authority area was achieved by 15 December 1994.

1.15 The National Lottery's successful launch meant that the bodies which distribute the revenue for the Good Causes were able to start receiving applications for grants from 4 January 1995, several months earlier than had been expected. The first National Lottery grants were made in late March 1995: just over a year from the day in February 1994 that applications from the eight bidders for the Section 5 Licence had been received.

### *Instants*

1.16 Almost immediately after the launch of the On-Line National Lottery Game, I turned my attention to the launch of the Instant scratchcard games, which had always formed a key part of Camelot's strategy for raising revenue for the Good Causes. Over the last months of 1994 and the early months of 1995, I and my staff were again engaged in approving the functional specifications for the Instant systems, and discussing the form of the Rules and Procedures for the

Instant games. Deloitte & Touche were again approved by me as the independent tester, and, following receipt of their report on 14 March 1995, I approved the implementation of the new systems and procedures for the Instant games ready for the launch of the first such game, *Instants*, on 21 March. A new Logo for the *Instants* brand was approved, and application was made for its registration alongside the main Logo.

1.17 This launch was less successful than the On-Line game. The volume of transactions generated, when thousands of retailers used their terminals to confirm receipt of their Instant tickets on the morning of the launch, exceeded the system's capacity, causing unacceptable delay in Instant ticket transactions. Instant ticket sales and Instant ticket prize validations were suspended whilst Camelot resolved the problem. Sales of tickets for the On-Line game were not affected. Camelot restarted Instant game services to retailers the following day. I required Camelot to publish an explanation and an apology. In fact, by the time its advertisement appeared, the problem had been solved. After this initial setback, scratchcards appear to have succeeded without making a material difference to the sales of the On-Line game.

#### **Anonymity**

1.18 Intense interest in the identity of the winner of the £17.8 million Jackpot, the first rollover, drawn on 10 December 1994 caused widespread concern that:

- (a) the press had harassed the winner and his family; and
- (b) Camelot had behaved improperly and had helped the press to discover the winner's identity.

The Press Complaints Commission investigated the issues relating to press behaviour and I carried out an investigation into the allegations concerning Camelot. I published my findings on 3 April 1995. I found no evidence that Camelot had failed to act in the best interests of the winner or had acted in breach of its Licence. I did, however, ask Camelot to review a number of its procedures for dealing with major prize winners.

#### **National Heritage Select Committee**

1.19 The National Heritage Select Committee of the House of Commons carried out a short enquiry in early 1995 into the "initial operation of the lottery process and the position with regard to the anonymity of winners". Camelot gave oral evidence to the Committee on 11 January 1995. The Committee's report (HC131) was published on 26 January 1995.

## 2. Regulating the Lottery

### Introduction

2.1 Under the Act it is my function to licence both the National Lottery operator, under Section 5, and the promoters of individual lotteries which form part of the National Lottery, under Section 6. In exercising my licensing powers, I must ensure that I comply with my statutory objectives, as laid down in Section 4 of the Act, namely that;

- the National Lottery shall be run with all due propriety;
- the interests of the participants shall be protected; and
- subject to these, the net proceeds of the National Lottery for the Good Causes shall be as great as possible.

I must also follow the Directions given to me by the Secretary of State for National Heritage on 16 December 1993. These Directions are reproduced at *Appendix C*.

2.2 In the year to 31 March 1995, I granted three Licences, all to Camelot: the Section 5 Licence to run the National Lottery, on 29 July 1994; the Section 6 Licence to promote the National Lottery Game, on 8 November 1994; and the Section 6 Licence to promote the scratchcard *Instants* game, on 17 March 1995.

### Section 5 Licence

2.3 The Section 5 Licence was awarded on a competitive basis. Applications were evaluated to see which applicant was most likely to run the National Lottery in accordance with the statutory objectives set out in Section 4 of the Act.

2.4 In addition, I took into account, as the Directions required, the proposed location of the main operational premises of each applicant. In fact, this was not a significant determinant of the successful applicant, since consideration of the factors which were more directly related to my statutory duties led to a clear decision in favour of Camelot. Inter alia, it offered the greatest contribution to the Good Causes over a wide range of revenue scenarios, and retained the lowest percentage of turnover to cover its operating costs and profit.

2.5 There has been widespread speculation about the reasons why The Lottery Foundation's consortium, led by Mr Richard Branson, which offered to pay its profits to charity, was not chosen. In evaluating bids, I looked extensively at financial matters, notably the value of contributions to the Good Causes chosen by Parliament, the value of prizes to be paid to players and the value of the amounts to be retained by the operator for operating costs and profit. I also assessed other factors, e.g. the applicants' financial strength and state of readiness to



launch the Lottery, their management structure and experience, marketing and game plans, and their computer systems. The Lottery Foundation's contribution to the Good Causes chosen by Parliament was lower than Camelot's over a wide range of revenue scenarios, including the scenario that The Lottery Foundation itself put forward as its principal forecast. More would have been kept by The Lottery Foundation for operating costs and profit than Camelot proposed over the same range of scenarios. Under the framework for the National Lottery set out in the Act, the operator's corporate profit, which The Lottery Foundation intended to covenant to charity, could not properly have been taken into account in the calculation of the contribution to the Good Causes.

2.6 The Section 5 Licence is a public document, available (price £25) from my Office.

### **Section 6 Licences**

2.7 Section 6 Licences may be granted to bodies corporate other than the Section 5 operator. In fact no applications for Section 6 Licences were received except from Camelot. It submitted an application to promote the National Lottery Game in October 1994. The Licence was granted on 8 November 1994.

2.8 Camelot applied to promote the first scratchcard game, *Instants*, in February 1995. On 17 March 1995, I granted a Licence under Section 6.

2.9 These Section 6 Licences are public documents, available (price £6) from my Office.

### **Directions**

2.10 I have undertaken my licensing activity in accordance with my statutory objectives, and in accordance with the Directions given to me by the Secretary of State, as set out in paragraphs 2.11 to 2.19.

### ***Types of Lottery***

2.11 Paragraph 2 of the Directions prohibits lotteries which in my opinion encourage persons to participate excessively. In considering the lotteries which I have licensed so far, I took account of experience world wide. National and state lotteries around the world run On-Line lotto games, often much more frequently than in this country, and also promote scratchcard lotteries. In addition, there has been a market for scratchcards in this country, run mainly by newspapers and charities, for example, for some two decades or more. No evidence had emerged from this experience to suggest a material change in the level of addictive gambling behaviour as a result. I also took account of the fact that both types of game had been envisaged before I was appointed, and had not been ruled out when the Secretary of State gave me the Direction. In addition, all eight applicants for the Section 5 Licence

proposed a combination of On-Line and scratchcard games. I shall, however, be keeping the position closely under review, as knowledge of the impact of scratchcards develops, and particularly in the light of more recent adverse comments about problems which may be caused by Instant games.

2.12 Paragraph 2 of the Directions also prohibits lotteries which do not allow for sufficient controls to prevent those who are under 16 years of age from playing. It is a criminal offence to sell a Lottery ticket to anyone who is under that age. I have only licensed lotteries where there can be control over who buys a ticket, since they are sold either by retailers over the counter, or by Camelot by subscription to those who sign a declaration that they are over 16. I have also assured myself that Camelot monitors its retailers, and that its agreement with them enables it to terminate the contract with any retailer who sells to children. The rules which I have approved for the games make clear that a purchase by an under 16 year old is not a valid purchase, and so gives no entitlement to a prize. This is also an area which I shall keep under review.

2.13 I am also prohibited by this paragraph from licensing a lottery involving interactive lottery machines. I have not done so.

#### ***Limit on Ticket Prices***

2.14 Paragraph 3 of the Directions requires me to ensure that ticket prices are, in my opinion, reasonable. The Section 6 Licence for each game states the ticket price. In the year to 31 March 1995, I licensed games with a ticket price of £1. I would not rule out licensing ticket prices of £2 or more if the game, and in particular the prize structure, justified it. I would not, however, expect prices of more than £1 to become the norm, in the foreseeable future.

#### ***Limit on Rollover***

2.15 Paragraph 4 of the Directions limits rollover to three consecutive draws. I have ensured that the game rules and procedures for the On-Line game prevent a fourth rollover. In the unlikely event that there is no Jackpot winner on the fourth draw, the prize money is to be shared by the winners of the next prize tier down.

#### ***Proposed Location of National Lottery Operations***

2.16 Paragraph 5 of the Directions applied only to the process of choosing the Section 5 operator, and I have dealt with it in paragraph 2.4 above.

#### ***Unclaimed Prizes***

2.17 Paragraph 6 of the Directions requires me to ensure that players have a reasonable period in which to claim prizes they have won. The Section 6 Licences I have granted allow a period of 180 days. In the case

of the On-Line game the period runs from the relevant draw. On Instant games, since Camelot cannot tell when a ticket has been scratched, the period runs from the announced withdrawal of the game, after which it will be impossible to purchase a valid ticket. The first unclaimed prize period expired in May 1995. In order to satisfy myself that the 180 day period is indeed a reasonable one, I shall need to review experience in the course of the next year or so. Meanwhile, I am satisfied that the period is in line with normal practice in the lottery industry.

2.18 The Directions require me to ensure that unclaimed prizes are paid to the Good Causes. The Section 5 Licence requires any such prizes to be paid to the NLDF, when the claim period expires.

### ***Further Conditions in Licences***

2.19 Paragraph 7 of the Directions requires me to include various conditions in the Licences I grant. Conditions 6, 8, 10, 12 and 22 of the Section 5 Licence include the necessary conditions.

### **Licence Breaches**

2.20 *Appendix D* lists Licence breaches by Camelot, which were noted in the period to 31 March 1995. Minor or technical breaches may be expected, given the lack of experience in operating the Licence (on both sides). There have, however, been two significant breaches. I have already mentioned in my review of the year that Camelot did not quite manage to meet its Licence obligations in respect of the distribution of Lottery outlets at the time of the launch of the On-Line game on 14 November 1994. This was a breach of the Section 5 Licence. The position was quickly rectified.

2.21 A second breach occurred just before the launch of the *Instants* scratchcard game. Camelot is not permitted to use any lottery systems for a live lottery until I am satisfied that they work properly, in accordance with the functional specification which I have approved. Camelot, however, started to load live data for its first scratchcard game before I had given my formal approval to implementation of the Instant lottery systems. I considered whether to use my powers under the Act to prevent Camelot proceeding to use that data, thus delaying the launch of the game. I concluded that this was unnecessary. The suite of programmes used to load this data had been tested by Deloitte & Touche, the independent tester. All that had been lacking had been my formal sign off. To insist that Camelot repeated the procedure after my formal sign off, would have delayed the launch of the *Instants* game, possibly for a week, or more, to the detriment of the Good Causes. Although there was some risk that subsequent changes to associated programmes might have created a defect, I judged that the risk was a reasonable commercial one, and therefore did not insist on a re-start.

2.22 The difficulties experienced on the first day of sale of *Instants* had nothing to do with the premature loading of the game.

2.23 Under Section 9 of the Act, where I have reason to believe that a breach of the Licence is about to be committed, or has been committed, I can seek an injunction in the High Court — to prevent the licence breach, or to remedy the breach, as the case may require. By virtue of Section 10 of the Act, I can revoke a Licence if a condition in it has been contravened.

2.24 In neither case did these remedies seem to me to be appropriate.

### **Fit and Proper Enquiries**

2.25 Sections 5 and 6 of the Act place upon me the responsibility to satisfy myself that those who appear likely to manage the business or part of the business of running the National Lottery or for whose benefit the business would be carried on are “fit and proper” persons for their proposed role.

2.26 As part of the evaluation of applications for the operating Licence, I developed procedures whereby both companies and individuals involved in a proposed key role relating to a potential licence submitted to me in confidence a detailed declaration of information about themselves. The Vetting Division within OFLOT checked the information received with law enforcement and other agencies, government departments, regulatory bodies and other relevant organisations both in this country and overseas. Enquiries were regularly made of up to 15 different bodies in this country. As a result I was able to assess whether those involved were “fit and proper” for their proposed role in connection with the National Lottery.

2.27 In connection with the evaluation of applications I undertook vetting procedures on some 1,300 individuals and 230 companies. I am most grateful to the various agencies involved which provided me with confirmation or otherwise of the information included in individual declarations.

2.28 Between the selection of Camelot as the proposed operator of the National Lottery on 25 May 1994 and 31 March 1995, my vetting enquiries concentrated on Camelot’s key officials and employees and those of its main suppliers. I carried out checks on a further 871 individuals and 30 companies. I have developed a regular programme for the updating of the relevant information and the re-vetting of relevant officials.

2.29 The process has been conducted with the utmost confidentiality. I have devised procedures for handling the on-going flow of information in a confidential manner and have now destroyed the declarations submitted to me by unsuccessful applicants.

2.30 There have been very few instances in which I have had to conclude that an individual was not “fit and proper”. In all such cases I have given the individual concerned an opportunity to discuss

the situation with me before reaching a final conclusion. Camelot's co-operation in helping me to obtain the necessary information and implement the process has been important.

## 3. Ensuring Compliance

### Objectives

3.1 An important element of meeting my statutory objectives is checking that the operator, Camelot, and any independent promoters, comply with the Licences which I have granted and with the Codes of Practice and the functional specifications which I have approved. This protects players, ensures that the Lottery is run properly, and builds and maintains public confidence in the National Lottery throughout the period of the Licence.

3.2 Through the work of the Compliance Division I can confirm, using audit and information technology expertise, my own observations and judgements about propriety. Reviews of Camelot's publications for players indicate, for example, that participants are getting the right game information, as required by the Licences. Most importantly, close monitoring of the amounts paid to the NLDF assures me that Camelot is satisfying its key licence commitments in relation to the Good Causes.

### Overview of 1994/95 Compliance Division Activity

3.3 1994/95 was an atypical year as Camelot established the National Lottery. Compliance Division expended considerable time and effort in the Autumn of 1994 in agreeing the procedures, controls and systems that were to be used by Camelot, Law Debenture Trust Corporation plc and the NLDF for secure operations and for the proper recording of lottery activities. I have described the process of system function proving in Chapter 1. Meanwhile OFLOT was building the Compliance team and devising a work programme in preparation for the long term, regular compliance work that would follow launches of the On-Line and Instant games.

3.4 I established the structure of the Compliance Division in the Summer of 1994 to reflect the three main elements of my regulatory duty:

- ensuring due propriety, in particular reviewing the overall probity of the licensee's operations;
- protecting players, in particular scrutinising the computer processing of wagering and prize payment but also checking that game information is available to players where required by the Licence; and
- maximising revenue to the Good Causes, in particular monitoring the secure and timely transfer of large sums to the NLDF for the Good Causes as well as to trust funds held on behalf of players as advance plays or as prizes.

3.5 I recruited senior staff with experience and qualifications in accountancy and auditing, information technology and network communications, and treasury administration. Their initial tasks in the period before the launch were to consider issues which would ensure that complete and accurate transaction processing was achieved from the start of ticket sales. Following the launch, further staff were recruited and there are currently nine staff in the Compliance Division. The tasks undertaken in the period to 31 March 1995 were aimed at particular risk areas. Post draw game balancing of the On-Line wagers is one example. The medium term programme of compliance work will amount to a complete review of all Camelot's operations over the first full year of operation of the National Lottery.

3.6 It is important that the skills of the OFLOT staff continue to develop in order to be able to deal with the changes in the operation of the National Lottery brought about by game developments or advances in information technology.

### **Work Programmes**

3.7 I have drawn up a complete list of Licence Conditions, Directions and Regulations, Codes of Practice, Game Rules and other relevant rules. This has been incorporated into a comprehensive table or matrix showing how compliance work is undertaken in accordance with some 20 individual work programmes, each covering a specific area of Camelot's operations, and ensuring that any licence breaches are brought to my attention. The plan sets out how often checks will be made to achieve the correct balance of efficiency, effectiveness and economy of resources. I have paid particular attention to the control of changes to the systems and procedures approved at launch so that the agreed functionality is not eroded over time.

3.8 Routine compliance work is now carried out in accordance with detailed tests set out in the work programmes. These programmes assist in the planning of the work which has to be undertaken in each area of lottery operation and at the same time provide a permanent record of the audit tests carried out. By cross-referencing the work programmes to, for example, licence conditions, it is possible to cover every important aspect of regulation and control of Camelot's operation. Work programmes enable compliance activity to be organised, delegated and managed effectively. Compliance assignments in future years will benefit from our initial commitment to creating comprehensive work programmes.

### **Examples of Compliance Work**

3.9 Each week amounts due to winners out of net receipts are transferred from retailers to a trust fund independently managed by Law Debenture Trust Corporation plc. The balance of trust funds at any time is held to provide security for prize liabilities to players of Instant and On-Line games, and monies paid for advance ticket

purchases, in the event of Camelot's failure. The funds are deposited only with reputable banks and are designed to assure that the Lottery participants are fully protected. Transfers to the trust and reimbursement of amounts to Camelot are monitored by OFLOT Compliance Division staff who have access to the system of Camelot's principal bankers through enquiry screens at Camelot's offices.

3.10 A similar detailed monitoring process covers amounts held securely in independent trust accounts that represent future weeks' wagers.

### **National Lottery Distribution Fund**

3.11 The ticket sales payment to NLDF in the period to 31 March 1995 amounted to over £300m. The sums paid each week were calculated in accordance with formulae and procedures set out in the Section 5 Licence. The formulae require higher percentages of revenue to be collected as total income increases through a series of tranches or bands. The procedures require weekly payment during the year to be based on forecast revenue for the period to 31 March. This forecast is reviewed from time to time by Camelot and agreed with OFLOT. Payments are adjusted after the year end so that they are based on actual sales.

3.12 Compliance Division also checks amounts payable to NLDF from relevant ancillary activities of the Licensee in the year under review — mainly the income received from the BBC in respect of the sale of broadcasting rights for the weekly Lottery draw.

3.13 Compliance Division operates a stand-alone DEC computer installation with the Independent Control System (ICS) software in a secure computer suite at Camelot's offices. Data from the primary Camelot lottery gaming system is copied to tape at the close of each day's processing and shortly before the start of the On-Line draw each Saturday. Each tape is handed to OFLOT before the draw for that week takes place. Reports from processing ICS tapes are compared and balanced with Camelot's primary gaming system reports, to ensure a full declaration in number and value of wagers. Later reports reflect the winning draw numbers and prizes are agreed by tier and by numbers of winners. Similar accounting reconciliation procedures take place for Instant game sales and prizes. In this way the integrity of the data and with it the propriety of the National Lottery games are protected by the Compliance Division.

3.14 Work programmes were developed and used for visits to retail outlets in the year. Over 290 retail locations were visited in March, and OFLOT Compliance Division staff sought assurances from shop owners or their staff that player information was available and that the security and performance standards of equipment were satisfactory. These assurances were verified by OFLOT's own observations and checks.



3.15 Other compliance work provided assurance about distribution of Jackpot winners and the compliance with prize payment procedures by Camelot and also about draw equipment selection.

#### **Issues for the Future**

3.16 Some increase in Compliance Division staff is planned during 1995/96. If Camelot can sustain its high standards of achievement in the first five months of lottery operations, however, the resources engaged in compliance work can be kept to a minimum. The report of Price Waterhouse, the statutory auditors of Camelot, on the Report and Accounts to 31 March 1995, gave no cause for concern.

3.17 I am determined that the Compliance Division's work will continue to be characterised by high quality work programmes and reports, underpinned by good working systems, so that it can provide a secure base for my continuing supervision of Camelot.

## **4. Protecting Players**

### **Camelot's Contract with Players**

4.1 I and my staff have worked closely with Camelot to define the company's relationship with its players. We have taken care to ensure that a proper balance is achieved between the legitimate rights of the consumer and the legal protection essential to any promoter of a major lottery.

4.2 The terms of that relationship are defined in the Rules agreed for the On-Line draw game and for the scratchcard games, the Procedures which define the mechanics for each game (including the full prize structure, and eligibility to win the stated prizes), and the Player Code of Practice, which sets out the services which Camelot will provide. Camelot provides all three types of documentation in Welsh as well as English, and has agreed to keep under review the possibility that translations in Asian languages should be made available. Demand for the Welsh versions has so far been very low.

### **Access to Information**

4.3 Under the terms of both its operating Licence and the Licences to promote individual games, I have required Camelot to make available to players certain key information. The terms in which those requirements have been expressed have allowed me and Camelot some flexibility to modify the level of detail and the method by which information is disseminated.

### **The Draw Game**

4.4 As a result of some initial concern about the need for commercial confidentiality, Camelot did not disclose full details of how the prize amounts for each week's draw game were calculated, since this information necessarily included the precise value of tickets sold. I am hopeful that Camelot will be able to make this information more readily available than at present.

4.5 The odds of winning each prize category and the likely amount of each prize were specified in Camelot's How to Play leaflet available at retail outlets from the launch of the draw game.

### **Scratchcard Games**

4.6 Information requirements for the scratchcard games are rather different. Here I have required that, where possible, Camelot should make available full details of the value and quantity of each prize contained in each game, effectively an itemised list of the contents of the bran tub. I believe that National Lottery players should, if they so wish, be able to make an informed decision when choosing which games

to buy. Space constraints on the ticket have caused Camelot to display this information on Game Information leaflets available from all retail outlets.

4.7 I and my staff have been concerned that promotional material, in particular the tickets themselves, should not mislead. This work will take on more importance as Camelot continues to develop more complex variations of the basic game themes. For example some scratchcard games offer multiple chances to play. In the absence of contrary information a player might reasonably expect that each chance to play offers an equal and independent chance to win. In some cases this will be true, in other cases combinations of wins may be limited or even prevented by design. In these cases it is important that players are not misled.

### **The National Lottery Line**

4.8 Camelot operates an information service for players, known as the National Lottery Line (*Tel: 0645 100000*). The service offers a wide range of information including details of winning numbers and prize amounts, guidance on how to take part in National Lottery games, how to form a group to play the Lottery, and how to claim a prize. The service also handles complaints about the National Lottery. The service received more than 925,800 calls in the period from 14 November 1994 to 1 April 1995. Most were handled satisfactorily, although from time to time the service was overwhelmed by the volume of calls during the peak Saturday evening period. That problem was overcome by a combination of extra phone lines and reduced demand as players discovered other means of accessing information about winning numbers and prize amounts. It seems unlikely that the service will ever be able to meet demand should most of the 50,000 people who typically win one of the variable prizes in the National Lottery draw each week choose to call the service during Saturday evening. For this reason I am keen that Camelot should pursue other additional options for disseminating this information; the electronic media being one of several possible options.

4.9 The volume of recorded complaints has been low, though in the critical area of disputed prize claims Camelot has had difficulty providing my Office with robust statistics. The few recorded complaints have generally concerned performance by retailers and may reflect unfamiliarity with the quality of service which Camelot has undertaken to provide.

### **Jackpot Size**

4.10 Some concern was expressed about the size of the Jackpot for the draw game; on four occasions during the period to 31 March 1995, a Jackpot pool in excess of £8 million pounds was won by a single entry (one of these included a sum rolled over from the previous draw). The prize structure defined in the Licence which I granted was designed to

deliver a typical individual Jackpot win of about £2 million. If the total Jackpot is worth about £8 million (as it generally is when 60 million £1 entries are purchased) one should expect about four entries to share it. See *Appendix E* for further details.

4.11 During the period covered by this report the average individual Jackpot win was in fact only £860,000 although this average was heavily weighted by the unusually large number of people (133) who shared the Jackpot on 14 January 1995. Variations from the statistical norm have arisen because a significant proportion of the 14 million different permutations in which six numbers may be selected from 49 are chosen by only one player or by none at all, and conversely because a small number of permutations attract a disproportionately large number of entries. As a consequence the Jackpot has been won by one person or by none at all (and therefore rolled over) in 10 of the 19 draws which were made in the period to 31 March 1995. These effects may change as players become more experienced and more adventurous with their choice of numbers. The growing popularity of syndicates will also cause individual wins to be shared more frequently. Camelot's research indicates that, during the period covered by the report, at least 12 of the Jackpot winning tickets were shared purchases by syndicates.

#### **Excessive Expenditure on National Lottery tickets**

4.12 The introduction of the United Kingdom's first National Lottery for over 150 years has given rise to some concerns about a possible increase in the prevalence of gambling addiction. Much of the concern has centred on the possibility that the introduction of the National Lottery will influence a liberalisation of the gaming market in general. While I recognise that concern, it is not a matter for my Office. With the potential problem of addiction to National Lottery Games in mind, I was directed by the Secretary of State that I should not license games which in my opinion encourage people to participate excessively. During the period covered by this report, I started to assess the scope and nature of any research which I should commission to inform my opinion. I shall report on the outcome of this research in my next Annual Report.

4.13 In the meantime Camelot's market research continued to suggest that most players spend only modest sums on National Lottery tickets, and the differences between socio-economic groups and regions are fairly small. The enormous early success of the National Lottery in raising funds for the Good Causes has been based primarily upon the broad popular appeal of the games.

## 5. Informing the Public

5.1 An important part of my work is ensuring that the public is aware of my role, so that they can address any concerns about the operation of the National Lottery to me, and I can consider the points they make. This is the responsibility of the Public Affairs section of my office. The selection and announcement of Camelot as the National Lottery operator and the subsequent launch of the National Lottery in November 1994 were the main Public Affairs activities of the year.

5.2 Due to the price sensitivity of the identity of the successful applicant I took elaborate precautions to ensure that no details of my decision were known outside a small number of my staff in advance of the announcement on Wednesday 25 May 1994. Ten minutes before the announcement, I informed all eight applicants by fax of my decision to appoint Camelot as the Section 5 Licensee. I also informed the Stock Exchange. Only after confirmation that all this had taken place did I announce my decision, and some of the reasons for it, to a well attended Press Conference. I told journalists that Camelot was chosen because it was clear from the evaluation of the applications for the operating Licence that it offered the best deal for the Good Causes, as chosen by Parliament, and kept the least for itself of all the potential licensees.

5.3 Due to the large amount of Parliamentary interest in the matter I wrote to all Members of Parliament informing them of my decision and providing some background material on Camelot's proposed structure for the National Lottery.

5.4 Between April 1994 and March 1995 I wrote to 115 MPs in response to specific letters or Parliamentary Questions about the operation of the National Lottery.

5.5 The Public Affairs section of my Office dealt with a wide range of requests for information on the running of the National Lottery. Requests came from the public, academics and members of the business community. A list of publications produced by OFLOT is included at *Appendix F*.

5.6 During the year I met several Lottery Regulators and Lottery Directors from around the world. I visited a number of Lotteries overseas including Ireland and the Netherlands in Europe and the Texas, Florida, Georgia, New York and Massachusetts State Lotteries in the United States.

5.7 I also accepted more than a dozen invitations for speaking engagements from groups interested in the development of the National Lottery in the United Kingdom. These ranged from charities to other European gaming regulators. I held discussions with the Gaming Board which regulates charity and local authority lotteries in the UK. I and

my staff met representatives from the National Council on Gambling and Gamblers Anonymous.

5.8 I met representatives or associates of actual or proposed lotteries from Australia, Germany, Thailand, Taiwan and South Africa.

5.9 Awareness of OFLOT amongst the general public is still low, possibly because lottery players have little cause for dissatisfaction with Camelot's handling of any complaints.

## 6. Administration

6.1 Under powers granted by the Act, and subject to Treasury approval, I am able to appoint such staff as are necessary to assist me in carrying out my duties. These staff constitute OFLOT, which is classified as a non-Ministerial Government Department.

6.2 Parliamentary Questions to the Secretary of State for National Heritage about my responsibilities are referred to me. I reply directly by letter to the MP or Peer concerned and a copy is placed in the Library of the House.

6.3 As a Government Department, OFLOT is funded from the Parliamentary Vote Supply and its annual provision is cash limited. It accounts for the grant from Parliament through the Vote accounting system. The accounts are audited by the National Audit Office and OFLOT is subject to the scrutiny of the Comptroller and Auditor General under the powers granted to him to conduct value for money studies in accordance with sections 6 and 7 of the National Audit Office Act 1983. For public expenditure survey negotiations the Department is linked with the Department of National Heritage. In the 1994/95 Supply Estimates OFLOT was allocated £2.5 million and a further £500,000 was sought in the Spring Supplementary Estimates to cover additional expenditure which the Department of National Heritage had not foreseen at the time of the original bid for the 1993/94 Public Expenditure round.

6.4 OFLOT's Appropriation Account 1994/95 is set out at *Appendix G*.

6.5 The administrative costs of OFLOT (net of Licence fees received) are recoverable from the NLDF. Licence fees are charged to applicants for Section 5 Licences (£70,000) and Section 6 Licences (£20,000). In 1994/95 £110,000 was paid by Camelot for one Section 5 Licence and two Section 6 Licences.

6.6 There were 28 people, including agency staff, working for the Department at the end of March 1995 and I envisage that this may rise to around 40 by March 1996. An organisation chart is at *Appendix A*. All employees are civil servants, of whom about 40% are on loan from other departments and the remainder have been directly recruited. The early part of the year was spent establishing the essential framework for the Department, including an organisation structure, staffing requirements and personnel and finance strategies, policies and procedures. Inevitably we have learned a great deal during the year about the process of regulating a lottery and some fine tuning of our organisation will be required to reflect changing needs. I will, therefore, be reviewing our structure and business processes during the coming year as part of our preparations for the delegation of pay and grading responsibility in April 1996.

6.7 OFLOT monitors its performance in paying suppliers and, in line with the Government's policy, publishes the result. As already announced, in the year ending 30 March 1995, OFLOT paid 50% of its bills within agreed credit periods. Payment for bills not paid within that time was, in most cases, made within one or two days of the relevant credit period. Delays were due to a combination of factors, including very short credit periods with some important suppliers, problems with the external accounting service and postal delays. A new accounting supplier has been appointed, and other improvements made, and payment performance is now good.

6.8 Many of our support services including payroll, training and accounting, and office services such as cleaning and security have been contracted out either to private sector suppliers or to other departments through competitive tendering. This leaves us free to concentrate on our core internal services.

6.9 An important part of building a cohesive and effective organisation is developing a common understanding of our aims, objectives and values. The first important step was agreeing a departmental mission statement following discussion and consultation with everyone in OFLOT. It is our intention to ensure this statement of our vision and values is fully reflected in the way we manage the Department and its activities.

6.10 In the early part of the year, while the Department was establishing itself, we occupied temporary accommodation in the Department of National Heritage's Grove House premises and I am grateful to them for their assistance. After a further period in leased accommodation, we finally moved to our permanent offices in 2 Monck Street, London, SW1 in February 1995 where the majority of our people are now based. This move has helped to consolidate our progress along the road of establishing a fully functioning organisation with the people, skills and infrastructure required to regulate the National Lottery effectively.



## 7. Conclusion

7.1. The year 1994/95 was the first full year of OFLOT's life. It was dominated by the often hectic demands of launching a huge new enterprise, on time, in good order, and in such a way as to ensure the probity of the operation and the protection of its players. I look back on a successful year.

7.2 No one could have guessed just how successful the National Lottery would be. For millions of people across the United Kingdom it has become a major weekly event, and it has also generated enormous sums for the Good Causes.

7.3 The vast majority of people treat the National Lottery as a huge amount of fun which benefits many.

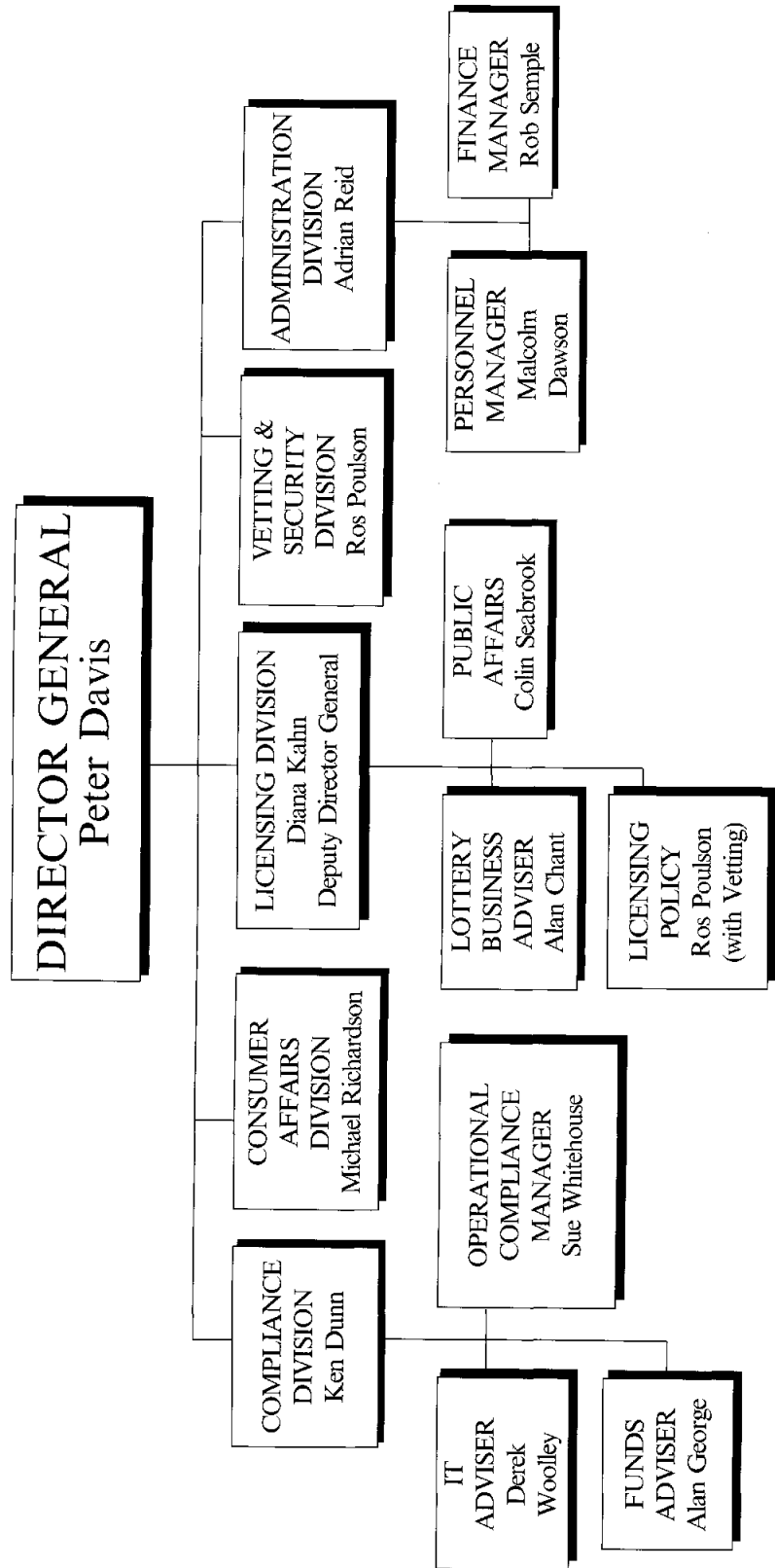
7.4 In 1995/96, OFLOT's business will be managing the day to day regulation of the Lottery and ensuring compliance with the various rules, while meeting the demands placed upon it by the Civil Service White Paper in establishing pay and grading systems, and taking on board the other delegations of functions previously exercised from the centre.

7.5 I shall report on these matters in my next report.

7.6 Finally, I would like to thank everyone — the people here at OFLOT, at the Department of National Heritage and at Camelot as well as my external advisers — who have worked so hard to make the UK National Lottery the biggest, and I hope the best, in the world.

# Appendix A

## OFLOT Organisation at 31 March 1995



# Appendix B

## Licence Variations in Year to 31 March 1995

### Condition 2(5)

Varied on 10 November 1994 in recognition of the possibility of changes in local authority boundaries.

### Condition 7

Varied on 17 March 1995 to take account of the introduction of the *Instants* logo.

### Condition 17

Varied on 10 November 1994 to give flexibility in the methods to be employed in the testing of systems and services, and to allow the Director General to approve implementation of a system or service which does not conform to its functional specification in every respect.

### Condition 25(9)

New provision introduced on 11 November 1994 to ensure that the investment of money collected from retailers cannot prejudice the payment when due of monies owed to the NLDF and the prize trust.

### Schedule 2

Varied on 17 March 1995 to clarify the calculation of the prize total in respect of Instant games.

### Schedules 5 and 6

Varied on 17 March 1995 to include new agreements relating to the National Lottery Logo trademarks.

# Appendix C

## Directions to the Director General of the National Lottery under Section 11 of the National Lottery etc. Act 1993

The Secretary of State, in exercise of the powers conferred on him by section 11 of the National Lottery etc. Act 1993, hereby gives the following directions to the Director General of the National Lottery:

### Interpretation

1. In these directions—

“**the Act**” means the National Lottery etc. Act 1993;

“**constituent lottery**” means a lottery which forms part of the National Lottery;

“**the Director General**” means the Director General of the National Lottery; and

“**licensee**” means any person who holds a licence under either section 5 or section 6 of the Act.

### Types of Lottery

2.(1) The Director General shall exercise his functions under section 5 and 6 of the Act in such a manner as to ensure that no licence is granted which authorises the promotion of any lottery or lotteries of any description which:

- (a) in the opinion of the Director General encourage persons to participate excessively in such lotteries; or
- (b) do not allow for sufficient controls to prevent persons who have not attained the age of 16 years from participating in such lotteries.

(2) Without prejudice to the generality of sub-paragraph (1)(a) above the Director General shall exercise his functions under sections 5 and 6 of the Act in such a manner as to ensure that no licence is granted which authorises the promotion of any lottery in which persons may participate by means of lottery machines which involve interaction with the participant.

### **Limit on ticket prices**

3. The Director General shall exercise his functions under sections 5 and 6 of the Act in such a manner as to ensure that no licence is granted which authorises the promotion of a lottery, the price of tickets for which is, in the opinion of the Director General, unreasonably high.

### **Limit on rollover**

4.(1) The Director General shall exercise his functions under sections 5 and 6 of the Act in such a manner as to ensure that no licence is granted which authorises the promotion of a lottery the rules of which permit money to be rolled over if money has been rolled over to that lottery from three previous lotteries.

(2) In paragraph (1) above “to roll over” in relation to any sum of money means to carry forward an amount of money from one lottery equivalent to a prize which has not been won in that lottery to a subsequent lottery so that that amount is available to be paid in a prize or prizes in that subsequent lottery.

### **Proposed location of National Lottery operations**

5. The Director General shall, consistently with his duties under section 4 of the Act, when exercising his powers under section 5 of the Act take into account the proposed location of the main operational premises of each applicant for a licence under section 5 of the Act.

### **Unclaimed prizes**

6. The Director General shall
- (a) exercise his functions under sections 5 and 6 of the Act in such a manner as to ensure that the rules of every constituent lottery provide a period for claiming prizes which in the opinion of the Director General is reasonable in order to allow a claim for a prize to be made.
  - (b) exercise his powers under section 5 of the Act to include a condition in the licence granted under section 5 of the Act which provides that all prizes which have not been claimed in accordance with the rules of the relevant lottery are paid to the Secretary of State.

### **Further conditions in licences**

7. The Director General shall exercise his powers under section 7 of the Act to include conditions in the licence granted under section 5 of the Act or, as appropriate in licences granted under section 6 of the Act, which have the following effects—

- (a) that the Director General and any persons authorised by him will have the power to inspect all forms of records held by—
  - (i) any licensee or

- (ii) any contractor of any licensee who in the opinion of the Director General is significant;
- (b) that the Director General will have the power to approve any party to a contract with any licensee where in the opinion of the Director General the contract is significant;
- (c) that information to participants as to whether they have won a prize in any constituent lottery is available without the participant making any payment to the licensee and without undue inconvenience to the participant;
- (d) that a licensee secures that no tickets in a constituent lottery are given away free or sold for less than the full price payable in accordance with the rules of the relevant constituent lottery (whether in connection with the advertisement or marketing of the National Lottery or any constituent lottery or otherwise) unless payment has been made—
  - (i) to the licensee; or
  - (ii) to any relevant licensee under section 6 of the Act (where the condition is contained in the licence under section 5 of the Act) or to the licensee under section 5 of the Act (where the condition is contained in a licence under section 6 of the Act);
 by a party which is not a subsidiary of any of them or in any way funded by any of them;
- (e) that the identity of any person who has won a prize in a constituent lottery shall not be disclosed without the consent of that person; and
- (f) that information as to the percentages of the National Lottery Distribution Fund which are allocated for the matters referred to in paragraphs (a) to (e) of section 22(3) of the Act as it has effect from time to time is available at places where tickets in constituent lotteries are sold.

Signed by authority of the  
Secretary of State

16 December 1993

*Sally Booth*

A Grade 5 Officer in the  
Department of National Heritage

# Appendix D

## Licence Breaches Noted in the Year to 31 March 1995

### SECTION 5 LICENCE

#### Condition breached

2 (4)

Thirteen local authority areas did not have On-Line facilities on the day of the launch of the On-Line game.

8 (2)

The procedures for the first scratchcard game (*Instants*) were not available in retailers at the launch of the game.

17 (2)

Loading of the first scratchcard game onto the Instant lottery system before the Director General had given his approval to implementation of the system.

### SECTION 6 LICENCES

No breaches noted.

# Appendix E

## Values of Individual Prizes Awarded in the National Lottery Draw

With the exception of the guaranteed £10 prize awarded to Match 3 winners, the value of all prizes awarded in the On-Line National Lottery Game weekly draw varies according to the amount of money in the prize fund and the number of people who win each of the different prize categories.

### Calculating prize amounts

Camelot must allocate 45% of the ticket sales revenue for each draw to the prize fund for that draw (Superdraws and rollovers sometimes increase that percentage). All Match 3 winners are paid first, and then the remainder of the prize fund is divided amongst the other four prize categories; 52% to the Jackpot, 16% to the Match 5 plus Bonus ball category, 10% to Match 5 and 22% to Match 4. Finally, each of those four pools are then divided amongst winners in each of the 4 prize categories. Details are specified in the Game Rules.

### Example taken from the draw held on 28 January 1995

Value of tickets sold	= £61,290,932
Prize Fund (i.e. 45% of sales)	= <b>£27,580,919</b>
Number of Match 3 winners	= 993,762
Value of Match 3 prizes (£10 each)	= <b>£9,937,620</b>
Prize Fund remaining	= £17,643,299 shared as follows;
Jackpot (52% of £17,643,299)	= <b>£9,174,515.48</b> shared by 4 winners at £2,293,628 each.
Match 5 + Bonus (16% of £17,643,299)	= <b>£2,822,927.84</b> shared by 16 winners at £176,432 each.
Match 5 (10% of £17,643,299)	= <b>£1,764,329.90</b> shared by 1,304 winners at £1,353 each.
Match 4 (22% of £17,643,299)	= <b>£3,881,525.78</b> shared by 58,223 winners at £66 each.

(Each prize is rounded down to the nearest £1)



### **Estimated Jackpot shares of about £2 million**

The Game Procedures were designed to produce a typical individual Jackpot prize of about £2 million as follows:

1. Each draw entry costs £1, of which 45% is used to form the prize fund. Match 3 winners are paid first, and Jackpot winners then share 52% of what is left.
2. One in every 57 random selections of six numbers can be expected to match just three of the six drawn numbers and win £10. So the Match 3 prizes can be expected to take £10 for every 57 £1 entries bought. That equates to 17.5% of the value of those tickets, or 39% of the Prize Fund.
3. There are 13,983,816 different combinations of six numbers which can be chosen from 49. Thus if all of those 14 million different sets of six numbers were equally popular with players, one could expect to see two people sharing the Jackpot when 28 million entries are bought, four sharing the Jackpot when 56 million entries are bought, and so on.
4. Players matching six numbers share 52% of the prize fund which remains after the Match 3 winners have been paid. As shown, Match 3 winners typically take 39% of the prize fund leaving 61% for other prize winners. So Jackpot winners take 31.7% of the prize fund. (52% of the remaining 61% = 31.7%), or about 14.3% of the value of tickets sold (the prize fund representing only 45%).
5. If the Jackpot is typically worth about 14.3% of the value of tickets sold, and one in every 14 million £1 entries typically share the Jackpot, then one might expect that for every 14 million tickets sold there will be one Jackpot winner taking 14.3% of £14 million i.e. about £2 million.
6. In reality, as tickets are not sold in simple multiples of 14 million and players do not select numbers on a completely random basis, the number of Jackpot winners will rarely match the statistical norm, but with 60 million entries it can be expected to be close. During the period to 31 March 1995 both factors combined to generate a large number of prizes greatly in excess of £2 million; 7 of the 16 non rollover draws generated individual Jackpot prizes over of £4 million. Statistically more improbable was the result on 14 January 1995 when 133 winners shared a Jackpot pool of £16.3 million giving individual Jackpot prizes of £122,510.

# Appendix F

## Publications

Section 5 Licence	29 July 1994	(price £25)
Annual Report 1993/94	1 November 1994	(available from HMSO price £5.90)
Section 6 On-Line Licence	8 November 1994	(price £5.00)
Section 6 Licence for <i>Instants</i>	17 March 1995	(price £5.00)
Anonymity Review	3 April 1995	
A Guide to the National Lottery	February 1995	(also available in Welsh)

Other National Lottery publications available from OFLOT include:

Rules for On-Line Games and the National Lottery Game Procedures	(also available in Welsh)
The Player Code of Practice	(also available in Welsh)
Rules for Instant Lottery Games	(also available in Welsh)
The Advertising Code of Practice	

# Appendix G

## Appropriation Account 1994/95

OFFICE OF THE NATIONAL LOTTERY

1994-95, Class XI, Vote 8

### OFFICE OF THE NATIONAL LOTTERY

SUMMARY OF OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1995, compared with the sum granted, for expenditure by the Office of the National Lottery on capital and administrative costs.

#### SUMMARY OF OUTTURN

Estimated				Actual		
Section	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
<b>OFFICE OF THE NATIONAL LOTTERY</b>						
A	3,195	195	3,000	3,191	213	*2,978

\* This figure is £18,000 less than the net total of expenditure on the Appropriation Account being the difference between the Appropriations in Aid realised (£213,000) and those authorised to be applied (£195,000).

The surplus of £31,381.11 shown on the Account of Class XI, Vote 8 for the year ended 31 March 1994 has been surrendered.

## ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
A1 Running Costs	2,531	2,754	—	223
A2 Other current expenditure	—	—	—	—
A3 Capital expenditure	664	437	227	—
<b>GROSS TOTAL</b>				
Original	2,600			
Supplementary	<u>595</u>			
	3,195	3,191	227	223
	Estimated	Applied		
	£000	£000		
Deduct				
AZ Appropriations in Aid				
Original	100			
Supplementary	<u>95</u>			
	195	195		
<b>NET TOTAL</b>				
Original	2,500			
Supplementary	<u>500</u>			
	3,000	2,996		
			Surplus	
			<u>4</u>	
Actual surplus to be surrendered:				
Actual net surplus (shown above)				£4,476.47
Expenditure for which Parliamentary authority is required — excess on running cost subhead *				<u>£222,794.08</u>
				<u>£227,270.55</u>

\* Expenditure on Subhead A1 exceeded the estimate by £223,000. Under arrangements notified to departments in July 1987, the Treasury has refused to authorise the application of savings on Subhead A3 to meet this excess, since the Department's running costs limit would have been exceeded. It is proposed to ask Parliament to authorise £221,794.08 of the surplus for surrender to be used towards meeting the remaining excess, leaving a token sum of £1,000 to be voted as a further supply grant.

Receipts	Estimated	Realised
Receipts payable to Consolidated Fund		
	£000	£000
(i) Receipts of classes authorised to be used as Appropriations in Aid	195	213
(ii) Receipts of other classes	4,820	4,934
Gross Total	5,015	5,147
Appropriated in Aid		195
Net Total		4,952
Actual sum payable separately to Consolidated Fund		<u>£4,951,762.72</u>

Details of Receipts	Estimated	Realised
	£000	£000
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ		
VAT refunds in respect of contracted out services	195	213
(ii) Receipts of other classes		
Receipts from the operator for licence fees payable under Administration of the National Lottery etc. Act 1993	100	110
Receipts from the National Lottery Distribution Fund to cover the administration costs of OFLOT in 1993-94 and 1994-95. (The amount realised includes £110,000 for which adjustment will be made against receipts in 1995-96)	4,720	4,819
Miscellaneous receipts	-	5
Total	<u>4,820</u>	<u>4,934</u>

Accounting Officer *P A Davis*

22 September 1995

*Office of the National Lottery  
 Appropriation Account 1994-95 Class XI, Vote 8  
 Statement of Liabilities and Assets as at 31 March 1995*

	Liabilities		Assets	
	£	p	£	p
Consolidated Fund Extra Receipts	1,039,988.21			
Paymaster			1,117,269.77	
Outstanding Orders Payable	9,873.14			
Outstanding Orders Receivable			20,000.00	
Sub-accountants and Suspense	54,196.80			
Balance at 31 March 1995	33,211.62			
	1,137,269.77		1,137,269.77	
Balance brought down				33,211.62
Net debits and credits since recorded	11,505.16			
Surplus Appropriations in Aid	17,229.99			
Net Surplus to be surrendered	4,476.47			
	33,211.62			33,211.62

Accounting Officer *P A Davis*

*22 September*

1995



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